United States Government Accountability Office

Report to Congressional Requesters

September 2019

REVERSE MORTGAGES

FHA Needs to Improve Monitoring and Oversight of Loan Outcomes and Servicing

GAO-19-702

GAO Highlights

Highlights of GAO-19-702, a report to congressional requesters

September 2019

REVERSE MORTGAGES

FHA Needs to Improve Monitoring and Oversight of Loan Outcomes and Servicing

Why GAO Did This Study

Reverse mortgages allow seniors to convert part of their home equity into payments from a lender while still living in their homes. Most reverse mortgages are made under FHA's HECM program, which insures lenders against losses on these loans. HECMs terminate when a borrower repays or refinances the loan or the loan becomes due because the borrower died, moved, or defaulted. Defaults occur when borrowers fail to meet mortgage conditions such as paying property taxes. These borrowers risk foreclosure and loss of their homes. FHA allows HECM servicers to offer borrowers foreclosure prevention options. Most HECM servicers are supervised by CFPB.

GAO was asked to review HECM loan outcomes and servicing and related federal oversight efforts. Among other objectives, this report examines (1) what FHA data show about HECM terminations and the use of foreclosure prevention options, (2) the extent to which FHA assesses and monitors the HECM portfolio, and (3) the extent to which FHA and CFPB oversee HECM servicers. GAO analyzed FHA loan data and FHA and CFPB documents on HECM servicer oversight. GAO also interviewed agency officials, the five largest HECM servicers (representing 99 percent of the market), and legal aid groups representing HECM borrowers.

What GAO Recommends

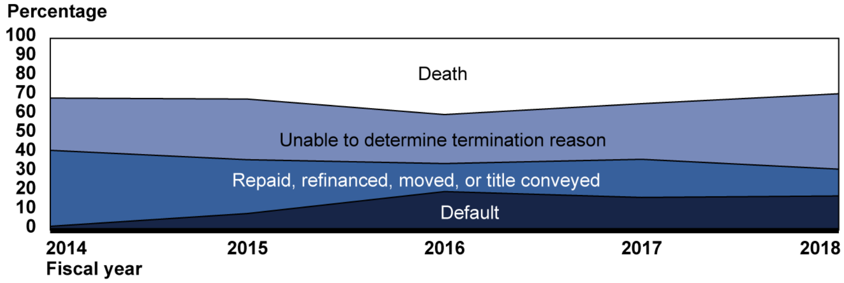
GAO makes eight recommendations to FHA to, among other things, improve its monitoring and assessment of the HECM portfolio and oversight of HECM servicers, and one recommendation to CFPB to share HECM servicer examination information with FHA. FHA and CFPB generally agreed with the recommendations.

View GAO-19-702. For more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov

What GAO Found

The vast majority of reverse mortgages are made under the Federal Housing Administration's (FHA) Home Equity Conversion Mortgage (HECM) program. In recent years, a growing percentage of HECMs insured by FHA have ended because borrowers defaulted on their loans. While death of the borrower is the most commonly reported reason why HECMs terminate, the percentage of terminations due to borrower defaults increased from 2 percent in fiscal year 2014 to 18 percent in fiscal year 2018 (see figure). Most HECM defaults are due to borrowers not meeting occupancy requirements or failing to pay property charges, such as property taxes or homeowners insurance. Since 2015, FHA has allowed HECM servicers to put borrowers who are behind on property charges onto repayment plans to help prevent foreclosures, but as of fiscal year-end 2018, only about 22 percent of these borrowers had received this option.

Reported Home Equity Conversion Mortgage Termination Reasons, Fiscal Years 2014–2018



Source: GAO analysis of Federal Housing Administration data. | GAO-19-702

FHA's monitoring, performance assessment, and reporting for the HECM program have weaknesses. FHA loan data do not currently capture the reason for about 30 percent of HECM terminations (see figure). FHA also has not established comprehensive performance indicators for the HECM portfolio and has not regularly tracked key performance metrics, such as reasons for HECM terminations and the number of distressed borrowers who have received foreclosure prevention options. Additionally, FHA has not developed internal reports to comprehensively monitor patterns and trends in loan outcomes. As a result, FHA does not know how well the HECM program is serving its purpose of helping meet the financial needs of elderly homeowners.

FHA has not conducted on-site reviews of HECM servicers since fiscal year 2013 and has not benefited from oversight efforts by the Consumer Financial Protection Bureau (CFPB). FHA officials said they planned to resume the reviews in fiscal year 2020, starting with three servicers that account for most of the market. However, as of August 2019, FHA had not developed updated review procedures and did not have a risk-based method for prioritizing reviews. CFPB conducts examinations of reverse mortgage servicers but does not provide the results to FHA because the agencies do not have an agreement for sharing confidential supervisory information. Without better oversight and information sharing, FHA lacks assurance that servicers are following requirements, including those designed to help protect borrowers.

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Abbreviations

CFPB	Consumer Financial Protection Bureau
Fannie Mae	Federal National Mortgage Association
FHA	Federal Housing Administration
HECM	Home Equity Conversion Mortgage
HERMIT	Home Equity Reverse Mortgage Information Technology
HUD	Department of Housing and Urban Development
IPUMS NHGIS	Integrated Public Use Microdata Series National Historical Geographic Information System
OMB	Office of Management and Budget

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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September 25, 2019

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
House of Representatives

The Honorable Denny Heck
House of Representatives

The aging of the U.S. population, the large share of seniors' wealth held in home equity, and the preference of many older adults to age in place underscore the importance of knowing more about reverse mortgages and the role they play for some senior homeowners. A reverse mortgage is a type of loan that allows eligible seniors to convert part of their home equity into payments from a lender while still living in their homes. Congress authorized the Department of Housing and Urban Development (HUD) to insure reverse mortgages to help meet the financial needs of elderly homeowners.[1] The vast majority of reverse mortgages are made under the Home Equity Conversion Mortgage (HECM) program administered by HUD's Federal Housing Administration (FHA).[2] HECMs are originated and serviced by private FHA-approved lenders and servicers. FHA insures these entities against losses on the loans and charges borrowers premiums to help cover the potential cost of insurance claims. While not involved in administering the HECM program, the Consumer Financial Protection Bureau (CFPB) collects consumer complaints about reverse mortgages and supervises nonbank (nondepository institution) reverse mortgage lenders and servicers for compliance with, and enforces violations of, federal consumer financial protection laws.[3]

[1]Congress authorized the Home Equity Conversion Mortgage (HECM) program in 1988 by adding Section 255 to Title II of the National Housing Act. *See* Housing and Community Development Act of 1987, Pub. L. No. 100-242, § 417 (1988) (codified as amended at 12 U.S.C. § 1715z-20).

[2]The reverse mortgage market includes some proprietary (non-FHA) products but is currently dominated by HECMs. Proprietary reverse mortgages were outside the scope of our review.

[3]As discussed later in this report, the HECM market is currently dominated by nonbank lenders and servicers.

Reverse mortgage servicing involves a range of activities, such as making payments to borrowers, providing monthly account statements, monitoring loan balances, and responding to borrower inquiries. If a borrower falls behind on property charges (for example, taxes and homeowners insurance), servicers must generally temporarily pay them on the borrower's behalf (referred to in this report as servicer advances) but may ultimately initiate foreclosure proceedings if the borrower does not catch up.[4] In recent years, FHA has made program changes allowing servicers to offer foreclosure prevention options—options for distressed HECM borrowers to help delay or avoid foreclosure.

HECMs terminate—that is, the loan balance is paid off and the loan ends—for a variety of reasons. For example, borrowers may choose to repay the loan or refinance into a new HECM. Additionally, events such as the borrower dying, moving, or defaulting—that is, not meeting mortgage conditions—result in the loan becoming "due and payable." In some cases, generally when a borrower defaults, the lender may foreclose on the borrower to obtain title to the property and sell the home to satisfy the debt.[5] In these circumstances, the borrower may end up being displaced from his or her home. Consumer advocacy organizations have expressed concerns about an observed increase in HECM foreclosures and servicing problems.[6]

You asked us to review HECM loan outcomes and servicing and related federal oversight efforts. This report examines (1) what FHA data show about HECM terminations, servicer advances, and the use of foreclosure prevention options; (2) FHA's assessment and monitoring of HECM portfolio performance, servicer advances, and foreclosure prevention

[4]In addition to property taxes and homeowners insurance premiums, borrowers must pay other property charges such as homeowners' association or condominium fees and any other special assessments that may be levied by municipalities or state law on the property. See 24 C.F.R. § 206.205. As discussed later in this report, servicers offer some borrowers repayment plans to help pay unpaid property charges. According to FHA policy, no borrower may be given more than 60 months to repay the servicer advances. *See* Department of Housing and Urban Development, Mortgagee Letter 2015-11 (Apr. 23, 2015).

[5]In some cases, the borrower may be able to deed the property to the servicer to satisfy the debt and avoid foreclosure, known as a deed-in-lieu of foreclosure.

[6]Center for NYC Neighborhoods, *Protecting Senior Homeowners from Reverse Mortgage Foreclosure: Policy Brief* (August 2017) and National Consumer Law Center, *Examples of Senior Homeowners Struggling with Ineffective and Inconsistent Servicing of HECM Loans* (October 2017).

options; (3) FHA's and CFPB's oversight of HECM servicers; (4) how FHA and CFPB collect, analyze, and respond to consumer complaints about HECMs; and (5) how and why the market for HECMs has changed in recent years.

To address the first and second objectives, we analyzed FHA data to determine the number of and reasons for HECM terminations in fiscal years 2014 through 2018.[7] We also analyzed FHA data on servicer advances for unpaid property charges and other costs for HECMs in a due and payable status. Additionally, we analyzed information from FHA on HECM borrowers approved for selected foreclosure prevention options. To assess the reliability of FHA's data, we reviewed FHA documentation, performed electronic testing on the data to check for missing values and obvious errors, corroborated the data with other available sources (such as published FHA reports), and interviewed agency officials and FHA's data system contractor about interpreting data fields. We determined the data were sufficiently reliable for characterizing loan terminations, servicer advances, and use of foreclosure prevention options in the HECM program. We also reviewed FHA data and reports and interviewed FHA officials to determine how the agency monitors and analyzes the HECM portfolio, including the use of any performance indicators or program evaluations. We compared FHA's practices against leading practices for assessing program performance, federal internal control standards, and Office of Management and Budget (OMB) policies and procedures on managing federal credit programs (OMB Circular A-129).[8]

To address the third objective, we reviewed FHA and CFPB policies and procedures for overseeing HECM servicers and interviewed agency officials with oversight responsibilities. We reviewed completed examinations of HECM servicers to determine the extent to which the

[7]The federal fiscal year begins on October 1 and ends on September 30 of each year.

[8]We have previously identified performance goals and measures as important management tools that can serve as leading practices for planning at lower levels within federal agencies, such as individual programs or initiatives. For example, see GAO, *Veterans Justice Outreach Program: VA Could Improve Management by Establishing Performance Measures and More Fully Assessing Risks*, GAO-16-393 (Washington, D.C.: Apr. 28, 2016); *Performance Measurement and Evaluation: Definitions and Relationships,* GAO-11-646SP (Washington, D.C.: May 2, 2011). See also *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014). See also Office of Management and Budget, *Policies for Federal Credit Programs and Non-Tax Receivables*, OMB Circular No. A-129 (revised January 2013).

agencies have assessed and taken steps to enforce compliance with servicing and consumer protection requirements. We compared FHA's oversight of HECM servicers to relevant parts of OMB Circular A-129. Additionally, we interviewed FHA and CFPB officials to determine the extent to which the agencies collaborate and share information on oversight of HECM servicers. We compared their efforts to approaches federal agencies use to enhance collaboration toward joint goals that we identified in prior work.[9]

To address the fourth objective, we analyzed all reverse mortgage consumer complaints received by CFPB through its Consumer Complaint Database from calendar years 2015 through 2018 to determine the number of complaints by year, state, submission method (for example, internet, phone, or email), and company. We also analyzed a random generalizable sample of 100 reverse mortgage consumer complaints to identify patterns in consumer-described issues about reverse mortgages. We determined the CFPB data were sufficiently reliable for the analysis we conducted by reviewing CFPB documentation, performing electronic testing of the data, and interviewing CFPB officials about our interpretation of data fields. To determine the extent to which FHA collects and analyzes complaints, we reviewed the nearly 105,000 HECM-related calls received by the National Servicing Center from calendar years 2015 through 2018. We also reviewed the 147 HECM-related calls received by the FHA Resource Center during the same time. However, we did not perform an analysis on these data similar to that conducted on the CFPB data because of limitations in how the data were collected. For example, data did not include information on whether the call was a complaint or inquiry, and a large majority of the data did not include information on who the caller was (e.g., a borrower, servicer, or lender). Additionally, we reviewed CFPB and FHA policies and procedures for collecting and addressing consumer complaints and for incorporating consumer complaints into their oversight of HECM servicers. Further, we interviewed officials from both agencies to better understand their complaint processes. We compared CFPB's and FHA's efforts against federal internal control standards and against criteria we developed previously on leveraging related agency resources.[10]

[9]GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, GAO-12-1022, (Washington, D.C.: Sept. 27, 2012).

[10]GAO-14-704G and GAO-12-1022.

To address the fifth objective, we analyzed FHA data from calendar years 1989 (the start of the HECM program) through 2018 to identify trends in the volume of HECM originations. Additionally, using FHA and Census Bureau data, we calculated HECM take-up rates—the ratio of new HECM originations to senior homeowners—from calendar years 2000 through 2017 to measure the extent to which senior homeowners participate in the program. We also developed an econometric model using FHA, Census Bureau, and other data to examine the relationship between HECM take-up rates and a number of explanatory variables. We also reviewed relevant research and interviewed academic and HUD economists about other factors (for example, consumers' perception of reverse mortgages) that are difficult to directly include in the model but that may influence HECM take-up rates. Appendix I contains a more detailed description of our objectives, scope, and methodology. Appendix II contains a description and results of our econometric model of factors associated with HECM take-up rates.

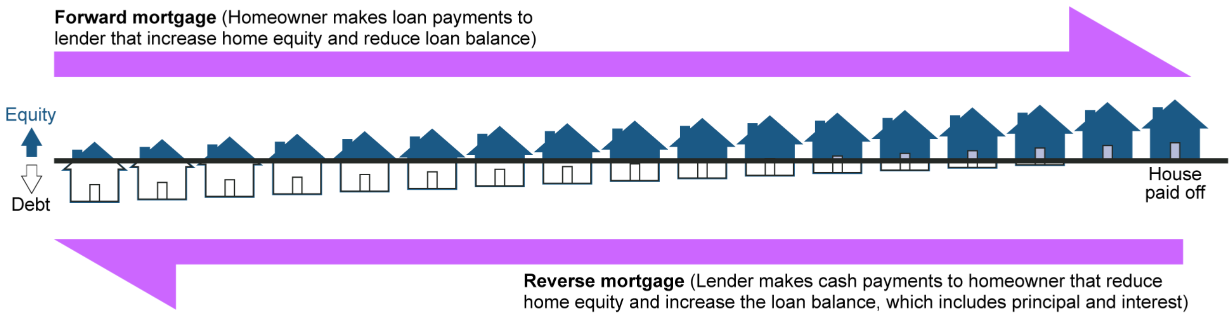
We conducted this performance audit from July 2018 to September 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

HECM Program

A reverse mortgage is a nonrecourse loan against home equity that does not require mortgage payments as long as the borrower meets certain conditions. In contrast to traditional forward mortgages, reverse mortgages typically are "rising debt, falling equity" loans (see fig. 1). As the borrower receives payments from the lender, the lender adds the principal and interest to the loan balance, reducing the borrower's home equity. Also unlike traditional forward mortgages, reverse mortgages have no fixed term.

Figure 1: Difference between Forward and Reverse Mortgages



Source: GAO. | GAO-19-702

Home Equity Conversion Mortgage (HECM) Eligibility Requirements

Source: GAO. | GAO-19-702

Key borrower requirements

- Be 62 years of age or older
- Own your home outright or have sufficient equity in your home to secure the HECM
- Occupy the property as your principal residence
- Participate in a consumer information session given by a HECM counselor approved by the Department of Housing and Urban Development (HUD)

Key financial requirements

- Have financial resources to continue to make timely payment of ongoing property charges (e.g., taxes and insurance)
- Verification of income, assets, financial obligations, and credit history

Source: GAO analysis of HUD information. | GAO-19-702

Prospective borrowers must meet a number of requirements to be eligible for a HECM (see sidebar). The amount of money a borrower can receive from a HECM—called the principal limit—depends on three things: (1) the age of the youngest borrower or eligible nonborrowing spouse, (2) the lesser of the appraised value of the home or the FHA mortgage limit as of the date of loan closing (for calendar year 2019, $726,525), and (3) the expected average interest rate.[11]

The borrower can receive funds in a variety of ways—for example, as monthly payments, a line of credit, a combination of the two, or a single lump sum.[12] A large majority of borrowers choose the line of credit option. The interest rate lenders charge is typically an adjustable rate, although the lump sum option can be chosen at a fixed interest rate.

HECMs can terminate for a variety of reasons. For example, a borrower may choose to repay the loan, refinance into a new HECM, or be required to satisfy the debt because the loan has become due and payable. A HECM becomes due and payable when a borrower dies, fails to retain ownership of the home, or does not meet his or her mortgage obligations such as paying property charges, meeting occupancy requirements, or maintaining the home.[13] In these cases, the borrowers or heirs must satisfy the debt or correct the condition that resulted in the due and payable loan status.[14] In this report, we use the term default to refer to

[11]According to Mortgagee Letter 2014-07, a nonborrowing spouse is defined as the spouse, as determined by the law of the state in which the borrower and spouse reside or the state of celebration, at the time of closing and who is not listed on the mortgage as a borrower. In the case of a HECM for Purchase, the principal limit is based on the lesser of the appraised value of the home or the sale price of the property being purchased. HECM for Purchase is a program in which seniors may use a HECM to buy a new home. Unlike a traditional HECM, a HECM for purchase is made against the value of the home to be purchased, rather than against the value of a home the borrower already owns.

[12]The monthly payments can be for as long as the borrower has the loan (tenure payments) or for a fixed period (term payments). Borrowers cannot receive more than the greater of 60 percent of the principal limit amount or the sum of mandatory obligations plus 10 percent of the principal limit in the first year of the loan.

[13]*See* 24 C.F.R. § 206.27(c). An example of failing to retain ownership of the home is when one individual conveys title to the home to another individual, such as an aging parent transferring ownership to an adult child.

[14]According to FHA, servicers are required to obtain HUD approval prior to calling loans due and payable for certain reasons, such as failure to meet occupancy requirements and property charge defaults.

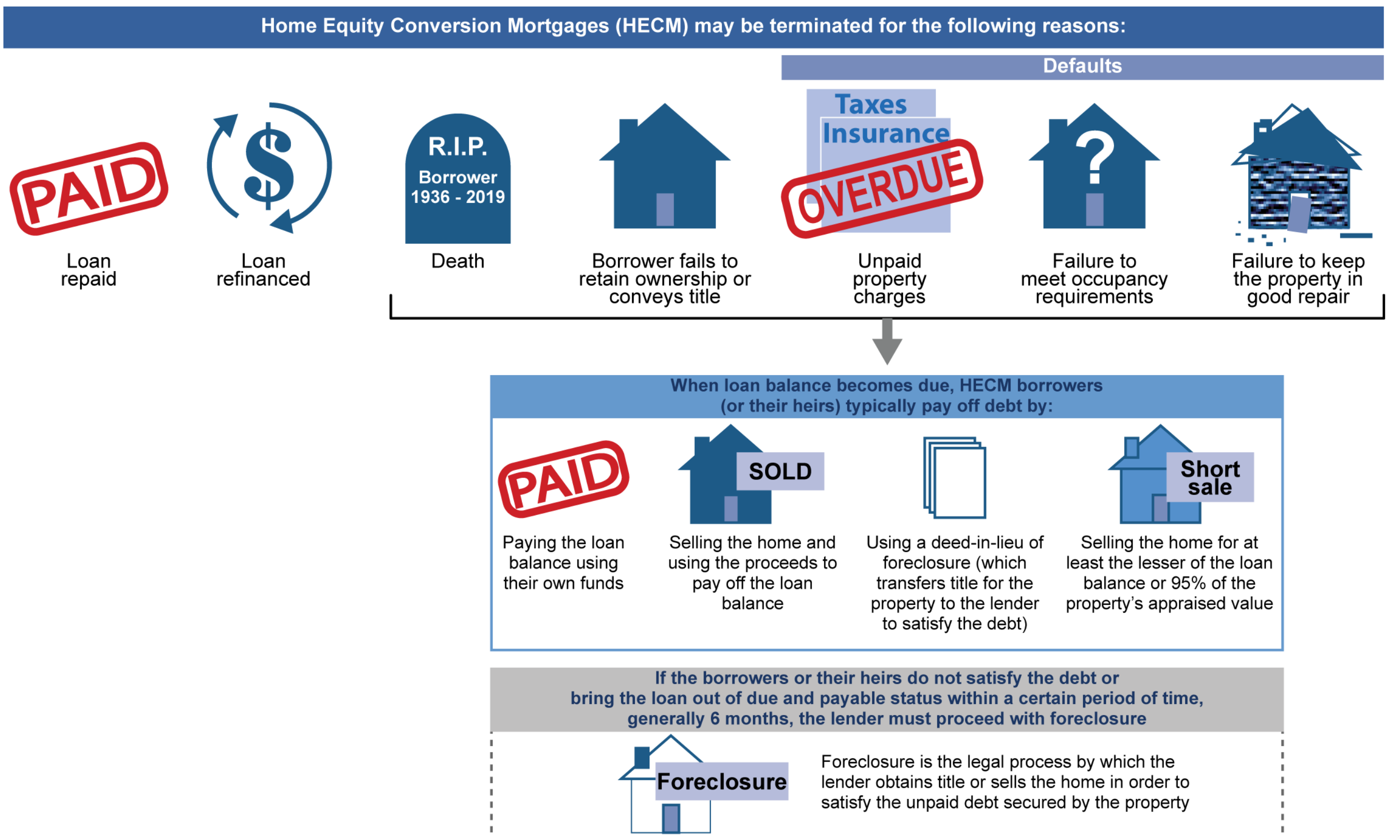
HECMs that are due and payable because the borrower has not paid property charges, met occupancy requirements, or maintained the home.

HECM borrowers (or their heirs) satisfy the debt by (1) paying the loan balance using their own funds, (2) selling the home and using the proceeds to pay off the loan balance, (3) providing a deed-in-lieu of foreclosure (which transfers title for the property to the lender to satisfy the debt), or (4) selling the home for at least the lesser of the loan balance or 95 percent of the property's appraised value (also known as a short sale). According to FHA regulations, the borrowers or their heirs generally have 30 days after being notified that the loan is due and payable to satisfy the debt or bring the loan out of due and payable status.[15] Servicers generally have 6 months to take first legal action to initiate foreclosure from the date that they, as applicable, notified, should have notified, or received approval from FHA that the HECM is due and payable. According to FHA regulations, the borrower is generally allowed to correct the condition that resulted in the due and payable loan status and reinstate the loan, even after foreclosure proceedings have begun.[16] Figure 2 illustrates the reasons why HECMs terminate and how borrowers typically satisfy the debt under various termination scenarios.

[15] *See* 24 C.F.R. § 206.125(a)(2). If a loan becomes due and payable due to a reason other than the death of the borrower, such as if a mortgage condition has not been met, the lender has 30 days to notify FHA. In the case of borrower death, the lender has 60 days to notify FHA. After notifying and receiving approval (as applicable) from FHA that the HECM can be called due and payable, the lender has 30 days to notify the borrower (or their heirs). The borrower (or the heirs) has 30 days from the date of notice to engage in one of the options noted or the lender may proceed with foreclosure.

[16] 24 C.F.R. § 206.125(a)(3).

