



As Seen In

Title agents discovering new profits in growing reverse mortgage market

Mastering title and communication skills needed with elderly homeowners can generate lucrative premiums

With millions of baby boomers soon to enter retirement, experts believe reverse mortgage originations could skyrocket in the coming years.

While lenders are responding by launching advertisements featuring James Garner and Robert Wagner, Fannie Mae and Ginnie Mae are working to increase demand for reverse mortgage bonds. This could provide a new ripe revenue stream for title companies as turmoil reigns in the forward mortgage market.

Currently, few settlement services providers understand the product with any amount of proficiency, according to Chris McLucas, chief operating officer and senior vice president of TitleStream, which has its corporate offices and centralized processing center located just north of Dallas. The title company is licensed in 37 states and has agreements with several partners to service the remaining states.

“There are a few title insurance companies that have become experts at issuing title insurance and closing reverse mortgage transactions,” McLucas said. “The title company’s responsibility should be to instruct and educate the loan officers and processor on the necessary steps to clear title issues that could prevent a transaction from reaching a successful completion.”

Another title company that has honed in on the burgeoning reverse mortgage market is Rochester, N.Y.-based Customized Lender’s Services Inc. Through its bank of vendors, it also can serve any state.

David Gutmann, vice president and general counsel for CLS, said he first noticed the reverse mortgage market in the mid-1990s when he worked for a private law firm, which was handling a few transactions for a western New York lender (OnBank) that has since been absorbed.

He said brokers entering the market tend to focus on higher-valued areas rather than western New York or rural areas where people will have 100 percent equity because the property is only worth \$60,000.

CLS has been doing the bulk of its reverse mortgage work in upstate New York, as well as Florida. CLS is a wholly owned subsidiary of Public Abstract, which is under The First American Corp. umbrella.

Slower-paced transaction

In dealing with senior borrowers, it is important that your title company be prepared to spend more time, money and effort to assist in completing the transaction. The reverse mortgage industry is not comparable to the fast-



paced refinance market and the senior borrowers are in most cases not as familiar with the reverse mortgage product prior to the relationship with their RMS.

The reverse mortgage servicer and mortgage company need to ensure they have an open communication with the title company and provide the title company with as much information about the transaction as possible. This information, although it may not seem relevant, allows the title company to work the transaction in a more efficient and effective manner for the mutual benefit of the title company, lender and borrower.

Laura Ward, VP and operations manager at CLS, said there is more hands-on work needed to close a reverse mortgage transaction, adding you may have to explain things several times.

“You have to hire a trained special notary to do these closings,” she said. “You want to make sure the person you hire to meet with the borrower to sign the documents understands the type of borrower. These notaries have to know these closings are going to take at least two hours. You can’t have someone who thinks its going to be a quick closing. The borrower will have questions, the family will have questions and the family planners will have questions.”

Gutmann offered an example of a reverse mortgage closing from the mid-1990s with an elderly woman. “It was me, the loan officer and this woman,” he remembers. “She signed all the documents and wanted us to sit around and have coffee and cookies.”

As far as the title search, a reverse mortgage entails the same type of work as a refinance, but you have to remember the mentality of the borrower and when they were raised, Gutmann added.

“These people didn’t grow up in a time when you refinanced a lot of times,” he said. “They bought the property, got their 30-year mortgage, paid it off and it’s been free and clear for the last 30 years. So really, the last owner search is really a full search of the property.”

With this type of transaction, there also is more face time with brokers because they are more diligent about working with the homeowner to clear title issues. Gutmann said he had a deal where one broker was calling CLS on his cell phone from a person’s attic going through papers trying to find a paper the CLS needed to clear a title issue.

“The title company should strive to make the transactions work for the reverse mortgage specialist and understand that there are going to be more challenges with title clearance issues than are seen on forward mortgage products,” McLucas said. “The reverse mortgage industry requires an approach based on education within the industry. The title company’s role is no different than the mortgage company’s role with respect to education. The educational process is a continual one that has to be of the utmost importance to your title company.”

Title issues

Title companies must be aware of several common issues when completing reverse mortgage transactions.

o **Probate law:** These issues arise when the spouse of a senior borrower has passed away and causes additional issues when attempting to clear the title work. “In many cases, the borrowers have not consulted an attorney and the title remains vested or owned by both the borrower and the deceased spouse,” McLucas said. Some of the key factors in correcting these issues are to understand whether the decedent passed with a will at death or without a will at death. “If there was a will and the will was probated or the estate was probated by a court of law, the documentation from the probate is crucial to determine the distribution of the estate assets, including the property,” McLucas said. “If the decedent does not have a will, the property would pass based on the laws of intestacy and be distributed according to statute. In many cases the borrower and deceased spouse held the property as ‘Tenants by the Entireties,’ meaning between husband and wife, and therefore the survivor of them would gain full rights and ownership to the property.”

o **Family law:** Some borrowers may have been married more than once or have a previous divorce that can bring

about additional requirements for insuring the transaction. In the event there was a divorce, a complete copy of the divorce decree would be required in order to determine if there are any proceeds owed a former spouse granted by the court. “The divorce decree can, at times, act as a conveyance of the real property in the event that the ex-spouse did not execute a conveyance instrument to your borrower,” according to McLucas. “For the divorce decree to be an effective conveyance of the property it is important for the divorce decree to contain the legal description of the property to be conveyed. The legal description is how the property is identified and having a property address is not always that correct especially in the cases where the county or city has changed the names of the street.”

o **Criminal law:** If the senior borrower has pledged the property in order to post bonds for children or grandchildren this can cause additional title clearing issues.

