



Taskforce on Federal Consumer Financial Law Listening Session

*September 08, 2020
2:30pm to 3:30pm Eastern*

Organization: HUD's Federal Housing Administration (FHA)

CFPB Participants: Todd Zywicki, Bill MacLeod, Jean Noonan, Alex Eckstein, Nat Weber, Ashlie Tarpley, Jeff Magliato

FHA Participants: Joe Gormley, Deputy Assistant Secretary for Single Family Housing; Julie Schaffer, Associate Deputy Assistant Secretary for Single Family Housing; Joshua Miller, Senior Advisor to the Deputy Assistant Secretary for Single Family Housing

Purpose: On Tuesday September 8, 2020, Taskforce Chair, Todd Zywicki, and Taskforce Members, Bill MacLeod and Jean Noonan met remotely via WebEx with FHA staff as part of the Taskforce's commitment to engage with external stakeholders to gain insights regarding the financial service industry and financial consumer protection laws. The group discussed opportunities to improve, strengthen, and modernize consumer financial protection laws.

Discussion:

1) Introductions and Opening

Taskforce members and FHA personnel introduced themselves. The Taskforce Chair provided background on the Taskforce and explained that this meeting was one meeting in a series that the Taskforce is conducting with federal and state parties. Meeting attendees stated up front that their primary knowledge area and interest was reverse mortgages.

2) Legal framework of consumer protection (*see discussion prompts*)

- a) Fair housing disparate treatment/impact are not areas the FHA participants have knowledge enough to comment on.
- b) Reverse mortgages originated in the late 1980's. These mortgages are intended for age 62 and above to extract equity from homes. HUD finds it difficult to run their reverse mortgage program.
- c) FHA finds that reverse mortgage borrowers think the lender will pay the borrower and there is nothing for the borrower to do. Borrowers are confused about need to pay taxes

and insurance. An idea is to require a life expectancy set aside to pay for tax and insurance.

- d) Advertisements are problematic in the reverse mortgage area. Customer acquisition cost is high, upwards of \$10,000 per customer. And, states have their own rules about reverse mortgages and consistency from state to state is an issue.

3) On consumer information and education (*see discussion prompts*)

- a) FHA sees need for customer education about reverse mortgage loans as well as stronger program rules. An idea is to require a life expectancy set aside to pay for tax and insurance.
- b) Borrowers do not understand the impact of a reverse mortgage on heirs. There is nothing left for heirs after the owner passes, and heirs are surprised to learn this after the borrower's death.
- c) FHA views education as a form of counseling. FHA has a research group that does studies on the effectiveness of education but the staff on today's call does not have detailed knowledge about the group's work.
- d) No known data on whether consumers are steered to FHA over GSE to consumer detriment. FHA not too worried as they consider borrowers alert to costs, and lender staff are better trained than in the past so there is a belief that they are less likely to steer.
- e) Reverse mortgages can be useful for individuals that do not have funds during later years from other sources (pension, savings, social security) to cover expenses.

4) On inclusion and access (*see discussion prompts*)

- a) In the single-family mortgage business,
 - i) FHA offers opportunity for lower down payment (3.5%)
 - ii) 80% of borrowers are first time borrowers
 - iii) 36% of purchasers are minority
 - iv) 40% of the 36% are African American, 33% are Hispanic
 - v) FHA is the stepping stone to ownership.
 - vi) FHA loans cost more than regular loans.
 - vii) Debt to income ratios are high in FHA loans.
- b) FHA client base is made up of prime house buying age consumers, so they are not thin file consumers.
- c) Attendees had no thoughts on how student loan debt is being taken into consideration during the mortgage loan process.

5) On competition and innovation (*see discussion prompts*)

- a) In the reverse mortgage universe there is little competition. Only a few participants so little consumer choice, so little thought given to competition in FHA.
- b) No one has gotten a handle on making a profit in the reverse mortgage business. This limits competitors and thus competition, and less shopping means costs have not lowered. Only 30,000 reverse mortgages last year. The peak for the business was 2008-2009.
- c) FHA uses traditional FICO and cash flow in the underwriting process. They do not use credit reports, and they have not seen validated alternatives to the FICO.
- d) FHA not aware of any specific misleading advertisement concerns.

- e) In general, shopping for loans seems to be less important to house buyers as they find house first then go to one lender. FDIC held a symposium on loan shopping about 5 years ago.

Potential recommendations:

- 1) In the reverse mortgage area:
 - a) require a life expectancy set aside to pay for tax and insurance (REF: 2c & 3a)
 - b) add educational requirement to include impact on heirs (REF: 3b)
 - c) overall, more rules needed to keep consumers safe
 - d) CFPB should focus on reverse mortgage ads to ensure consumer protection
- 2) Closing costs in loans continue to be an issue in regular single-family home purchases. Need to modernize to help lower costs for lower amount loans (REF: 4ai-vii)

Potential action items:

- 1) None that vary significantly from the FHFA action items.
- 2) The Taskforce staff should research and determine 1) what GSE's have done with student loans in the credit analysis of first-time home buyers, and 2) the status of underwriting student debt. (*proposed by Taskforce)