Figure 2: Home Equity Conversion Mortgage Termination Reasons and Repayment Alternatives

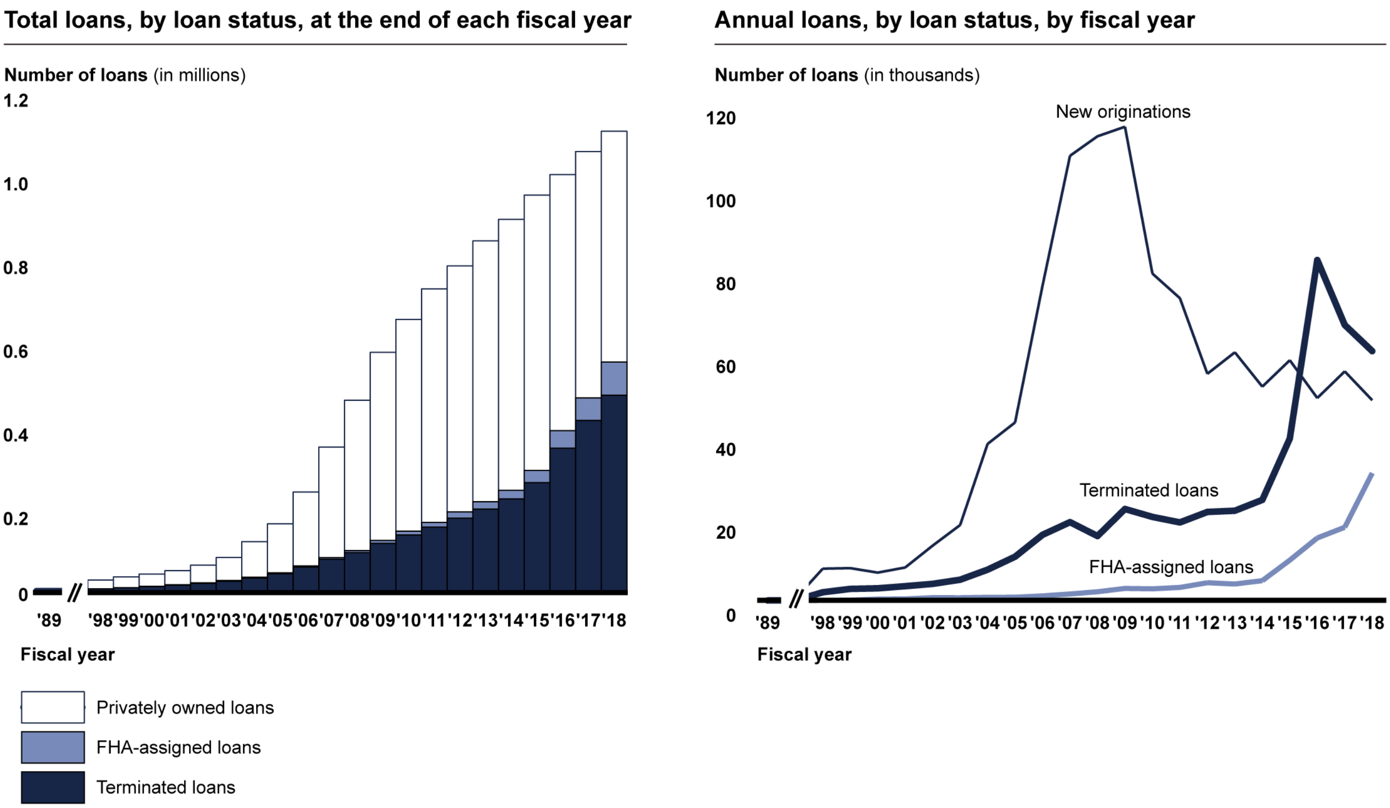


Source: GAO analysis of Federal Housing Administration (FHA) information. | GAO-19-702

If the servicer experiences a loss because the loan balance exceeds the recovery from selling the property, the lender can file a claim with FHA for the difference. Additionally, when the loan balance reaches 98 percent of the maximum claim amount (the lesser of the appraised value of the home at origination or FHA's loan limit), the lender can "assign" the loan to FHA and file a claim for the full amount of the loan balance, up to the maximum claim amount. Lenders can only assign HECMs in good standing to FHA (that is, assignments can only be for HECMs not in a due and payable status). FHA continues to service the assigned loans using a contractor until the loans become due, either due to the death of the borrower or for other reasons. Additionally, the FHA insurance guarantees borrowers will be able to access their loan funds, even if the loan balance exceeds the current value of the home or if the lender experiences financial difficulty. Further, if the borrower or heir sells the home to repay the loan, he or she will not be responsible for any loan amount above the value of the home.

As of the end of fiscal year 2018, FHA had insured over 1 million HECMs. According to FHA data, these include an active HECM portfolio of approximately 551,000 loans serviced by various FHA-approved servicers, 79,000 FHA-assigned loans serviced by an FHA contractor, and about 468,000 terminated loans (see fig. 3). HECM terminations have exceeded new originations every year since fiscal year 2016, and the number of HECMs assigned to FHA has grown substantially since fiscal year 2014.[17]

Figure 3: Status of Home Equity Conversion Mortgages, Fiscal Years 1989–2018



Source: GAO analysis of Federal Housing Administration (FHA) data for the Home Equity Conversion Mortgage program. | GAO-19-702

[17]Throughout this report, we use the term "originations" to refer to HECMs originated by lenders and subsequently approved for mortgage insurance (endorsed) by FHA.

Note: The active Home Equity Conversion Mortgage portfolio consists of both privately owned and FHA-assigned loans.

As of the end of fiscal year 2018, FHA's total insurance-in-force for HECMs (total insured mortgage balances outstanding) was roughly $100 billion. HECMs are held in two FHA insurance funds. HECMs originated prior to fiscal year 2009 are in the General Insurance and Special Risk Insurance Fund (roughly 27 percent of all HECMs), and those originated in fiscal year 2009 and later are in the Mutual Mortgage Insurance Fund (roughly 73 percent of all HECMs).[18] When the post-2008 HECM portfolio became part of FHA's Mutual Mortgage Insurance Fund, it also was included in the fund's capital ratio assessment and became subject to annual actuarial reviews.[19] As we found in a November 2017 report, subjecting HECMs to the annual actuarial review requirements has improved the transparency of the program's financial condition and has highlighted the financial risks of the HECM portfolio to FHA.[20]

According to FHA, the financial performance of the HECM portfolio has been historically volatile, largely due to uncertainty in future home prices, interest rates, and other factors. In recent years, FHA has responded with several policy changes to help strengthen the portfolio's financial performance and mitigate risks. Because FHA's projected losses on HECMs depend on factors such as maximum claim amount, the length of time the borrower stays in the home, changes in home prices, and interest rates, most of FHA's policy changes have been aimed at better aligning expected revenues (charging borrowers premiums) with expected costs (cash outflows due to paying insurance claims). For example, FHA has made changes to insurance premiums and principal

[18]Beginning with the fiscal year 2009 loan cohort, the Housing and Economic Recovery Act of 2008 placed new HECMs in FHA's Mutual Mortgage Insurance Fund.

[19]The capital ratio is the fund's economic value divided by the amortized insurance-in-force. The National Housing Act requires an annual independent actuarial review of the fund's financial position. *See* 12 U.S.C. § 1708(a)(4). Each year, an independent actuarial contractor conducts two separate actuarial reviews—one for forward mortgages and one for HECMs—to estimate the economic value of the two portfolios. In a separate annual report to Congress, FHA combines the findings of the forward mortgage and HECM actuarial reviews to determine the capital ratio for the fund as a whole.

[20]For additional information, see GAO, *Federal Housing Administration: Capital Requirements and Stress Testing Practices Need Strengthening,* GAO-18-92 (Washington, D.C.: Nov. 9, 2017).

limits, the most recent of which took effect in fiscal year 2018.[21] Effective in fiscal year 2019, FHA also revised property appraisal practices for new HECMs to guard against inflated property valuations.[22] According to agency officials, FHA made this change to address appraisal bias concerns identified in research by an economist in HUD's Office of Policy Development and Research.[23]

HECM Market Participants

The HECM market includes various participants. After a lender originates a HECM, the loan must be serviced until it terminates. HECM lenders and servicers must be FHA-approved and can be the same entity but often are not. HECM lenders often sell the mortgage to another entity, which FHA refers to as an investor, and this entity has the right to enforce the mortgage agreement.[24] HECM servicers are typically third parties that contract with lenders or investors but do not have ownership in the loans they service. As previously discussed, HECM servicers perform a number of functions, such as making payments to the borrowers and providing monthly account statements. Servicers also must monitor borrower compliance with various mortgage conditions and, if necessary,

[21]For new HECMs, FHA currently charges an initial mortgage insurance premium of 2 percent at loan closing and, over the life of the loan, an annual mortgage insurance premium of 0.5 percent of the outstanding mortgage balance. See Mortgagee Letter 2017-12. Prior to that mortgagee letter, the initial mortgage insurance premium was 0.5 percent and the annual insurance premium was 1.25 percent for amounts 60 percent or less of the principal limit, and the initial mortgage insurance premium was 2.5 percent for amounts greater than 60 percent of the principal limit.

[22]Inflated property appraisals can negatively affect the financial performance of the HECM program because the appraised value is used in determining the amount of home equity available to the borrower and the amount of any insurance claim paid to a lender. Since October 1, 2018, FHA has performed a property appraisal risk assessment on all HECMs submitted for approval of insurance. Lenders are required to provide a second independent property appraisal in cases where FHA determines there may be inflated property valuations. *See* Department of Housing and Urban Development, Mortgagee Letter 2018-06 (Sept. 28, 2018).

[23] Kevin Park, "Reverse Mortgage Collateral: Undermaintenance or Overappraisal?" *Cityscape: A Journal of Policy Development and Research*, vol. 19, no. 1 (2017): pp.7-28.

[24]Servicing accompanies all mortgages, but the right to service a mortgage becomes a distinct asset when contractually separated from the loan when the loan is sold or securitized. Originators can service mortgages that they originate or purchase, or they can sell the mortgages but retain the mortgage servicing rights. Servicers other than the originator may also purchase mortgage servicing rights on securitized loans or may be hired to service loans for others. For more information on nonbank mortgage servicers, see GAO, *Nonbank Mortgage Servicers: Existing Regulatory Oversight Could Be Strengthened*, GAO-16-278 (Washington, D.C.: Mar. 10, 2016).

communicate with borrowers about any violation of these conditions (defaults) and, as appropriate, ways they can avoid being foreclosed on. HECM servicers also transfer up-front and annual insurance premiums to FHA each month and file claims with FHA for losses on insured HECMs. In carrying out these duties, servicers are responsible for complying with various requirements, including FHA regulations, policies, and procedures, as well as federal consumer financial laws.

Historically, commercial banks, thrifts, and credit unions were the primary lenders and servicers of mortgage loans. Following the 2007–2009 financial crisis and subsequent revisions to regulatory bank capital requirements, banks reevaluated the benefits and costs of being in the mortgage lending market, as well as retaining mortgages and the right to service them. Since the financial crisis, some banks have exited or reduced their mortgage lending and servicing businesses. This development, among others, created an opportunity for nonbank servicers to increase their presence in the mortgage market. Nonbank issuers such as mortgage originators and servicers are not subject to the same comprehensive federal safety and soundness standards as banks. While banks offer a variety of financial products to consumers, nonbank servicers are generally involved only in mortgage-related activities and do not take deposits from consumers.

Almost all HECMs are originated, owned, and serviced by nonbank entities:

- **Lenders.** According to FHA, in fiscal year 2018, 54 lenders originated HECMs, including 49 nonbank entities and five banks.
- **Investors.** As of the end of fiscal year 2018, six investors (all nonbank entities) and the Federal National Mortgage Association (Fannie Mae) owned roughly 92 percent of the privately owned (non-FHA-assigned) HECM portfolio, while the remaining 8 percent was owned by a mixture of bank and nonbank entities.[25]
- **Servicers.** Five nonbank entities serviced over 99 percent of the privately owned HECM portfolio as of the end of fiscal year 2018. As

[25]Fannie Mae is a government-sponsored enterprise that purchases mortgages from lenders and either pools the loans into securities or holds them in its portfolio.

previously noted, FHA has a contractor (also a nonbank entity) that services FHA-assigned HECMs.

Federal Entities Involved in Reverse Mortgage Oversight

A number of federal agencies have roles in overseeing the reverse mortgage market, including the following:

- **FHA.** Insures HECMs and administers the HECM program, including issuing program regulations and enforcing program requirements. FHA supplements regulations through additional policies, procedures, and other written communications for the HECM program. For example, FHA officials said the agency utilizes its Single Family Housing Handbook, HECM handbook, and mortgagee letters to communicate changes about the HECM program.[26] In 2013, Congress enacted a law that allowed FHA to make changes to HECM program requirements by notice or mortgagee letter in addition to regulation.[27] Since then, FHA has made several policy changes to the HECM program through mortgagee letters.
- **CFPB.** Supervises nonbank reverse mortgage lenders and servicers for compliance with, and enforces violations of, federal consumer financial protection laws.[28] CFPB can also issue regulations under the federal consumer protection laws addressed specifically to protecting consumers considering reverse mortgages.[29] Additionally, CFPB examines entities for compliance with federal consumer financial laws to obtain information about an institution's compliance management systems and procedures and to detect and assess risks to consumers

[26]A mortgagee letter is a written communication to lenders and servicers about changes in FHA operations, policies, and procedures. Mortgagee letters for the HECM program are accessible at https://www.hud.gov/program_offices/housing/sfh/hecm/hecmml.

[27]The Reverse Mortgage Stabilization Act of 2013, Pub. L. No. 113-29, § 2, 127 Stat. 509 (2013) (codified at 12 U.S.C. § 1715z-20(h)). According to the act, the HUD Secretary has the discretion to make any additional or alternative requirements that are necessary to improve the fiscal safety and soundness of the HECM program.

[28]CFPB also has supervisory authority over insured depository institutions and credit unions with more than $10 billion in assets for compliance with requirements of federal consumer financial law. *See* 12 U.S.C. § 5515(a).

[29]CFPB was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act and has rulemaking authority to implement provisions of federal consumer financial law and enforcement authority to assess servicers' compliance with various mortgage servicing rules. *See* Consumer Financial Protection Act of 2010, Pub. L. No. 111-203, §§ 1021, 1024, 124 Stat. 1376, 1979, 1987 (2010) (codified as amended at 12 U.S.C. §§ 5511, 5514).

and markets. Further, CFPB collects consumer complaints regarding consumer financial products or services (including reverse mortgages) and educates consumers about their rights under federal consumer financial protection laws.

- **Federal depository institution regulators.** These regulators monitor compliance with relevant laws and regulations, such as provisions of the Federal Trade Commission Act and the Truth in Lending Act, primarily through periodic examinations, for federally regulated lenders that originate HECMs.[30]

Consumer Protections and Foreclosure Prevention Options

Several features and requirements of the HECM program provide consumer protections to borrowers. For example, borrowers must undergo preloan counseling, the program limits costs and fees lenders can charge, and lenders must provide certain disclosures. In addition, FHA has made several changes to the HECM program in recent years to help borrowers who have defaulted due to unpaid property charges. As previously discussed, if a HECM borrower does not pay his or her property charges, FHA regulations generally require the servicer to pay the property charges on the borrower's behalf to help avoid a tax foreclosure by the local authority and protect the investor's and FHA's interest in the home. FHA regulations also allow servicers to charge certain fees once a loan is called due and payable. These are typically amounts related to attorney or trustee fees, property preservation, and appraisal fees during the foreclosure process. The payments and fees that servicers make on behalf of borrowers—referred to as servicer advances in this report—are added to the loan balance and accrue interest.

In 2010, HUD's Office of Inspector General reported that HUD was not tracking borrower defaults or servicer advances for the HECM program

[30]Depository institutions include institutions chartered as commercial banks, savings associations (or thrifts), or credit unions. The federal depository institution regulators are the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and National Credit Union Administration.

and made several recommendations to FHA.[31] To address these recommendations, FHA took several steps. For example, in 2011, FHA stopped the practice of allowing servicers to defer foreclosing on loans that were in default due to unpaid property changes and issued a mortgagee letter addressing how to handle these loans.[32] Additionally, in September 2012, FHA announced the launch of a new data system for the HECM program, the Home Equity Reverse Mortgage Information Technology (HERMIT) system which would be used starting in October 2012.[33] With this new system, FHA combined former legacy systems that had been used to collect insurance premiums, service FHA-assigned loans, and process claims. According to FHA, adopting the HERMIT system allowed FHA to better monitor and track the HECM portfolio in real time and to automate insurance claim processing.

Finally, FHA modified program features to help minimize potential borrower defaults and help strengthen borrower eligibility requirements. For example, in 2013, FHA reduced the amount of equity borrowers could generally withdraw during the first year from 100 to 60 percent of the principal limit.[34] According to FHA, this change was designed to encourage borrowers to access their equity slowly over time rather than all at once to reduce risks to borrowers and FHA's insurance fund. In 2015, the financial requirements for HECMs changed to include a financial assessment of the prospective borrower prior to loan approval.[35]

[31]Department of Housing and Urban Development, Office of the Inspector General, *HUD Was Not Tracking Almost 13,000 Defaulted HECM Loans With Maximum Claim Amounts of Potentially More Than $2.5 Billion,* 2010-FW-0003 (Aug. 25, 2010). The report recommended that FHA (1) discontinue the practice of allowing servicers to defer foreclosure on loans in default due to nonpayment of taxes and insurance; (2) issue formal guidance to servicers regarding loans in default due to nonpayment of taxes and insurance; (3) develop and implement a plan to minimize the risk of future defaults due to nonpayment of taxes and insurance; and (4) develop a data system to better track defaults and amounts.

[32]*See* Department of Housing and Urban Development, Mortgagee Letter 2011-01 (Jan. 3, 2011). Mortgagee Letter 2011-01 was rescinded and replaced by Mortgagee Letter 2015-11 (Apr. 23, 2015).

[33]*See* Department of Housing and Urban Development, Mortgagee Letter 2012-17 (Sept. 11, 2012).

[34]*See* Department of Housing and Urban Development Mortgagee Letter 2013-27 (Sept. 3, 2013).

[35]*See* Department of Housing and Urban Development, Mortgagee Letter 2014-21 (Nov. 10, 2014) and Mortgagee Letter 2014-22 (Nov. 14, 2014). The financial assessment requirements in these letters were effective as of April 27, 2015.

FHA began requiring HECM lenders to look at the prospective borrower's credit history, income, assets, and financial obligations. Based on the results of the financial assessment, the lender may require a set-aside for the payment of property charges.[36]

Additionally, FHA made several program changes to help distressed HECM borrowers by allowing servicers to offer options to help borrowers delay or in some cases avoid foreclosure if they are behind on paying property charges. These foreclosure prevention options include repayment plans, at-risk extensions, and extensions for low-balance arrearage, as described later in this report.[37] FHA also has taken steps to help nonborrowing spouses stay in their homes after a borrowing spouse dies by deferring repayment of the HECM as long as the nonborrowing spouse fulfills certain conditions.[38] In these cases, the servicer can assign

[36]According to FHA regulations, HECM lenders may require what is referred to as a "life expectancy set-aside" for the payment of certain property charges. *See* 24 C.F.R. § 206.205.

[37]*See* Department of Housing and Urban Development Mortgagee, Letter 2015-11 (Apr. 23, 2015) and Mortgagee Letter 2016-07 (Mar. 30, 2016). According to Mortgagee Letter 2015-11, servicers may offer borrowers in default due to unpaid property charges repayment plans to satisfy outstanding servicer advances made for unpaid property charges or an extension of foreclosure time frames due to a borrower being "at-risk." According to the mortgagee letter, the servicer must determine if the borrower is eligible for a repayment plan under FHA's requirements. If a repayment plan is insufficient or unsuccessful, borrowers may request an "at-risk" extension if the youngest living borrower is at least 80 years old and has critical circumstances such as a terminal illness, substantiated long-term physical disability, or a "unique" occupancy need (e.g., terminal illness of family member receiving care in the residence). According to Mortgagee Letter 2016-07, servicers may delay submitting a due and payable request (and proceeding with foreclosure) if the borrower owes less than $2,000 in unpaid taxes and insurance. According to the letter, servicers must document either that (1) they contacted the borrower, the borrower has expressed a willingness to repay, and the borrower is currently attempting to make payments or (2) they were unable to contact the borrower but the borrower is current on occupancy requirements and there is no indication the borrower has vacated the property.

[38]In 2013, a federal district court found that HUD had interpreted the HECM authorizing statute incorrectly when it required loans to be due and payable upon a borrower's death even when a nonborrowing spouse was present in the home. *See Bennett v. Donovan*, 4 F.Supp. 3d 5 (D.D.C. 2013). Following the court decision, HUD has issued various mortgagee letters establishing a process known as the mortgagee optional election assignment, which allows nonborrowing spouses to avoid foreclosure and defer paying off the loan balance.

the HECM to FHA under what FHA refers to as the mortgagee optional election assignment process.[39]

HECM Defaults Have Increased, and Use of Foreclosure Prevention Options Is Limited or Unknown

Death of the Borrower Is the Most Common Reason for HECM Terminations, but Defaults Have Increased in Recent Years

Our analysis of FHA data found that about 272,155 HECMs terminated from fiscal years 2014 through 2018.[40] Over that period, the number of terminations rose from about 24,000 in fiscal year 2014 to a peak of roughly 82,000 in fiscal year 2016, before declining to about 60,000 in fiscal year 2018, as previously shown in figure 3.[41]

As shown in figure 4, death of the borrower was the most common reported reason for HECM terminations, followed by borrower defaults.[42]

[39]*See* Department of Housing and Urban Development, Mortgagee Letter 2015-15 (June 12, 2015). The mortgagee letter established the process, as well as time frames, for when servicers need to submit information to FHA in order for the loan to be assigned to FHA. The time frames were extended for certain assignments in an additional mortgagee letter. *See* Department of Housing and Urban Development, Mortgagee Letter 2016-05 (Feb. 12, 2016).

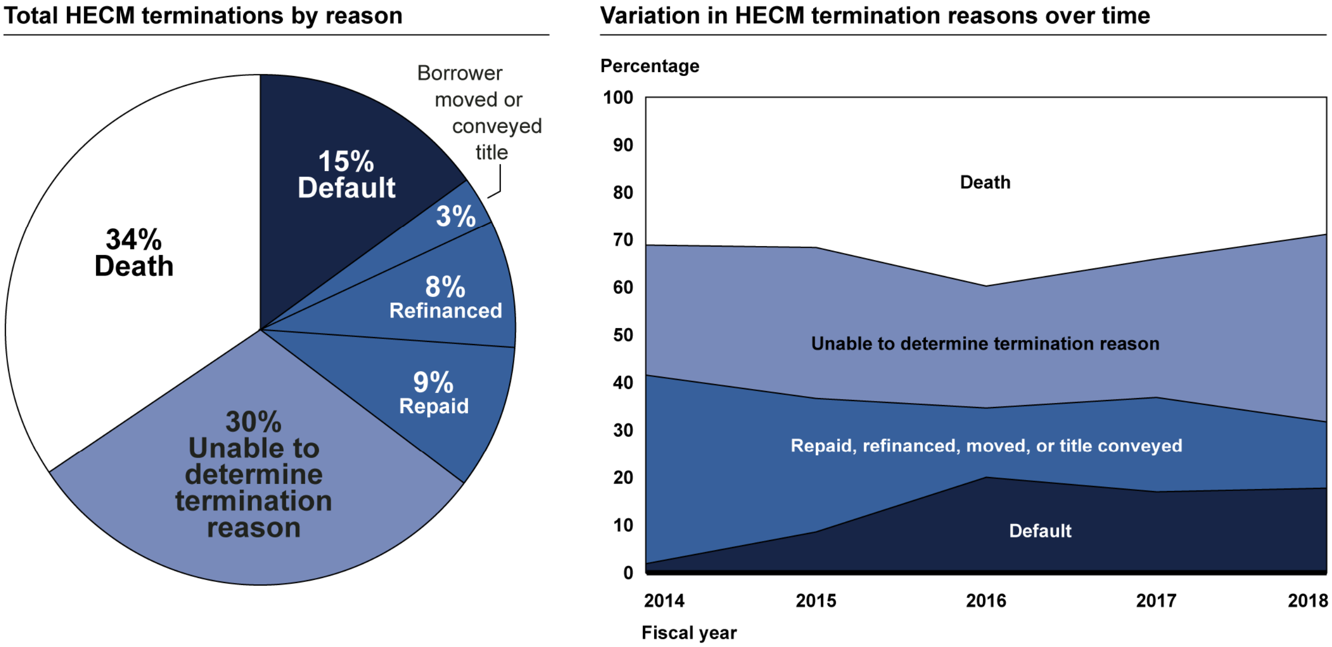
[40]See fig.3 for a comparison of active and terminated HECMs during this period.

[41]We report on data starting in fiscal year 2014 because, as previously discussed, FHA adopted a new system of record (HERMIT) for the HECM program in fiscal year 2013. Unless otherwise noted, we analyzed data for the HECM program for the 5-year period spanning fiscal years 2014–2018.

[42]The HERMIT system records borrower death and conveyed title as a type of default for administrative reasons related to the claims filing process. We did not categorize borrower deaths or conveyed titles as defaults in order to differentiate those cases from loan terminations resulting from living borrowers not meeting their mortgage obligations. We treated them as separate loan termination reasons. We removed HECMs that had previously been assigned to FHA and that terminated in fiscal years 2014 through 2018 from our termination analysis. We did not include them because, as discussed later in this report, FHA's practice is to not foreclose on FHA-assigned HECMs that default. Accordingly, the denominator for our terminations analysis was 256,147 loans. For more information on our termination analysis methodology, see app. I. For detailed information on the number of loans and percentages by termination reason for fiscal years 2014–2018, see app. III.

The relative size of each termination category varied from fiscal years 2014 through 2018, with borrower defaults accounting for an increasing proportion of terminations in recent years. In fiscal year 2018, borrower defaults made up 18 percent of terminations.