o **Real property law:** In some cases, there are issues that have to be addressed regarding adverse possession, ingress and egress to the senior’s property, foreclosure issues and the most prevalent issue of old liens and encumbrances against the subject property. Adverse possession is the acquisition of title to real property for a statutory period of time under certain conditions.” In some cases the borrower was provided a deed conveying the property to them however they failed to have the document recorded at the county recorder’s office,” McLucas said. “An important thing to remember is that a conveyance of real property is effective when the document is drafted and delivered to the borrower.” The main challenge that is presented on reverse mortgage transactions are old liens or encumbrances that have been paid-in-full but were never released of record in the county records. These issues can usually be cleared with a lien paid affidavit signed by the borrowers at the closing table.

o **Tax liens:** In most cases, tax liens will be superior to all lender liens filed against the property. Each state has its own statute of limitations for tax liens or state liens against the property. Federal tax liens do attach to the real property owned by the borrower wherever the property is located. It is important to remember that the IRS does not issue a release of a federal tax lien. The federal tax lien contains language that allows the lien to be released if not re-filed by a specific date. According to the IRS Code, the IRS has three years to file a lien against the property and 10 years from that date to enforce the lien. Gutmann said tax liens can be an issue depending on what kind of financial issues the borrowers have had. There could be instances where the borrower hasn’t been able to pay property taxes. “Sometimes they can’t make ends meet and they are doing whatever they can to find money,” he said. “You run into different things. Some people have already taken out home equity loans and now they can’t pay the equity loan.”

Higher-priced premiums

Not only will partnering up with lenders that offer reverse mortgages provide a new line business for originations, it also produces a more lucrative premium.

Although the settlement fees won’t be any higher, the title premium will be greater because the homeowners are borrowing 100 percent of the equity in their homes.

Gutmann said CLS currently gets 25 percent of its work from reverse mortgages — and that figure has grown over the past three years from about 10 percent.

“I could see it being half of our work in about three more years,” he said.

Right now, CLS’ biggest client is Wells Fargo, which is one of the largest providers of reverse mortgages. A few years ago, there were three national providers of reverse mortgages, the Federal Housing Administration, Fannie Mae and the Financial Freedom Senior Funding Corp. The most popular reverse mortgage by far is the FHA’s Home Equity Conversion Mortgage

Ripe for the picking

Volume in HECMs jumped by 77 percent to more than 76,000 new loans last year, according to HUD. The biggest players in the U.S. financial segment have noticed the growth trend and are now plunging in with their own proprietary versions of the FHA-insured HECM.

Despite the recent growth, the market is relatively untapped, according to The Hollister Group.

According to the group's Reverse Mortgage Market Index (RMMI), Americans age 62 or older hold an estimated \$4.3 trillion of home equity. Although the reverse mortgage industry has seen tremendous growth in the last five years, only a little more than 300,000 reverse mortgages have been originated in its short history, representing less than a 1 percent market penetration.

IndyMac Bancorp Inc. reported strong growth in 2006 at its reverse mortgage unit, Financial Freedom Senior Funding Corp. For the full year, Financial Freedom's production climbed by 71 percent, to \$5.02 billion, while net earnings more than doubled, to \$54.2 million from \$24.8 million in 2005. Financial Freedom ranks as the nation's largest reverse mortgage originator, with market share of approximately 50 percent.

Earlier this summer, Bank of America Corp. made a major move in the market with its acquisition of Seattle Financial Group's reverse mortgage business for an undisclosed sum. Seattle Financial services approximately 40,000 reverse mortgages with outstanding balances of \$4 billion, and is ranked the third largest originator in the field.

In July, Genworth Financial Inc. purchased reverse mortgage company Liberty Reverse Mortgage Inc. for \$50 million in cash. Liberty, a 2003 startup in Rancho Cordova, Calif., is one of the largest originators of reverse mortgages in the country. It also has a wholesale division that buys reverse mortgages from other mortgage companies.

Genworth Financial is a financial security company that offers retirement, mortgage insurance and other products to its 15 million customers. It has 7,000 employees. Genworth, based in Richmond, Va., ranks 227th on the Fortune 500 list. It was spun out of General Electric Co. in 2004. It was the largest initial public offering of that year, raising \$2.83 billion.

David Rupp, a senior vice president with Bank of America, said the lender has run a pilot program in Arizona for the past half year, testing an innovative program called the Senior Equity Maximizer. It offers a high maximum loan limit—about \$10 million and cuts fees, raises loan-to-value ratios and offers automatic increases in available loan amounts as property values grow.

Rupp said the pilot, which allows seniors to also buy a new primary dwelling and a second home, exceeded expectations. He said the bank is likely to roll the program out nationwide.

According to reports, Wall Street giants Goldman Sachs, Credit Suisse, Bear Stearns and UBS are all exploring possible avenues to securitize the reverse mortgages and sell them as bonds.

Ginnie Mae President **Robert Couch** called on lenders to consider adding reverse mortgages to their product suites as a combination of factors converge to make the market increasingly attractive.

During the American Securitization Forum's ASF 2007 earlier this year, Couch said reverse mortgages are on the verge of explosive growth.

Ginnie Mae is in the process of putting together the first Home Equity Conversion Mortgage (HECM) MBS issuance, which will allow approved issuers to securitize and sell FHA-insured reverse mortgages in the form of a Ginnie Mae security. The transaction is expected to take place by the end of Ginnie Mae's fiscal year on Sept. 30. If successful, Couch said it will boost business through the addition of secondary-market execution.