Overview of Home Equity Conversion Mortgages Originated in the City of Baltimore

By

Ira Goldstein and Colin Weidig, with Julia Park

Reinvestment Fund

Introduction

Abell Foundation funded Reinvestment Fund to examine the, volume, trends, and geographic distribution of Home Equity Conversion Mortgages (HECM)–also known as Reverse Mortgages–in the city of Baltimore. HECMs are loans to older homeowners (62+ years of age) that are insured by the Federal Housing Administration (FHA).[1] They are used, essentially, to convert the equity in the home to cash while maintaining the ability to live in your home. HECMs can also be used to pay off an existing mortgage so that an older homeowner is not responsible for monthly mortgage payments at a time, for example, when they may be contemplating retirement or some other reduction in income. HECMs are a very complex mortgage product, mass marketed on television and other forms of media by personalities that are themselves older and present as trustworthy (e.g., Tom Selleck, Fred Thompson, or Henry Winkler, to name a few). Because of their complexity, borrowers are required to get counseling from a HUD-approved agency prior to closing on their HECM.[2]

The amount of money that a HECM can yield a homeowner is a function of several factors (referred to as Principal Limit Factors)[3]. Among those factors are the age of the homeowner, current interest rates, the value of the home, and fees associated with the loan. And in late 2016, HUD added a provision to its rules that requires the lender to ensure that the homeowner has the financial capability to meet their ongoing financial obligations–including maintaining their home and paying property taxes and insurance.[4]

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[1] Other than HECMs, there are some reverse mortgages that are proprietary to the specific institutions that offer them as well as some offered by a limited number of state and local agencies. In this document, our focus is on HECMs that have been insured by the FHA.
[2] See: https://www.hud.gov/program_offices/housing/sfh/hecm/hecmabou. HUD has an online HECM Counselor search tool that can be used to identify approved organizations in your local area. That tool can be found at: https://entp.hud.gov/idapp/html/hecm_agency_look.cfm.
[3] HUD provides a table of Principal Limit Factors on this website: https://www.hud.gov/program_offices/housing/sfh/hecm.
[4] See HUD Mortgagee Letter 2016-10. https://www.hud.gov/sites/documents/16-10ml.pdf

Over the years, HECMs have been sold inappropriately and sometimes even fraudulently.[5,6,7,8] The abuses prompted several financial institutions to cease making the loans.[9] HUD has responded with rule changes several times in the last decade in response to reported/observed abuses.

Figure 1 represents the HECM volume nationally on a federal fiscal year basis from 1990 through March of 2021. It is a product with popularity that peaked during the last significant housing recession–at least in part due to the use of the HECM to cure a potential mortgage foreclosure–and has declined since.

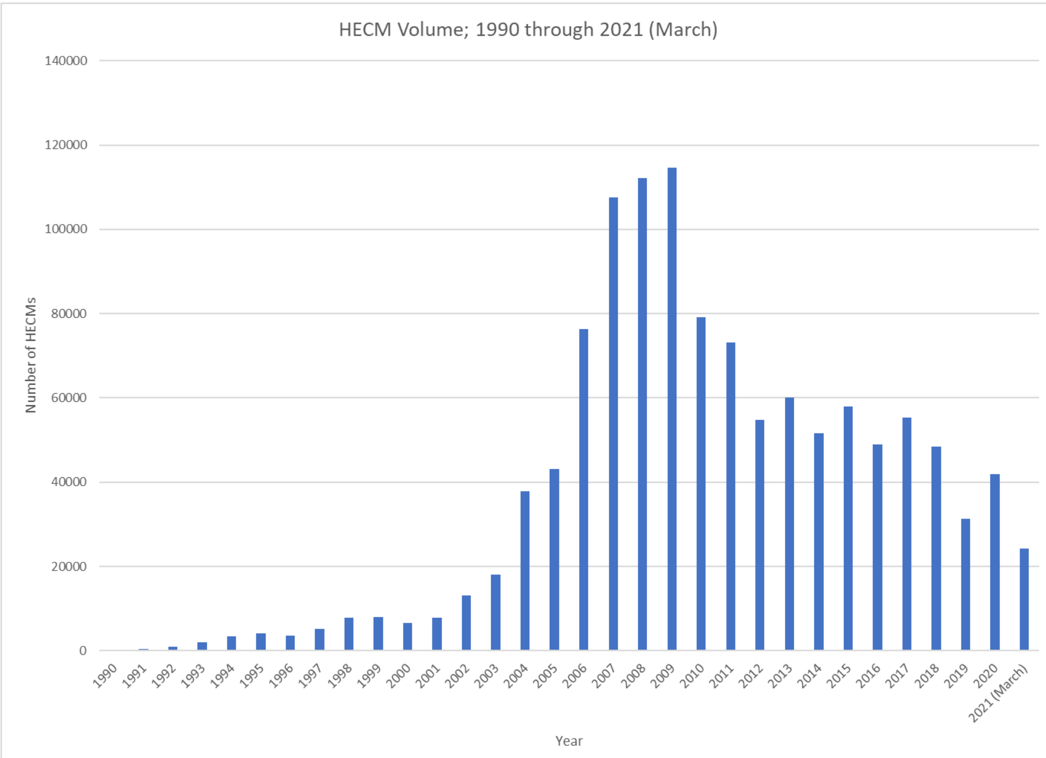

Figure 1: National Volume of HECM Loans; Federal Fiscal Years 1990 through 2021 (March)
Source: https://www.nrmlaonline.org/annual-hecm-endorsement-chart

There is a substantial decline in the number of originated HECM loans in the city of Baltimore between 2010 and 2020. In 2019 and 2020, fewer than 20 HECMs were originated in each year. It is important to note that while origination volume is down, these loans have a life. That is, once originated, the HECM, unless there is a foreclosure, can last for many years. Thus, although few have been made in the last few years, there likely still exist many among Baltimore homeowners.

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5 See, for example: https://www.fbi.gov/scams-and-safety/common-scams-and-crimes/reverse-mortgage-scams or https://www.aarp.org/money/scams-fraud/info-2020/reverse-mortgage.html.

6 See, for example: https://www.reinvestment.com/wp-content/uploads/2018/07/Phila_HECM_Brief.pdf

7 See, for example: https://www.consumerfinance.gov/about-us/blog/consumer-advisory-dont-be-misled-by-reverse-mortgage-advertising/

8 Reinvestment Fund released a brief detailing the circumstances of several Philadelphians with HECMs that ended up in foreclosure. That report can be found at: https://www.reinvestment.com/wp-content/uploads/2018/07/Phila_HECM_Brief.pdf

9 See, for example: https://www.marketwatch.com/story/banks-abandon-reverse-mortgage-business-2011-06-30.

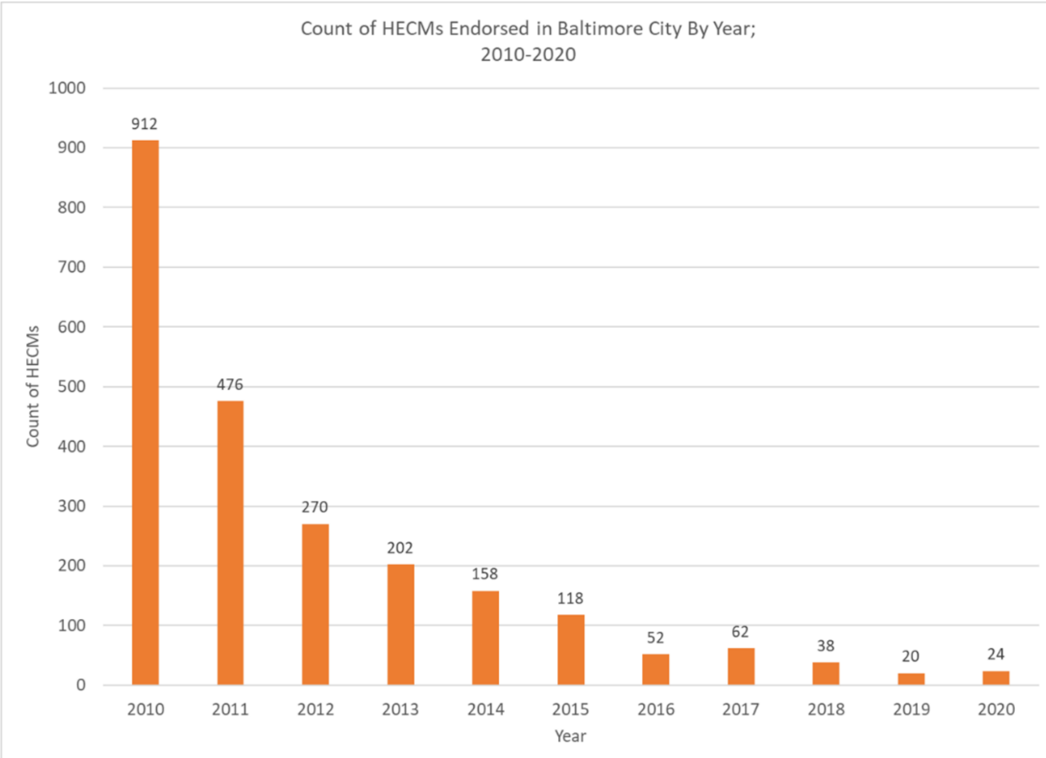

Figure 2: Number of HECMs Originated in Baltimore (Public HECM Data), 2010-2020 (annual)

