

# HECM, reverse mortgage, price competition, lock abuse, independent HECM network

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## Breaking the Logjam on HECM Reverse Mortgages (Second of Two)

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The first article of this series discussed some modest initiatives my colleagues and I have taken to help enlarge the market for HECMs. These included a monograph on matching HECM options to senior needs, a senior-friendly calculator showing the amounts seniors can draw under different payment options, and free personalized guidance on selecting the right options.

However, there is another log contributing to the HECM logjam that is more formidable. It is a poorly functioning market, with little price competition and no protection against “lock abuse” – an inflated price after the senior is committed to the transaction. A fear of being over-charged is part of a climate of distrust that strengthens senior reluctance to become involved, and retards market growth.

### Lack of Price Competition

The number of firms jousting for HECM clients is high. NRMLA, the trade association of reverse mortgage lenders, has 223 members, and all but a handful are loan providers – lenders or brokers. Further, there are at least that many and probably many more reverse mortgage brokers that are not members. However, loan providers don’t compete for clients in terms of price.

My colleagues and I looked at all the web sites of loan providers who belong to NRMLA. Only 8 posted prices, and of those only one posted complete prices -- both interest rates and origination fees. The maverick is All Reverse Mortgage Company, a firm in which I have no financial interest, but they do post their prices on my web site.

HECM lenders obviously don’t believe that posting prices is a good way to attract clients, and they are probably right. Borrowers in the forward market understand that higher interest rates are associated with higher mortgage payments, which focuses their attention on rates. But the association of higher rates with lower draw amounts on HECMs is not as obvious, and it eludes many seniors. There is very little price shopping for HECMs.

### Potential For Lock Abuse

Price shopping would not necessarily be effective in any case because HECM lenders are not bound by the prices they quote until the prices are locked, which in the typical case takes multiple weeks. Before the price is locked, the house must be appraised and the senior must be counseled by an independent counselor, both of which take time. Meanwhile, HECM prices are reset every week, which means that when the time comes to lock, the price quoted earlier has become obsolete. This opens the door to lock

abuse, where the lender charges what he claims is the market price at the time, but which the borrower has no way to check.

Note that a loan provider who practices lock abuse will not post complete prices on its web site, because that would enable a borrower whose price was being locked to compare the lock price against the current quoted price on the same transaction. I am sure that most loan providers play it straight and that those who practice lock abuse are a very small minority. But because they leave no trail, I can't identify them, and neither can NRMLA, HUD, the Consumer Financial Protection Agency -- or seniors.

## **The Remedy: Independent HECM Networks**

Price competition and protection against lock abuse could both be provided by third party web sites that I will call "Independent HECM Networks," which would invite participation by lenders and brokers who agree to abide by its rules. The major rule would be to post complete prices on the network's system.

Such sites would provide competitive pricing by calculating all draw amounts based on the best prices posted by participating loan providers, while identifying the low-price loan provider to the senior. The site would protect the senior against lock abuse by allowing the senior to access the loan provider's posted price on the lock day.

The networks would have to make themselves known to seniors as places to go to get educated about HECMs, to determine the amounts they could draw under different payment arrangements, and in the event that they decide that a HECM is in their interest, to assure themselves of competitive prices and price protection. Since I already have much of this on my site, I plan to expand it into a full-fledged network.

My site, however, does not reach enough seniors to have a major impact, which is why I am proselytizing at organizations devoted to the welfare of seniors to do their own. In particular, organizations such as Consumers Union and AARP, which have been ambivalent to HECMs if not critical, could remove themselves from the culture of distrust, and become part of the solution. My colleagues and I are prepared to make any or all of the materials we have developed available to them.

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