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Non-FHA Lenders Able to Participate In the Modernization of Reverse Mortgages

By Alain Valles

Mortgage lenders today are going in reverse. No, that is not a comment on the stagnant state of the market. Instead, it identifies one of the fastest-growing segments of the mortgage lending business, the home equity conversion mortgage (HECM), more commonly known as a reverse mortgage.

Although reverse mortgages have been around for decades, the modern version offers borrowers a number of safeguards and assurances, including a Federal Housing Administration guarantee, that make a reverse mortgage very appealing to homeowners who are 62 and older.

The downside for lenders is that regulation and oversight make it necessary for a lender to become FHA-approved before offering reverse mortgages. The approval process can be time-consuming, expensive and intrusive. Many lenders have decided to steer clear of reverse mortgages rather than submit to further scrutiny.

But the FHA has included a provision in its regulations that allows a non-FHA approved lender to act as an "HECM Reverse Mortgage Advisor." The title means that almost any mortgage broker, working in conjunction with an FHA-approved lender, can offer customers a reverse mortgage and walk away with a healthy portion of the loan origination fee – up to 25 percent.

How It Works

FHA allows their approved lenders to pay a portion of the loan origination fee to other qualified brokers who act as an "advisor" to their customers requesting a reverse mortgage. Fulfilling your role as advisor requires the following steps:

- Identify and pre-qualify prospective HECM clients;
- Complete an "advisor certificate" for each customer;
- Educate clients about the reverse mortgage program by explaining the costs and benefits of a reverse mortgage;
- Have the client sign an Applicant Assistance Agreement, which acknowledges that the advisor will be paid for services provided to the client; and
- Prior to funding, fill out an HECM Advisor Certificate outlining the services you have performed for your client.

Here is how a typical reverse mortgage is sourced and processed: Initial contact is made with an interested client and reverse mortgage quote request is completed. There is a detailed breakdown of program options and benefits, provided by the FHA-lender for an advisor to review with the client(s). Once a client is ready to proceed with a face-to-face educational meeting that is anticipated to result in an application, a meeting is scheduled with a representative of the FHA-approved lender. The representative meets with the client to complete the reverse mortgage loan application package, and to set up the mandatory counseling session required by FHA for all reverse mortgages. Once the counseling session is completed, appraisal and title work is started. Reverse mortgage advisors are required to provide two specific forms to the correspondent lender: the HECM Advisor Certification (an agreement between an advisor and the FHA lender) and an Applicant Assistance agreement (an agreement between an advisor and borrower). An advisor's compensation is disclosed to the borrower on the settlement statement and the closing attorney will forward this amount to the advisor's company after the loan is funded.

Reverse mortgage advisors can be compensated up to a maximum of 25 percent of the total origination fee charged to your client. The total origination fee is capped by HUD at a maximum of 2 percent of the lesser of the appraised value or the FHA lending limit for the county in which the property is located.

The reverse mortgage advisor program offers the ability to provide senior customers with the reverse mortgages they want, without the time, expense and trouble of obtaining FHA approval. ■

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