Figure 4: Reported Home Equity Conversion Mortgage Termination Reasons, Fiscal Years 2014–2018



Source: GAO analysis of Federal Housing Administration data for the Home Equity Conversion Mortgage (HECM) program. | GAO-19-702

Note: Due to rounding, figures may not sum to 100 percent.

Specific results for all major termination categories over the 5-year period were as follows:

- **Death.** About 34 percent of terminations (approximately 87,000 loans) were due to the death of the borrower. Borrower deaths ranged from roughly 29 percent to 40 percent of annual terminations over the 5-year period.
- **Default.** About 15 percent of terminations (approximately 40,000 loans) were due to borrower defaults. As discussed in appendix IV, this percentage varied widely by location and was highest in Michigan (36 percent) and lowest in the District of Columbia (1 percent). About 29,000 defaults were for noncompliance with occupancy or residency requirements, about 11,000 were for nonpayment of property charges,

and about 200 were for not keeping the property in good repair. The borrowers of these loans likely lost their homes through foreclosure or a deed-in-lieu of foreclosure.[43] However, it is possible that some of these borrowers would have ultimately lost their homes even if they had not taken out a HECM. For example, as noted in CFPB's 2012 report to Congress on reverse mortgages, some borrowers may have taken out a HECM to help pay off their traditional mortgage rather than as a way to pay for everyday expenses. In these cases, the money borrowers received from their HECMs may have helped them temporarily but may ultimately have been prolonging an unsustainable financial situation.[44] In addition, some borrowers who did not meet occupancy or residency requirements may have permanently moved out of their homes—for example, to assisted living or nursing home facilities.[45]

Borrower defaults as a percentage of annual HECM terminations grew from 2 percent of terminations in fiscal year 2014 to 18 percent in fiscal year 2018. Noncompliance with occupancy requirements was the primary cause of defaults each year, but unpaid property charges represented a growing share. From fiscal years 2014 through 2018, property charge defaults as a percentage of all defaults grew from 26 percent to 45 percent, and property charge defaults as a percentage of all terminations grew from less than 1 percent to 8 percent.

- **Loan balance repaid**. About 9 percent of terminations (approximately 23,000 loans) were due to the borrower repaying the loan balance. This category accounted for a declining share of terminations over the 5-year period, falling from 24 percent in fiscal year 2014 to 4 percent in 2018.

[43]Due to limitations in how short sales are coded in the HERMIT system, we could not readily distinguish between short sales used after a borrower default and those used after a borrower's death. According to FHA, short sales are used in both circumstances.

[44]See Consumer Financial Protection Bureau, *Reverse Mortgages: Report to Congress* (Washington, D.C.: June 28, 2012).

[45]Representatives from some legal aid organizations have cited instances where HECM borrowers were reportedly residing in their homes but were foreclosed on for not completing and returning annual occupancy certificates—a task that might become more difficult for some borrowers as they age. The five HECM servicers we spoke with described methods they use in addition to occupancy certificates to remind borrowers about or verify compliance with occupancy requirements. These include phone calls, reminder letters, and property inspections. We did not attempt to independently verify servicers' use of these methods or claims that borrowers residing in their homes were foreclosed on for not returning occupancy certificates.

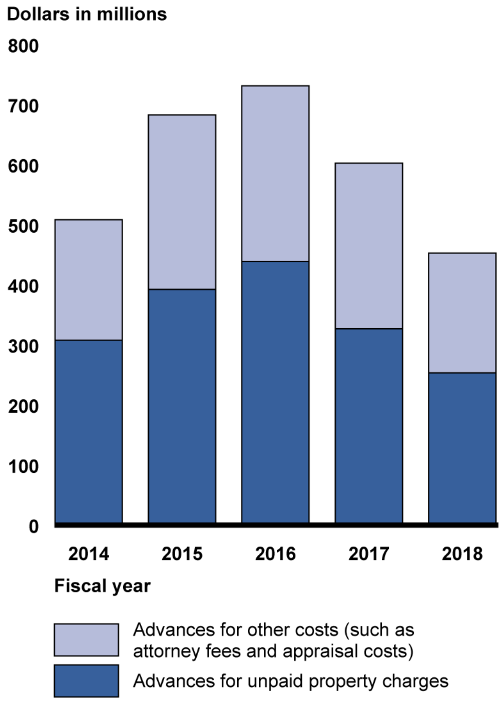
- **Refinanced.** About 8 percent of terminations (about 20,000 loans) were due to the borrower refinancing into a new HECM. This category remained relatively stable over the 5-year period, accounting for about 5 percent to 10 percent of terminations each year.
- **Borrower moved or conveyed title.** About 3 percent of terminations (approximately 8,000 loans) were due to the borrower either moving or conveying title to the property to someone else. The percentage of terminations in this category declined from 6 percent in fiscal year 2014 to 2 percent in fiscal year 2018.
- **Unknown.** For about 30 percent of terminations (roughly 78,000 loans), we were unable to readily determine a termination reason from FHA's data. Over the 5-year period, this category accounted for over 25 percent of terminations each year and reached a high of 39 percent in fiscal year 2018. We discuss challenges related to determining termination reasons later in this report.

HECM Servicers Advanced Almost $3 Billion on Behalf of Borrowers for Unpaid Property Charges or Other Costs

For HECMs that terminated in fiscal years 2014 through 2018, servicers advanced almost $3 billion on behalf of borrowers for unpaid property charges or various other costs that are charged once a loan becomes due and payable.[46] The advances increased from $508 million in fiscal year 2014 to a peak of $731 million in fiscal year 2016, before declining to $453 million in fiscal year 2018 (see fig. 5). This pattern aligns with the overall trend in terminations, which also peaked in fiscal year 2016. Over the 5-year period, advances for property charges made up 58 percent of the total. The remaining 42 percent consisted of advances for other costs, many of them foreclosure-related, such as attorney fees and appraisal costs.

[46]According to the HERMIT User Guide, corporate advances are any expense incurred by the lender or servicer for any disbursement made on a borrower's behalf after the HECM becomes due and payable. These include advances for taxes, insurance, or condominium or homeowners' association dues (property charges); attorney and trustee fees; title, recording, or sheriff fees; state and other taxes on deeds; special assessment liens; bank attorney fees for bankruptcy proceedings; and appraisal fees.

Figure 5: Total Reported Servicer Advances for Terminated Home Equity Conversion Mortgages, Fiscal Years 2014–2018



Source: GAO analysis of Federal Housing Administration data for the Home Equity Conversion Mortgage program. | GAO-19-702

From fiscal years 2014 through 2018, HECM servicers advanced a total of $567 million on behalf of living borrowers who defaulted on their HECMs due to unpaid property charges.[47] For these loans, the median advance was $7,007.[48]

[47]FHA officials told us HECM servicers continue to pay property charges after a borrower dies to avoid a tax foreclosure on the property.

[48]Additionally, the mean advance was $12,653. We also found that the amount advanced for these loans varied widely. For example, advances at the 25th and 75th percentiles were approximately $2,923 and $15,445, respectively.

About One-Quarter of HECM Borrowers with Overdue Property Charges Received Repayment Plans, and Use of Other Foreclosure Prevention Options Is Limited or Unknown

From April 2015 (the effective date of FHA's current repayment plan policy) through the end of fiscal year 2018, 22 percent of HECM borrowers with overdue property charges had received repayment plans, and FHA's information on the use of other foreclosure prevention options was limited.[49] As previously noted, property charge defaults and issues surrounding nonborrowing spouses not being included on the mortgage have been long-standing problems in the HECM program.[50] Since 2015, FHA has made program changes to allow servicers to offer different types of foreclosure prevention options to distressed HECM borrowers and nonborrowing spouses of deceased borrowers (see table 1). These options can help delay and, in some cases, avoid foreclosure.

Table 1: Summary of Selected Federal Housing Administration (FHA) Foreclosure Prevention Options for Home Equity Conversion Mortgage (HECM) Borrowers

Foreclosure prevention option	Description	Effective date
Mortgagee optional election assignment	Allows a HECM servicer to assign the loan to FHA so that an eligible nonborrowing spouse can stay in the home after the borrower's death.	June 2015
Repayment plan	Allows a borrower in default due to unpaid property charges to repay them over a maximum of 60 months, as long as the borrower meets certain financial criteria. During this time, the HECM servicer delays foreclosure by requesting an extension of foreclosure time frames from FHA.	April 2015
At-risk extension	Allows a HECM servicer to delay foreclosure for borrowers at least 80 years old who are in default due to unpaid property charges and are experiencing a critical circumstance such as a terminal illness or long-term disability. HECM servicers must request from FHA an extension of foreclosure time frames, and supporting documentation for extensions must be updated annually.	April 2015
Low-balance extension	Allows a HECM servicer to delay calling a loan due and payable when the borrower owes less than $2,000 for unpaid property taxes or hazard insurance.	March 2016

Source: GAO analysis of FHA mortgagee letters. | GAO-19-702

According to officials from HUD's Office of General Counsel, HUD does not have the statutory authority to require servicers to provide HECM

[49]As described later in this report, we conducted this analysis using data from April 23, 2015—the effective date of FHA's current policy on repayment plans—to September 30, 2018.

[50]See Department of Housing and Urban Development, Office of Inspector General, 2010-FW-0003. *See also Bennett v. Donovan*, 4 F.Supp.3d 5 (D.D.C. 2013).

borrowers foreclosure prevention options.[51] Our analysis of FHA data found that servicers' use of selected foreclosure prevention options for HECM borrowers was limited or that FHA did not have readily available information to assess the extent of use, as follows:

Mortgagee optional election assignments. According to information generated by FHA, HECM servicers submitted 1,445 requests for mortgagee optional election assignments from June 2015 (when FHA made this option available) through September 30, 2018 (see table 2). In total, FHA approved roughly 70 percent (1,013) of the requests and denied the remaining 30 percent (432).

Table 2: Summary of Mortgagee Optional Election Assignments, Fiscal Years 2015–2018

Mortgagee optional election assignment status	June–September 2015	2016	2017	2018	Total	Percentage
Requested	429	434	293	289	**1,445**	100
Approved	411	176	211	215	**1,013**	70
Denied	18	258	82	74	**432**	30

Source: Federal Housing Administration. | GAO-19-702

Note: The mortgagee optional election assignment process went into effect in June 2015.

According to FHA officials, the top two reasons for denying mortgagee optional election assignments were HECM servicers not meeting the deadline for electing to pursue the assignment and not meeting the

[51] Officials from HUD's Office of General Counsel said that, in contrast, HUD does have statutory authority to mandate foreclosure prevention options for forward mortgage borrowers because the options mitigate financial losses to FHA. According to the officials, section 230 of the National Housing Act provides FHA the statutory authority to require loss mitigation activities for forward mortgages, such as forbearance or loan modification, as an alternative to foreclosure. *See* 12 U.S.C. § 1710(a)(2); 12 U.S.C. § 1715u(a). The officials said the difference in statutory authority stems partly from differences in how forward and reverse mortgages work. Officials from HUD's Office of General Counsel noted that traditional loss mitigation options focus on helping borrowers make payments to lenders and continue paying down their loan balances, which helps mitigate losses to FHA by reducing foreclosures, insured loan amounts, and claim payments. The officials said that because reverse mortgage borrowers generally do not make payments to their lender and have increasing loan balances, options that help HECM borrowers delay or avoid foreclosure generally do not mitigate losses to FHA.

deadline to initiate the assignment.[52] FHA officials told us the third most common reason for denial was a nonborrowing spouse not submitting evidence of marketable title to the property or the legal right to remain in the property for life within required time frames.[53] With respect to the 432 denials, FHA provided information indicating that as of May 31, 2019, 79 percent (342) of the associated loans had not terminated; 14 percent (62 loans) terminated because the loan balance had been paid off; and the remaining 7 percent ended in foreclosure (22 loans), deed-in-lieu of foreclosure (four loans), or short sale (two loans).

Estimating the universe of HECMs potentially eligible for mortgagee optional election assignments is difficult because nonborrowing spouses were not listed on loan documentation for HECMs originated prior to August 4, 2014.[54] As a result, FHA does not know how many eligible nonborrowing spouses could have, but did not, apply for the mortgagee optional election assignment, or how many are potentially eligible to apply for it in the future. FHA officials told us they have relied on an industry association and HECM servicers to estimate how many nonborrowing spouses may be associated with pre-August 2014 HECMs.[55]

[52]Mortgagee Letter 2015-15 (effective June 12, 2015) details HECM servicer requirements for the mortgagee optional election assignment process and specifies two main time frames servicers must meet. First, HECM servicers must elect to pursue the assignment within 120 days of the borrower's death. Second, if the servicer elects to pursue assignment and determines that the nonborrowing spouse and the HECM meet eligibility requirements, it must initiate the assignment to FHA within 120 days of the election decision. Mortgagee Letter 2016-05 (effective Feb. 12, 2016) allows servicers to request a 60-day extension for the nonborrowing spouse to demonstrate that legal title or the legal right to remain in the house has been secured and for the servicer to complete its assessment.

[53]Mortgagee Letter 2015-15 states that in order to be an eligible surviving nonborrowing spouse, an individual, among other things, must have or obtain this information within 90 days following the death of the borrowing spouse.

[54]According to officials, FHA has required lenders to collect nonborrowing spouse information for HECMs originated on or after August 4, 2014. *See* Department of Housing and Urban Development, Mortgagee Letter 2014-07 (Apr. 25, 2014).

[55]In September 2018, representatives of the National Reverse Mortgage Lenders Association told us the association estimated that there were about 8,600 outstanding HECMs that potentially had an associated nonborrowing spouse not originally named on the loan. The association estimated this number by asking its members to identify loans originated before August 2014 that had only one borrower but reported being married at the time of loan origination. The 8,600 figure is a rough estimate because, among other things, it is not known whether the borrowers are still married and not all reverse mortgage servicers are members of the association.

FHA officials told us they sent letters to borrowers with FHA-assigned HECMs that were originated prior to August 4, 2014, to inform them of the mortgagee optional election process and ask them to self-identify whether there was a nonborrowing spouse associated with their loan. FHA officials also noted they were drafting a similar letter for servicers to send to borrowers with HECMs not assigned to FHA. As of August 2019, the servicer letter was still in draft form, pending completion of an ongoing internal review of FHA's mortgagee optional election assignment processes and the related time frames. FHA officials said once the ongoing review is complete, they anticipated that FHA would issue a new mortgagee letter with revised time frames that would afford both HECM servicers and borrowers more time to meet FHA requirements for mortgagee optional election assignments.

Repayment plans. Our analysis of FHA data showed that 22 percent of borrowers with property charge defaults were granted a repayment plan from April 2015 (the effective date of FHA's current repayment plan policy) through the end of fiscal year 2018. All five legal aid organizations we interviewed said the availability of repayment plans was a top concern. For example, for some of their clients, repayment plans were unavailable because the borrowers did not meet certain financial requirements. In contrast, representatives of the top five HECM servicers told us they generally do offer repayment plans when feasible to help borrowers delay or avoid foreclosure. Servicers we interviewed noted that while repayment plans can delay or avoid foreclosure, they are rarely successful in the long-run and borrowers in such plans often miss payments. Servicers said the same reasons that typically contribute to initial defaults also explain why repayment plans are rarely successful. For example, borrowers on limited incomes may struggle to pay increasing property tax and insurance costs or may fall behind on property charges when the death of a spouse reduces their income.

At-risk extensions. Our analysis of FHA data found that from April 2015 (the effective date of FHA's at-risk extension policy) through the end of fiscal year 2018, about 2 percent of borrowers with property charge defaults received an at-risk extension. To grant an at-risk extension, FHA requires HECM servicers to provide valid documentation that the youngest living borrower is at least 80 years of age and has critical circumstances such as a terminal illness, long-term physical disability, or a unique occupancy need (for example, terminal illness of family member living in the home).[56] Representatives from one legal aid organization told us that some HECM servicers have straightforward requirements for the documentation borrowers must submit to obtain an at-risk extension, while others do not. Representatives from another legal aid organization said that meeting FHA's annual renewal requirement for at-risk extensions was challenging for some borrowers because they have to submit documentation to HECM servicers every year as they age and continue to struggle with serious health issues or disabilities.

Low-balance extensions. FHA officials told us they do not track how often HECM servicers use the option to delay calling a loan due and payable if the borrower has unpaid property charges of less than $2,000. Our analysis of FHA data on servicer advances found that approximately 8,800 HECMs that terminated in fiscal years 2014 through 2018 had unpaid property charges of less than $2,000 at the time of termination.[57] Some of these HECMs may have been eligible for a low-balance extension when they terminated. Representatives from one legal aid organization said they represented a HECM borrower who was at risk of foreclosure for having 27 cents in unpaid property charges. HECM servicers told us they use the low-balance extension option to varying degrees. For example, representatives from one servicer said the servicer follows instructions from the entity that owns the HECM and, in some cases, the owners of the loan do not want to offer the low-balance extension to the borrower. In these cases the servicer calls the loan due and payable for any amount in unpaid property charges and initiates the foreclosure process in accordance with FHA regulations. Another HECM servicer told us it tries to use the low-balance extension every time a borrower owes less than $2,000 in unpaid property charges.

[56] *See* Department of Housing and Urban Development, Mortgagee Letter 2015-11 (Apr. 23, 2015).

[57] To conduct this analysis we requested data on total advances, including data on unpaid property charges, from FHA's contractor that administers the HERMIT system. Additionally, we requested borrower death dates to determine unpaid property charges before and after HECM borrowers' deaths. We calculated the total number of loans with unpaid property charges of less than $2,000 for living borrowers by removing any loans for which the borrower had died.

Weaknesses Exist in HECM Termination Data, Performance Assessment, and Portfolio Monitoring

FHA Lacks Comprehensive Data on Reasons for HECM Terminations

Since fiscal year 2013, FHA has used the HERMIT system to collect data on the servicing of HECMs, but the system does not contain comprehensive and accurate data about the reasons why HECMs terminate, a key servicing event. According to the HERMIT User Guide, servicers should provide a reason in HERMIT when they terminate a HECM.[58] However, as noted previously in figure 4, for about 30 percent of HECM terminations from fiscal years 2014 through 2018 (roughly 78,000 loans), we were unable to determine the reason for termination.[59] Specifically, for these loans we could not identify in HERMIT any associated borrower death or default, or evidence that the borrower repaid, refinanced, moved, or conveyed title. Instead, these loans were coded as terminating for "other reasons" or coded based on how the debt was satisfied rather than an actual termination reason.

The HERMIT User Guide provides a list of termination codes available in the system, but the list and guide have shortcomings that limit analysis of HECM terminations. First, the list includes codes servicers can use to indicate that a loan terminated for "other reasons," but the guide does not specify what these other reasons are. However, servicers have been using the "other reasons" code increasingly over the past 5 years. We asked servicers how they used the "other reasons" code and found inconsistency in and uncertainty about its use. For example, servicers' responses ranged from not using it at all, to using it when they did not

[58]Home Equity Conversion Mortgage Servicer Provider HERMIT User Guide, Servicing Module, version 2.17 (September 2018). The HERMIT User Guide refers to termination transactions, and servicers are required to input a termination transaction when the loan ends. For simplicity, we use the phrase termination codes in this report.

[59]Of these approximately 78,000 loans, HECM servicers coded about 55,000 (71 percent) as "terminate-other" in HERMIT. For the remaining 23,000 loans (29 percent), HECM servicers used codes that could be associated with more than one termination reason, such as deed-in-lieu of foreclosure, foreclosure, or short sale—actions which could apply to terminations resulting from the borrower dying, defaulting, or moving. For more information on our termination analysis methodology, see app. I.

intend to file an insurance claim with FHA, to not being sure under what circumstances they used it.[60]

Second, the list of termination codes consists of both reasons for termination and descriptions of how the debt was satisfied.[61] As a result, the final status code of some loans in HERMIT shows only the way in which the debt was satisfied—for instance, a deed-in-lieu of foreclosure, foreclosure, or short sale. These codes could apply to terminations resulting from the borrower dying, defaulting, or moving and do not ultimately provide a specific reason for loan termination.

FHA officials were unaware of any proxy variables that we could use to help identify the underlying termination reasons for these loans. The officials said the termination reasons are available on an individual loan basis in the HERMIT system but not in an extractable form.[62] As discussed later in this report, FHA does not regularly track and report on HECM termination reasons, due partly to this system limitation.

The limitations in FHA's data are inconsistent with federal internal control standards, which require agencies to use quality information to achieve their objectives.[63] To meet this internal control standard, agencies can obtain relevant data that are reasonably free from error and bias and evaluate sources of data for reliability. FHA's annual report to Congress states that the HECM program helps seniors remain in their homes and

[60]A servicer may not need to file an insurance claim for a terminated HECM if, for example, the borrower or the heirs sell the home for an amount that fully pays off the loan balance.

[61]For example, the list includes termination codes for borrower deaths, moves, repayments, and refinances. While there is no termination code for defaults, defaulted loans have other identifiers and can be cross-matched to terminated loans. The list also includes a "terminate-other" code to be used when servicers initiate termination for "other reasons." Finally, the list includes codes for deed-in-lieu of foreclosure, foreclosure, and short-sale, which indicate how the debt was satisfied and do not represent actual termination reasons.

[62]FHA officials told us that they do not believe these terminated HECMs were the result of borrower defaults because defaults must be recorded in HERMIT. We used separate default reports from HERMIT to identify all loans with a default as part of our termination analysis; for more information see app. I.

[63]GAO-14-704G.

age in place.[64] However, without comprehensive and accurate data on HECM terminations, FHA does not have a full understanding of loan outcomes—information FHA and Congress need in order to know how well the HECM program and FHA's policies are working to help seniors age in place.

FHA's Performance Assessment Has Limitations

While FHA has taken steps to improve the performance of the HECM program in recent years, it has not incorporated key elements of performance assessment into its management of the program. We have previously reported that a program performance assessment contains three key elements: program goals, performance metrics, and program evaluations.[65] Performance assessment can provide important information about whether, and why, a program is working well or not. Additionally, OMB Circular A-129 states that agencies must establish appropriate performance indicators for federal credit programs, such as the HECM program, and that such indicators should be reviewed periodically.[66] It states further that agency management structures should clearly delineate accountability and responsibility for defining performance indicators and monitoring and assessing program performance.

We found limitations in FHA's performance assessment of the HECM program, specifically a lack of performance indicators and recent program evaluations:

Lack of HECM performance indicators. According to HUD's strategic plan for fiscal years 2018–2022 and the agency's most recent annual performance report, the HECM program falls under the strategic goal of advancing economic opportunity and the strategic objective of supporting

[64]See Department of Housing and Urban Development, *Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund, Fiscal Year 2018* (Washington, D.C.: Nov. 15, 2018).

[65]Program goals communicate what the agency proposes to accomplish and allow agencies to assess or demonstrate the degree to which those desired results were achieved. Performance metrics are concrete, objective, observable conditions that permit the assessment of progress made toward the goals. Program evaluations are individual systematic studies conducted periodically or on an ad hoc basis to assess how well a program is working, typically relative to its objectives. For example, see GAO-16-393 and GAO-11-646SP.

[66]Office of Management and Budget, *Policies for Federal Credit Programs and Non-Tax Receivables*, OMB Circular No. A-129 (revised January 2013).

fair, sustainable homeownership and financial viability.[67] The strategic plan and annual performance report include some strategies for achieving this objective, such as modernizing FHA underwriting guidelines, lending standards, and servicing protocols to serve the needs of borrowers, protect taxpayers, and ensure the sustainability of FHA's program. However, none of the six performance indicators associated with this strategic objective and discussed in the strategic plan or corresponding performance report are HECM-specific. Four of the indicators focus on FHA-insured forward mortgages.[68] Another indicator focuses on construction of manufactured housing.[69] The remaining indicator—maintaining a capital reserve ratio for FHA's Mutual Mortgage Insurance Fund that meets or exceeds the statutory minimum requirement—encompasses both forward mortgages and HECMs but does not provide specific information about HECM loan outcomes, risk factors, or loan characteristics.[70]

Additionally, FHA's annual reports to Congress on the financial status of the insurance fund contain multiple tables of HECM data but limited information on loan outcomes. For example, among other things, the fiscal year 2018 report provides the number of new HECM originations, the average age of new borrowers, the amount of HECM insurance

[67]See Department of Housing and Urban Development, *Strategic Plan 2018–2022* (Washington, D.C.: May 2019) and *Fiscal Year 2020 Annual Performance Plan and Fiscal Year 2018 Annual Performance Report* (Washington, D.C.: Mar. 22, 2019).

[68]The four indicators are (1) early payment default rate, (2) percentage of new home-purchase mortgages to first-time homebuyers, (3) FHA's market share of single-family mortgage originations, and (4) percentage of mortgages with higher-risk features (including cash-out refinance loans and home purchase loans with down-payment assistance or debt-to-income ratios greater than 50 percent). According to FHA, an early payment default occurs when a borrower becomes 90 days delinquent within the first six mortgage payments. FHA considers the percentage of loans in early payment default status to be an important indicator of the credit quality of new mortgage originations. The debt-to-income ratio represents the percentage of a borrower's gross monthly income that goes toward monthly debt payments.