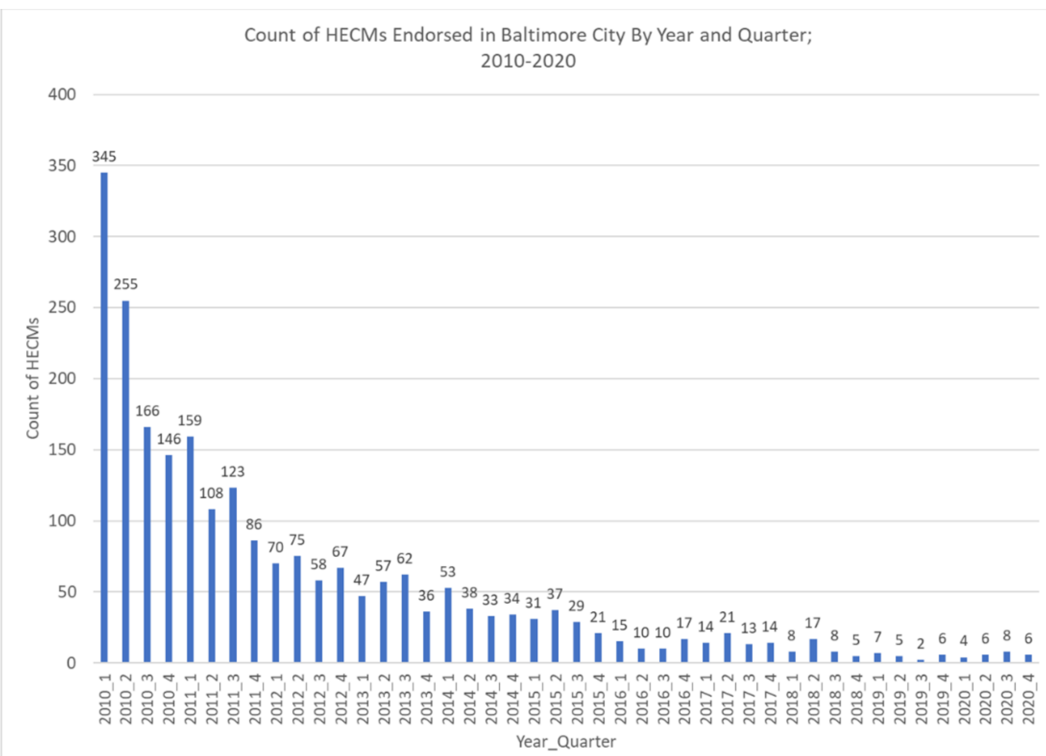

Figure 3: Number of HECMs Originated in Baltimore (Public HECM Data), 2010-2020 (quarterly)

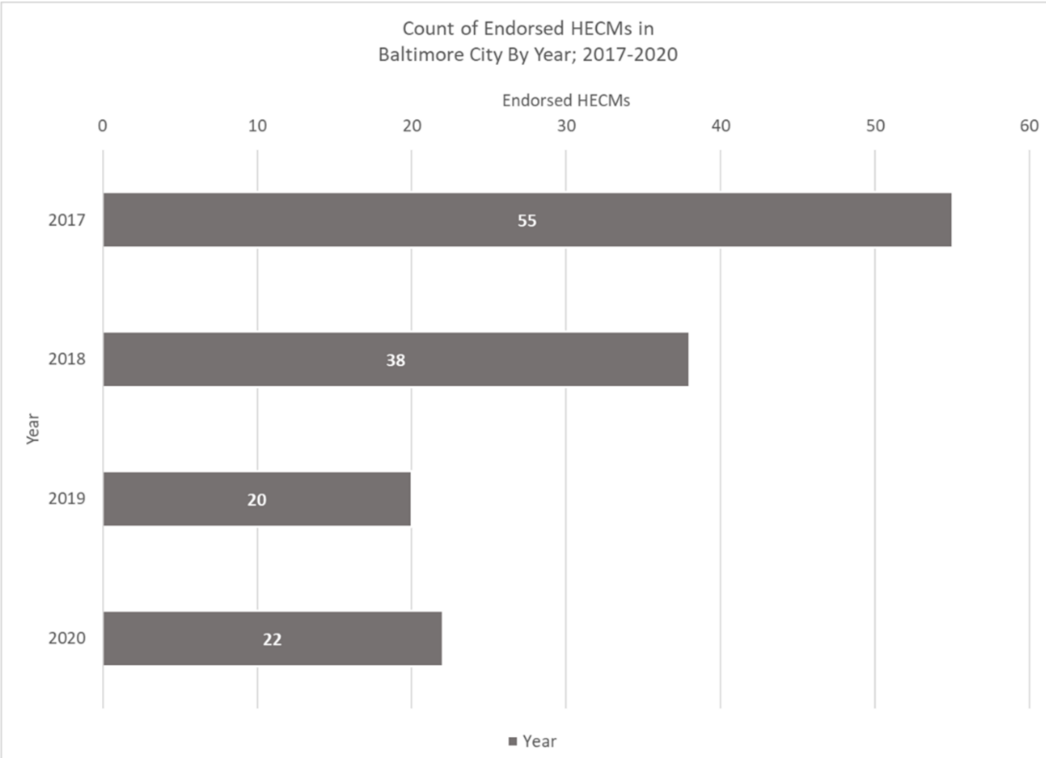

Figure 4: Number of HECMs Originated in Baltimore (FOIA HECM Data), 2017-2020

Data Sources:

Data for this Brief come from two sources. On a monthly basis, the US Department of Housing and Urban Development releases data under its *HUD FHA HECM Single Family Portfolio Snapshot.*[10] These are loan-level, personally deidentified data on HECMs originated across the US. For this Brief, data for the city of Baltimore have been extracted.

As useful as these data are for generalized trends and understanding the spatial distribution of HECMs, they are limited in that they do not include information on the characteristics of the borrower (e.g., borrower age or race) and the geographic identification is limited to a zip code. In a city such as Baltimore, there are fewer than 40 zip codes, several of which span the boundaries of the city and county. Accordingly, Reinvestment Fund issued a request of HUD under the Federal Freedom of Information Act (FOIA) for more detailed information for HECMs originated in Baltimore between 2017 and 2020, inclusive. As part of that FOIA request, we asked for (and received) data about the age and race of the borrower as well as the Census tract location of the collateral home.

We will differentiate in our discussion between the publicly available HECM data and that which was received under the FOIA. However our review of the two data sources leads us to conclude that for the period of overlap, the public and FOIA data were a near perfect match.

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[10] See: https://www.hud.gov/program_offices/housing/rmra/oe/rpts/hecmsfsnap/hecmsfsnap.

Who Is Making HECMs, and Where?

The casual reader will notice in Table 1 that the group of lenders making HECMs are not the nation's mainstream depository institutions, nor are they representative of the group of lenders most active in the traditional home mortgage market. While there are some exceptions (e.g., Bank of America, M & T Bank, Wells Fargo Bank, to name a few), those exceptions tended to be in the early years.

Top 10 Originating Lenders			
2010-2011	**2012-2014**	**2015-2017**	**2018-2020**
Net Equity Financial Inc (243)	Net Equity Financial Inc (118)	American Advisors Group (29)	American Advisors Group (25)
Cooper and Shein LLC (222)	MAS Associates (78)	Net Equity Financial Inc (26)	Reverse Mortgage Answers LLC (8)
MAS Associates (163)	1st Maryland Mortgage Corp (58)	Nationwide Equities Corp (15)	M and T Bank (7)
1st Maryland Mortgage Corp (148)	NOT REPORTED (53)	One Reverse Mortgage LLC (14)	Reverse Mortgage Funding LLC (7)
NOT REPORTED (91)	M and T Bank (38)	Reverse Mortgage Corp (14)	One Reverse Mortgage LLC (6)
Bank of America NA Charlotte (59)	One Reverse Mortgage LLC (34)	GSF Mortgage Corp (12)	Bayshore Mortgage Funding LLC (2)
M and T Bank (56)	Maverick Funding Corp (31)	Liberty Home Equity Solutions Inc (11)	Home Mortgage Alliance Corp (2)
Wells Fargo Bank NA (56)	American Advisors Group (30)	M and T Bank (9)	Live Well Financial Inc (2)
Remington Mortgage Inc (29)	Priority Financial Svcs., LLC (13)	Southern Trust Mortgage LLC (6)	Longbridge Financial LLC (2)
Southern Trust Mortgage LLC (24)	Christensen Financial Inc (10)	Elite Funding Corp (5)	Obsidian Financial Services Inc (2)
			Synergy One Lending Inc (2)

Table 1: Most Active HECM Lenders in Baltimore (Public HECM Data): 2010-2020

Table 2 displays the most active HECM lenders in Baltimore's racial/ethnic minority areas (i.e., zip codes in which 75% or more of the population is Black or Hispanic). The list of lenders (and their relative order) in Table 2 looks very similar to the list in Table 1. Table 2 differentiates lenders also by whether the majority of their loans (50-70%, shaded in light pink; 70% or more, shaded in dark pink) were in minority areas. For example, in 2010-2011, Net Equity Financial made 165 loans in minority areas; between 50% and 70% of their loans (n = 243, as observed in Table 1) were in minority areas. Alternatively, Cooper and Shein LLC made 159 loans in minority areas; more than 70% of their loans (n=222, as observed in Table 1) were in minority areas. Note that in recent years (2015-2020), one of the nation's most prolific HECM lenders, American Advisors Group, tops the list of most active lenders overall in Baltimore and their activity is heavily clustered in Baltimore's minority areas.

