RESIDENTIAL

Don’t Let a Technology Gap Separate Seniors from their Retirement Goals

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The numbers are striking—data suggests that more than 1 million borrowers over the age of 60 take out a mortgage loan each year. Still, most lenders and brokers do not carry senior lending products. Consequently, few seniors seeking to support their financial goals with lending products will be presented with a Home Equity Conversion Mortgage (HECM) or private reverse loan, even when these products would be the most beneficial solution for borrowers.

My time in the industry has led me to believe the reason well-intentioned loan originators (LOs) do not offer reverse products to the senior borrowers they desire to serve is that LOs either lack the product awareness, pricing systems or technology integrations that allow them to weigh the benefits of reverse products against traditional lending options, or they lack access to reverse products altogether. In many ways, lenders have inadvertently positioned their LOs to retrofit seniors into familiar, traditional lending products rather than evaluate and present the merits of HECM and private reverse mortgages.

This is problematic because like most borrowers, seniors walk into the office of a depository bank, traditional independent mortgage bank or broker fully relying on their LO to offer them a curated selection of lending products best suited for their financial needs. Most of these borrowers will never be made aware of a HECM or reverse loan even if this is the best financial product for achieving their retirement and financial goals.

A DISSERVICE TO SENIOR BORROWERS

Now more than ever we need to provide senior borrowers with the appropriate lending tools to develop a multi-faceted financial wellness strategy. Beginning after World War II and until very recently, Americans’ retirement income has been supported by the “three-legged stool” of employer pension, employee savings and Social Security. Over the past three decades, pensions have been phased out and replaced by tax advantaged savings like IRAs and 401k programs. As the first generation of workers without employer pensions now reaches retirement age in droves, the majority are finding that their personal savings and Social Security are vastly inadequate to support their retirement.

Luckily for seniors, they likely have an asset that is both of significant value and appreciating. According to 2018 figures from the U.S Census Bureau, American

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homeownership rates are highest among those age 65 and older, at 78 percent. In fact, net equity held by seniors over the age of 62 has increased dramatically over the years, amounting to a record breaking $7.05 trillion in the final quarter of 2018.

Home equity has been identified as a critical economic asset for retirement by such acclaimed bi-partisan institutions as the Stanford Center on Longevity. For a large swath of seniors entering retirement, home equity is the only sensible solution available for them to secure a safe financial future. Lenders are uniquely positioned to help seniors replace the faltering pension leg of the retirement income stool. And we are doing senior borrowers a great disservice by denying them by omission the unique advantages of the HUD-insured HECM or a private reverse mortgage.

I expect to hear lender reticence about offering the HECM as a tool to combat an endemic retirement and medical savings crisis. But I am not suggesting that HECMs are appropriate for tools for all needs based-borrowers. In fact, as in other areas of mortgage lending, post crisis housing reform has ushered in lending guidelines and consumer protections that are helping to ensure that only borrowers who are financially well positioned for a HECM loan are eligible to pursue them. HUD's introduction of the Financial Assessment, limits on first year lump-sum withdraws and increased up-front premiums have significantly strengthened the HECM product for consumers and investors.

The HECM of a decade ago was a vastly different product than the HECM of today. In truth, HECMs are often the best performing option for senior borrowers. Much like first-time homebuyer programs support the needs of young borrowers with flexible qualifications and down-payment options, HECMs account for the fact that many seniors are not actively generating income and are looking for a solution that allows them to age in place during retirement. In a 2017 blind-comparison study led by the National Council on Aging, consumers clearly showed a

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preference for HECMs over HELOCs. With over 10,000 Americans turning 62 every day, the need for this product will only increase.

HOW TO BRING HECMS FORWARD

So, what can lenders do to make HECM and private reverse products accessible to their senior customers? Execute them the same way you would any other specialty loan products, such as 203k renovation, Streamlined-K, bridge/swing, HELOC, state bond down payment, relocation, medical professional and agricultural loans.

EDUCATION

Last year the CMBA Western Secondary conference featured a panel of five private investors that stressed the significance of providing LOs with the proper training and tools to successfully originate non-agency loans. Similarly, lenders must train loan officers on HECMs just as they do their other non-agency and non-QM offerings. Investing in teaching LOs the ins and outs of HECMs can be immensely rewarding for both LOs and lenders. Additionally, HECMs should receive product support similar to other specialty loans. Just as many lenders staff expert concierges for niche products such as non-QM and renovation loans, appoint HECM and reverse mortgage specialists that empower *every LO* to confidently offer HECM loans.

TECHNOLOGY AND OPERATIONAL COEXISTENCE

Technology advancements are closing the operational gap between forward and reverse loans, making essential sales tools—such as pricing engines that allow LOs and borrowers to compare the benefits of reverse mortgages against their forward counterparts—easily accessible to LOs. Increasingly prevalent are open APIs that make it possible for forward loan origination software (LOS) to communicate with reverse LOSs, CRMs, marketing automation software and other third-party systems.

Moreover, the ability of forward and reverse lending technology to coexist allows for small operational shifts that optimize lender allocation of resources and result in a better borrower experience. For instance, by integrating HECM processing and underwriting into existing teams and marketing HECMs alongside other offerings, lenders will unlock cost savings while developing stronger relationships with borrowers and extending the credibility of the lending practice to the HECM offering.

With a strong need to support homeowners as they age, and technology advancements that have made it possible to seamlessly offer HECMs side-by-side with traditional loans, now is the time for lenders to step up for senior borrowers. Now is the time to come to the aid of the American generation that needs a solution for retirement finance.