[69]The indicator is the number of alternative construction letters issued by HUD's Office of Manufactured Housing Programs.

[70]As previously noted, since 2009, HECMs have been subject to FHA's annual actuarial review requirements and are included in estimates of the Mutual Mortgage Insurance Fund's capital ratio. The actuarial reviews provide estimates of the HECM portfolio's economic value and information on the program's financial condition. They do not provide detailed information on HECM loan outcomes.

claims paid, and estimates of the HECM portfolio's capital position.[71] However, the report does not include other information that would provide insight into loan outcomes, such as the percentage of HECM terminations due to borrower defaults, the proportion of active HECMs with delinquent property charges, or the percentage of distressed HECM borrowers who have received foreclosure prevention options.

Limited program evaluations. The last comprehensive evaluations of the HECM program were done in 2000 and 1995.[72] Officials said they were in the planning phase for a new evaluation of the HECM program but had not set a start date and did not expect the evaluation to include an analysis of reasons for HECM terminations or the use of foreclosure prevention options for borrowers in default. Instead, the officials told us the evaluation would focus on the impact of an FHA policy change implemented in 2015 that requires prospective HECM borrowers to undergo a financial assessment to evaluate their ability to pay ongoing property charges. While financial assessments could help reduce tax and insurance defaults, and ultimately foreclosures, they only apply to new HECMs issued on or after the effective date of the policy (April 27, 2015) and are not relevant to other HECMs within the portfolio. Therefore, for most of the HECM portfolio, an equally important consideration is the impact of FHA's policy changes that created foreclosure prevention options for distressed borrowers. As previously noted, borrower defaults have accounted for an increasing proportion of terminations in recent years, and in fiscal year 2018, borrower defaults made up 18 percent of terminations. Expanding the program evaluation to include the impact of foreclosure prevention options would provide a more complete picture of how well FHA is reducing defaults in the HECM portfolio and helping HECM borrowers.

FHA officials acknowledged the need for more performance assessment of the HECM program. The officials said their recent focus has been on

[71]See Department of Housing and Urban Development, *Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund, Fiscal Year 2018* (Washington, D.C.: Nov. 15, 2018).

[72]See Abt Associates, *Evaluation Report of FHA's Home Equity Conversion Mortgage Insurance Demonstration*, a report prepared for the Department of Housing and Urban Development (Washington, D.C.: Mar. 31, 2000) and Department of Housing and Urban Development, Office of Policy Development and Research, *Evaluation of the Home Equity Conversion Mortgage Insurance Demonstration: A Report to Congress* (Washington, D.C.: Mar. 15, 1995).

financial aspects of the program, in particular losses associated with insurance claims. According to the FHA Commissioner, a key challenge for the HECM program is that FHA has historically administered it without a designated program head. The 2000 program evaluation noted that lenders and servicers found it frustrating that FHA did not have one person with responsibility for the HECM program. Further, the 2000 program evaluation noted that the division of responsibility for the program fell across many offices and that it was hard to find senior managers with a sense of ownership for the HECM program. In January 2019, an economist from HUD's Office of Policy Development and Research transferred to the Office of Housing (which includes FHA) to serve as a Senior Advisor to the Deputy Assistant Secretary for Single Family Programs, with a focus on the HECM program.

Without more comprehensive performance indicators and program evaluations, FHA lacks information that could be useful for monitoring the effects of recent policy changes and may be missing evidence of the need for further program improvements. Additionally, in the absence of performance indicators and reporting, FHA and Congress lack insight into how well the HECM program is helping senior homeowners.

FHA's Internal Reporting and Analysis for the HECM Portfolio Have Shortcomings

According to OMB Circular A-129, agencies must have monitoring, analysis, and reporting mechanisms in place to provide a clear understanding of a program's performance.[73] The circular says these mechanisms should be sufficiently flexible to perform any analysis needed to respond to developing issues in the loan portfolio. However, we found shortcomings in FHA's internal reporting. We also found that FHA had not analyzed the implications of its foreclosure prioritization process for FHA-assigned loans.

Internal reporting for the HECM program is limited. Although FHA adopted the HERMIT system to improve oversight of the HECM portfolio, it has not used program data to regularly report key loan performance information—for example, HECM termination reasons, servicer advances,

[73]Office of Management and Budget, *Policies for Federal Credit Programs and Non-Tax Receivables*, OMB Circular No. A-129 (revised January 2013).

and use of foreclosure prevention options.[74] FHA officials said they have been more focused on the analysis and reporting of claims and other financial data for the HECM program. However, according to OMB Circular A-129, effective reporting provides accurate, timely information on program performance, early warnings of issues that may arise, and analytics to drive decision-making.

FHA has generated some reports from HERMIT to help oversee the HECM portfolio, but it has been slow to develop regular and comprehensive reporting mechanisms. FHA officials told us that while data on defaults and use of foreclosure prevention options have generally been available in HERMIT since 2015, FHA was unable to obtain reports on these topics until the summer of 2018 because of contract funding limitations. FHA officials said that starting in September 2018, FHA began receiving regular reports from its HERMIT system contractor on issues such as HECMs assigned to FHA; HECM origination, assignment, and termination activity by month; summary information on the number and dollar amount of HECMs originated each year; and HECMs with a default date. Additionally, around the same time, FHA requested and received ad hoc reports (one-time reports created for specific purposes) from the contractor that included spreadsheets of all active HECMs with a repayment plan and all active HECMs for which there was an identified nonborrowing spouse.

FHA officials said the purpose of the reports generated from HERMIT is to help FHA better manage HECM program performance. However, our review of these regular and ad hoc reports found that many are lists of loans that meet certain criteria and do not provide summary statistics that could be used to readily identify patterns or trends in metrics, such as the number of or reasons for HECM terminations or use of different foreclosure prevention options. The reports require additional analysis to generate meaningful management information. According to OMB Circular A-129, graphics, tables, and trend analysis that compare performance over time and against expectations and other information can provide critical context for understanding program performance.

[74]FHA implemented the HERMIT system, which captures data on defaults and advances, partly in response to a 2010 Office of Inspector General recommendation, but it has not regularly tracked and reported this information. Tracking defaults and servicer advances is critical to understanding how many borrowers are unable to meet their mortgage obligations and how far behind they are on property charges, both of which can affect the amount of insurance claims FHA may need to pay in the future.

Further, the circular says dashboards (easy-to-comprehend summaries of key quantitative and qualitative information) and watch lists are tools that can help all levels of the organization receive appropriate information to inform proactive portfolio management and ensure program decisions are informed by robust analytics.

FHA's lack of analysis and internal reporting on HECM termination reasons hampered the agency's ability to respond to a 2017 Freedom of Information Act request about the number of and reasons for HECM foreclosures.[75] FHA's response contained data showing that over 99 percent of HECM foreclosures occurring from April 2009 through December 2016 resulted from the death of the borrower. However, FHA officials told us they subsequently looked more closely into the issue and redid the analysis using more reliable and updated information from January 2013 through December 2017. The revised analysis showed that 61 percent of foreclosures over that period were due to borrower deaths, 37 percent were due to borrower defaults, and 2 percent were due to conveyance of title. If FHA had regular and meaningful management information about HECM terminations, it could have initially responded to the 2017 request with more reliable information.

FHA officials told us that HERMIT is an accounting system to process HECM claims and has limitations as a broader portfolio monitoring tool. However, our analysis of HERMIT data and reports generated by FHA's HERMIT contractor suggest that the system can be used for this broader purpose. Without more robust program analysis and internal reporting, FHA is not well positioned to detect and respond to any emerging issues and trends in the HECM portfolio. As previously discussed, these trends include growing numbers of HECMs entering default and an increasing number of loans being assigned to FHA.

FHA has not evaluated its foreclosure prioritization process for FHA-assigned HECMs. As previously noted, FHA-assigned loans are a growing part of the HECM portfolio. According to FHA officials, the agency generally does not foreclose on borrowers whose HECMs have been assigned to FHA and who are in default due to unpaid property

[75]The 2017 request came from a consumer group and a legal aid organization. The Freedom of Information Act was enacted in 1966 and requires federal agencies to provide the public with access to government records and information to facilitate an informed public and accountable government. *See* 5 U.S.C. § 552.

charges.[76] According to FHA, the properties associated with these loans are typically occupied. FHA officials said the agency prioritizes processing foreclosures on assigned HECMs for which the property is vacant (because the borrower passed away, for example). FHA officials said that prioritizing foreclosure processing for those loans and delays by the Department of Justice in completing those foreclosures has effectively resulted in few foreclosures on assigned loans with property charge defaults. However, FHA regulations state that servicers generally must initiate foreclosure within 6 months of calling a loan due and payable due to a death or default (if the borrower or heirs have not yet paid the debt off).[77]

FHA's prioritization of processing vacant properties for foreclosure and generally not foreclosing on FHA-assigned HECMs with a property charge default raises issues and potential risks that FHA has not fully analyzed. First, defaulted borrowers whose loans are privately owned (that is, have not been assigned to FHA) face a greater risk of foreclosure than defaulted borrowers with FHA-assigned loans. According to a representative from one HECM servicer we interviewed, FHA's practice is unfair because it treats HECM borrowers inconsistently. Second, FHA's foreclosure prioritization processing may create a financial incentive for HECM borrowers with assigned loans to not pay their property charges, which, in turn, can have negative financial consequences for FHA, localities, and taxpayers. For example, because FHA does not foreclose on assigned loans in tax and insurance default, FHA advances tax and insurance payments on behalf of the borrower and adds them to the loan balance to secure and maintain its first-lien position on the mortgaged property.[78] This makes it more likely that the loan balance will increase to a point that it exceeds the value of the home. When the borrower dies or vacates such a property, FHA may not be able to recoup the loan balance in a foreclosure sale, resulting in a loss to the insurance fund.

[76]The 2017 actuarial review of FHA's Mutual Mortgage Insurance Fund noted this as well. The actuary's report states that FHA does not foreclose on assigned HECMs in tax and insurance default. See Pinnacle Actuarial Resources, *Fiscal Year 2017 Independent Actuarial Review of the Mutual Mortgage Insurance Fund,* a report prepared for the Department of Housing and Urban Development (Bloomington, Ill.: Nov. 10, 2017).

[77]*See* 24 C.F.R. § 206.125(d).

[78]See Pinnacle Actuarial Resources, *Fiscal Year 2017 Independent Actuarial Review of the Mutual Mortgage Insurance Fund*.

As of August 2019, FHA had not evaluated the various risks of generally not foreclosing on assigned HECMs with property charge defaults. As a result, FHA does not know how its process for prioritizing foreclosures for assigned loans affects the HECM portfolio, HECM borrowers, neighborhoods, and FHA's insurance fund.

FHA's Oversight of Servicers and Collaboration on Oversight between FHA and CFPB Are Limited

FHA Has Not Performed On-Site Reviews of HECM Servicers for More Than 5 Years and Lacks Current Review Procedures

FHA's oversight of HECM servicers is limited. FHA requires HECM servicers, among other things, to inform borrowers of their loan status, including any conditions resulting in a loan becoming due and payable; to notify struggling borrowers of the availability of housing counseling and foreclosure prevention options; to inform surviving nonborrowing spouses of conditions and requirements for the deferral period; and to manage the transfer of loan servicing from one entity to another. These requirements are identified in FHA regulations, handbooks, and mortgagee letters.[79] If properly implemented, these requirements can help ensure that HECM borrowers and nonborrowing spouses are aware of their mortgage responsibilities, options for resolving situations that can result in foreclosure, and who to contact with loan servicing questions. FHA officials said they maintain communication with HECM servicers, including through an industry working group, about their compliance with FHA requirements. The officials also noted that FHA conducts reviews of due and payable requests and insurance claims, which can include checks for some of the requirements discussed above. However, FHA has not performed comprehensive on-site reviews of HECM servicers' compliance with program requirements since fiscal year 2013 and does not have current procedures for conducting these reviews.

[79]*See e.g.* 24 C.F.R. § 206.125(a). Other servicing requirements can be found in HUD Handbook 4000.1 (FHA's Single Family Housing Policy Handbook), HUD Housing Handbook 4235.1 (the HECM Handbook), and various mortgagee letters accessible at https://www.hud.gov/program_offices/housing/sfh/hecm/hecmml.

The lack of on-site reviews of HECM servicers is inconsistent with OMB requirements for managing federal credit programs.[80] OMB Circular A-129 states that agencies should conduct on-site lender and servicer reviews biennially where possible and annually for lenders and servicers with substantial loan volumes or those with other risk indicators such as deterioration in their credit portfolio, default rates above acceptable levels, or an abnormally high number of reduced or rejected claims. The purpose of these reviews is to evaluate and enforce lender and servicer performance and identify any noncompliance with program requirements. The circular encourages agencies to develop a risk-rating system for lenders and servicers to help establish priorities for on-site reviews and to monitor the effectiveness of required corrective actions. The circular also says that agencies should summarize review findings in written reports with recommended corrective actions.

FHA previously conducted on-site reviews of HECM servicers. However, according to agency data, FHA has not performed on-site reviews since fiscal year 2013. From fiscal years 2010 through 2013, FHA's Quality Assurance Division (a component of the Office of Lender Activities and Program Compliance) conducted 14 on-site reviews of HECM servicers (see table 3). These reviews examined compliance with FHA servicing requirements and included detailed reviews of samples of loans.

Table 3: Number of FHA On-Site Reviews of Home Equity Conversion Mortgage Servicers, Fiscal Years 2010–2018

Fiscal year	2010	2011	2012	2013	2014–2018	Total
Number of reviews	2	1	4	7	0	**14**

Source: Federal Housing Administration (FHA). | GAO-19-702

[80]Office of Management and Budget, *Policies for Federal Credit Programs and Non-Tax Receivables*, OMB Circular No. A-129 (revised January 2013).

FHA provided us three examples of HECM servicing reviews conducted in fiscal year 2013. While not representative of all reviews, the three reviews identified multiple violations of FHA requirements, as follows:

- **Quality control plans.** Two of the three reviews found that the servicers' quality control plans—an internal control mechanism to help ensure compliance with FHA requirements—were missing required elements. For example, one review found that the servicer's plan lacked 13 required elements, including those intended to ensure compliance with fair lending laws and immediate reporting of fraud or other serious violations. Another review found deficiencies with the servicer's plan, including in the areas of customer service, servicing transfers, and fees and charges.
- **Communication with borrowers.** In these same two reviews, FHA found that the servicers did not always provide borrowers with a designated contact person or timely and accurate information about their loan status. For both servicers, FHA's reviews of files for a sample of active loans found no evidence that the servicer had provided the borrower a contact person to handle inquiries. FHA requires servicers to designate for borrowers a contact person knowledgeable about servicing and provide the name of the person annually and whenever the contact person changes. Additionally, both reviews found that the servicers' annual loan statements to borrowers were missing critical information, such as the net principal limit (total loan funds available), and that the servicers did not provide borrowers with statements after every loan disbursement, as required.
- **Filing claims.** In two of the three reviews, FHA found deficiencies in the servicers' filing of insurance claims. For example, in one review, FHA identified multiple cases where the servicer submitted claims that were greater than the amounts warranted, including excess attorney and appraisal fees, property preservation and protection expenses, and interest costs. In another review, FHA found numerous instances where the servicer missed various deadlines—including for submitting claims, commencing foreclosure, and obtaining appraisals—and therefore was not entitled to the full claim amounts it received.
- **Loan disbursements**. One of the three reviews found numerous instances in which the servicer did not respond to borrowers' requests for payment plan changes within the required time frame of 5 business days, and therefore did not make timely loan disbursements to borrowers.

FHA required these servicers to take corrective actions, including updating quality control plans, revising policies and procedures, reimbursing FHA for unwarranted claim amounts, indemnifying FHA for losses on a loan, and paying late charges to borrowers who did not receive timely loan disbursements.[81] FHA has the option of referring violations of FHA requirements to HUD's Mortgagee Review Board, which can take administrative actions such as issuing letters of reprimand, suspending or withdrawing approval to participate in FHA programs, entering into settlement agreements to bring an entity into compliance, and imposing civil money penalties.[82] FHA officials said they had not referred any HECM servicers to the board as a result of findings from on-site reviews.

According to FHA's current Director of the Quality Assurance Division, under previous leadership, the division suspended on-site reviews of HECM servicers after fiscal year 2016 because of servicers' concerns about the clarity and consistency with which FHA was conducting the reviews and applying enforcement remedies.[83] He said the Quality Assurance Division had intended to revise its guidance for conducting the reviews and then resume them, but the effort had stalled during a change in leadership. The current Director said he was not aware that HECM servicing reviews had been suspended until the fall of 2017, when the division began targeting on-site reviews for fiscal year 2018, and noticed that HECM servicers were not included in the prior year's targeting methodology.

The lack of recent HECM servicer reviews is problematic for a number of reasons. First, as previously noted, the number of HECM borrowers

[81]In some circumstances, the lender or servicer must indemnify—or repay—FHA for losses that it incurs after a loan has gone into default and the property has been sold.

[82]Officials from HUD's Office of General Counsel said that enforcement actions against HECM lenders and servicers have been rare, but they noted False Claims Act settlements against two companies that service HECMs. In 2017 and 2018, HUD's Office of General Counsel and Office of Inspector General worked with the Department of Justice to coordinate investigations into and settlements with the servicers. According to the Department of Justice officials, in both cases, the servicers allegedly did not disclose noncompliance with various deadlines—such as for property appraisals and commencement of foreclosure proceedings—in order to claim interest payments from FHA they were not entitled to receive. One servicer agreed to pay $89 million to resolve the allegations, and the other agreed to pay $4.25 million.

[83]The current Director said he was in an acting position starting in July 2017 and became permanent in January 2018.

defaulting on their loans has grown in recent years. As a result, knowing whether servicers are providing borrowers with accurate and timely communications about their mortgage obligations and the status of their loans has become increasingly critical. Second, FHA has recently made program changes and implemented foreclosure prevention options, such as at-risk extensions and mortgagee optional election assignments, to help struggling borrowers and nonborrowing spouses delay or avoid foreclosure. But FHA does not know how effectively servicers inform borrowers of these options and use these tools due to its lack of oversight. Third, as discussed earlier, the majority of HECM servicers are nonbank entities that may pose risks because they are not subject to the same comprehensive federal safety and soundness regulations as banks and rely on funding sources, such as lines of credit, that may be less stable than deposits.

The Director of the Quality Assurance Division said FHA plans to begin conducting HECM servicer reviews in fiscal year 2020 but will first need to revise its procedures for reviewing HECM servicers, which were last updated in 2009. However, the Director told us the division decided not to develop criteria for selecting HECM servicers for review. Instead, he said FHA plans to review all HECM servicers with significant portfolios at least once every 3 years, starting with the three servicers that account for 96 percent of the HECM portfolio.

While FHA's plan to review HECM servicers with significant portfolios captures one aspect of portfolio risk (loan volume), it does not account for other risk indicators that OMB Circular A-129 says agencies should consider.[84] The circular also encourages agencies to develop risk-rating systems that incorporate these indicators. While the current HECM servicing market is dominated by a small number of companies, the ability to prioritize on-site reviews based on risk ratings will be important if the market becomes less concentrated in the future. Additionally, some HECM servicers may warrant review more frequently than once every 3 years if their business volume or performance poses substantial risks to FHA or to borrowers. FHA's plans do not account for these contingencies.

[84] In contrast, FHA uses risk-based criteria to prioritize on-site reviews for HECM lenders and forward mortgage lenders and servicers.

CFPB Conducts Oversight of Reverse Mortgage Servicers, but It Has Not Completed Steps to Share Examination Results with FHA

CFPB oversees reverse mortgage servicers through examinations designed, among other things, to identify whether servicers engage in acts or practices that violate federal consumer financial laws. CFPB issued its Reverse Mortgage Examination Procedures in 2016 and began conducting examinations in 2017.[85] CFPB's procedures include reviewing servicers' compliance with the Real Estate Settlement Procedures Act of 1974 and its implementing regulations (which, among other things, contain requirements for notifying borrowers of servicing transfers, responding to borrowers' written information requests and notices of error, and disclosures relating to force-placed insurance);[86] the Truth In Lending Act and its implementing regulations (which impose requirements on servicers governing the use of late fees and delinquency charges, provisions for payoff statements, and disclosures regarding rate changes for adjustable-rate mortgages); and other consumer protection laws.[87]

Additionally, CFPB's procedures include a review of whether a HECM servicer is following selected elements of FHA's HECM program requirements. For example, CFPB's examiners are directed to determine whether information provided to the borrowers about life expectancy set-aside accounts (an FHA requirement) is clear, prominent, and readily understandable, and whether the borrower incurred penalties or unnecessary charges in the event the servicer failed to make disbursements of set-aside funds for insurance, taxes, and other charges with respect to the property in a timely manner. CFPB examiners also are directed to determine whether the servicer referred a HECM to foreclosure improperly after the death of a borrower, such as when an eligible nonborrowing spouse still occupies the home. If CFPB's reverse mortgage examinations identify violations, CFPB may require the

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[85]Consumer Financial Protection Bureau, *Reverse Mortgage Servicing Examination Procedures* (Washington, D.C.: October 2016). CFPB's oversight of reverse mortgage servicers is not limited to those participating in the HECM program.

[86]According to CFPB, loan requirements may include that borrowers have insurance on their property. If the borrower fails to obtain insurance or lets the insurance lapse, the loan contract may allow for the lender or servicer to provide insurance to cover the property (force-placed insurance). CFPB notes that force-placed insurance protects only the lender from losses, but the lender will charge the borrower for the insurance costs. Force-placed insurance is usually more expensive than what borrowers could obtain by purchasing policies themselves.

[87]General servicing requirements regarding policies and procedures, early interventions, continuity of contract, and loss mitigation procedures under the Real Estate Settlement Procedures Act of 1974, as amended, are generally inapplicable to reverse mortgage servicers. *See* 12 C.F.R. § 1024.30(b)(2).

examined entity to take corrective actions, which are recorded in the examination results as matters requiring attention.[88]

CFPB examinations of reverse mortgage servicers have found deficiencies in monitoring of servicing actions, compliance with consumer protection laws, and communications with consumers. For example, CFPB reported in the March 2019 edition of its *Supervisory Highlights* that one or more reverse mortgage servicing examinations found cases where the servicer did not provide the heirs of deceased borrowers a complete list of the documents needed to evaluate their case for a foreclosure extension.[89] (Extensions can give heirs additional time to sell or purchase the property and delay or avoid foreclosure.) As a result, in some instances, one or more servicers foreclosed rather than seeking a foreclosure extension from FHA. According to CFPB, in response to the examinations, one or more servicers planned to improve communications with borrowers' heirs, including specifying the documents needed for a foreclosure extension and the relevant deadlines. CFPB officials said they plan to continue examining reverse mortgage servicers.

In addition to conducting examinations and issuing matters requiring attention, CFPB officials said the bureau has other options—including issuing warning letters and taking enforcement actions—to stop unlawful practices or promote future compliance by supervised entities. Warning letters advise companies that certain practices may violate federal consumer financial law.[90] Enforcement actions are legal actions against an entity initiated through federal district court or by an administrative

[88]CFPB matters requiring attention are corrective actions that result from examination findings that require the attention of a supervised institution's board of directors or principals and that are directly related to violations of consumer financial law, compliance program deficiencies, or control weaknesses. CFPB also has the option to forward examination findings to its Action Review Committee for further input and consideration. According to CFPB officials, the Action Review Committee can take additional enforcement action if the committee finds concerns about consumer protections.

[89]Consumer Financial Protection Bureau, *Supervisory Highlights*, Winter 2019, Issue 18, (Washington, D.C.: March 2019).

[90]Warning letters are not accusations of wrongdoing, but instead are meant to help recipients review certain practices to ensure that they comply with federal law. CFPB may make aspects of these letters public without identifying the recipient if the bureau determines that other entities might benefit from a reminder to review certain practices or thinks the public should be aware of particular activities.

adjudication proceeding.[91] CFPB officials told us the bureau had not issued any warning letters or enforcement actions against HECM servicers as of August 2019.[92]

While CFPB has examined reverse mortgage servicers and plans to continue doing so, CFPB officials said the bureau and FHA do not have an agreement in place to share supervisory information, which inhibits sharing of examination results. Information-sharing agreements may address topics such as what and how information will be shared and handling of sensitive information. CFPB officials said that an agreement with FHA would be needed to ensure that supervisory information in the bureau's examinations is kept confidential. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, CFPB must share results of the examination of a supervised entity with another federal agency that has jurisdiction over that entity, provided that CFPB received from the agency reasonable assurances as to the confidentiality of the information disclosed.[93]

In addition, in previously issued work, we noted that interagency collaboration can serve a number of purposes, including, among other things, policy development, oversight and monitoring, and information sharing and communication.[94]

CFPB officials said CFPB and FHA had taken initial steps in 2017 toward developing an information-sharing agreement. However, as of August 2019, an information-sharing agreement had not been completed. CFPB officials told us there were existing ways for the two agencies to share examination findings, but that an information-sharing agreement would

[91]According to CFPB officials, CPFB enforcement actions are typically the result of formal investigations that include hearings and subpoenas against companies, involve settlements, and are typically time intensive for CFPB because of the investigative process.