Top 10 Originating Lenders in 75%+ Black/Hispanic Areas			
2010-2011	**2012-2014**	**2015-2017**	**2018-2020**
Net Equity Financial Inc (165)	Net Equity Financial Inc (67)	American Advisors Group (22)	American Advisors Group (16)
Cooper and Shein LLC (159)	MAS Associates (51)	Net Equity Financial Inc (15)	Reverse Mortgage Answers LLC (5)
MAS Associates (114)	1st Maryland Mortgage Corp (42)	GSF Mortgage Corp (10)	M and T Bank (3)
1st Maryland Mortgage Corp (100)	NOT REPORTED (36)	Reverse Mortgage Corp (10)	One Reverse Mortgage LLC (3)
NOT REPORTED (62)	Maverick Funding Corp (26)	One Reverse Mortgage LLC (7)	Home Mortgage Alliance Corp (2)
Bank of America NA Charlotte (41)	One Reverse Mortgage LLC (20)	Southern Trust Mortgage LLC (5)	***All others with 1 mortgage***
Wells Fargo Bank NA (34)	M and T Bank (18)	Nationwide Equities Corp (4)	
M and T Bank (29)	American Advisors Group (16)	Odyssey Funding LLC (4)	
Remington Mortgage Inc (24)	Priority Financial Svcs., LLC (10)	All Financial Services LLC (3)	
Southern Trust Mortgage LLC (21)	Christensen Financial Inc (7)	Elite Funding Corp (3)	
		Home Point Financial Corp (3)	
		Liberty Home Equity Solutions Inc (3)	
> 50% & < 70% of Institution's Lending			
>70% of Institution's Lending			

Table 2: Most Active HECM Lenders in Baltimore in Black/Hispanic Zip Codes (Public HECM Data): 2010-2020

Borrower & Loan Characteristics

HECM borrowers in the last few years are almost evenly split between Black (46%) and White (41%) and borrowers; 11% of loans had no borrower race identified. By way of context, the Census' American Community Survey 2015-2019 indicates that Black people comprise 53% of Baltimore homeowners and White people comprise 42%. Among householders over 62-plus years of age, Black people comprise 59% of homeowners and White people comprise 38%. Thus there is a slight under-representation of Black people among HECM borrowers and a modest over-representation of White people.[11]

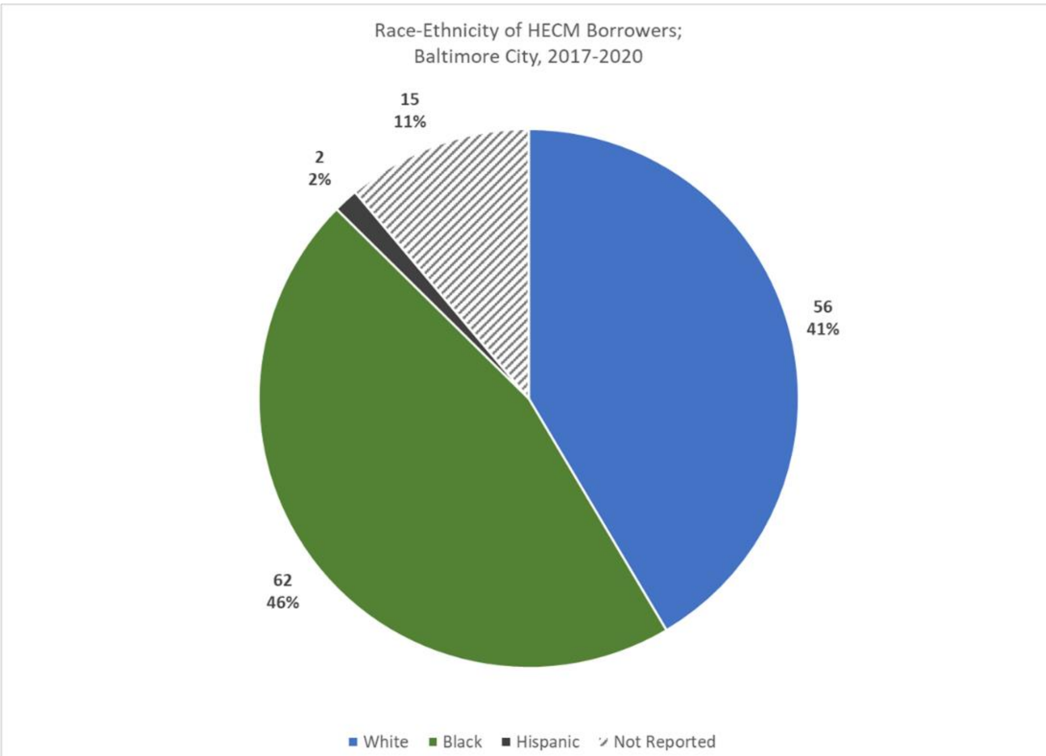


Figure 5: Race of Borrowers in Baltimore (FOIA HECM Data): 2017-2020

Table 3 presents several distributional measures for the borrower's age and loan characteristics (i.e., interest rate, initial principal limit and maximum claim amount). The "median" represents the average or middle value of all borrowers/loans. For example, the median age of 74.44 indicates that half the borrowers were younger than 74.44 and half were older. The 25th Pctl (percentile) indicates that 25% had a value below the given value. For example, 25% of borrowers were younger than 66.95 years old. The 75th Pctl indicates that 25% had a value above the given value. For example, 25% of borrowers were over 80.13 years old; 75% were younger than 80.13.

The data indicate that the typical interest rate applied to an originated HECM in Baltimore was 4.52%. There was not a lot of variation in interest rates over this time period. The typical initial principal limit, described by HUD as the maximum amount a borrower can borrow given the value of their home, their age, and financial assessment, is $84,246. 25% of HECM borrowers had an initial principal limit over $106,780 and 25% had a limit below $60,580. The maximum claim amount is, basically, the appraised value of the home (assuming that value is below the FHA mortgage limit). The typical Baltimore HECM

[11] Reinvestment Fund computations using the American Community Survey, 2019 5-Year Sample.

borrower transaction had a maximum claim amount of $150,000; 25% had a value under $114,000 and 25% had a value over $190,000. The 2019 5-Year American Community Survey presents home values based on respondent estimations. In Baltimore, the median home value of all households is $158,000 and for homes with householders 62-plus year of age, the median is $135,000. Thus, Baltimore HECMs seem representative of typical Baltimore homeowners.[12]

	75th Pctl	25th Pctl	Median
Borrower's Age	80.13	66.95	74.44
Interest Rate	4.92	4.22	4.52
	75th Pctl	**25th Pctl**	**Median**
Initial Principal Limit	$ 106,780	$ 60,580	$ 84,246
Maximum Claim Amount	$ 190,000	$ 114,000	$ 150,000

Table 3: Age of Borrower and Loan Characteristics (FOIA HECM Data): 2017-2020

Tables 4 and 5 present borrower and loan characteristics separately for Black and White HECM borrowers. The typical Black and White borrower were very similar in age. As evidenced by 25th and 75th percentiles, Black borrowers were skewed just a bit older than White borrowers.

Interest rates for Black and White borrowers were also very similar with the typical Black borrower having an interest rate 7 basis points below that of the typical White borrower. And we see the slight skewing of Black borrowers' interest rates below those of Whites throughout the distribution.

White	75th Pctl	25th Pctl	Median
Borrower's Age	80	63.93	74.57
Interest Rate	5.03	4.43	4.53
Black	**75th Pctl**	**25th Pctl**	**Median**
Borrower's Age	82.44	67.8	74.37
Interest Rate	4.75	3.86	4.46

Table 4: Age of Borrower and Interest Rate by Race (FOIA HECM Data): 2017-2020

Maximum claim amounts displayed in Table 5 manifest the fact that Black homeowners had homes valued substantially below those of White homeowners. In Baltimore, the median home value for Black homeowners is $125,000 and $225,000 for White owners. Among owners 62-plus years of age, the median home value for Black owners is $117,000 compared to $180,000 for White owners.[13]

[12] Reinvestment Fund computations using the American Community Survey, 2019 5-Year Sample.
[13] Reinvestment Fund computations using the American Community Survey, 2019 5-Year Sample.

White	75th Pctl	25th Pctl	Median
Initial Principal Limit	$ 122,049	$ 63,945	$ 93,585
Maximum Claim Amount	$ 207,000	$ 125,000	$ 165,750
Black	**75th Pctl**	**25th Pctl**	**Median**
Initial Principal Limit	$ 102,930	$ 52,012	$ 79,034
Maximum Claim Amount	$ 170,000	$ 100,000	$ 136,500

Table 5: Initial Principal Limit and Maximum Claim Amount by Borrower Race (FOIA HECM Data): 2017-2020

Geographic Distribution of HECM Loans & Relationship to Neighborhood Racial Composition

The maps that follow (and additional maps in the Appendix) present the geographic distribution of HECM activity and offer insights into the relationship between where HECMs are made and the race of the borrower and racial composition of the area wherein the loans are made.

Maps 1 through 4, using Public HECM Data show the volume of loans for periods between 2010 and 2020. Most notable is the dramatic drop-off in lending volume (not unexpected given what we observed in the citywide volume earlier). Lending volume tended to be highest in the western portion of the city, especially in northwest and in the western areas below route 40. As the volume dropped off, it appears to have dropped off all over the city, with no notable "hot spots" of HECM lending.

