A Radically Different Approach

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Commentary by Shannon Hicks

The concept of the reverse mortgage is not merely an American phenomena. China, India, the United Kingdom, and Hong Kong all have their own unique reverse mortgage programs to help their older populations age in place. However, one country has a unique and intriguing approach to managing risks to its program.

The Hong Kong Mortgage Corporation Limited offers the Reverse Mortgage Programme. One of the most interesting options offered is the ability for the homeowner to assign their life insurance policy's death benefit to the lender in order to qualify for a higher lump sum or monthly payouts. It's an interesting concept for a country that has no federal backing of the loan such as the Federal Housing Administration's Mutual Mortgage Insurance Fund. Instead, the Hong Kong program is backstopped by the lender's insurance subsidiary.

The concept of assigning the beneficiary rights of one's life insurance to another financial institution is a long-established practice in business financing. Private business financing arrangements are commonly tied to a life insurance policy which pays the seller in the advent the new business owner dies. In fact, those who chose to take out an SBA or Small Business Administration loan are required to have an active in-force life insurance policy. An existing or new policy meets this requirement with a collateral assignment which pays the lender the outstanding loan balance should the borrower pass away, and then the remainder to their named beneficiary.

While all Home Equity Conversion Mortgages are created equal, the risks incurred from each borrower are not. While the Financial Assessment seeks to reduce the odds of a homeowner not paying their required property charges over the life of the loan, other significant risks remain. Those include ending loan balances exceeding the home value in low-appreciation markets, and deferred maintenance and deteriorating property conditions. On this program, we have actively promoted the concept of geo-centric principal limit factors which would adjust the HECM funds made available based on the historical appreciation of the market, especially where the averages fall below the assumed 4% annual appreciation rate. However, such a change may require an act of Congress-literally and may be politically dead on arrival being easily misconstrued as biased and unfair.

While private reverse mortgages have much more leeway in taking a creative approach to risk management than the HECM, now is the time to be open to considering all potential means of reducing continued claims against FHA's MMI fund. Or more realistically this concept could be used in the development of future private reverse mortgage products.

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