[92]However, CFPB has issued warning letters and taken enforcement actions related to reverse mortgage advertising.

[93]*See* Pub. L. No. 111-203, § 1022(c)(6)(C) (2010) (codified at 12 U.S.C. § 5512(c)(6)(C)).

[94]GAO-12-1022.

facilitate the process.[95] CFPB officials said developing information-sharing agreements can be a lengthy process and that both agencies had other competing priorities. However, because of the limited information sharing between CFPB and FHA, FHA is not benefiting from oversight findings about servicers it could rely on to help implement the HECM program. Having this information is particularly important given that FHA does not comprehensively review HECM servicers itself and CFPB's examinations address a number of FHA requirements. Access to CFPB's examination results could enhance FHA's oversight of HECM servicers and potentially help it respond to consumer protection issues facing HECM borrowers.

CFPB Collects and Analyzes Consumer Complaints on Reverse Mortgages, but FHA Does Not Use All Available Data

CFPB Has Received About 3,600 Reverse Mortgage Complaints since 2011

CFPB collects, analyzes, and reports on consumer complaints related to reverse mortgages. The bureau began collecting reverse mortgage consumer complaints in December 2011 and has collected about 3,600 complaints since then.[96] CFPB collects complaints through an online forum on its website called the Consumer Complaint Database, as well as via email, mail, phone, fax, or referral from another agency.[97] CFPB's authority to collect complaints comes from the Dodd-Frank Wall Street Reform and Consumer Protection Act, which states that one of the

[95]FHA can request access to relevant CFPB examination results under 12 C.F.R. § 1070.43. Additionally, the agencies have the ability to have high-level conversations about confidential supervisory information under 12 C.F.R. § 1070.45(a)(5). According to CFPB officials, CFPB's Office of Enforcement has used both of these processes with FHA to share information on reverse mortgage issues.

[96]Of the 3,600 complaints, CFPB officials said about 3,000 were forwarded to companies and were posted publicly on CFPB's website. The remaining 600 complaints were referred to other agencies, such as federal regulators. CFPB officials said they do not publicly post complaints that are referred to other agencies.

[97]CFPB's Consumer Complaint Database is available through its website at https://www.consumerfinance.gov/data-research/consumer-complaints/.

bureau's primary functions is collecting, investigating, and responding to consumer complaints.[98]

CFPB officials told us the bureau uses consumer complaints as part of its criteria for selecting entities to examine, including reverse mortgage servicers, and to inform its educational publications. For example, in June 2015, CFPB released a report on reverse mortgage advertising and consumer risks.[99] In August 2017, CFPB released an issue brief on the costs and risks of using a reverse mortgage to delay collecting Social Security benefits.[100]

In February 2015, CFPB issued a report on reverse mortgage consumer complaints it received from December 2011 through December 2014.[101] CFPB found that consumer complaints indicated frustration and confusion over the terms and requirements of reverse mortgages. CFPB also found that many complaints were about problems with loan servicing. For example, some consumers complained that they were at risk of foreclosure due to nonpayment of property taxes or homeowners insurance and that they faced obstacles when trying to prevent a foreclosure. CFPB officials told us they did not currently have plans to publish additional reports on reverse mortgage complaints, but that CFPB would continue to produce educational materials on reverse mortgages and internally review the data on a routine basis.

For this report, we performed a high-level analysis of roughly 2,500 reverse mortgage complaints received by CFPB from calendar years 2015 through 2018.[102] We analyzed patterns in the number of complaints by year, state, submission method, and company.

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[98]Pub. L. No. 111-203, §1021(c)(2) (2010) (codified at 12 U.S.C. § 5511(c)(2)).

[99]Consumer Financial Protection Bureau, Office for Older Americans, *A Closer Look at Reverse Mortgage Advertisements and Consumer Risks* (Washington, D.C.: June 2015).

[100]Consumer Financial Protection Bureau, Office for Older Americans, *Issue Brief: The Costs and Risks of Using A Reverse Mortgage to Delay Collecting Social Security* (Washington, D.C.: August 2017).

[101]Consumer Financial Protection Bureau, Office for Older Americans, *Snapshot of Reverse Mortgage Complaints: December 2011–December 2014* (Washington, D.C.: February 2015).

[102]We selected this period because, as previously mentioned, CFPB's February 2015 publication included summary findings on reverse mortgage complaints received prior to 2015.

- **By year.** Complaint volumes varied across the 4 years, with the most complaints received in 2016 and the least received in 2018 (see table 4).

Table 4: Number of Reverse Mortgage Complaints Received by the Consumer Financial Protection Bureau (CFPB), Calendar Years 2015–2018

Calendar year	2015	2016	2017	2018	Total
Number of complaints	628	741	594	509	2,472

Source: GAO analysis of CFPB Consumer Complaint Database. | GAO-19-702

- **By state.** The states with the most complaints were California (accounting for 16 percent of reverse mortgage complaints), Florida (11 percent), New York (8 percent), and Texas (7 percent). These states are among the most populous, and three of them (California, Florida, and Texas) also had the greatest numbers of HECMs.
- **By submission method.** A majority of reverse mortgage complaints (56 percent) were submitted through CFPB's website. The remaining complaints were submitted through referrals to CFPB from other agencies (22 percent), by phone (12 percent), by postal mail (7 percent), and by fax (3 percent). Compared to the percentage of all types of mortgage complaints filed during the 4-year period, the percentage of reverse mortgage complaints filed through the website (56 percent) was lower than the corresponding percentage for complaints about all types of mortgages (67 percent). Representatives from legal aid organizations representing HECM borrowers said that reverse mortgage consumers may be less likely to file a complaint through a website because of limitations sometimes related to aging—for example, lack of internet access or computer skills. Additionally, representatives from three of the five organizations said seniors may suffer from health or capacity issues, such as hearing, vision, or memory loss, that may make it difficult for them to file or follow up on a complaint. For these reasons, seniors may not be submitting complaints through CFPB's website and seniors' complaints about reverse mortgages may be underreported in general.

- **By company.** Companies that were the subject of reverse mortgage complaints included both lenders and servicers.[103] From 2015 through 2018, five companies were the subject of more than 100 complaints each, ranging from a low of 116 to a high of 506. Together, these five companies accounted for 61 percent (1,509) of the reverse mortgage complaints CFPB received. Additionally, one company received the most complaints in 4 out of the 5 years reviewed.[104]

We also conducted a more detailed analysis of a random, generalizable sample of 100 consumer complaint narratives from among the 2,472 total reverse mortgage complaints CFPB received in calendar years 2015 through 2018. The purpose of this analysis was to identify patterns in consumer-described issues about reverse mortgages. We created issue categories by reading the consumer narratives. Figure 6 shows the estimated percentage of reverse mortgage complaints received by CFPB over the 4-year period by consumer-described issue categories, based on our sample of 100 complaint narratives.

[103]As previously noted, some companies originate reverse mortgages and then continue to own and service them. However, in many instances, the reverse mortgage may be originated by one company, owned by another, and serviced by yet another. This makes analysis by company difficult because not all companies are either originating or servicing reverse mortgages.

[104]Making finer comparisons across companies would require a standardized measure such as a complaint rate—that is, the number of complaints divided by a uniform indicator of reverse mortgage business volume (number of loans originated or serviced by a company). However, differences in the focus of the companies (for example, originating, servicing, or owning reverse mortgages) and annual shifts in the size of the companies' reverse mortgage portfolios (for example, due to business decisions to exit the market or increase market share) complicate development of such a measure.

Figure 6: Types of Reverse Mortgage Complaints Received by the Consumer Financial Protection Bureau, Calendar Years 2015–2018

	Estimated percentage of complaints	Ninety-five percent confidence interval
At risk of foreclosure or in foreclosure	**47 %**	37–57 %
Poor communication on a servicing or lending issue	**42**	32–52
Problem at loan origination (e.g., loan funds available to borrower were less than expected)	**29**	20–38
Estate management (e.g., heirs struggling with disposing of loan or property after borrower dies)	**27**	19–37
Unfair interest rates, fees, or costs	**27**	19–37
Tax, insurance, or property charges	**17**	10–26
Problem after loan transferred to new servicer	**7**	3-14
Nonborrowing spouse struggling to keep home after borrower's death	**4**	1-10
Occupancy	**4**	1-10

Source: GAO analysis of Consumer Financial Protection Bureau consumer complaint data. | GAO-19-702

Note: GAO created the complaint categories by reading a random generalizable sample of 100 consumer complaint narratives. Percentages add to more than 100 percent because some consumer complaints included multiple issues and, as a result, were included in more than one complaint category. Confidence intervals are rounded to the nearest whole number.

Among the largest consumer-described issue categories were foreclosures; poor communication from lenders or servicers; problems at loan origination; estate management; and unfair interest rates, fees, or costs.

- **Being at risk of foreclosure or in foreclosure.** The largest consumer-described issue category (47 percent) involved consumers (or someone complaining on behalf of the consumer) who said they were at risk of foreclosure or in the foreclosure process.[105] For example, some consumers said they or the borrower they represent had received a notice of default, were in due and payable status, or

[105]Our analysis of consumer complaint narratives found that a number of complaints were submitted on behalf of the borrower by another party, such as family members, potentially because of limitations from aging previously discussed.

were at risk of foreclosure. Some consumers sought help in preventing foreclosure or felt they were wrongly being foreclosed on. In 16 of the 47 complaints about being at risk of or in foreclosure, consumers also cited concerns about property taxes, insurance, or other property charges.

- **Poor communication on a servicing or lending issue**. The second largest consumer-described issue category (42 percent) involved complaints about poor communication on a reverse mortgage servicing or lending issue. These complaints included concerns about a lack of communication or communications that were unclear or unresponsive to the consumer's needs. Complaints in this category often overlapped with those about being at risk of or in foreclosure. For example, some of these complaints included consumers' concerns that they had not received information about the status of or reason for a possible foreclosure from their servicer or did not get responses to their inquiries.
- **Loan origination issues.** The third largest complaint category involved problems occurring at loan origination (29 percent). These complaints included consumers' concerns that the amount of funds available from their reverse mortgage was less than expected or that interest rates or fees were not disclosed or explained to them. The complaints also included cases where the adult children of borrowers said they felt the lender took advantage of their parents.
- **Estate-management issues.** Twenty-seven percent of consumer complaints were about estate management issues. Complaints involving estate-management were often submitted by deceased borrowers' families or heirs. In some cases, heirs said that they were unable to get information about the status of the reverse mortgage. In other cases, the heirs said that because of the reverse mortgage, they were at risk of losing the home, which was also their place of residence.
- **Unfair interest rates, fees, or costs.** Twenty-seven percent of consumer complaints were about being charged higher-than-expected costs, fees, or interest. For example, in a few complaints, consumers said that their servicers required them to pay for insurance products (for example, flood insurance) that they felt were not needed.

According to CFPB officials, the bureau (1) refers consumer complaints about financial products and services to the companies the complaints are about or other federal regulators with supervisory jurisdiction over those companies or (2) makes complaint information available to other federal agencies with jurisdiction over the relevant product or service.

CFPB officials said the bureau does not currently refer reverse mortgage complaints to FHA; however, they told us reverse mortgage complaints are available to FHA through CFPB's public website and through a secure portal FHA can access that has more data available than on the public website.

FHA Does Not Analyze Data on Consumer Complaints to Help Inform HECM Program Policies

FHA collects and records inquiries and complaints about HECMs and, as previously mentioned, has access to CFPB data on reverse mortgage complaints. However, FHA does not use its inquiry and complaint data to help inform HECM program policies and oversight, and the way data are collected does not produce quality information for these purposes. Additionally, FHA has not leveraged CFPB's complaint data for HECM program oversight. Federal internal control standards state that agencies should use quality information to achieve the entity's objectives, including using relevant data from reliable internal and external sources.[106] Additionally, in prior work we identified practices to enhance collaboration across agencies, including leveraging agency resources.[107]

According to agency officials, FHA's two main methods for collecting customer inquiries and complaints are hotlines operated by the agency's National Servicing Center and the FHA Resource Center.[108] Historically, the National Servicing Center was FHA's primary method for collecting inquiries and complaints about the HECM program.[109] From calendar years 2015 through 2018, the National Servicing Center received about 105,000 HECM-related calls. During this same period, the FHA Resource Center received 147 HECM-related calls. In April 2019, the FHA Resource Center became the primary entity for collecting, recording, and responding to all HECM-related calls. FHA officials told us they

[106]GAO-14-704G.

[107]GAO-12-1022.

[108]The National Servicing Center is a customer assistance center that works with FHA homeowners and their lenders or servicers to avoid foreclosure. Customers can submit their inquiries and complaints via telephone, email, postal mail, or fax. In addition to its two main methods, FHA receives complaints and inquiries through congressional and White House correspondence. FHA officials said complaints received through these channels were less frequent than complaints received through other methods and sometimes involved prospective borrowers who did not meet HECM eligibility requirements.

[109]We use the term "calls" to refer to any inquiry or complaint submitted to FHA and logged through its two main collection methods.

transferred these responsibilities from the National Servicing Center to the FHA Resource Center to help improve call management.

While this change could help improve customer service, it would not fully resolve limitations we found in FHA's approach to collecting and recording HECM inquiries and complaints that diminish the usefulness of the information for program oversight. These limitations include the following:

- **Information is not suitable for thematic analysis.** Both the National Servicing Center and the FHA Resource Center do not collect call information in a way that would allow FHA to readily analyze the data for themes. For example, both centers do not reliably differentiate between inquiries and complaints—a potentially important distinction for determining appropriate agency-level responses (for example, creating informational materials to address frequently asked questions from borrowers or investigating problematic servicing practices after repeated complaints). Additionally, while both the centers collect data on the reason for calls, neither did so in a systematic way that would allow FHA to readily determine how frequently issues are being raised. For example, neither centers' data systems contained standardized categories or menus with options for recording reasons for calls. As a result, the FHA Resource Center's data from 2015 through 2018 contained more than 100 separate reasons for 147 HECM-related calls. Some of the reasons the center recorded were too specific (for example, a property address or a case number) to be useful for identifying themes, while others were so similar that they do not provide meaningful distinctions (but could be combined into fewer, potentially more useful categories).[110] We noted similar limitations in the National Servicing Center's data, which included ambiguous call reasons such as "history" and "documents," and categories that could be collapsed, which hinders thematic analysis.[111]
- **Customer type is not recorded.** The National Servicing Center, which received the large majority of HECM-related calls to FHA, did not record information on the type of customer that made the call. National Servicing Center guidance for staff says customers include

[110]For example, among the call reasons were 36 that included the name of the contractor that services loans assigned to FHA, three of which consisted of the contractor's name and the word "feedback," "issue," or "problem."

[111]Because of these limitations, we did not analyze FHA customer calls in a manner similar to our analysis of CFPB consumer complaint data and narratives.

borrowers, nonprofit organizations, government entities, real estate brokers and agents, title companies, attorneys, lenders and servicers, and HUD employees, but its data system does not include these categories.[112] Information on customer type could be useful in identifying issues facing different populations of callers and could help FHA tailor strategies for addressing their concerns. In contrast, the FHA Resource Center's data system does include categories for customer type for the smaller number of HECM-related inquiries and complaints it received. Because the FHA Resource Center's system is now FHA's primary repository for new HECM-related calls, information on customer type should be available for future inquiries and complaints. However, this information is not available for the bulk of HECM-related calls FHA received in prior years.

FHA officials said the agency uses customer complaint and inquiry data to improve customer service. For example, FHA officials said the National Servicing Center monitors calls on a daily basis to ensure that prompt responses are provided. Similarly, FHA officials said they review call data monthly to identify training needs of servicers or contractors and potential process changes to improve customer experience with the call process. However, FHA does not analyze data for other purposes that could enhance program oversight, such as determining which HECM servicers and lenders receive the most complaints, targeting entities for on-site reviews, or identifying topics that may need additional borrower education.

FHA also does not use CFPB's consumer complaint data to inform management and oversight of the HECM program, even though some of the information could be useful to the agency. For example, according to CFPB's complaint data for 2015 through 2018, approximately 6 percent of reverse mortgage complaints were about FHA's servicing contractor. FHA officials said they do not review CFPB's complaint data because they believe the data are too limited to be useful and because they have concerns about CFPB's controls over data integrity. However, as our analysis shows, CFPB's data can be used to identify consumer concerns—such as difficulties avoiding or navigating foreclosure or problems communicating with servicers—that may merit additional attention by FHA. Additionally, CFPB's Office of Inspector General recently reviewed CFPB's management controls for the Consumer

[112]Department of Housing and Urban Development, *Expanded Customer Service National Servicing Center Hotline Desk Guide* (Oklahoma City, Okla.: 2013).

Complaint Database and did not identify major data integrity issues that would preclude use of the data for general oversight purposes.[113] Periodically analyzing CFPB consumer complaint data and internally collected consumer complaint data could help FHA to detect and respond to consumer protection issues regarding HECMs.

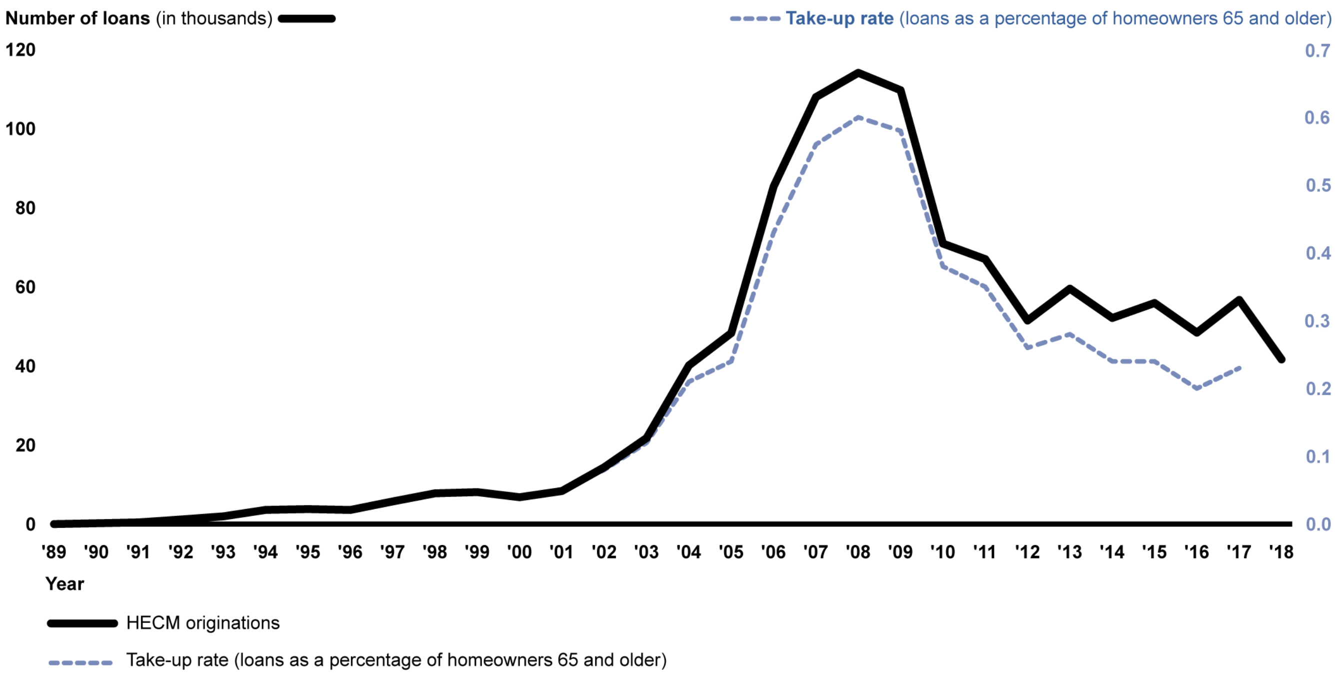
Housing Market Conditions, Exit of Large Bank Lenders, and Policy Changes Help Explain the Decline in Reverse Mortgages since 2010

Since 2000, the take-up rate—the ratio of HECM originations to eligible senior homeowners—has been limited (see fig. 7).[114] This rate, which provides an indication of how popular HECMs are among the population of senior homeowners, has not reached 1 percent and has fallen in recent years. In addition, since calendar year 2010, the volume of HECM originations has declined and is about half of what originations had been at their peak. For example, in calendar years 2007–2009, more than 100,000 new HECMs were originated each year, compared with roughly 42,000 in calendar year 2018.

[113] Consumer Financial Protection Bureau, Office of Inspector General, *Opportunities Exist to Enhance Management Controls Over the CFPB's Consumer Complaint Database*, 2015-FMIC-C-016, (Washington, D.C.: Sept.10, 2015); *Bureau Efforts to Share Consumer Complaint Data Internally Are Generally Effective; Improvements Can Be Made to Enhance Training and Strengthen Access Approval*, 2019-FMIC-C-008, (Washington, D.C.: June 3, 2019); and *Semiannual Report to Congress April 1, 2018–September 30, 2018*, (Washington, D.C.: Oct. 31, 2018).

[114] For more information on how we calculated HECM take-up rates and the sources of data used, see app. II.

Figure 7: Home Equity Conversion Mortgage (HECM) Originations and Take-Up Rates, Calendar Years 1989–2018



Source: GAO analysis of data from Census Bureau and Federal Housing Administration. | GAO-19-702

Note: We were unable to calculate a take-up rate for calendar year 2018 because Census Bureau data were not yet available.

The relatively high homeownership rate and low retirement savings of U.S. seniors suggest that reverse mortgages could be a way for many older Americans to tap their home equity and supplement retirement income.[115] However, the popularity of reverse mortgages has declined in recent years for a number of possible reasons. We developed an econometric model to examine the relationship between HECM take-up

[115]According to the Census Bureau's 2016 American Community Survey data, the homeownership rate for householders aged 65 and older is 78 percent, compared to 63 percent for all households. According to the Board of Governors of the Federal Reserve System's 2016 Survey of Consumer Finances, 50 percent of American families with a head of household age 65 to 74 have no retirement accounts. Additionally, we found that the percentage of households headed by someone aged 55 or over that had no retirement savings was about 48 percent in 2016. See GAO, *Retirement Security: Most Households Approaching Retirement Have Low Savings, an Update*, GAO-19-442R (Washington, D.C.: Mar. 26, 2019).

rates and a number of explanatory variables.[116] For additional information and detailed results from our econometric model of factors associated with HECM take-up rates, see appendix II. Among other factors, our model results indicate that house price changes, home equity, and prior use of other home equity lending products were statistically significant (at the 1 percent level) in explaining the decrease in HECM take-up rates since 2010.[117]

- **Changes in house prices.** The decline in take-up rates may reflect lower house prices, which have limited the number of households with sufficient home equity (as a percentage of home value) to benefit from a HECM. Our model estimated that, controlling for other factors, take-up rates were higher when house price growth was large and there was a history of house price volatility compared to either relatively low house price appreciation or stable house prices. This result is consistent with senior homeowners using reverse mortgages to insure against house price declines.[118] For example, researchers have noted that in states where house prices are volatile and the current level is above the long-term norm, seniors anticipate future reductions in house prices and lock in their home equity gains by obtaining a reverse mortgage.
- **Home equity and prior home equity borrowing.** Additionally, we found that controlling for other factors, take-up rates were higher where home equity (house value minus any mortgage debt) was high. In these cases, senior homeowners tap into their high home equity to help supplement income with proceeds from the HECM. Further, we found that among seniors who had previously used other home equity lending products, such as home equity loans, take-up rates were high.

[116]We estimated a panel of state-year observations using fixed-effects estimation. Because this estimation technique controls for both observable and unobservable factors that vary across states but not over time, it estimates only the within-state variation in take-up rates.

[117]We were not able to include some factors that could affect HECM take-up rates, including FHA program policy changes and behavioral and structural factors discussed later in this report. However, the state fixed-effects and year fixed-effects that we used are expected to control for some of these factors.

[118]For similar results, see Donald Haurin, Chao Ma, Stephanie Moulton, Maximilian Schmeiser, Jason Seligman, and Wei Shi, "Spatial Variation in Reverse Mortgages Usage: House Price Dynamics and Consumer Selection," *Journal of Real Estate Finance and Economics,* vol. 53 (2016): pp. 392-417.