Appendix Maps 1 through 4, using Public HECM Data are similar to Maps 1 through 4 except that overlayed on these maps is a cross-hatch that shows areas that are less than 25% White–in other words, the crosshatched areas are the parts of Baltimore where more than 75% of the residents are Black or Brown. Virtually all areas with high HECM volume are also places where Black and Brown residents predominate. However, as noted above, as HECM volume across the city declined it was observed to decline also in Black areas.

Map 5, using a combination of FOIA HECM Data and Public HECM data, displays HECM volume by zip code for 2017-2020 (inclusive); overlayed are the locations of HECM originations as dots, differentiated by the race of the borrower. Blue dots represent Black borrowers, red dots are White borrowers and grey dots are borrowers for whom race was not reported. The western part of Baltimore has a predominance of Black borrowers. The eastern side of Baltimore, particularly the northeast quadrant, also shows decidedly more Black borrowers.

Map 6, using a combination of FOIA HECM data and American Community Survey data, shows the racial composition of Census tracts in Baltimore over which the race of borrowers is depicted. Areas that manifest this highest percentages Black of the resident population also are the places where we see the greatest preponderance of Black HECM borrowers. Areas of Baltimore that are predominantly White are home to HECM borrowers that are White.

Conclusion

The data gathered on HECM activity in Baltimore point to a dramatic reduction in the volume of new HECM originations in the last few years. In fact, origination volume slowed to less than a handful of loans per month. Although not detailed in this Brief, HUD's Snapshot reports show two HECM originations in Baltimore in January 2021 and one in February.

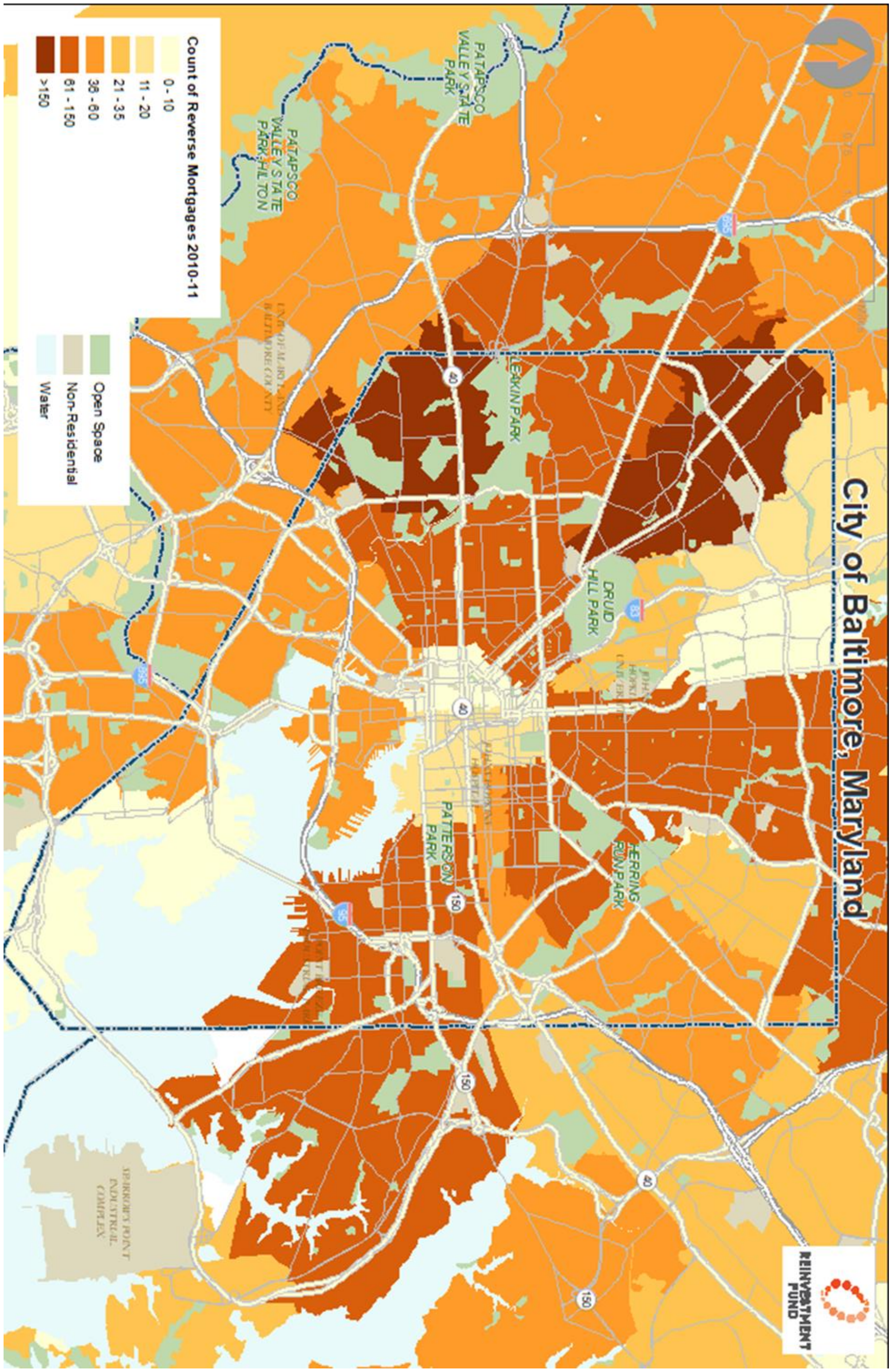
Although substantially down in Baltimore, HECMs are not down in every city. By way of comparison, the District of Columbia, a larger city (by about 50,000 households) had eight and ten in January and February of 2021.

So, why is the HECM volume in Baltimore so low? Two reasons could be the HUD initiated additional underwriting rules around the borrower's ability to pay, and that Baltimore's typical home values are relatively low. For example, compared to the District of Columbia, the median home value in Baltimore in 2019 was $160,100 while the District's was $601,500.[14] Coupled with the fact that we observe that the initial principal limits in the District are over $400,000 in 2021, we suspect that both underwriting changes and home values contribute to the low HECM volume in Baltimore.

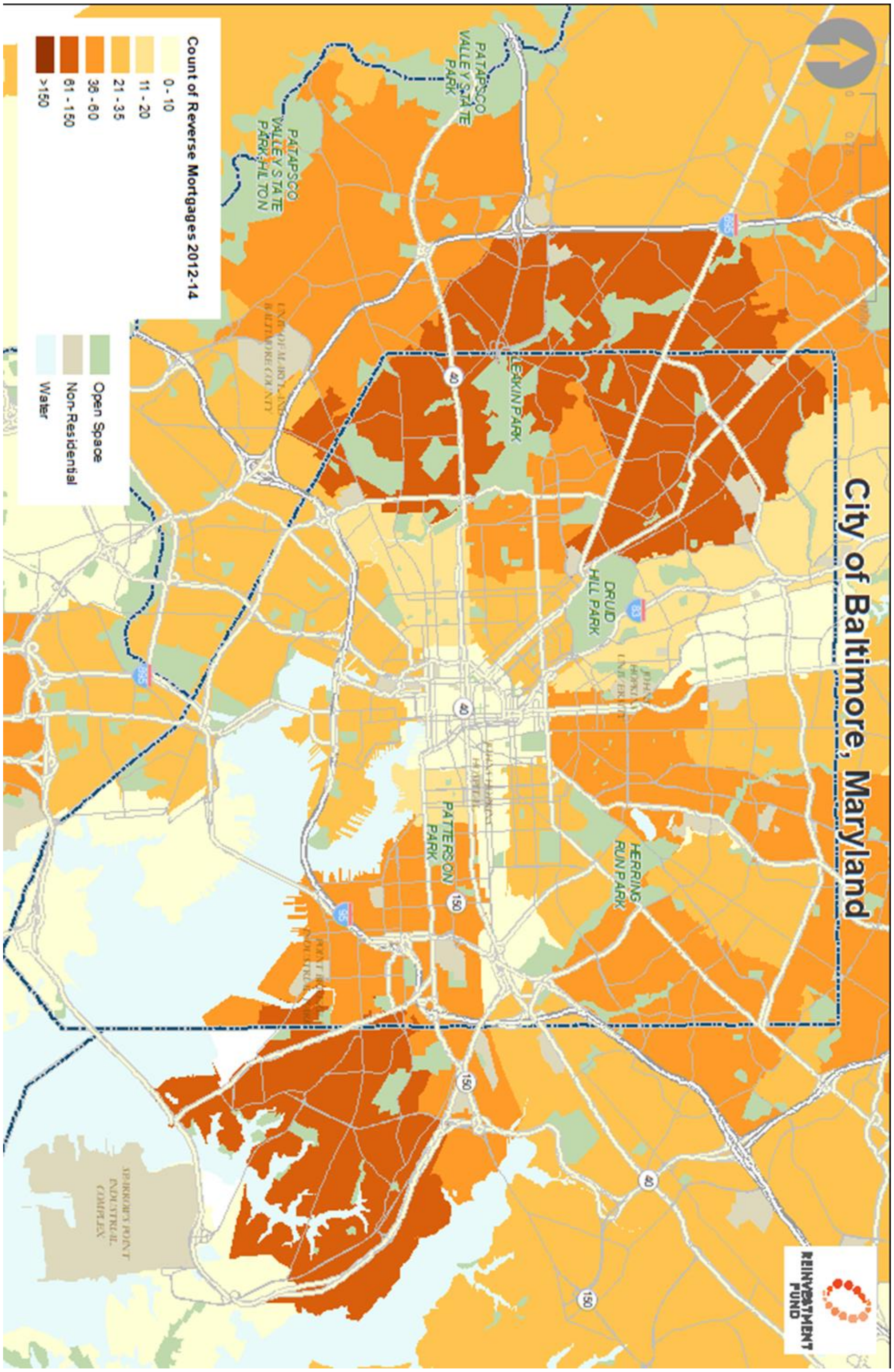
This does not however mean that the well-chronicled problems with HECMs do not impact older homeowners in Baltimore, most of whom received their loans prior to the underwriting changes around ability to meet financial obligations. Nor for that matter does it mean that the approximately 43,000 current older Baltimore homeowners are immune from ending up with a problematic HECM in the future.

