



Highlights of [GAO-09-836](#), a report to congressional committees

## Why GAO Did This Study

Reverse mortgages—a type of loan against home equity available to seniors—are growing in popularity. A large majority of reverse mortgages are insured by the Department of Housing and Urban Development (HUD) under its Home Equity Conversion Mortgage (HECM) program.

The Housing and Economic Recovery Act of 2008 (HERA) made several modifications to the HECM program, including changes in how origination fees are calculated and an increase in the loan limit. The Act directed GAO to examine (1) how these changes have affected lenders' plans to offer reverse mortgages, (2) how the changes will affect borrowers, and (3) actions HUD has taken to evaluate the financial performance of the HECM program. To address these objectives, GAO surveyed a representative sample of HECM lenders, analyzed loan-level HECM data, and reviewed HUD estimates and analysis of HECM program costs.

## What GAO Recommends

GAO makes no recommendations in this report. HUD concurred with the report's findings.

View [GAO-09-836](#) or key components. For more information, contact Mathew J. Scire at (202) 512-8678 or [sciremj@gao.gov](mailto:sciremj@gao.gov).

# REVERSE MORTGAGES

## Policy Changes Have Had Mostly Positive Effects on Lenders and Borrowers, but These Changes and Market Developments Have Increased HUD's Risk

### What GAO Found

On the basis of a survey of HECM lenders, GAO estimates that taken together, HERA's changes to the HECM loan limit and origination fee calculation have had a positive to neutral influence on most lenders' plans to offer HECMs. Other factors, such as economic and secondary market conditions, have had a mixed influence. Although economic conditions have had a positive influence on about half of lenders' plans to offer HECMs, secondary market conditions have negatively influenced about one-third of lenders. GAO also estimates that the HERA changes have had little to no influence on most lenders' plans to offer non-HECM reverse mortgages.

HERA's provisions will affect borrowers in varying ways depending on home value and other factors. The changes to HECM origination fees and loan limits are likely to change the up-front costs and the loan funds available for most new borrowers. GAO's analysis of data on HECM borrowers from 2007 shows that if the HERA changes had been in place at the time, most would have paid less or the same amount in up-front costs, and most would have had more or the same amount of loan funds available. For example, about 46 percent of borrowers would have seen a decrease in up-front costs and an increase in available loan funds. However, 17 percent of borrowers would have seen an increase in up-front costs and a decrease in available loan funds.

HUD has enhanced its analysis of HECM program costs, but less favorable house price trends and loan limit increases have increased HUD's risk of losses. HUD has updated its cash flow model for the program and plans to conduct annual actuarial reviews. Although the program historically has not required a subsidy, HUD has estimated that HECMs made in 2010 will require a subsidy of \$798 million, largely due to more pessimistic assumptions about long-run home prices. In addition, the higher loan limit enacted by HERA may increase the potential for losses. To calculate the amount of funds available to a borrower, lenders start with a limiting factor of either the home value or, if the home value is greater than the HECM loan limit, with the loan limit. For loans that are limited by the home value, the loan amount and the home value are closer together at the point of origination, which makes it more likely that the loan balance could exceed the home value at the end of the loan. In contrast, for loans that are limited by the HECM loan limit, there is initially a greater difference between the home value and the loan amount, making it less likely that the loan balance will exceed the home value at the end of the loan. The increase in the HECM loan limit may increase HUD's risk of losses by reducing the proportion of loans that are limited by the HECM loan limit.