This result is consistent with seniors using HECMs to pay off these loans.[119]

Academics and industry experts have also noted possible reasons why the popularity of reverse mortgages is limited. For example, senior homeowners can tap their home equity by other means, such as home equity loans, home equity lines of credit, and cash-out refinancing.[120] Some of these options may be less expensive than reverse mortgages. Seniors can also downsize—sell their current home and buy or rent a less expensive one—and keep the difference to supplement retirement savings. Seniors have other ways to supplement their retirement income and age in place—for example, one academic noted that some seniors rent out rooms in their homes, potentially using online marketplaces such as Airbnb.[121] Additionally, our literature review and interviews with academics identified other factors that have may have contributed to limited interest in reverse mortgages, including the following:

- **Exit of large bank lenders.** As previously noted, banks, thrifts, and credit unions were historically the primary lenders and servicers of mortgage loans. Following the 2007–2009 financial crisis and subsequent revisions to regulatory bank capital requirements, banks reevaluated the benefits and costs of being in the mortgage lending market, as well as retaining mortgages and the right to service them. Today, the reverse mortgage market is dominated by a relatively small number of nonbank entities. The exit of large, well-known lenders, such as Bank of America and Wells Fargo, from the HECM market created opportunities for smaller nonbank lenders to enter the market.[122] According to an academic we spoke with, in addition to

[119]See Donald L. Redfoot, Ken Scholen, and S. Kathi Brown, *Reverse Mortgages: Niche Product or Mainstream Solution?* A report on the 2006 AARP National Survey of Reverse Mortgage Shoppers (Washington, D.C.: December 2007).

[120]A cash-out refinance is when a mortgage borrower refinances into a new mortgage that exceeds the existing loan balance. The difference between the two mortgages is given to the borrower in cash.

[121]For example, according to an Airbnb publication, the fastest-growing host demographic is seniors, with more than 200,000 senior hosts. See *2019 Airbnb Statistics: User and Market Growth Data*, April 2019, accessed May 3, 2019, https://ipropertymanagement.com/airbnb-statistics.

[122]One study found that the exit of Bank of America and Wells Fargo was associated with an 11 percent reduction in HECM volume. See Stephanie Moulton, Samuel Dodini, Donald R. Haurin, and Maximilian Schmeiser, “Seniors’ Home Equity Extraction: Credit Constraints and Borrowing Channels,” available at: https://ssrn.com/abstract=2727204.

new capital requirements, large banks may have exited the market partly out of concern that they risked damage to their reputations if they foreclosed on seniors who defaulted on their HECMs. Additionally, a 2018 survey of lenders found a variety of reasons why lenders have stopped originating HECMs, including potential reputation risk and concerns about HECMs being a distraction from their forward mortgage business.[123] Although the HECM market is currently served by several nonbank lenders, their smaller scale, limited access to capital, and limited name recognition may limit their ability to reach more potential borrowers.[124]

- **FHA policy changes to the HECM program.** FHA has made several policy changes in recent years to help stabilize the financial performance of the HECM portfolio and strengthen financial criteria for HECM borrowers. Although many of the HECM policy changes introduced since 2010 were intended to minimize program losses, they also may have reduced take-up rates. For example, in 2010 FHA reduced the amount of money a borrower can get from a HECM.[125] Some academics we interviewed said reductions in the loan amounts that borrowers can receive likely reduced demand for HECMs. In 2015, FHA changed financial requirements for HECMs to include a financial assessment of the prospective borrower prior to loan approval. Some academics said these changes made other home equity extraction options that already had similar requirements more competitive with HECMs.
- **Consumers' misunderstanding and product complexity.** A 2013 survey of U.S. homeowners aged 58 and older revealed a lack of knowledge of reverse mortgages.[126] The survey found that awareness

[123]Jim Cameron, "Moving Forward in Reverse," *STRATMOR Insights*, vol. 3, no. 2 (February 2018).

[124]Karan Kaul and Laurie Goodman, *Seniors' Access to Home Equity: Identifying Existing Mechanisms and Impediments to Broader Adoption* (Washington, D.C.: Urban Institute, February 2017).

[125]As of October 4, 2010, the amount of HECM loan proceeds available to borrowers was reduced due the implementation of new principal limit factors. *See* Department of Housing and Urban Development, Mortgagee Letter 2010-34 (Sept. 21, 2010). According to FHA officials, the amount of HECM loan proceeds available to borrowers has been further reduced since Mortgagee Letter 2010-34, and the most recent reduction was effective October 2, 2017. *See* Department of Housing and Urban Development, Mortgagee Letter 2017-12 (Aug. 29, 2017).

[126]Thomas Davidoff, Patrick Gerhard, and Thomas Post, *Reverse Mortgages: What Homeowners (Don't) Know and How It Matters* (Oct. 24, 2016). Available at https://ssrn.com/abstract=2528944.

of reverse mortgages is high, but knowledge of mortgage terms is limited. Additionally, the survey found that respondents perceived reverse mortgages to be fairly complex.

- **Consumers' perception of the product.** Academics we spoke with told us that consumers' negative perception of reverse mortgages likely has a negative influence on take-up rates. For example, three academics elaborated that consumers build their perception of the product based on the industry's marketing and advertising, which includes television commercials with celebrity spokespeople that may appeal to individuals facing economic hardship. Additionally, a 2016 survey of Americans aged 55 to 75 found that many respondents had reservations about reverse mortgages, including that they are often considered a financial tool of last resort.[127] For example, only 27 percent of survey respondents stated that, in general, it was better to use a reverse mortgage earlier in retirement as opposed to using it as a last resort.
- **Relatively high origination costs and fees.** HECMs also may be unpopular with borrowers because they can be more expensive than other home equity lending products, such as home equity lines of credit.[128] For example, HECM borrowers are charged various fees, such as the up-front insurance premiums that FHA charges as compensation for its insurance guarantee and origination fees lenders charge. The up-front insurance premium is 2 percent of the mortgage's maximum claim amount. Also, for origination fees, lenders can charge the greater of $2,500 or 2 percent of the first $200,000 of the mortgage's maximum claim amount plus 1 percent of the maximum claim amount over $200,000. However, origination fees are currently capped at $6,000. Further, because borrowers do not make

[127]Hopkins, Jamie, "The Effect of Low Reverse Mortgage Literacy on Usage of Home Equity and Retirement Income Plans," *Journal of Financial Planning* (May 2017): pp. 44–52.

[128]Deborah Lucas, "Hacking Reverse Mortgages" (Oct. 26, 2015), working paper accessed on June 14, 2019, http://mitsloan.mit.edu/shared/ods/documents/?DocumentID=4596. See also Hopkins.

monthly payments on the loans, the interest will accumulate over time, and compounding the interest, the loan balance can rise quickly.[129]

- **Seniors' attitudes toward debt and desire to leave a bequest.** Some academics have noted that seniors tend to be financially conservative and avoid debt in old age—behavior driven by their desire to leave a bequest or save for emergency expenses or long-term care costs.[130] For example, academics have noted that some impediments to home equity extraction are behavioral and have to do with seniors' long-held values, beliefs, and attitudes, such as to maximize wealth transfer to heirs by leaving a bequest. As a result, they may be reluctant to take out a HECM, even if it could help pay for some future expenses.

Conclusions

HECMs allow seniors to tap a portion of their home equity to supplement their retirement income, but these loans can present risks to borrowers and their spouses. The growing number of borrowers who have defaulted on their HECMs and faced foreclosure in recent years highlights the importance of monitoring loan outcomes and overseeing loan servicing policies and practices in the HECM program. FHA has taken some steps to enhance the data it receives from servicers and has created foreclosure prevention options for distressed borrowers. However, FHA could significantly improve its monitoring of loan outcomes and oversight of servicing in the HECM program in the following areas:

- FHA's lack of comprehensive termination data limits understanding of the reasons why HECMs end, how the debt is satisfied, and how well the program is helping seniors age in place. By, for example, updating and providing more guidance to servicers on how to record termination reasons, FHA could improve the completeness and accuracy of HECM termination data.
- FHA has not effectively assessed the performance of the HECM program. By establishing performance indicators and periodically assessing them, FHA could better oversee the program and communicate information on program performance to Congress.

[129]The interest rate on a HECM is agreed upon between the lender and the borrower and can be either fixed for the life of the loan or adjustable, with adjustments occurring either monthly or yearly. For such loans, the interest rate is based on an index such as the LIBOR index (London Interbank Offer Rate) and a fixed premium charged by, and at the discretion of, the lender (known as the lender's spread or margin).

[130]Karan Kaul and Laurie Goodman, *Seniors' Access to Home Equity*.

Further, FHA could use the performance data to help make informed decisions about any needed program changes in the future.

- FHA's internal monitoring and reporting on loan outcomes has been limited. Adopting analytic tools could better position FHA to evaluate loan outcomes and help ensure senior officials have information needed to make key decisions.
- FHA has not fully analyzed the implications of how it prioritizes foreclosures for assigned HECMs. FHA's current process generally results in no foreclosures on assigned loans with property charge defaults. Analyzing the implications of this process could help FHA optimize how it services assigned loans.
- Because FHA does not currently perform on-site reviews of HECM servicers, it lacks assurance that servicers are complying with rules and program requirements. While FHA plans to begin reviewing HECM servicers in fiscal year 2020, its plan does not include development of a risk-rating system to prioritize reviews and identify servicers that should be reviewed more frequently.
- CFPB does not share the results of its examinations of HECM servicers with FHA, in part because the two agencies have not completed a formal information-sharing agreement. Sharing these results could aid FHA's oversight of HECM servicers by providing additional information about the servicers' performance and operations.
- FHA's collection and use of consumer complaint data could be improved. More organized collection of complaints and better monitoring of internal and external complaint data could help FHA detect and respond to emerging consumer protection issues regarding HECMs.

By addressing these issues, FHA could help ensure that the HECM program achieves program goals, effectively oversees servicers, and provides appropriate borrower protections.

Recommendations for Executive Action

We are making a total of nine recommendations, eight to FHA and one to CFPB:

The FHA Commissioner should take steps to improve the quality and accuracy of HECM termination data. These steps may include updating the termination reasons in the HERMIT system or updating the HERMIT

User Guide to more clearly instruct servicers how to record termination reasons. (Recommendation 1)

The FHA Commissioner should establish, periodically review, and report on performance indicators for the HECM program—such as the percentage of terminations due to borrower defaults, the proportion of active HECMs with delinquent property charges, the amount of servicer advances, and the percentage of distressed borrowers who have received foreclosure prevention options—and examine the impact of foreclosure prevention options in the forthcoming HECM program evaluation. (Recommendation 2)

The FHA Commissioner should develop analytic tools, such as dashboards or watch lists, to better monitor outcomes for the HECM portfolio, such as reasons for HECM terminations, defaults, use of foreclosure prevention options, or advances paid by servicers on behalf of HECM borrowers. (Recommendation 3)

The FHA Commissioner should evaluate FHA's foreclosure prioritization process for FHA-assigned loans. Such an analysis should include the implications that the process may have for HECM borrowers, neighborhoods, and FHA's insurance fund. (Recommendation 4)

The FHA Commissioner should develop and implement procedures for conducting on-site reviews of HECM servicers, including a risk-rating system for prioritizing and determining the frequency of reviews. (Recommendation 5)

The FHA Commissioner should work with CFPB to complete an agreement for sharing the results of CFPB examinations of HECM servicers with FHA. (Recommendation 6)

The CFPB Director should work with FHA to complete an agreement for sharing the results of CFPB examinations of HECM servicers with FHA. (Recommendation 7)

The FHA Commissioner should collect and record consumer inquiries and complaints in a manner that facilitates analysis of the type and frequency of the issues raised. (Recommendation 8)

The FHA Commissioner should periodically analyze available internal and external consumer complaint data about reverse mortgages to help inform management and oversight of the HECM program. (Recommendation 9)

Agency Comments and Our Evaluation

We provided HUD and CFPB with a draft of this report for review and comment. HUD provided written comments, which are reproduced in appendix V, that communicate FHA's response to the report. CFPB's written comments are reproduced in appendix VI.

CFPB said that it did not object to our recommendation to complete an agreement for sharing the results of CFPB examinations of HECM servicers with FHA (recommendation 7) and that it would work to complete such an agreement with FHA.

FHA agreed with six of our eight recommendations and neither agreed nor disagreed with the remaining two.

- **Recommendation 1**. FHA agreed with our recommendation to improve HECM termination data and said it would convene a working group to update the HERMIT system and User Guide and develop clear directions for HECM servicers to record termination reasons in HERMIT.
- **Recommendation 2**. Regarding our recommendation on HECM performance indicators and program evaluation, FHA agreed that periodic review and reporting of HECM performance indicators is critically important and said it would work to expand its reporting to include the level of foreclosure prevention activity. However, FHA added that there were no HECM metrics for early default or delinquency rates, as those measures are linked to the amortizing nature of forward mortgages.[131] We agree that early default and delinquency rates are not suitable metrics for HECMs, and our draft report did not suggest that they are. Our report focuses on metrics that would be pertinent to HECMs and that would provide additional insight into HECM loan performance. These include the percentage of HECM terminations due to borrower defaults, the proportion of active HECMs with delinquent property charges, and the amount of funds servicers have advanced on behalf of borrowers. We revised the recommendation in our final report to more specifically describe the types of performance indicators that FHA should establish and report

[131]Early defaults or delinquencies occur when a borrower quickly falls behind on mortgage payments—for example, within the first six mortgage payments.

on. In addition, FHA disagreed with a statement in our draft report that its evaluation of the HECM program has been limited. FHA said it engages in robust HECM program evaluation and cited an example that led to recent changes in FHA's appraisal practices for HECMs. While our draft report described the change in FHA's appraisal practices, we updated our final report to include reference to the FHA study that prompted the appraisal change. However, we maintain that FHA's evaluation of the HECM program has been limited because the last comprehensive program evaluation was completed 19 years ago and FHA has not assessed the impact of HECM foreclosure prevention options.

- **Recommendations 3 and 4**. FHA agreed with our recommendations to develop analytic tools for monitoring HECM loan outcomes and to evaluate its foreclosure prioritization process for FHA-assigned loans. Regarding the latter, FHA said that it is evaluating alternative disposition options to reduce the number of loans that must go through foreclosure and that it would take steps to evaluate the impact of its prioritization process to assist in future decision-making.
- **Recommendation 5**. FHA agreed with our recommendation to develop and implement procedures for conducting on-site reviews of HECM servicers, including a risk-rating system for prioritizing and determining the frequency of reviews. As noted in our draft report, FHA said it is in the process of updating procedures for on-site reviews and plans to implement them in fiscal year 2020. FHA disagreed with a statement in our draft report that FHA's oversight of HECM servicers is limited. FHA said the HECM servicing community is small, which allows the agency to maintain regular communication with HECM servicers, including through training sessions and industry working group meetings. Our draft report acknowledged FHA's communications with servicers, but these activities are not a substitute for in-depth compliance reviews of servicers' operations. As our draft report stated, FHA has not conducted on-site HECM servicer reviews since fiscal year 2013. Given the 5-year lapse in FHA's use of this key oversight tool, we maintain that FHA's oversight of HECM servicers has been limited.
- **Recommendation 9**. FHA agreed with our recommendation to periodically analyze internal and external consumer complaint data about reverse mortgages. FHA said it is expanding its data and reporting capabilities as part of an information technology modernization initiative. FHA also said that routing consumer inquiries through the FHA Resource Center should improve data collection and analysis.

FHA did not explicitly agree or disagree with our recommendations to work with CFPB to complete an agreement for sharing examination results and to collect and record consumer inquiries and complaints in a manner that facilitates analysis (recommendations 6 and 8, respectively). FHA said it would explore opportunities to coordinate with CFPB where appropriate. FHA also said that routing inquiries through the FHA Resource Center would help identify common issues, track servicer performance, and inform policy decisions. Fully implementing our recommendations will help ensure that FHA has the information it needs to effectively oversee the HECM program.

We are sending copies of this report to the Secretary of the Department of Housing and Urban Development, the Director of the Consumer Financial Protection Bureau, appropriate congressional committees, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or CackleyA@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VII.

Alicia Puente Cackley

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Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines issues related to reverse mortgages made under the Home Equity Conversion Mortgage (HECM) program administered by the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA). The Consumer Financial Protection Bureau (CFPB) also plays a role in overseeing reverse mortgages, including HECMs. Our objectives were to examine (1) what FHA data show about HECM terminations, servicer advances, and the use of foreclosure prevention options; (2) FHA's assessment and monitoring of HECM portfolio performance, servicer advances, and foreclosure prevention options; (3) FHA's and CFPB's oversight of HECM servicers; (4) how FHA and CFPB collect, analyze, and respond to consumer complaints about HECMs; and (5) how and why the market for HECMs has changed in recent years.

To address all of our objectives, we reviewed relevant laws, regulations, and requirements, such as HECM authorizing legislation, the Reverse Mortgage Stabilization Act of 2013, FHA regulations, and mortgagee letters governing the HECM program.[1] We also interviewed FHA and CFPB officials and staff from other relevant HUD offices such as the Office of Policy Development and Research and the Office of General Counsel. We reviewed FHA's annual reports to Congress on the financial status of the Mutual Mortgage Insurance Fund, actuarial reports on the HECM portfolio, and FHA's annual management reports. We also reviewed our prior reports and reports by HUD's Office of Inspector General about the HECM program.[2]

[1]Congress authorized the HECM program in 1988 by adding Section 255 to Title II of the National Housing Act. *See* Housing and Community Development Act of 1987, Pub. L. No. 100-242, § 417 (1988) (codified as amended at 12 U.S.C. § 1715z-20). The Reverse Mortgage Stabilization Act of 2013, Pub L. No. 113-29, 127 Stat. 509 (2013) (codified at 12 U.S.C. § 1715z-20(h)(3)), allows FHA to make changes to HECM program requirements by notice or mortgagee letter in addition to regulation. FHA's regulations for the HECM program can be found in 24 C.F.R. Part 206. A mortgagee letter is a written communication to lenders and servicers about changes in FHA operations, policies, and procedures.

[2]For example, see GAO, *Federal Housing Administration: Capital Requirements and Stress Testing Practices Need Strengthening*, GAO-18-92 (Washington, D.C.: Nov. 9, 2017); GAO, *Reverse Mortgages: Product Complexity and Consumer Protection Issues Underscore Need for Improved Controls over Counseling for Borrowers*, GAO-09-606 (Washington, D.C.: June 29, 2009); and Department of Housing and Urban Development Office of Inspector General, *HUD Was Not Tracking Almost 13,000 Defaulted HECM Loans With Maximum Claim Amounts of Potentially More Than $2.5 Billion*, 2010-FW-0003 (Aug. 25, 2010).

Additionally, we identified the largest HECM servicers using FHA data on the number of loans serviced as of the end of fiscal year 2018. We found that five companies serviced more than 99 percent of the HECM portfolio (excluding loans assigned to FHA, which are serviced by an FHA contractor) as of the end of fiscal year 2018. We developed a questionnaire to solicit information applicable to our objectives from these five servicers. We took steps to verify the information gathered in the questionnaire. We reviewed responses for completeness and held teleconferences with each HECM servicer to discuss, clarify, and amend responses. Where possible, we corroborated servicers' responses with information or analysis from other sources, such as our analysis of FHA loan-level data or FHA documents. We use summary statements and illustrative examples from these questionnaires and our interviews with the five servicers throughout the report.

We also interviewed representatives from five legal aid organizations representing HECM borrowers in the states of California, Florida, New York, Texas, and Washington. We selected these states because they had the highest number of HECM originations in the past decade and because they provided some geographic diversity; the five states span the West (California), Northwest (Washington), Northeast (New York), Southeast (Florida), and South (Texas). We selected the specific legal aid organizations within those states because they represented a large number of HECM borrowers, according to organization representatives. We conducted semistructured interviews with organization representatives that included questions on the top consumer protection issues facing HECM borrowers, how recent HECM program changes may have helped borrowers delay or avoid foreclosure, and characteristics of HECM borrowers that may affect their ability to file consumer complaints. We use summary statements and illustrative examples from these interviews throughout the report.

HECM Terminations, Servicer Advances, and Foreclosure Prevention Options

To address the first objective, we analyzed FHA data to determine the number of and reasons for HECM terminations, the amounts of servicer advances, and the number of borrowers approved for selected foreclosure prevention options (for example, repayment plans). We used data from the Home Equity Reverse Mortgage Information Technology (HERMIT) system, which FHA adopted in fiscal year 2013. FHA provided us a HERMIT case detail table from its Single Family Data Warehouse that contained loan-level information as of the end of fiscal year 2018. We separately obtained several ad hoc HERMIT reports from FHA's HERMIT system contractor, as described below. For some of our analyses, we merged data from the ad hoc reports with data from the case detail table using the unique FHA case number for each HECM. Unless otherwise noted, we analyzed data for the 5-year period spanning fiscal years 2014–2018.

We assessed the reliability of data from the HERMIT system by reviewing FHA documentation about the data system and data elements. For example, we reviewed the HERMIT User Guide and notes on HERMIT system updates.[3] Additionally, we interviewed FHA and contractor staff knowledgeable about the HERMIT system and data to discuss interpretations of data fields and trends we observed in our analyses. We also conducted electronic testing, including checks for duplicate loans, outliers, missing data fields, and erroneous values. Where appropriate, we removed from our analyses any loans missing an endorsement (insurance approval) date as well as cases with erroneous values. When possible, we corroborated our analyses with external reports such as FHA's annual reports to Congress, management reports, and production reports. Based on these steps, we determined the data we used from the HERMIT system were sufficiently reliable for summarizing trends and generating descriptive statistics for HECM terminations, servicer advances, and selected foreclosure prevention options over the 5-year period.

Termination Analysis

We analyzed FHA loan-level data from the HERMIT system to determine the total number of terminated HECMs and reasons for terminations by fiscal year. We first identified terminations occurring in fiscal years 2014–2018 using data fields for case status and termination date (see table 5).

Table 5: Reported Home Equity Conversion Mortgage Terminations, Fiscal Years 2014–2018

Fiscal year	2014	2015	2016	2017	2018	Total
Number of loans	24,272	39,075	82,157	66,479	60,172	**272,155**

Source: GAO analysis of Federal Housing Administration data. | GAO-19-702

[3]Home Equity Conversion Mortgage Servicer Provider HERMIT User Guide, Servicing Module, version 2.17 (September 2018).

We then removed any terminated loans that had previously been assigned to FHA (16,008) using the data field that records the date FHA accepted assignment of the loan. We removed these loans because FHA officials told us the agency generally does not foreclose on FHA-assigned HECMs that default and keeping them in the analysis would have resulted in understating the proportion of terminations stemming from defaults. Accordingly, the denominator for our terminations analysis was 256,147 loans (272,155 total terminations minus the 16,008 loans previously assigned to FHA).

We then identified the reported termination reasons for the 256,147 loans. We analyzed loan-level data from the HERMIT system to identify the number of loans that fell into various termination reason categories. To identify terminations stemming from a HECM becoming due and payable, we used data from two reports that we obtained from FHA's HERMIT system contractor: the Default Key Dates Report and the Due and Payable Delinquency Report. From these reports, we identified the number of terminations due to a borrower's death, conveyance of title, default due to unpaid property charges, default due to failure to meet occupancy or residency requirements, and default due to failure to keep the home in good repair. To identify terminations stemming from repayment, refinancing, moving, or other (undetermined) reasons, we used information on case substatus from the HERMIT case detail table from the Single Family Data Warehouse.[4] Our undetermined reasons category included loans for which the case substatus either was labeled "terminate-other" or showed how the debt was satisfied (such as through a deed-in-lieu of foreclosure, foreclosure, or short sale) rather than providing a termination reason. For the full results of our terminations analysis, see appendix III.

Servicer Advances Analysis

We analyzed servicer advances to HECM borrowers using data from an ad hoc HERMIT report we requested from FHA's HERMIT system contractor. We analyzed the data to determine the amounts and types of servicer advances in fiscal years 2014 through 2018 for terminated HECMs. We distinguished between servicer advances for unpaid property

[4]Using this data table, we identified additional HECMs that had terminated because of a borrower's death. We added these cases to the death cases from the Default Key Dates report and present summary information for terminations due to borrower death. We also identified in this data table additional cases of terminations due to borrowers moving. We added these cases to the borrower conveyed title cases we had identified in the Default Key Dates report and present summary information for terminations due to the borrower conveying title or moving.

charges and servicer advances for other costs. Examples of the latter are attorney, trustee, and appraisal fees typically incurred during the foreclosure process. For each year and for the 5-year period as a whole, we calculated total servicer advances and the amount and percentage of advances for property charges and for other costs.

Additionally, we distinguished between servicer advances for unpaid property charges before and after a HECM borrower's death using the date of death of the last surviving borrower in HERMIT.[5] This allowed us to determine the amount of servicer advances for unpaid property charges on behalf of living borrowers. We calculated the total amount of these advances over the 5-year period as well as the mean, median, and 25th and 75th percentile values. We also calculated the number and percentage of loans for which property charge advances on behalf of living borrowers were less than $2,000 (the threshold for one of FHA's foreclosure prevention options).