HECMs are a very complex mortgage product that have not always been marketed fully honestly. Some experts believe HECMs can be part of a wise retirement plan. At the same time, HECMs are not without homeowner obligations (financial and maintenance), risk (of loss of your home), or cost. Accordingly, we recommend that groups such as the city administration (including the courts that process mortgage foreclosures), housing counselors and the consumer protection bar stay attentive to the issues that emerge with older Baltimoreans who currently have HECMs. And because HECMs were so concentrated in neighborhoods of Baltimore that are predominantly Black and Brown at the beginning of the study period, we suggest that the city's fair housing organizations be particularly attentive to problems emerging from these neighborhoods. We also suggest ongoing monitoring to ensure that, should HECM volume increase in Baltimore, the loans go only to those who are making a fully informed and voluntary choice.

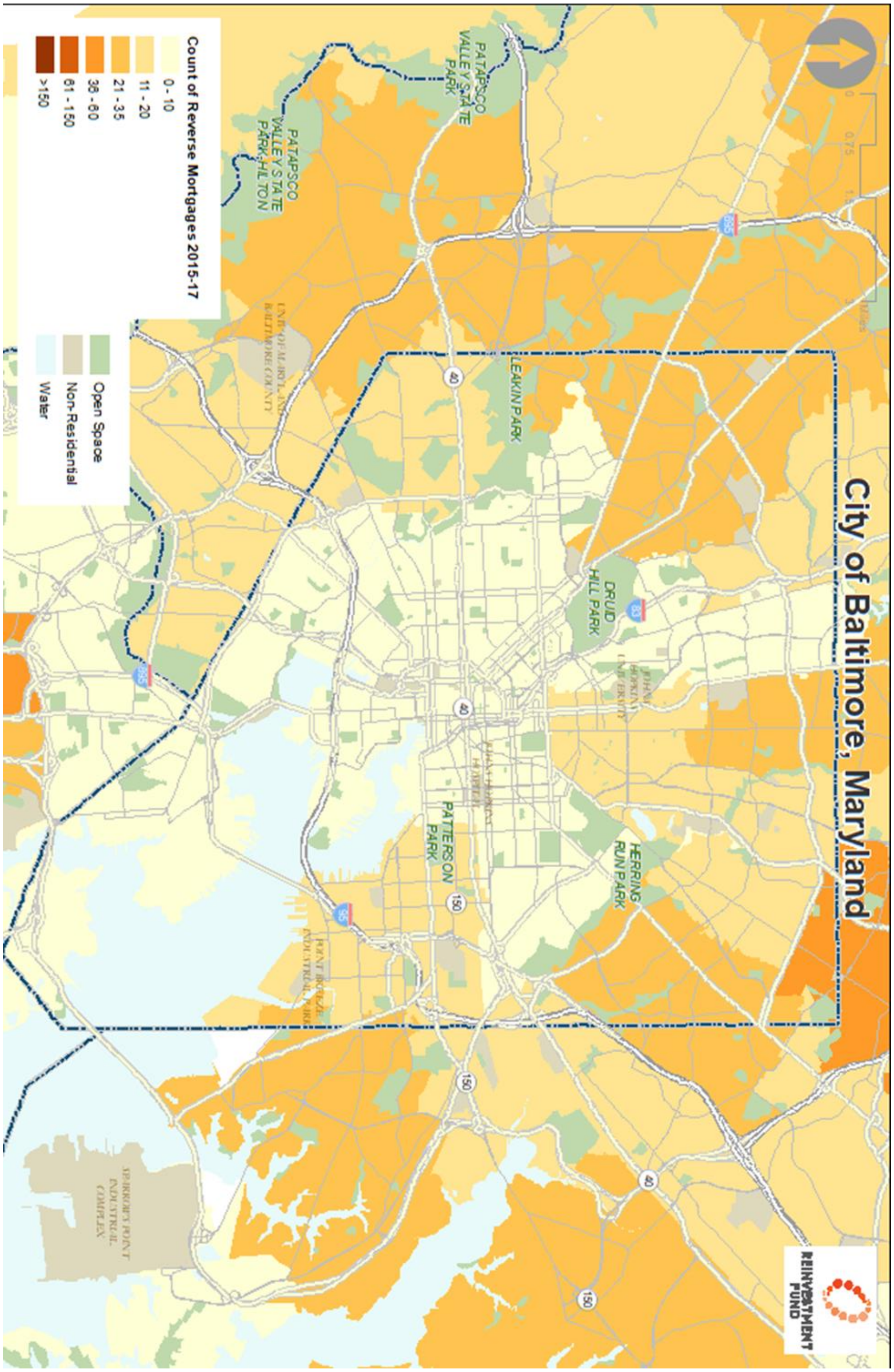
[14] https://www.census.gov/quickfacts/fact/table/baltimorecitymaryland,DC/PST045219



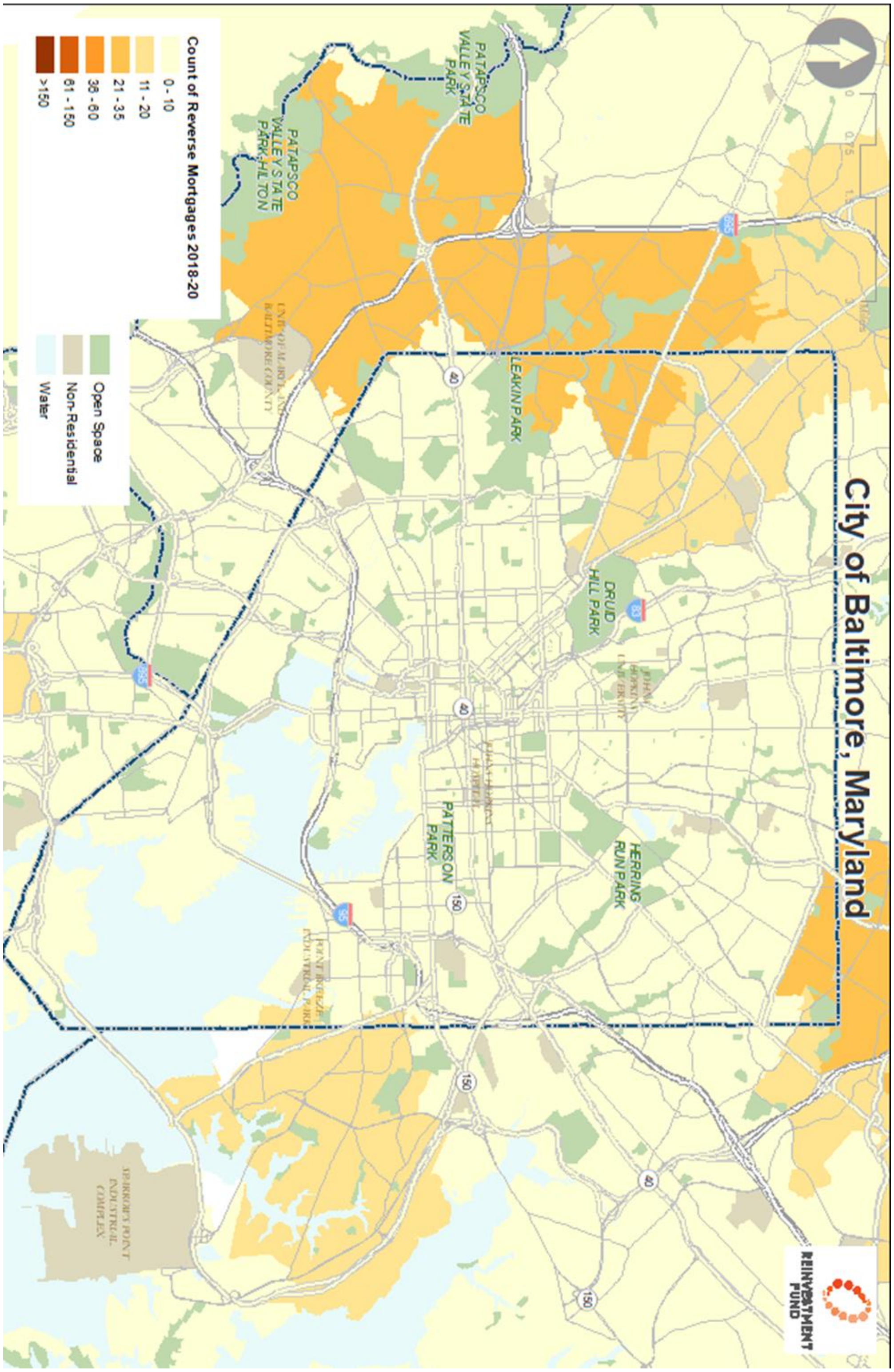
Map 1: HECM Volume by Zip Code (Public HECM Data); 2010-2011



