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Mortgage Finance

Flash Note

Partial Reverse Mortgage Moratorium Likely A Reality

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The ongoing saga regarding the FHA took another turn on December 18th as Carol Galante, the Acting FHA Commissioner, announced a number of structural changes to the FHA's business lines. Galante's nomination to head the FHA has been blocked by Sen. Bob Corker (R-TN) due to his concerns about the agency's solvency. With Galante's commitment to undertake a series of changes at the FHA, Corker has stated that he will end his opposition to Galante's confirmation. Galante pledged to tighten the FHA's underwriting standards and to increase the down payment requirement on loans above \$625,500. Chief among the impending changes, however, is the "immediate cessation" of the FHA's Standard Fixed Rate Home Equity Conversion Mortgage (HECM) program by January 31, 2013. These changes are detailed in a 12.18.12 letter from Galante to Corker which can be accessed [here](#).

Walter (WAC - Buy, \$49 PT, Barker) is the most exposed to a potential pullback from the FHA's "Standard" Reverse Mortgage product given their acquisition of Reverse Mortgage Solutions (RMS) announced in early September. We expect this new development to be a headwind for reverse mortgage originations, but to have little impact on our estimates for servicing reverse mortgages. The FHA will continue to support the "Saver" program, which should provide some avenue for seniors to tap their home equity. We estimate reverse mortgages will contribute \$0.40-\$0.50/share to earnings in FY13 for WAC, of which roughly \$0.10-\$0.20/share could be at risk due to this development. It is still early in this process and WAC could take additional market share with the exit of MetLife (MET - NC) and Wells Fargo (WFC - Neutral, \$37 PT, Barker) from the program. So, **the impact from a moratorium on the Standard Reverse Mortgage product may be muted**. Longer-term, we believe the biggest earnings tailwind to WAC will ultimately come from the successful implementation and growth of the ResCap origination platform.

Little impact to OCN and NSM. Ocwen (OCN - Buy, \$44 PT, Barker) recently purchased Genworth's reverse mortgage platform. Considering the Genworth platform was only about a third of the size of the Walter RMS platform, and OCN is a much bigger servicing platform than WAC, the impact is immaterial. NationStar (NSM - Buy, \$36 PT, Barker) acquired three reverse mortgage servicing pools in the first half 2012 and currently originates an immaterial amount of reverse mortgages. We do not expect this development to have a material impact to NSM's earnings.

HECM Standard vs. Saver

At its highest level, the issue at hand is the FHA's balance sheet. The most recent actuarial report for the FHA showed a \$16.3 billion reserve deficit, \$2.8 billion of which was due to the agency's reverse mortgage business. In response, Galante has announced a moratorium on the FHA's HECM Standard program. The HECM Standard "currently represents a large majority of the loans insured through the HECM program" with the balance of the program coming through the Variable Rate Standard product and the HECM Saver product. As detailed in the figure below, the HECM Standard allows the borrower to draw a larger lump sum than the HECM Saver. FHA policymakers appear to be migrating towards embracing the HECM Saver rather than the HECM Standard because it provides less in loan proceeds and cost the borrower less. As we have [noted previously](#), there was a contingent in the Senate that asked for the HECM program to be closed entirely. This compromise averts that outcome for the time being and pushes the broader consideration of FHA reform to the other side of the president's budget release in February 2013. Galante's letter also increases the likelihood that the FHA-fix legislation – the [FHA Emergency Fiscal Solvency Act of 2012](#) – passes in the Senate by the end of the year. **See page 2 for a graphical comparison of the Standard versus Saver products.**

Comparison of HECM Standard and HECM Saver

	HECM Standard	HECM Saver
Upfront Mortgage Insurance Premium	<ul style="list-style-type: none"> · 2.0% of appraised value* · Example: \$4,000 	<ul style="list-style-type: none"> · 0.01 of appraised value* · Example: \$200
Loan Proceeds	<ul style="list-style-type: none"> · Larger · Maximum loan proceeds range from 62% to 77% of the appraised value*, depending on age, at today's interest rates.** · Example: \$130,400 	<ul style="list-style-type: none"> · Smaller · Maximum loan proceeds range from 51% to 61% of appraised value*, depending on age, at today's interest rates.** · Proceeds are 12.6 percentage points lower on average across all ages and interest rates · Example: \$108,600

Source: CFPB, Compass Point

Example uses a \$200,000 home, a 68-year-old borrower, and a 5% interest rate.

*Or applicable FHA loan limit, whichever is less. **Using a 5% interest interest rate.

Isaac Boltansky is Compass Point's Washington Policy Strategist. His contributions to this research report relate solely to Washington Policy and should not be attributed to any company specific research, ratings, or conclusions.