Foreclosure Prevention Options Analysis

We analyzed data from HERMIT on the use of selected foreclosure prevention options—repayment plans and at-risk extensions—for borrowers who defaulted because of unpaid property charges. We analyzed data from April 2015 (the effective date of FHA's current repayment plan and at-risk extension policies) through fiscal year 2018. To conduct the analysis of repayment plans, we used the HERMIT Due and Payable Delinquency Report noted previously, which includes data fields for loan default status and the dates borrowers were approved for a repayment plan. We calculated the percentage of borrowers with property charge defaults who were approved for repayment plans during the period examined. To conduct the analysis of at-risk extensions, we requested an ad hoc report from FHA's HERMIT system contractor showing whether and when borrowers had been approved for at-risk extensions and appended it to the default status within the Due and Payable Delinquency Report using FHA case numbers. We calculated the percentage of borrowers with property charge defaults who were approved for at-risk extensions during the period examined.

We also reviewed and summarized information that FHA provided us from HERMIT on nonborrowing spouses who applied for mortgagee optional election assignments from June 2015 (the effective date of FHA's

[5]A servicer may make an advance for property charges after a borrower dies if, for example, a property tax bill comes due before the HECM is paid off and the property is sold to another party.

mortgagee optional election assignment policy) through fiscal year 2018. FHA provided information on the number of requested, approved, and denied mortgagee optional election assignments during that period. We also reviewed documentation from FHA and interviewed agency officials about the mortgagee optional election assignment process and reasons for denials. For the denied mortgagee optional election assignments, we reviewed information that FHA provided us from HERMIT on the current status of the associated loans as of May 31, 2019. For example, for the denied mortgagee optional election assignments, FHA determined whether the loan had been terminated as of that date. For those that had terminated, we summarized whether the debt was paid off or whether the debt was satisfied because of a foreclosure, deed-in-lieu of foreclosure, or short sale.

Performance Assessment and HECM Portfolio Monitoring

To address the second objective, we reviewed agency reports and interviewed agency officials to determine how the agency assesses the performance of the HECM program, including the use of any performance indicators or program evaluations. For example, we reviewed HUD's strategic plan for fiscal years 2018–2022 and its most recent annual performance report to identify any goals and performance indicators related to the HECM program.[6] Additionally, we reviewed program evaluations completed for the HECM program.[7] We also interviewed FHA and HUD Office of Policy Development and Research officials about previous program evaluations and HUD's plans for forthcoming evaluations of the HECM program. We compared FHA's practices against leading practices identified in our previous work on assessing program performance and against Office of Management and Budget (OMB)

[6]See Department of Housing and Urban Development, *Strategic Plan 2018–2022* (Washington, D.C.: May 2019) and *Fiscal Year 2020 Annual Performance Plan and Fiscal Year 2018 Annual Performance Report* (Washington, D.C.: Mar. 22, 2019).

[7]See Abt Associates, *Evaluation Report of FHA's Home Equity Conversion Mortgage Insurance Demonstration,* a report prepared for the Department of Housing and Urban Development (Washington, D.C.: Mar. 31, 2000) and Department of Housing and Urban Development, Office of Policy Development and Research, *Evaluation of the Home Equity Conversion Mortgage Insurance Demonstration: A Report to Congress* (Washington, D.C.: Mar. 15, 1995).

policies and procedures on managing federal credit programs (OMB Circular A-129).[8]

Additionally, we reviewed FHA documents and interviewed FHA officials concerning the agency's internal reporting and analysis of the HECM portfolio. For example, we reviewed examples of regular and ad hoc reports FHA received from its HERMIT system contractor. These internal reports contained information on HECM origination, assignment, and termination activity and HECM defaults. We interviewed FHA officials to understand the purpose of the reports, when they were developed, and how agency management uses them. We compared FHA's internal reporting practices to OMB Circular A-129 on reporting mechanisms and formats for federal credit programs.

FHA's and CFPB's Oversight of Servicers

To address the third objective, we reviewed FHA and CFPB policies and procedures for overseeing HECM servicers and interviewed agency staff with oversight responsibilities.[9] To assess the extent to which FHA oversees HECM servicers' compliance with servicing requirements, we requested information on the number of on-site monitoring reviews of HECM servicers that FHA completed from fiscal years 2010 through 2019. We also reviewed corrective actions FHA can take to address noncompliance. We reviewed and summarized a nongeneralizable sample of three reports from on-site servicer reviews FHA conducted in fiscal year 2013, the most recent year in which FHA had completed a review. Additionally, we interviewed the director of FHA's Quality Assurance Division, which is responsible for conducting on-site reviews of FHA-approved lenders and servicers, about the division's past practices for reviewing HECM servicers and plans for future reviews. We compared FHA's practices and plans to criteria in OMB Circular A-129 regarding the frequency, targeting methodology, and other aspects of on-site lender

[8]Our previous work identified performance goals, indicators, and program evaluations as important management tools that can serve as leading practices for planning at lower levels within federal agencies, such as individual programs or initiatives. For example, see GAO, *Performance Measurement and Evaluation: Definitions and Relationships,* GAO-11-646SP (Washington, D.C.: May 2, 2011). See also Office of Management and Budget, *Policies for Federal Credit Programs and Non-Tax Receivables*, OMB Circular No. A-129 (revised January 2013).

[9]*See ex.* 24 C.F.R. § 206.125(a). Other servicing requirements can be found in HUD Handbook 4000.1 (FHA's Single Family Housing Policy Handbook), HUD Housing Handbook 4235.1 (the HECM Handbook), and various mortgagee letters accessible at https://www.hud.gov/program_offices/housing/sfh/hecm/hecmml.

and servicer reviews. Further, we interviewed FHA officials about the extent of information sharing between FHA and CFPB on HECM servicer oversight.

To examine CFPB's oversight of HECM servicers, we reviewed CFPB's reverse mortgage examination procedures and the examinations completed under those procedures as of fiscal year 2018.[10] We also reviewed CFPB's methodology for selecting reverse mortgage servicers for examination and documentation on its plans for future examinations. We reviewed CFPB's examination findings and corrective actions as of August 2019. We interviewed CFPB officials about the examination process and agency efforts to share examination results with FHA. We reviewed statutes and regulations related to CFPB's authority to share the results of its examinations, and we compared CFPB's information-sharing efforts with FHA against practices for interagency collaboration we identified in previous work.[11]

Consumer Complaints

To address our fourth objective, we analyzed CFPB data on reverse mortgage consumer complaints from the bureau's online website, called the Consumer Complaint Database. The database includes information provided by consumers on their location (state), the company they are complaining about, and the nature of their complaint. For example, consumers can submit narratives describing their complaints about reverse mortgage lenders or servicers. Because CFPB had published an analysis of reverse mortgage consumer complaints using data from calendar years 2011 through 2014, we analyzed reverse mortgage complaints and narratives received by the bureau from calendar years 2015 through 2018.[12]

We analyzed all 2,472 complaints filed in those 4 years to determine the number of complaints by year, state, submission method (for example,

[10]Consumer Financial Protection Bureau, *Reverse Mortgage Servicing Examination Procedures* (Washington, D.C.: October 2016).

[11]GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, GAO-12-1022 (Washington, D.C.: Sept. 27, 2012).

[12]Consumer Financial Protection Bureau, *Snapshot of Reverse Mortgage Complaints: December 2011–December 2014* (Washington, D.C.: February 2015).

internet, phone, or email), and company.[13] For the analysis by submission method, we compared the results to those for complaints about all types of mortgages filed during the same period.

To identify patterns in consumer-described issues about reverse mortgages, we reviewed a generalizable sample of 100 complaint narratives and categorized these complaints by topic.[14] For this analysis, two independent reviewers read the complaints and categorized them into predetermined topics based on their content. We used nine complaint issue topics, including complaints where the consumer (or someone complaining on behalf of the consumer) said he or she (1) was at risk of foreclosure or in foreclosure; (2) was charged unfair interest rates, fees, or costs; (3) experienced problems after the loan was transferred to a new servicer; (4) had issues with, or defaulted as a result of, property taxes, insurance, or other property charges; (5) experienced poor communication on a servicing or lending issue; (6) had an issue involving occupancy requirements; (7) had concerns or issues involving the management of the estate after the borrower died or left the property; (8) had difficulties gaining approval for a mortgagee optional election assignment or recognition of a nonborrowing spouse; or (9) experienced problems during loan origination. If a complaint narrative in our sample did not contain enough information or was not clear enough to determine a complaint topic, we replaced it with another randomly selected complaint narrative. In cases where the two reviewers categorized a complaint differently, a third independent analyst read the complaint narrative and adjudicated the difference to place the complaint in a topic category. We calculated confidence intervals for these categories at the 95 percent confidence level.

We determined that the CFPB data were sufficiently reliable for the purposes described above by reviewing CFPB documentation and reports from CFPB's Office of Inspector General on CFPB's consumer complaint database and by interviewing CFPB officials about our interpretation of

[13]CFPB's consumer complaint system captures information on reverse mortgage complaints, which include but are not limited to HECM complaints. However, HECMs make up the vast majority of products available to consumers, and very few proprietary reverse mortgages are available.

[14]When submitting a complaint, consumers are asked whether CFPB may publish their narratives. Consumers must opt in to have their narratives published and, for this reason, not all narratives are public. For our analysis, we reviewed published and unpublished complaint narratives.

data fields. Also, we interviewed CFPB officials about their collection, analysis, and use of the consumer complaint data.

To determine the extent to which FHA collects consumer inquiries and complaints about HECMs, we reviewed the HECM-related calls received by FHA's National Servicing Center and the FHA Resource Center from calendar years 2015 through 2018.[15] We calculated the total number of HECM-related calls each center received over that period. The data from both centers included fields to capture a description of the issue raised by the caller. However, unlike CFPB's consumer complaint data, the information in the issue description was recorded by FHA customer service staff (rather than the complainants themselves) and did not differentiate between inquiries and complaints. We determined there was not enough information in these descriptions to perform an analysis similar to the one we performed on CFPB's consumer complaints. Both the National Servicing Center and the FHA Resource Center record the reasons for calls. However, neither entity records this information in a consistent or standardized way that would allow for analysis. For example, the data we reviewed from the National Servicing Center included about 100 reasons.

Additionally, we reviewed CFPB and FHA policies and procedures for collecting and addressing consumer complaints and interviewed officials on how consumer complaints were incorporated into their oversight of HECM servicers. We interviewed officials from both agencies about their collection and use of customer complaint data. We also interviewed CFPB and FHA officials about the extent to which they share consumer complaint data or access and use the other agency's data. Finally, we compared CFPB's and FHA's efforts against federal internal control standards for using quality information and against approaches we identified in prior work for enhancing collaboration across agencies.[16]

[15]FHA allows customers to submit inquiries or complaints via telephone hotline, email, postal mail, and fax. We use the term "call" to refer to any inquiry or complaint submitted to the two FHA centers by any of these methods.

[16]GAO, *Standards for Internal Control in the Federal Government,* GAO-14-704G (Washington, D.C.: September 2014) and GAO-12-1022.

HECM Market, Originations, and Take-Up Rates

To address our fifth objective, we analyzed FHA data on HECM originations from calendar years 1989 through 2018 to identify any trends in HECM program activity. Additionally, using FHA and Census Bureau data, we calculated HECM take-up rates—the ratio of HECM originations to eligible senior homeowners—from calendar years 2000 through 2017.[17] We also developed an econometric model to examine, to the extent possible, factors affecting HECM take-up rates from calendar years 2000 through 2016 (the last year we could include in the model due to data constraints). Following the existing research literature, we hypothesized that HECM loan originations could be affected by several demand- and supply-related factors that could be represented by demographic and socioeconomic characteristics, housing market conditions, and product features. Accordingly, our model used a variety of data from FHA, the Census Bureau, the Federal Housing Finance Agency, and other sources. For a detailed description of our econometric model—including the model specification, factors used, data sources, and results—and a list of selected studies we consulted to develop the model, see appendix II.

We also reviewed relevant literature and interviewed academic and HUD economists about FHA policy changes and behavioral and structural factors (for example, consumers' perception of reverse mortgages) that we could not account for in our econometric model but that may influence HECM take-up rates. These individuals included three academic economists who have conducted extensive research on reverse mortgages and economists from FHA and HUD's Office of Policy Development and Research. We present summary information about these factors in this report.

We conducted this performance audit from July 2018 to September 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[17]We were unable to calculate a HECM take-up rate for calendar year 2018 due to limitations in the availability of Census data. We calculated take-up rates beginning in calendar year 2000 because a relatively small number of HECMs were originated prior to that time.

Appendix II: Description of and Results for GAO's Econometric Model of Home Equity Conversion Mortgage Take-Up Rates

We developed an econometric model to examine, to the extent possible, factors associated with Home Equity Conversion Mortgage (HECM) take-up rates—the ratio of HECM originations to eligible senior homeowners—using data from calendar year 2000 through 2016. Take-up rates provide an indication of how popular HECMs are among the population of senior homeowners. A number of factors may have affected the take-up rates over this period. For instance, it has been asserted that demand for HECMs would be high for elderly people that are house-rich but cash-poor, but behavioral factors such as their desire to leave a bequest could limit demand. Also, the limited number of large, well-known lenders could constrain supply of HECMs. Furthermore, several FHA policy changes to the HECM program may have affected the number of loan originations. Following the existing literature, we hypothesized that HECM loan originations could be affected by several demand- and supply-related factors that could be represented by demographic and socioeconomic characteristics, housing market conditions, product features, program policy changes, and behavioral and structural factors.[1]

Model Specification

The general specification of the model we used, which is a quasi-reduced form of the net effect of demand and supply factors on HECM take-up rates, is as follows:[2]

$$Y_{it} = \theta + \alpha_i + \gamma_t + X_{it}\,\beta + \varepsilon_{it}.$$

Y is the dependent variable, the take-up rate, representing the ratio of HECM originations to eligible senior homeowners in state (i) in year (t). An eligible senior homeowner is an owner-occupied householder aged 65 or older.[3]

Both α and γ control, respectively, for state-specific (but time-invariant) and year-specific (but state-invariant) observable and unobserved factors.

[1]See, for example, Chatterjee (2016), Haurin et al. (2016), Moulton et al. (2019), and Shan (2011) in the list of selected studies at the end of this appendix.

[2]Our model is similar to Haurin et al. (2016).

[3]Unless indicated otherwise, we use age 65 or older instead of 62 or older to represent eligible senior households because the data we used from the Integrated Public Use Microdata Series National Historical Geographic Information System (IPUMS NHGIS) are available at this level. Furthermore, the average age of new HECM borrowers has been 72 to 73 years old for the past decade, so the number of new borrowers between the ages of 62 and 65 years old is probably limited. Shan (2011) used age 65 or older.

They help to minimize omitted variable bias that could be caused by excluding time-invariant or state-invariant variables. The latter, which are year fixed-effects (that is, variables that change over time but are constant across the states), would pick up average differences in take-up rates over the years. These factors would include changes in HECM program policies and market conditions over time, such as the exit of large, well-known HECM lenders or investors. In general, using the year fixed-effects precluded the estimation of the impact of variables that are state-invariant (for example, interest rates).The state fixed-effects are used to control for average differences in take-up rates across the states (that is, variables that differ across the states but are constant over time). These effects would include regulatory variations across states.

The vector X captures measured variables represented by demographic and socioeconomic characteristics, housing market conditions, and product features that vary across states and over time. Given that the time-invariant and state-invariant factors would be accounted for by the state fixed-effects and year fixed-effects, respectively, the measured variables capture how changes in these variables within states (that is, over time) could affect take-up rates. θ is the constant term.

ε, the regression error term, represents random and other unobserved factors that could vary across the states and over time, such as random changes in risk behavior of HECM borrowers and lenders. It also captures errors due to misspecification and measurement.

Data Sources

The data sources for our analysis are as follows:

- **Census Bureau.** The data include demographic, socioeconomic, and housing characteristics in geographic areas. The data are from the Integrated Public Use Microdata Series National Historical Geographic Information System (IPUMS NHGIS) for 2000; 1-year American Community Survey data from the American FactFinder for 2005–2009, and 1-year American Community Survey data from IPUMS NHGIS for 2010–2016.[4] We interpolated the data for 2001–2004 using all data available for the other years: 2000 and 2005–

[4]For the IPUMS NHGIS data, see Steven Manson, Jonathan Schroeder, David Van Riper and Steven Ruggles. *IPUMS National Historical Geographic Information System*: *Version 13.0* [Database], Minneapolis: University of Minnesota, 2018. https://doi.org/10.18128/D050.V13.0.

2016. All the data are for seniors aged 65 years or older and at the state level.

- **Federal Housing Finance Agency.** House price indexes at the state level, 2000–2016.
- **Federal Reserve Bank of New York.**
  - Federal Reserve Bank of New York Consumer Credit Panel/Equifax: Mortgage debt balances of seniors 62 years or older, state level, 2003–2016.
  - Survey of Consumer Finances: Triennial data on family net worth, national level, 2000–2016.
- **Federal Reserve Bank of St. Louis's Federal Reserve Economic Data.**
  - Consumer price index for all urban consumers, national level, 2000–2016.
  - Effective federal funds rate, national level, 2000–2016.
- **Federal Housing Administration (FHA).** HECM loan-level data from the Single Family Data Warehouse, available yearly, 2000–2017. The data include when the loan was endorsed by FHA, property location, appraised home value, and maximum claim amount.

Factors That Could Affect HECM Take-Up Rates

The list of potential explanatory variables we used in the model is provided below. The data are measured at the state level and are available from 2000 through 2016 (unless indicated otherwise). Also, the variables are for senior householders, aged 65 or older (unless indicated otherwise).[5] All monetary values are in 2016 dollars using the Consumer Price Index for All Urban Consumers. The data sources are indicated in brackets (see the data sources above for details).

- **Demographic and socioeconomic characteristics [Census Bureau].**
  - Fraction 75 years or older in occupied housing units.[6]

[5]These are households in which the head is 65 years or older.

[6]The other group is those aged 65 to 74 years.

- Fraction of senior householders who are married or those who are unmarried females.[7]
- Fraction African American or Hispanic.[8]
- Fraction of individuals 65 years or older with high school education or some college education, or with college, graduate, or professional degree.[9]
- Fraction in the labor force: the ratio of the labor force (the employed and the unemployed) to civilian noninstitutionalized adult population (65 years or older).
- Fraction in poverty.
- Median household income (natural logarithm).
- Ratio of family net worth of individuals 65 years or older to house value. Net worth is measured as the difference between families' gross assets and liabilities using triennial data at the national level [Federal Reserve Bank of New York]. House value is measured as the ratio of aggregate house value to number of owner-occupied housing units.

- **Housing market conditions.**
  - House price changes [Federal Housing Finance Agency]:[10]
    - House price growth: 5-year intervals prior to the observation.

[7]The other group is unmarried males.

[8]The other groups are non-Hispanic whites, Asians (including Native Hawaiians or other Pacific Islanders), Native Americans and Alaska Natives, and those reporting other races or two or more races.

[9]The other group is those with no high school diploma.

[10]House prices are likely to be endogenous in the model, which could produce biased and inconsistent results; see, for example, Haurin et al. (2016). However, using instruments for house prices to mitigate the endogeneity could be problematic since commonly used measures of supply constraints for house prices tend to be correlated with omitted demand-side variables such as productivity and amenities; see Davidoff (2016). Therefore, we treated the house prices as exogenous.

- House price volatility: standard deviation of annual house price percent change in the 5 years prior to the observation.[11]

- Effective federal funds rate (percent). [Federal Reserve Bank of St. Louis]
- Home equity per senior homeowner (natural logarithm), 1-year lag. Home equity is measured as the aggregate house value of owner-occupied housing units minus total mortgage debt. Total mortgage debt comprises aggregate mortgage, home equity loan, and home equity line of credit balances of individuals 62 or older (2003–2016). [Census Bureau; Federal Reserve Bank of New York/Equifax]
- Ratio of individuals aged 62 or older with home equity loan to senior homeowners, 1-year lag (2003–2016).[12] [Federal Reserve Bank of New York/Equifax; Census Bureau]
- Ratio of individuals aged 62 or older with home equity line of credit to senior homeowners, 1-year lag (2003–2016).[13] [Federal Reserve Bank of New York/Equifax; Census Bureau]
- Fraction of owner-occupied housing units with ratio of selected monthly housing costs to household income greater than or equal to 35 percent.[14] [Census Bureau]

- **Product features.**
  - FHA loan limit: proportion of HECM loans in a state and year for which the appraised home value is more than the maximum claim amount; that is, the FHA loan limit is binding. The maximum claim

[11]We also included an interaction term between the house price growth and the standard deviation of the house price changes. See a similar approach in Haurin et al. (2016).

[12]Extracting home equity using home equity loans is likely to be endogenous in the model, which could produce biased and inconsistent results. Because it is difficult to find instruments for home equity loans that would not also affect the HECM take-up rate, we also estimated the model excluding home equity loans as part of our robustness checks of the validity of our results.

[13]Extracting home equity using home equity lines of credit is likely to be endogenous in the model, which could produce biased and inconsistent results. Because it is difficult to find instruments that would not affect the HECM take-up rate, we also estimated the model excluding this variable as part of our robustness checks of the validity of our results.

[14]The costs include payments for mortgages, real estate taxes, and various insurance, utilities, and fuels.

amount equals the minimum of the appraised home value and the FHA loan limit.[15] [FHA]

Although we did not directly include other variables that could affect HECM take-up rates in our model partly due to lack of data, we included year fixed-effects and state-fixed effects to minimize omitted variables problem associated with state-invariant variables and time-invariant variables, respectively. These included several FHA policy changes to the HECM program and behavioral and structural factors, as discussed earlier in this report.

We used a state as the geographic area instead of a smaller area, such as ZIP code. The data on HECM originations are available at the household (or family) level from FHA. However, the factors used in the model (demographic and socioeconomic characteristics and housing market conditions) are generally available at the state level or at the ZIP code level from the Census Bureau and other sources. There are advantages and disadvantages to using state-level or ZIP-code-level data. Given the low HECM take-up rates (see fig. 7 earlier in this report), using ZIP-code data would generally imply very low, if not zero, take-up rates across a large number of ZIP codes, which would make it harder to identify effects from our model. Also, not all of the data for the factors used in the model are available for every ZIP code with a HECM origination—including the home equity extraction variables—which would lead to exclusion of some areas, resulting in potential sample-selection bias. On the other hand, using ZIP code-level data could allow for more heterogeneity in certain states, and certain variables such as house price changes when measured at the ZIP code level could be closer to what the homeowner experiences. We decided to use state-level data because of our concern for potential sample-selection bias and the quality of data at the ZIP code level, although using state-level data could limit heterogeneity in the data across geographic areas.[16]

[15]We note that the FHA loan limit changed from a location-based threshold to a single national threshold in 2008.

[16]Haurin et al. (2016) used state-level data; Shan (2011) and Moulton et al. (2019) used ZIP code-level data; and Chatterjee (2016), Warshawsky (2018), and the Department of Housing and Urban Development (2015) used national data in their models of reverse mortgage originations. See selected studies at the end of this appendix for full citations.

Description of Estimation Methodology and Results

We estimated panel data of state-year observations of the model specified above using fixed-effects estimation.[17] Because of data limitations with some of the key variables—home equity and home equity extraction via loans or lines of credit—and because we used a 1-year lag of these variables, we estimated the model from 2004 through 2016. We also excluded the District of Columbia, which was an outlier, with a take-up rate that was 4.5 times the national average.[18] The list of the variables we used and the estimation results are provided in tables 6 and 7, respectively, at the end of this appendix. The standard fixed-effects estimates are reported in column 1 (the base model) of table 7. We also report fixed-effects estimates that account for spatial and temporal dependence in columns 2 through 4—column 2 estimates the base model, column 3 excludes the variables for home equity extraction from the base model, and column 4 excludes the year fixed-effects from the base model. We focused on these estimates because spatial correlations may be present as states are likely to be subject to both observable and unobservable common disturbances, and failure to account for these would yield inconsistent estimates of the standard errors.

Factors Associated with HECM Take-Up Rates

Our econometric estimates indicated that several demographic and socioeconomic characteristics and housing conditions are associated with take-up rates, using data across states from 2004 through 2016. The results discussed below, which are based primarily on the estimates in column 2 of table 7, are statistically significant at the 10, 5, or 1 percent levels or lower. Because the fixed-effects technique controls for the effects of both observable and unobservable factors that vary across states (but are time-invariant), the estimates of the measured effects are for only within-state variations and the results are interpreted accordingly.

[17]Because there could be spatial and temporal dependence of state-level aggregated observations of take-up rates, we also used the Driscoll-Kraay (1998) covariance estimator. This technique assumes an error structure that is heteroskedastic, autocorrelated up to some lag, and possibly correlated between the groups (panels). These standard errors are robust to general forms of cross-sectional (spatial) and temporal dependence when the time dimension becomes large.

[18]The high take-up rate for the District of Columbia is due to relatively low number of senior owner-occupied housing units compared to the number of HECM originations. The states with high take-up rates during the period of our study included California, Nevada, and Utah, and those with low take-up rates included Iowa, North Dakota, and West Virginia.

