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Some Investors Bet on Return to Reverse Mortgages

By Matthew Goldstein

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Some private investors are betting that reverse mortgages, an investment product aimed at older people in need of cash, will make a resurgence as more homeowners reach retirement age in the coming years.

A reverse mortgage start-up based in New Jersey has raised about $230 million in a private offering managed by the investment banking boutique FBR Capital Markets. Investors in the private sale of shares of Reverse Mortgage Investment Trust included hedge funds, wealthy individual investors and customers of the investment firm.

The private placement in February sets the stage for a potential initial public offering for the company, which operates under the name Reverse Mortgage Funding, according to regulatory filings and conversations with people briefed on the details, but not authorized to speak publicly about the offering.

A public offering would make Reverse Mortgage Funding, which opened its doors last summer, one of the first stand-alone publicly traded companies that specialize in reverse mortgages, which provide government-guaranteed loans to homeowners based on the equity value in their homes in exchange for fees and interest payments that are paid when the loan comes due.

A successful debut in the public markets for Reverse Mortgage Funding could also encourage other players in this segment to hold their own public offerings.

"We ultimately want to be the public face of the reverse mortgage business," said Craig M. Corn, the firm's chief executive, who declined to comment on the company's future capital raising plans.

Mr. Corn and most of his executive team previously ran the reverse mortgage operation at MetLife. The insurance giant —and big banks like Wells Fargo —left the reverse mortgage business after the housing crisis. The market for reverse mortgages virtually dried up after the ensuing surge in loan losses and plunging home values made it impossible for most older homeowners to qualify for such loans.

But Mr. Corn and his team are banking on a revival in the reverse mortgage market with the recovery in home prices and the need for baby boomers to find additional income to support them in retirement.

He said that during the road show to sell the private placement, most of the investors with whom he met were more focused on the demographic trends that pointed to a rising demand for products like reverse mortgages than the fallout from the housing crash.

"If the housing market was in a free fall, it might have been a different conversation," said Mr. Corn, whose firm is based in Bloomfield, N.J., a suburban community about 19 miles from New York City. "The demographic story is this is a fast-growing, older American population that is completely unprepared for retirement."

Reverse Mortgage, which has organized itself as a real estate investment trust, or REIT, and sold 15 million shares at $15 a share, also intends to invest in securities backed by reverse mortgages. The company has lined up a well-connected board that includes Bradley D. Belt, former executive director of the federal Pension Benefit Guaranty Corporation; Brian D. Montgomery, former assistant secretary for the Department of Housing and Urban Development; and Mikhail Radik, a portfolio manager at BlueMountain Capital Management.

A spokesman for BlueMountain, a prominent hedge fund that has invested in other REITs before they went public, declined to comment on its involvement with Reverse Mortgage.

Still, given the industry's recent rocky performance, it is too soon to say whether the investor optimism in Reverse Mortgage Funding will be rewarded. Just six firms dominate the market —accounting for 66 percent of all the loans underwritten last year, according to Reverse Market Insight, an industry data and valuation company. Liberty Home Equity Solutions, a subsidiary of the mortgage servicer **Ocwen Financial Corporation**, posted a $6.3 million loss in the first quarter of 2014, a sign of continuing weakness in the industry.

The reverse mortgage market peaked in 2008, when the industry funded 114,923 loans, but fell off sharply in the following years, according to Reverse Market Insight. In 2013, 60,923 reverse mortgages were completed. This year, as of the end of April, firms funded just 19,015 loans, compared with 21,632 loans at the same time in 2013.

The industry has historically drawn its fair share of scorn for using older Hollywood actors to hawk their product on late-night television advertisements. Some consumer advocates have complained that the reverse mortgage business preys on the financially ill-informed, who might be better off simply selling their homes and banking the cash than entering into a transaction that pays a premium to a lender.

But for those over the age of 62 who want to stay in their homes and owe little to nothing on a mortgage, the investment product has its appeal. The loans, which are guaranteed by the **Federal Housing Administration**, often do not need to be paid back until borrowers either sell their homes or die. Borrowers can get a line of credit, a lump-sum payment, or monthly payments through a reverse mortgage, also known in the industry as a home equity conversion mortgage.

To limit the potential for losses, the F.H.A., a division of the Department of Housing and Urban Development, recently imposed restrictions that limit the amount an elderly person can borrow and make sure the borrower has enough money to continue paying for insurance coverage on a home and property taxes.

Daniel Alpert, managing partner of Westwood Capital, an investment firm that specializes in advising on real estate transactions, said much of the early "hucksterism" surrounding the reverse mortgage business had disappeared and the industry was becoming more mainstream and professional. But he said that even as reverse mortgages became a safer investment product, it was unclear just how big the market would be —even with baby boomers approaching retirement age.

"It presupposes that people have a preference to stay in their homes as opposed to selling those homes and downsizing," Mr. Alpert said.

Investors in Reverse Mortgage Funding's private REIT are betting a higher percentage of baby boomers will choose to remain in their homes if given the choice. In a private REIT, investors are typically paid a dividend based on the firm's earnings.

Reverse Mortgage Funding declined to discuss the number of reverse mortgages it has funded this year.

Mr. Corn and his colleagues are planning for the long haul. The firm, which also has an office in Melville, N.Y., on Long Island, has about 100 employees. And the company's headquarters in Bloomfield is in the same office space that Mr. Corn and his colleagues occupied when they were at MetLife.

In some ways, it is as if Mr. Corn and his colleagues never left. "It's the exact same office. The same furniture," Mr. Corn said.

Correction: May 8, 2014
A picture caption with an earlier version of this article misstated the board affiliation of Brian D. Montgomery. As the article correctly noted, Mr. Montgomery is now on the board of Reverse Mortgage Funding, not the investment bank FBR Capital Markets.

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