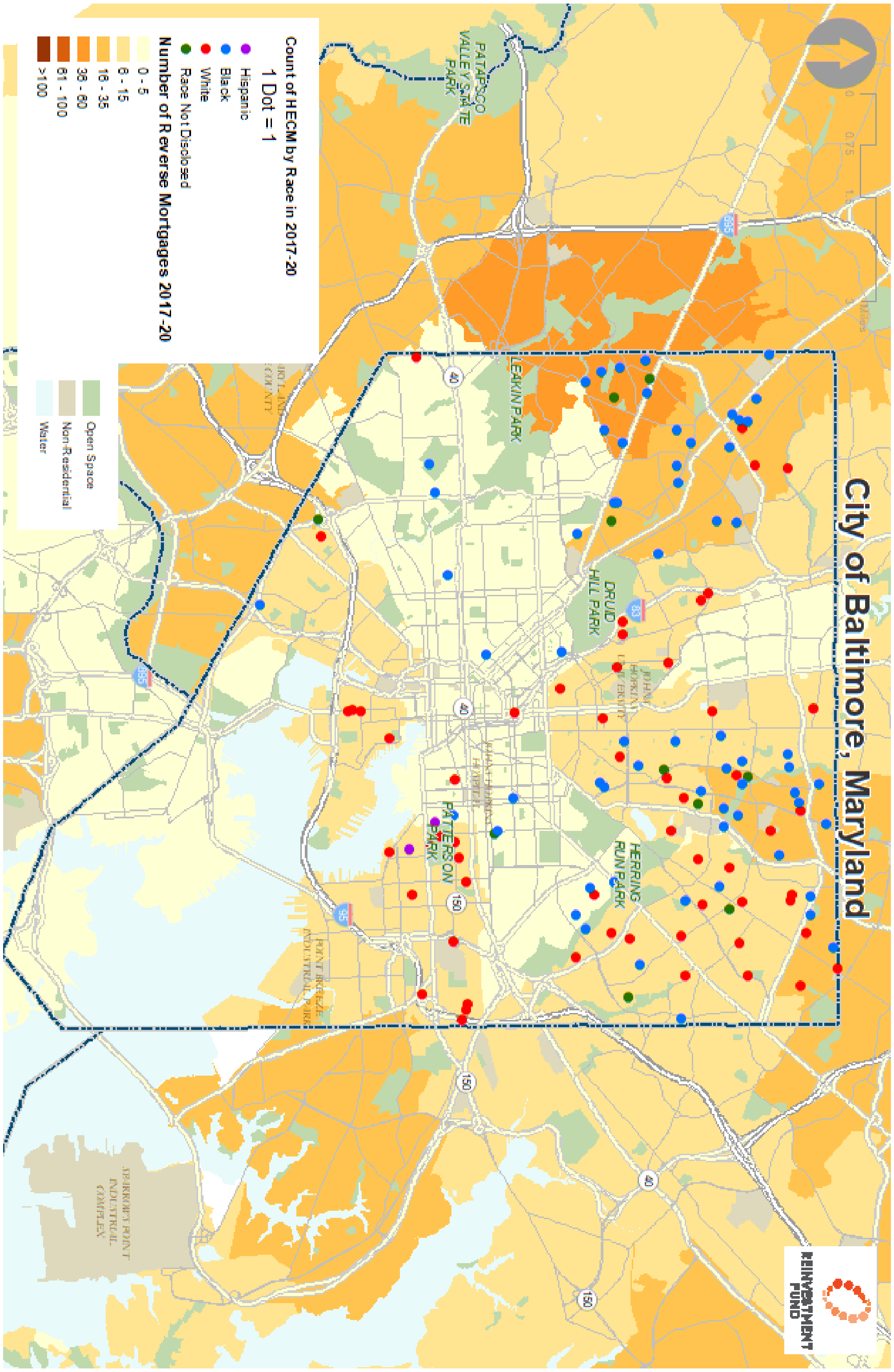
Map 2: HECM Volume by Zip Code (Public HECM Data); 2012-2014



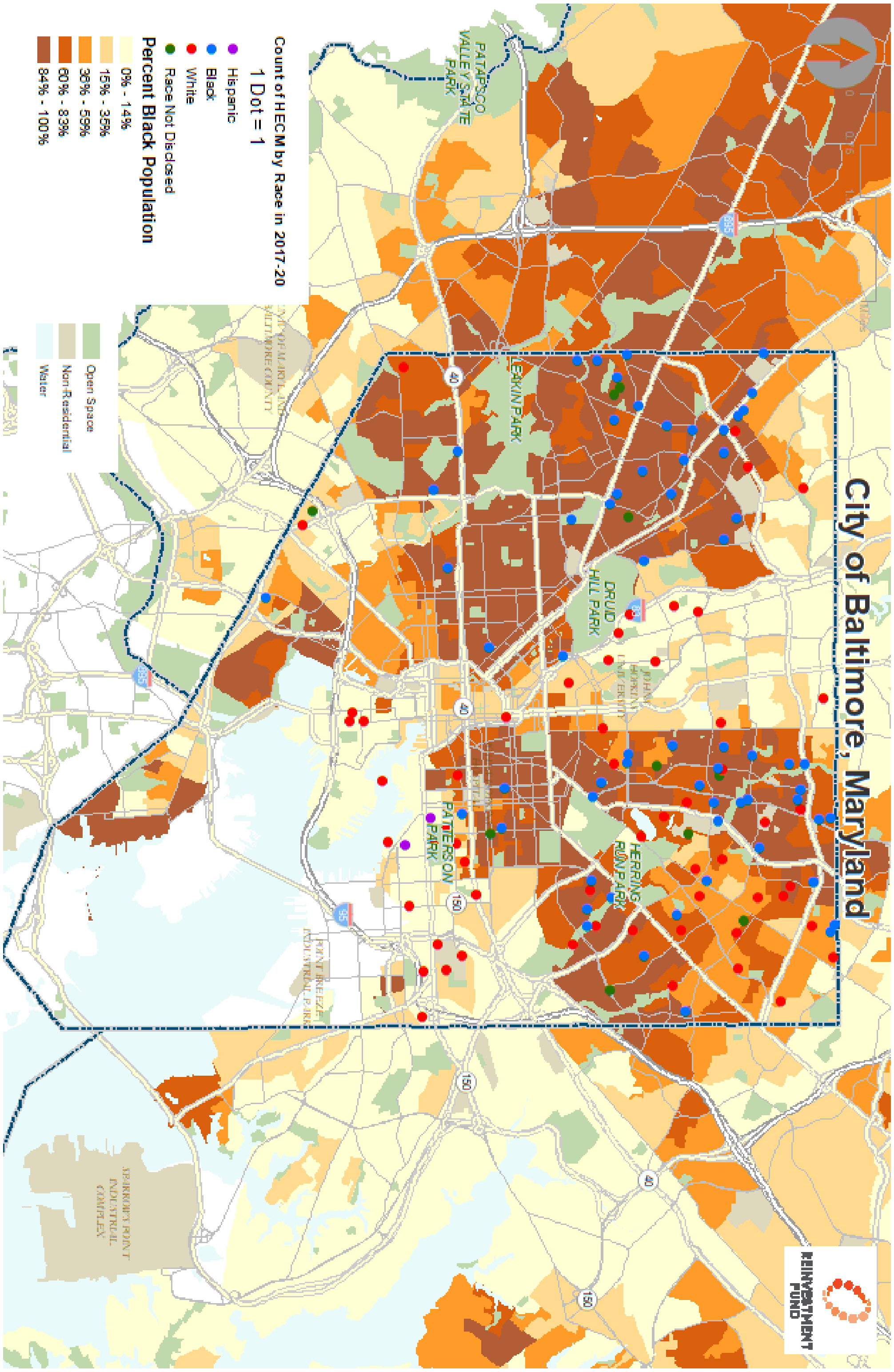
Map 3: HECM Volume by Zip Code (Public HECM Data); 2015-2017