- **House price changes.** The interaction term for house price growth and house price volatility is positive and significant at the 1 percent level. This implies that within states, take-up rates were higher when house price growth was large and when there was a history of house price volatility compared to either relatively low house price appreciation or stable house prices. This result is consistent with senior homeowners using reverse mortgages to insure against house price declines, which is supported by the positive and significant effects of the house price volatility by itself.[19] On the other hand, the weak significance of house price growth by itself (at the 10 percent level) provides only modest support for senior homeowners using reverse mortgages purely to extract home equity.
- **Home equity.** Within states, take-up rates were higher when home equity of senior homeowners was high, significant at the 1 percent level.
- **Fractions of senior homeowners with a home equity loan or home equity line of credit.** Within states, take-up rates were higher when the fractions of senior homeowners with a home equity loan or home equity line of credit were high, significant at the 1 percent and 10 percent levels, respectively. Because these loans were outstanding as of the prior year, it is likely that borrowers used HECMs to pay them off.[20]
- **Fraction of owner-occupied housing units with ratio of housing costs to household income greater than or equal to 35 percent.** Within states, take-up rates were higher when the ratio of housing costs to household income was high, significant at the 1 percent level.
- **Fractions of seniors with high school or college education.** Within states, take-up rates were higher when the fractions of seniors with high school or college education were high, significant at the 1 percent and 10 percent levels, respectively.[21]
- **Median household income**. Within states, take-up rates were higher when incomes of senior households were high, significant at the 5 percent level.

[19]See Haurin et al. (2016) for similar results.

[20]See, for example, Redfoot et al. (2007) in the list of selected studies at the end of this appendix.

[21]The results are consistent with Shan (2011).

- **Fraction of senior households who were married.** Within states, take-up rates were lower when the fraction of married senior households was high, significant at the 10 percent level.
- **Fraction of homes in states with binding FHA loan limit.** Although the effect was generally not statistically significant, the effect of the FHA loan limit on take-up rates was negative.

Robustness Tests, Caveats, and Limitations of Our Econometric Analysis

We estimated other specifications of our model to test the robustness and reasonableness of our results. The alternative specifications, described below, yielded estimates similar to those of our original model.

- We estimated the model excluding the variables for home equity loans and home equity lines of credit, which are alternative channels of home equity extraction, because they could be endogenous (see column 3 of table 7).
- We estimated the model excluding the year fixed-effects (see column 4 of table 7).
- We estimated the model using the number of senior housing units (instead of senior homeowners) within a state to normalize the number of HECMs in order to account for nonhomeowners who might become homeowners.

We note the following caveats and limitations of our study:

- We were not able to include some factors that could affect HECM take-up rates, including FHA program policy changes and behavioral and structural factors previously discussed in this report.
- Some of our estimates could be different if we used areas smaller than a state as the units of observation, such as ZIP codes or counties.
- The estimates represent the average effects for all states and for all periods we analyzed, but the effects could differ for specific states or specific periods. Our analysis pertains to the period that we analyzed and may not be generalizable to other periods.

Table 6: Descriptive Statistics, List of Variables Used in Regression Analysis, 2004–2016

Variables	Mean	Median	Standard deviation	Minimum	Maximum
Take-up rates	0.003	0.003	0.002	0.000	0.015
House price growth (5-year interval prior to the observation)	0.105	0.091	0.222	-0.531	0.866
House price volatility (5-year standard deviation prior to the observation)	0.039	0.028	0.032	0.005	0.204
Interaction: House price growth and house price volatility	0.004	0.001	0.015	-0.067	0.083
Fraction of homes in states with binding Federal Housing Administration mortgage loan limit	0.125	0.075	0.131	0.000	0.702
Fraction of owner-occupied housing units with ratio of selected housing costs to income greater than or equal to 35 percent	0.206	0.197	0.051	0.099	0.371
Fraction with high school education or some college education	0.573	0.573	0.049	0.459	0.686
Fraction with college, graduate, or professional degree	0.214	0.210	0.051	0.102	0.373
Fraction in labor force	0.167	0.164	0.027	0.088	0.261
Fraction in poverty	0.109	0.103	0.025	0.041	0.206
Median household income (natural logarithm)	10.545	10.526	0.148	10.201	11.062
Ratio of family net worth to individuals to house value	1.074	1.032	0.386	0.310	2.245
Fraction married	0.442	0.444	0.028	0.355	0.543
Fraction unmarried females	0.398	0.399	0.029	0.324	0.463
Fraction African American	0.069	0.051	0.073	0.000	0.287
Fraction Hispanic	0.033	0.013	0.053	0.000	0.299
Fraction 75 years or older in occupied housing units	0.463	0.463	0.041	0.319	0.584
Home equity per senior homeowner (natural logarithm), 1-year lag	12.043	11.967	0.395	11.355	13.258
Ratio of individuals 62 or older with HELOAN to senior homeowners, 1-year lag	0.025	0.022	0.016	0.000	0.109
Ratio of individuals 62 or older with HELOC to senior homeowners, 1-year lag	0.246	0.251	0.112	0.018	0.530
Effective federal funds rate (percent)	1.367	0.175	1.792	0.089	5.019

Legend: HELOAN=Home equity loan. HELOC=Home equity line of credit.

Source: GAO analysis of data from Census Bureau, Federal Housing Administration, Federal Housing Finance Agency, Federal Reserve Bank of New York Consumer Credit Panel/Equifax, Federal Reserve Bank of New York Survey of Consumer Finances, and Federal Reserve Bank of St. Louis. | GAO-19-702

Note: Data are for all the states and for the period from 2004 through 2016. We excluded the District of Columbia because it is an outlier.

Table 7: Fixed-Effects Regression Estimates of HECM Take-Up Rates, 2004–2016

Measured variables	(1) Uncorrected standard errors[a]	(2) Driscoll-Kraay standard errors[b]	(3) Driscoll-Kraay standard errors[c]	(4) Driscoll-Kraay standard errors[d]
House price growth (5-year interval prior to the observation)	0.0027***	0.0027*	0.0022	0.0012
	(0.0008)	(0.0014)	(0.0015)	(0.0017)
House price volatility (5-year standard deviation prior to the observation)	0.0117***	0.0117***	0.0120***	0.0083**
	(0.0024)	(0.0028)	(0.0030)	(0.0039)
Interaction term: House price growth and house price volatility	0.0359***	0.0359***	0.0397***	0.0486***
	(0.0068)	(0.0072)	(0.0081)	(0.0114)
Fraction of homes in states with binding Federal Housing Administration mortgage loan limit	-0.0030***	-0.0030	-0.0028	-0.0030
	(0.0009)	(0.0021)	(0.0020)	(0.0021)
Fraction of owner-occupied housing units with ratio of selected monthly housing costs to income greater than or equal to 35 percent	0.0113**	0.0113***	0.0131***	0.0152***
	(0.0036)	(0.0035)	(0.0038)	(0.0045)
Fraction with high school education or some college education	0.0199***	0.0199***	0.0214***	0.0148***
	(0.0038)	(0.0044)	(0.0041)	(0.0048)
Fraction with college, graduate, or professional degree	0.0132**	0.0132***	0.0163***	-0.0137*
	(0.0067)	(0.0047)	(0.0043)	(0.0069)
Fraction in labor force	-0.0097*	-0.0097	-0.0072	-0.0063
	(0.0053)	(0.0075)	(0.0073)	(0.0071)
Fraction in poverty	-0.0033	-0.0033	-0.0026	-0.0050
	(0.0054)	(0.0077)	(0.0079)	(0.0121)
Median household income (natural logarithm)	0.0036*	0.0036**	0.0036**	0.0055***
	(0.0020)	(0.0014)	(0.0014)	(0.0017)
Ratio of family net worth to house value	-0.0012*	-0.0012	-0.0010	0.0008
	(0.0007)	(0.0013)	(0.0013)	(0.0010)
Fraction married	-0.0110*	-0.0110*	-0.0072	-0.0162***
	(0.0063)	(0.0065)	(0.0060)	(0.0046)
Fraction unmarried females	0.0019	0.0019	0.0023	-0.0026
	(0.0076)	(0.0110)	(0.0111)	(0.0064)
Faction African American	-0.0053	-0.0053	-0.0047	-0.0217*
	(0.0083)	(0.0104)	(0.0110)	(0.0114)
Fraction Hispanic	0.0020	0.0020	-0.0004	-0.0002
	(0.0109)	(0.0100)	(0.0114)	(0.0135)
Fraction 75 years or older in occupied housing units	0.0033	0.0033	0.0007	0.0192***
	(0.0044)	(0.0045)	(0.0031)	(0.0051)
Home equity per senior homeowner (natural logarithm), 1-year lag	0.0025***	0.0025***	0.0027***	0.0031***
	(0.0006)	(0.0009)	(0.0009)	(0.0009)

Measured variables	(1) Uncorrected standard errors[a]	(2) Driscoll-Kraay standard errors[b]	(3) Driscoll-Kraay standard errors[c]	(4) Driscoll-Kraay standard errors[d]
Ratio of individuals 62 or older with HELOAN to senior homeowners, 1-year lag	0.0094*** (0.0035)	0.0094*** (0.0017)	na	0.0158*** (0.0023)
Ratio of individuals 62 or older with HELOC to senior homeowners, 1-year lag	0.0046** (0.0018)	0.0046* (0.0026)	na	0.0098*** (0.0027)
Effective federal funds rate (percent)	na	na	na	3.77e-5 (5.69e-5)
Constant	-0.0757*** (0.0227)	-0.0757*** (0.0267)	-0.0800*** (0.0258)	-0.1025*** (0.0231)
Year fixed-effects	Yes	Yes	Yes	No
State fixed-effects	Yes	Yes	Yes	Yes
(Within) R-squared	0.80	0.80	0.79	0.73
Prob > F	0.0000	0.0000	0.0000	0.0000
Number of observations	650	650	650	650

Legend: n/a=not applicable; HELOAN=Home equity loan; HELOC=Home equity line of credit. ***, **, and * represent coefficients that are statistically significant at 1 percent, 5 percent, or 10 percent or less, respectively.

Source: GAO analysis of data from Census Bureau, Federal Housing Administration, Federal Housing Finance Agency, Federal Reserve Bank of New York Consumer Credit Panel/Equifax, Federal Reserve Bank of New York Survey of Consumer Finances, and Federal Reserve Bank of St. Louis. | GAO-19-702

Note: Data are for all the states and for the period from 2004 through 2016. We excluded the District of Columbia because it is an outlier. In this report we define Home Equity Conversion Mortgage (HECM) take-up rates as the ratio of originations to the number of owner-occupied housing units of seniors in a state, unless otherwise indicated. The measured variables are the variables used in the model, except the state fixed-effects and the year fixed-effects.

[a]We estimated the model using the "xtreg" command in the Stata statistical software. It does not account for spatial or temporal dependence of the observations.

[b]We estimated the model using the Driscoll-Kraay (1998) fixed-effects covariance estimator, which accounts for spatial and temporal dependence. This technique assumes an error structure that is heteroskedastic, and we assumed a one-period autocorrelation. We used the "xtscc" command in Stata.

[c]We estimated the model using the Driscoll-Kraay (1998) fixed-effects covariance estimator. We excluded the variables that represented other channels of home equity extraction because they could be endogenous.

[d]We estimated the model using the Driscoll-Kraay (1998) fixed-effects covariance estimator. We excluded the year fixed-effects.

Selected Studies

To help develop our HECM take-up rate model, we consulted the following studies.[22]

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Appendix III: Reported Home Equity Conversion Mortgage Termination Reasons

Table 8: Reported Home Equity Conversion Mortgage (HECM) Termination Reasons, Number and Percentage of Loans, Fiscal Years 2014–2018

	2014		2015		2016		2017		2018		Total	
Termination reason	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Death	7,078	31	11,953	32	31,826	40	20,727	34	15,899	29	87,483	**34**
Default (failure to meet occupancy or residency requirements)	297	1	2,562	7	13,549	17	7,206	12	5,317	10	28,931	**11**
Default (unpaid property charges)	109	0	622	2	2,360	3	3,055	5	4,387	8	10,533	**4**
Default (failure to keep the property in good repair)	19	0	36	0	87	0	37	0	33	0	212	**0**
Repaid	5,438	24	5,099	14	4,999	6	5,119	8	2,054	4	22,709	**9**
Refinanced	2,282	10	3,947	10	4,211	5	5,450	9	4,414	8	20,304	**8**
Borrower conveyed title or moved	1,282	6	1,555	4	2,493	3	1,533	3	1,220	2	8,083	**3**
Unknown	6,192	27	11,945	32	20,459	26	17,662	29	21,634	39	77,892	**30**
Total	**22,697**	**100**	**37,719**	**100**	**79,984**	**100**	**60,789**	**100**	**54,958**	**100**	**256,147**	**100**

Source: GAO analysis of Federal Housing Administration data for the HECM program. | GAO-19-702

Note: Due to rounding, some columns may not sum to 100 percent.

Appendix IV: Reported Home Equity Conversion Mortgage Terminations and Defaults

Table 9: Reported Home Equity Conversion Mortgage Terminations and Defaults, by State, Number and Percentage of Loans, Fiscal Years 2014–2018

State	Number of terminated loans	Percentage of terminated loans	Number of loans terminated as a result of a default	Defaults as a percentage of terminated loans
AK	171	0.1	19	11
AL	2388	0.9	577	24
AR	1476	0.6	421	29
AZ	7934	3.1	1,470	19
CA	49322	19.3	3,134	6
CO	6695	2.6	404	6
CT	3939	1.5	824	21
DC	1809	0.7	23	1
DE	857	0.3	143	17
FL	31243	12.2	6,654	21
GA	4,658	1.8	909	20
HI	925	0.4	21	2
IA	981	0.4	189	19
ID	1,603	0.6	231	14
IL	7,993	3.1	1,833	23
IN	2,813	1.1	673	24
KS	1,047	0.4	267	26
KY	1,234	0.5	222	18
LA	2,464	1	478	19
MA	5,675	2.2	655	12
MD	6,971	2.7	1,418	20
ME	1,025	0.4	142	14
MI	6,911	2.7	2,453	36
MN	2,947	1.2	562	19
MO	3,594	1.4	1,011	28
MS	1,097	0.4	261	24
MT	673	0.3	63	9
NC	4,428	1.7	830	19
ND	128	0	6	5
NE	726	0.3	119	16
NH	1,188	0.5	233	20
NJ	8,906	3.5	1,297	15
NM	1,227	0.5	227	19

State	Number of terminated loans	Percentage of terminated loans	Number of loans terminated as a result of a default	Defaults as a percentage of terminated loans
NV	3,474	1.4	504	15
NY	10,852	4.2	783	7
OH	4,658	1.8	1,182	25
OK	1,899	0.7	463	24
OR	5,269	2.1	620	12
PA	8,654	3.4	1,729	20
PR	734	0.3	179	24
RI	941	0.4	198	21
SC	2,656	1	405	15
SD	250	0.1	23	9
TN	3,646	1.4	661	18
TX	17,693	6.9	2,401	14
UT	3,059	1.2	211	7
VA	6,813	2.7	1,245	18
VI	4	0	0	0
VT	294	0.1	43	15
WA	6,903	2.7	657	10
WI	2,407	0.9	460	19
WV	528	0.2	111	21
WY	365	0.1	32	9
Total	**256,147**	**100**	**39,676**	**15**

Source: GAO analysis of Federal Housing Administration Home Equity Conversion Mortgage program data. | GAO-19-702

Note: For the purposes of this analysis we consider defaults as loans that are due and payable because the borrower has not paid property charges, met occupancy or residency requirements, or maintained the home.

Appendix V: Comments from the Department of Housing and Urban Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

SEP 11 2019

Alicia Puente Cackley
Director, Financial Markets and Community Investment
Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Ms. Cackley:

Thank you for the opportunity to respond to the Draft Report GAO-19-702 entitled, "Reverse Mortgages - Federal Housing Administration (FHA) Needs to Improve Monitoring and Oversight of Loan Outcomes and Servicing". The Federal Housing Administration (FHA) is a part of the U.S. Department of Housing and Urban Development (HUD).

FHA reviewed the General Accountability Office's (GAO) draft report and submits the following responses to the eight recommendations on pages 55 and 56:

Recommendation 1:
The FHA Commissioner should take steps to improve the quality and accuracy of HECM termination data. These steps may include updating the termination reasons in the HERMIT system or updating the HERMIT Guide to more clearly instruct servicers how to record termination reasons.

HUD's Response - The FHA Commissioner agrees with this recommendation and will take steps to improve the availability, quality, and accuracy of the HECM termination data. The FHA Commissioner will convene a working group to update the termination reasons in the HERMIT system and User Guide. The working group will develop clear directions to instruct servicers on how to record termination reasons within the HERMIT system.

Recommendation 2:
The FHA Commissioner should establish, periodically review, and report on performance indicators for the HECM program and examine the impact of foreclosure prevention options in the forthcoming HECM program evaluation.

HUD's Response - The FHA Commissioner agrees that periodic review and reporting of HECM performance indicators is critically important. FHA's Office of Risk Management provides the FHA Commissioner with these reports on a monthly and annual basis. The reports include endorsement characteristics, claim counts, and capital reserve ratio components. FHA compiles and reviews HECM data reflecting critical trends such as principal limit factor changes and the extent of appraisal bias. FHA also reviews financial projection data reflecting how economic changes could impact the future performance of the HECM program and how this performance could impact the MMI capital reserve fund.

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The 2018 Annual Report to Congress, for example, included 22 data exhibits on HECM characteristics and performance. The financial projection exhibits document the effect of HECM on the MMI capital reserve and illustrate the vulnerability of future performance in response to changes in economic conditions.

The FHA Commissioner will work to expand the reporting to include the level of foreclosure prevention activity that servicers must undertake pursuant to FHA requirements, as suggested in the draft report. However, there are no HECM metrics for early default rate or delinquency rates as these measures are linked to the amortizing nature of forward mortgages.

The FHA Commissioner disagrees that HECM program evaluation is limited. FHA engages in robust HECM program evaluation which resulted in the implementation of Mortgagee Letter 2018-16 (ML 2018-16) and changes to appraisal submission and assessment for all HECM originations. Mortgagee Letter 2018-16 was issued to address the appraisal bias concerns that were discovered as a result of research conducted by a HUD economist in the Office of Policy Development and Research. This research was included in a subsequent research symposium on the HECM program. The symposium included a total of six research articles that informed policymakers on potential risks and opportunities within the program. In addition to the original research included in the symposium, HUD conducted a 6-month and 9-month evaluation of the effectiveness of ML 2018-16.

The FHA Commissioner agrees that examining the impact of foreclosure prevention options is warranted. The Office of Policy Development and Research will conduct research on the effect of HECM policy changes, including the initial disbursement limit, financial assessment, and life expectancy set-aside. The evaluations of these policies are best conducted several years after origination and the termination of the HECM loan is complete.

Recommendation 3:
The FHA Commissioner should develop analytical tools, such as dashboards or watch lists, to better monitor outcomes for the HECM portfolio, such as reasons for HECM terminations, defaults, use of foreclosure prevention options, or advances paid by servicers on behalf of HECM borrowers.

HUD's Response - The FHA Commissioner agrees that the development of additional analytical tools to better monitor HECM loan outcomes would be beneficial. The FHA Commissioner receives a monthly briefing on case number assignments, endorsements, secretary-held portfolio and claims. The Office of Risk Management also produces a monthly HECM Dashboard that provides statistics and trends on HECM claims, assignments, payment plans, and loans in a due and payable status. The statistics for due and payable status are constructed using the default key dates report.

Recommendation 4:
The FHA Commissioner should evaluate its foreclosure prioritization process for FHA-assigned loans. Such an analysis should include the implications that the process may have on HECM borrowers, neighborhoods, and the FHA insurance fund.

2

HUD's Response - The FHA Commissioner agrees to evaluate its foreclosure prioritization process. FHA put its foreclosure prioritization process into place as a result of the foreclosure processing delays by the Department of Justice and by Non-Judicial Foreclosure Commissioners under the Federal Non-Judicial Foreclosure Act. FHA is evaluating alternative disposition options to reduce the number of loans that must go through foreclosure to eliminate the need for this prioritization. FHA will take steps to evaluate the impact of the prioritization on the HECM program to assist in future decision making.

Recommendation 5:
The FHA Commissioner should develop and implement procedures for conducting on-site reviews of HECM servicers, including a risk rating system for prioritizing and determining the frequency of reviews.

HUD's Response - The FHA Commissioner agrees to develop and implement procedures for conducting on-site reviews of HECM servicers. FHA's Quality Assurance Division (QAD) is in the process of updating procedures for on-site reviews of HECM servicers, which will be implemented in fiscal year 2020. QAD will begin by conducting reviews of the three HECM servicers that account for 96 percent of the HECM portfolio.

Simultaneously, QAD will update its targeting methodology (risk rating system) to include specific risk indicators for HECM servicers like those currently used to prioritize reviews of HECM lenders and forward mortgage lenders/servicers. As a baseline, the targeting methodology will ensure that all HECM servicers with significant portfolio volume are reviewed at least once every three years, but it will allow for more frequent reviews when necessary. The updated targeting methodology will be implemented early in fiscal year 2021.

HUD disagrees with the statement that FHA's oversight of HECM servicers is limited. The HECM servicing community is small allowing for FHA to maintain regular communication with HECM servicers regarding their compliance with FHA guidelines. HUD provides on-site training to HECM servicers on a regular basis as well as providing ongoing feedback on compliance and on HECM claim submissions. HUD holds regular working group meetings with the industry to provide information to servicers on concerns and issues in the program. There have been 8 working group meetings since 2016.

The HECM program also has a key oversight feature built into the structure of the program. HUD approval is required for calling loans due and payable for reasons other than death and title transfer. This prevents servicers from improperly taking loans to foreclosure.

Recommendation 6:
The FHA Commissioner should work with CFPB to complete an agreement for sharing the results of CFPB examinations of HECM servicers with FHA.

HUD's Response - The FHA Commissioner will explore opportunities to coordinate with CFPB where appropriate.

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Recommendation 8:
The FHA Commissioner should collect and record consumer inquiries and complaints in a manner that facilitates analysis of the type and frequency of issues raised.

HUD's Response - Beginning on April 1, 2019, all of FHA's HECM servicing inquiries were routed to the FHA Resource Center for initial intake. The FHA Resource Center responds to inquiries from the public including from lenders and borrowers. The Resource Center collects information on every inquiry that is received. This information helps identify common issues, can help track servicer performance and informs policy decisions.

Recommendation 9:
The FHA Commissioner should periodically analyze available internal and external consumer complaint data about reverse mortgages to help inform management and oversight of the HECM program.

HUD's Response - FHA agrees with this recommendation. As part of FHA's IT Modernization initiative, FHA is expanding its existing data and reporting capabilities to utilize modern technologies allowing for more thorough analysis of program outcomes and the effectiveness of program modifications.

Additionally, HECM inquiries being routed to the FHA Resource Center provide a greater opportunity for the better collection of loan-level data on customer service inquiries. Thus, allowing FHA to identify issues and trends. The FHA Resource Center contractor also reviews all FAQs (frequently asked questions) on a quarterly basis for volume of inquiries, relevancy, and accuracy.

FHA continues working to improve and strengthen the HECM program. We appreciate GAO's review and discussion of our HECM program.

Sincerely,

John Garvin
General Deputy Assistant Secretary for Housing

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Appendix VI: Comments from the Consumer Financial Protection Bureau

Bureau of Consumer Financial Protection
1700 G Street NW
Washington, D.C. 20552

September 11, 2019

Alice Puente Cackley
Director, Financial Markets and Community Investment
Government Accountability Office
441 G Street, NW
Washington DC, 20548

Dear Ms. Cackley,

Thank you for the opportunity to review and comment on the draft report by the Government Accountability Office (GAO), titled *Reverse Mortgages: FHA Needs to Improve Monitoring and Oversight of Loan Outcomes and Servicing* (GAO-19-702). The Bureau greatly appreciates GAO's work over the course of this engagement and believes the report provides the public with important information about the monitoring and oversight of home equity conversion mortgage (HECM) servicers.

In the report, GAO makes one recommendation to the Bureau:

- The CFPB Director should work with FHA to complete an agreement for sharing the results of CFPB examinations of HECM servicers with FHA.

The Bureau does not object to GAO's recommendation. The Bureau will work to complete an information sharing agreement with FHA to facilitate the sharing of confidential information, including the results of HECM examinations.

The Bureau looks forward to working with GAO as it monitors the Bureau's progress in implementing this recommendation.

Sincerely,

Kathleen L. Kraninger

Kathleen L. Kraninger
Director

consumerfinance.gov

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

Alicia Puente Cackley, (202) 512-8678 or cackleya@gao.gov

Staff Acknowledgments

In addition to the contact named above, Steve Westley (Assistant Director), Beth Faraguna (Analyst in Charge), Steven Campbell, William Chatlos, Holly Hobbs, John Karikari, Matthew Levie, Risto Laboski, Marc Molino, Jennifer Schwartz, Tyler Spunaugle, and Khristi Wilkins made key contributions to this report.

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