Map 4: HECM Volume by Zip Code (Public HECM Data); 2018-2020



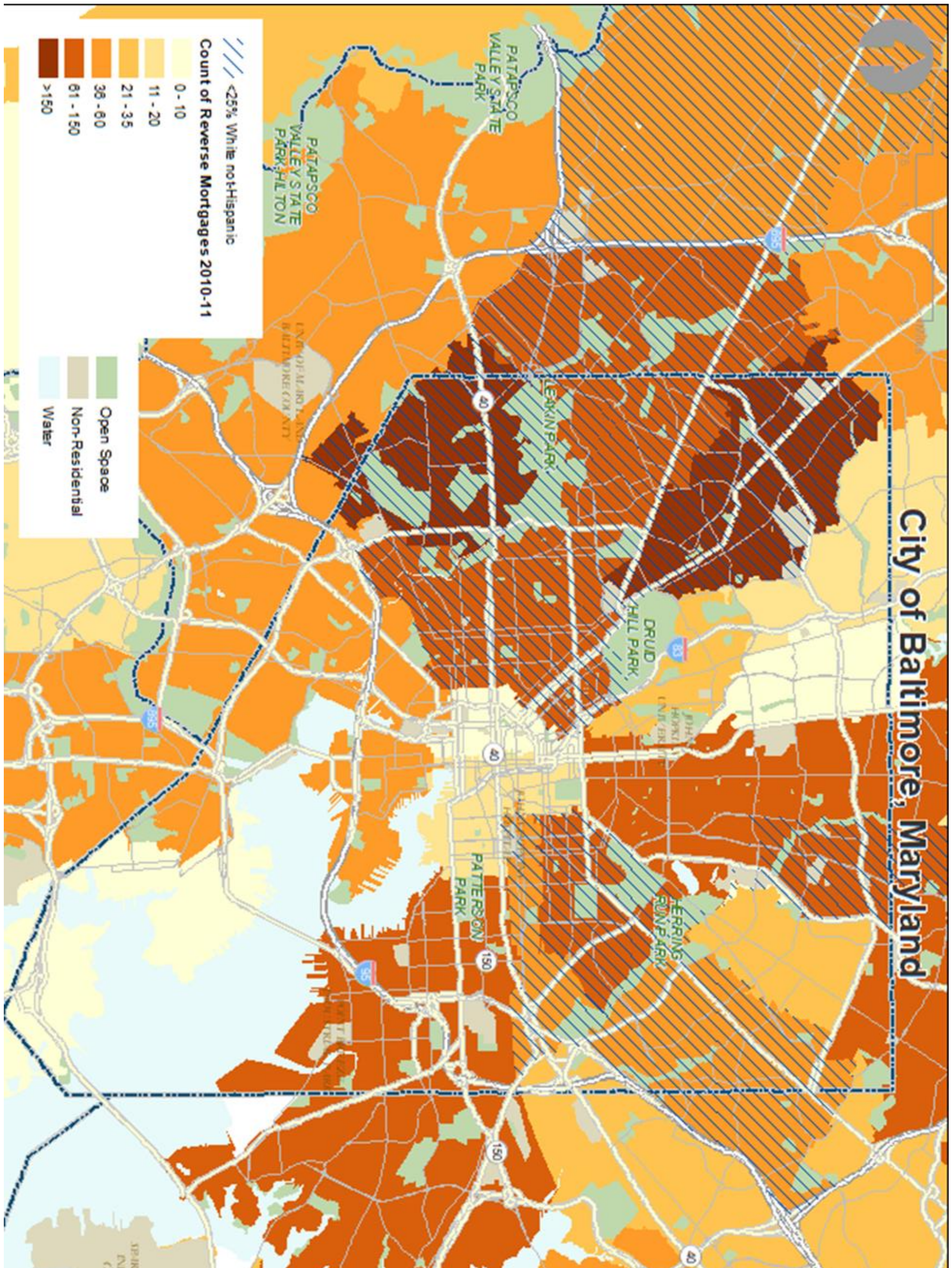
Map 5: HECM Volume by Zip Code (Public HECM Data & FOIA HECM Data); 2017-2020



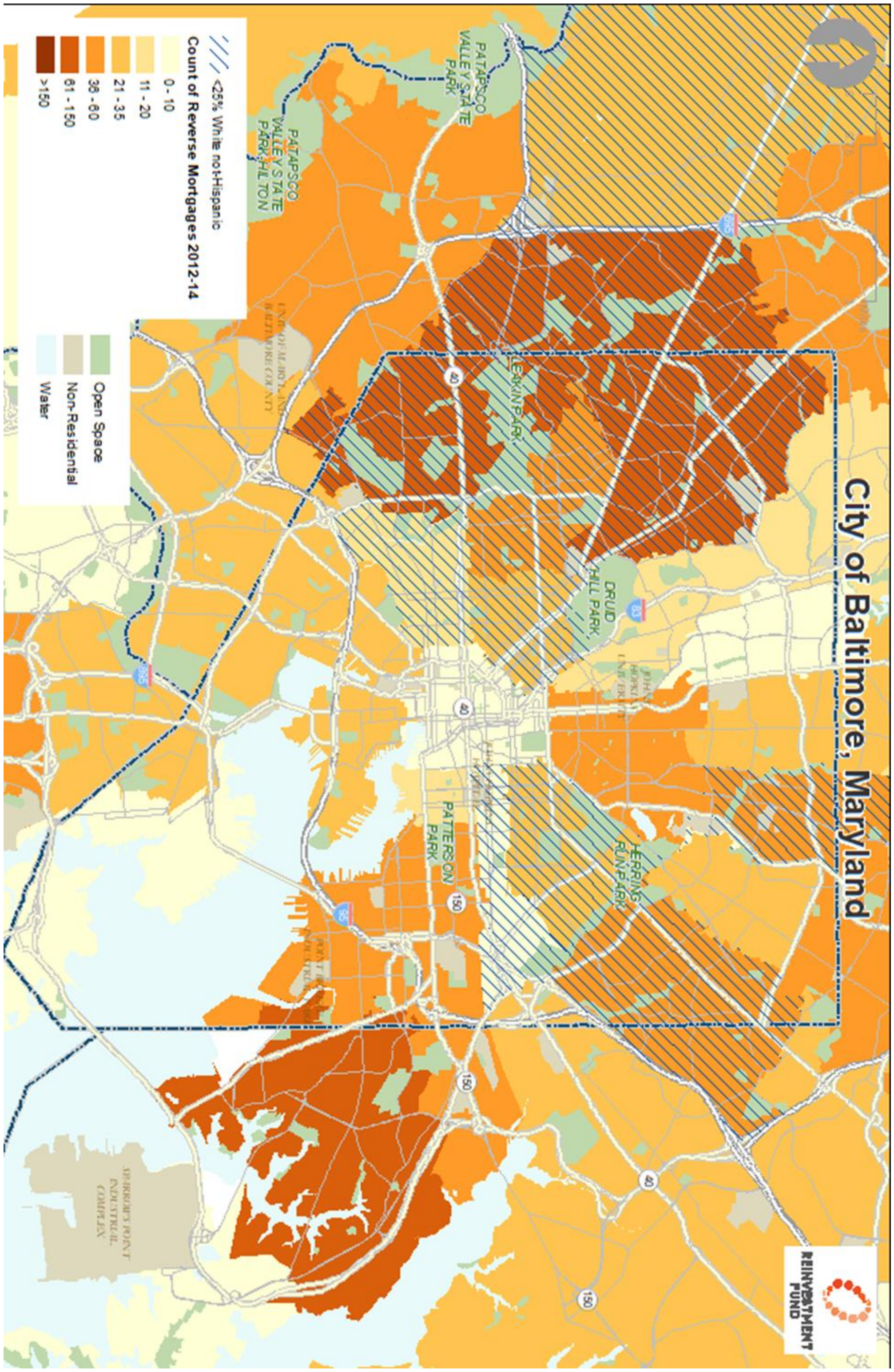
Map 6: Census Tract Racial Composition and HECM Originations by Race of Borrowers (FOIA HECM Data); 2017-2020

Appendix:

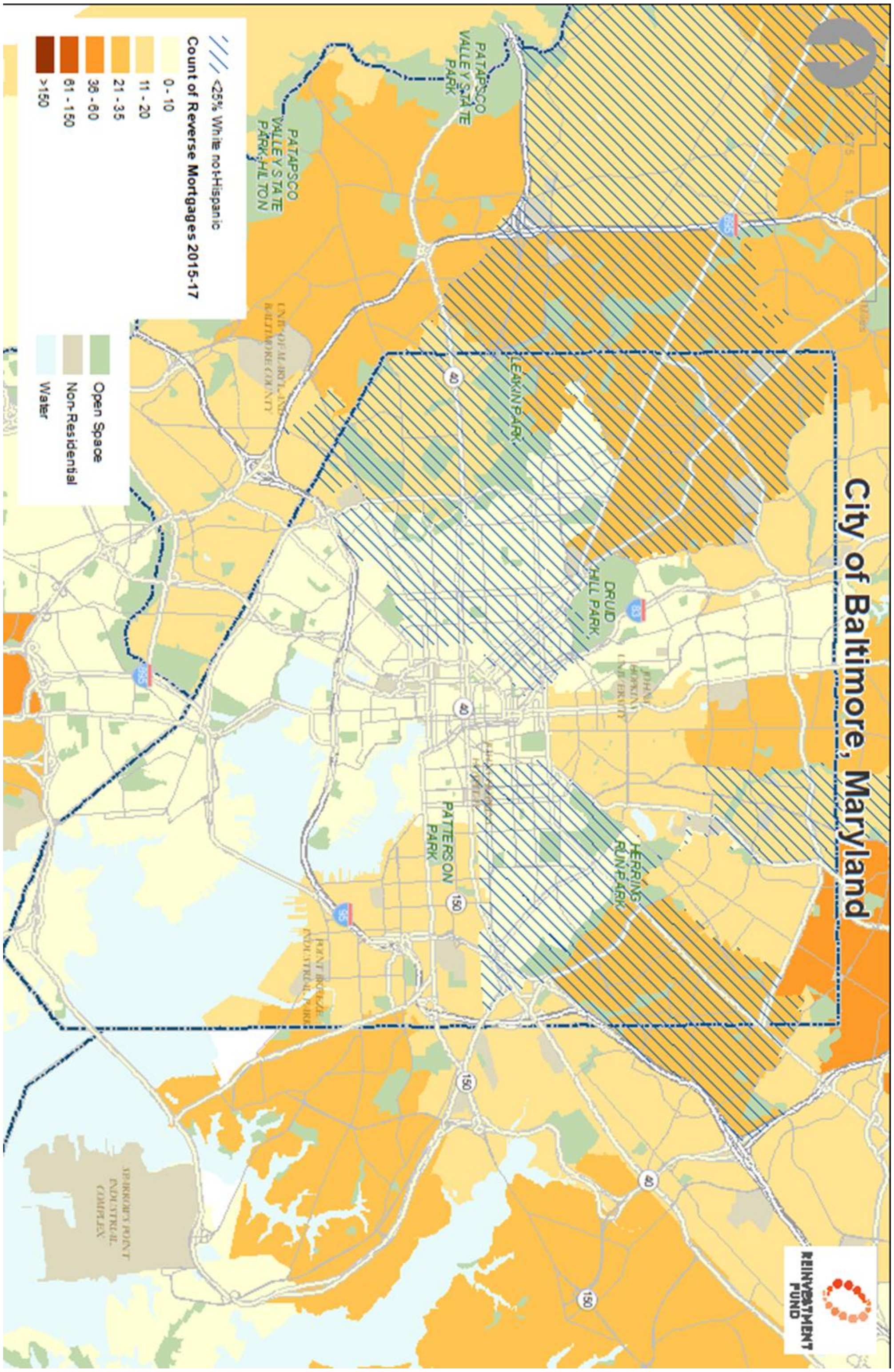
Maps of HECM Volume in Baltimore City, 2010-2020



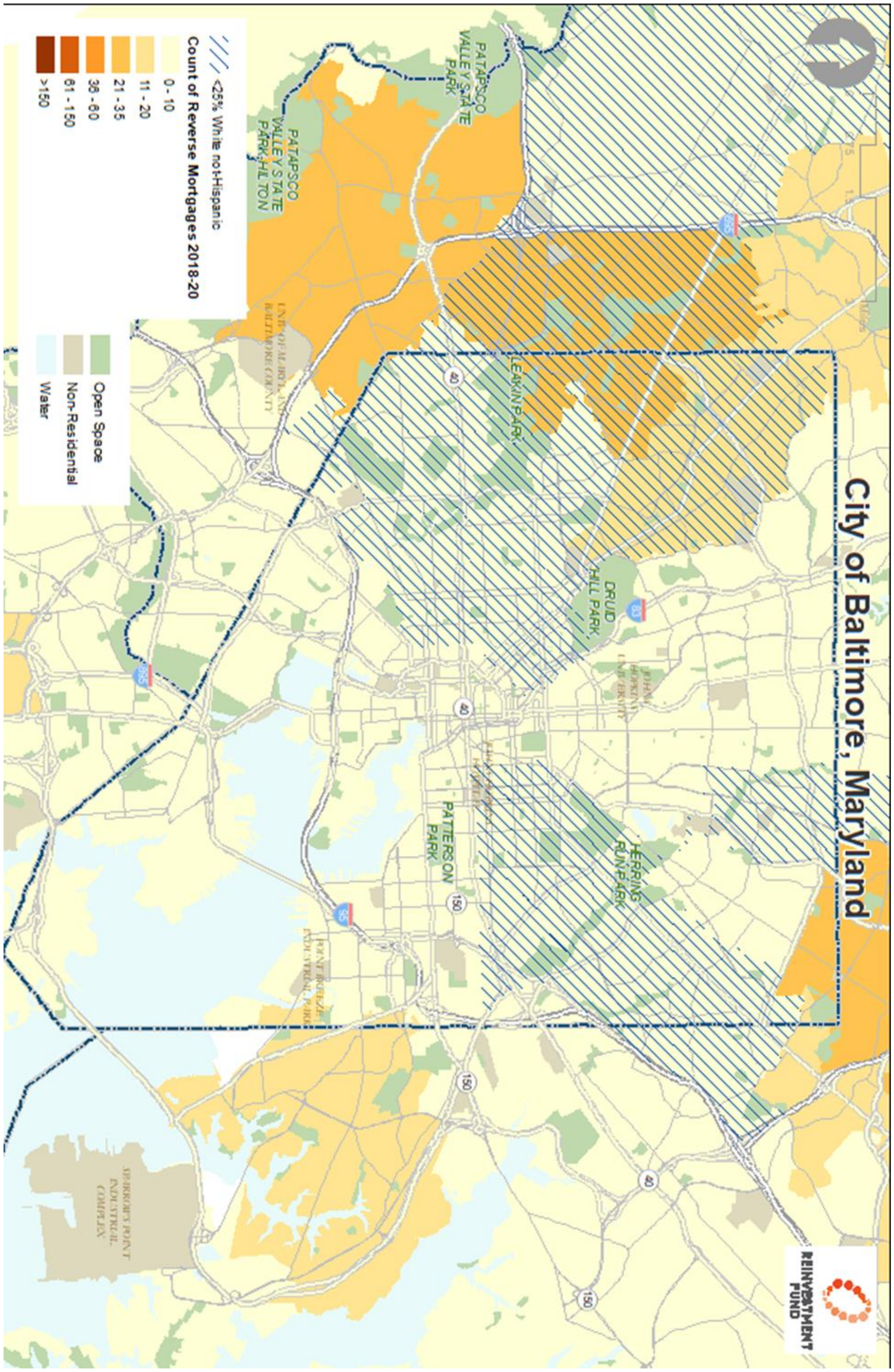
Appendix Map 1: HECM Volume by Zip Code (Public HECM Data) and Racial Composition of Zip Code; 2010-2011



Appendix Map 2: HECM Volume by Zip Code (Public HECM Data) and Racial Composition of Zip Code; 2012-2014



Appendix Map 3: HECM Volume by Zip Code (Public HECM Data) and Racial Composition of Zip Code; 2015-2017



Appendix Map 4: HECM Volume by Zip Code (Public HECM Data) and Racial Composition of Zip Code; 2018-2020

Glossary of Terms Relevant to HECMs

(All definitions are quoted from the Consumer Financial Protection Bureau https://www.consumerfinance.gov/consumer-tools/reverse-mortgages/)

CFPB definitions accessed on May 28, 2021

Reverse mortgage

A type of loan that typically allows homeowners age 62 or older to borrow against the equity in their homes. Most reverse mortgages today are called HECMs, insured by the Federal Housing Administration (FHA). It is called a "reverse" mortgage because, instead of making payments to the lender, you receive money from the lender. The money you receive, and the interest charged on the loan, increases the balance of your loan each month. Over time, the loan amount grows. Since equity is the value of your home minus any loans, you have less and less equity in your home as your loan balance increases, which could become a problem if you ever want or need to move.

Home Equity Conversion Mortgage (HECM)

Most reverse mortgages today are HECMs. One way they differ from private reverse mortgages (sometimes called "proprietary" reverse mortgages) is that HECMs are federally insured by the FHA.

Default

The failure to meet the loan requirements included in the reverse mortgage. For example, the requirements of a Home Equity Conversion Mortgages (HECM) loan include occupying the home as the principal residence, keeping the home in good repair, and paying the property charges on-time. A borrower's failure to fulfill these obligations would cause the loan to default and may lead to foreclosure.

Eligible non-borrowing spouse

A borrower's spouse who is not a co-borrower, but qualifies under HUD's rules to stay in the home after the borrower has died.

Good Faith Estimate

A Good Faith Estimate, also called a GFE, is a form that a lender must give you when you apply for a reverse mortgage. The GFE lists basic information about the terms of the mortgage loan offer.

Homeowners insurance

Pays for losses and damage to your property if something unexpected happens, like a fire or burglary. Standard homeowner's insurance doesn't cover damage from earthquakes or floods, but it may be possible to add this coverage. Homeowner's insurance is also sometimes referred to as "hazard insurance." Borrowers with a HECM loan are required to maintain homeowners insurance in addition to, the mortgage insurance also required with a reverse mortgage loan.

Loss mitigation

The steps mortgage servicers take to work with a borrower to avoid foreclosure. Loss mitigation refers to a servicer's responsibility to reduce or "mitigate" the loss to the investor that can come from a foreclosure. Certain loss mitigation options may help you stay in your home. Other options may help you leave your home without going through foreclosure. Loss mitigation options for reverse mortgage borrowers may include deed-in-lieu of foreclosure or a repayment plan.

Principal limit

The amount of money the borrower can borrow with a reverse mortgage loan. The principal limit for a HECM is calculated using the age of the youngest borrower or Eligible Non-Borrowing Spouse, the interest rate on the loan, and the maximum claim amount. The principal limit generally will increase each month, possibly making additional funds available for borrowers with adjustable rate HECMs, but not fixed-rate HECMs. In general, loans with older borrowers, higher-priced homes, and lower interest rates will have higher principal limits than loans with younger borrowers, lower-priced homes, and higher interest rates.

Property charges

Obligations the borrower must pay including property taxes and homeowners insurance, and when applicable, flood insurance premiums, ground rents, condominium fees, planned unit development fees, homeowners' association fees, and any other special assessments that may be levied by municipalities or state law. Paying property charges on-time is a requirement of a HECM loan.

Servicer

The company that handles the day-to-day management of the loan including making monthly payments to borrowers or processing draws from the line of credit, sending mortgage statements, responding to borrower inquiries, sending and collecting annual occupancy certifications, and keeping track of principal and interest paid. The loan servicer may handle foreclosure processing for the lender. Typically, the servicer is not the same company as the lender.