Important Disclosures

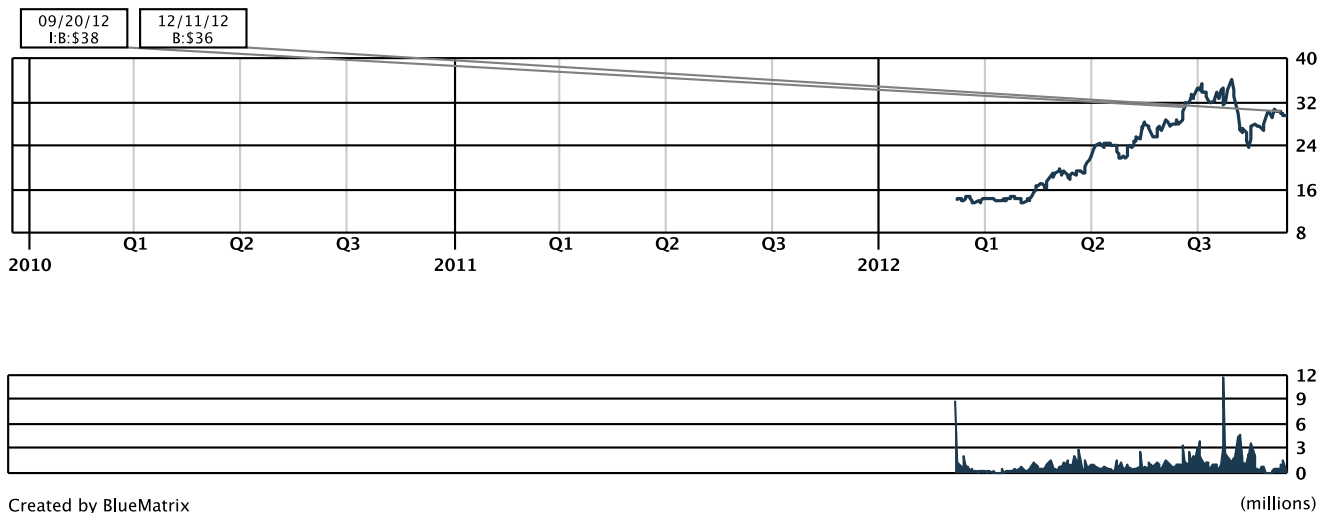
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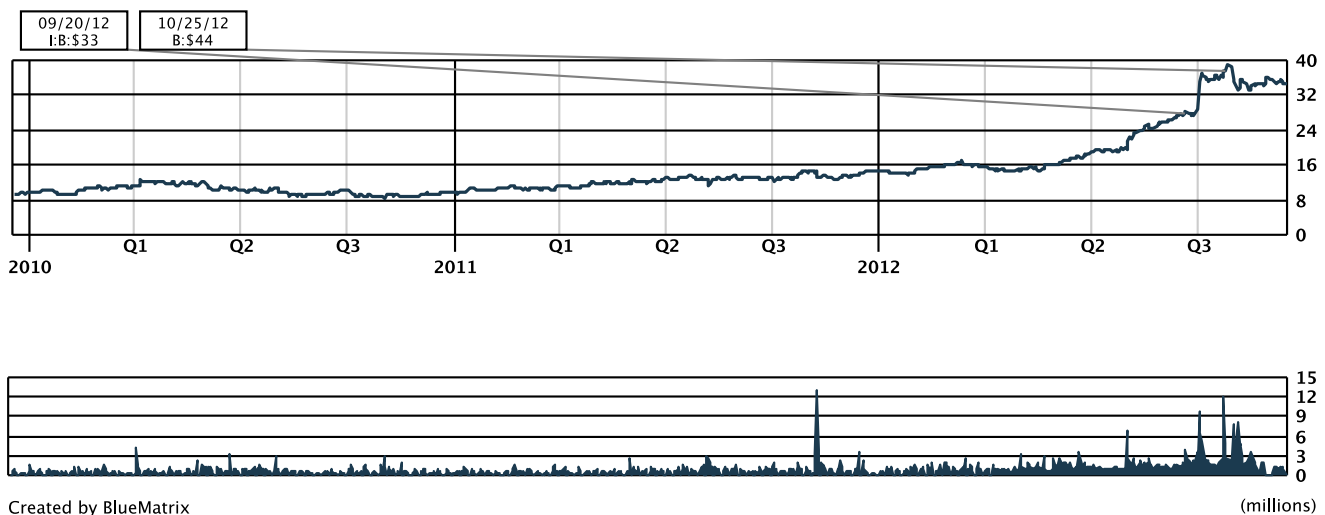
Coverage Universe			Investment Banking Relationships		
Rating	Number	Percent	Rating	Number	Percent
Buy	46	43	Buy	4	9
Neutral	52	49	Neutral	0	0
Sell	8	8	Sell	0	0
Total	106	100%	Total	4	100%

*Percentage of Investment Banking Clients in Coverage Universe by Rating

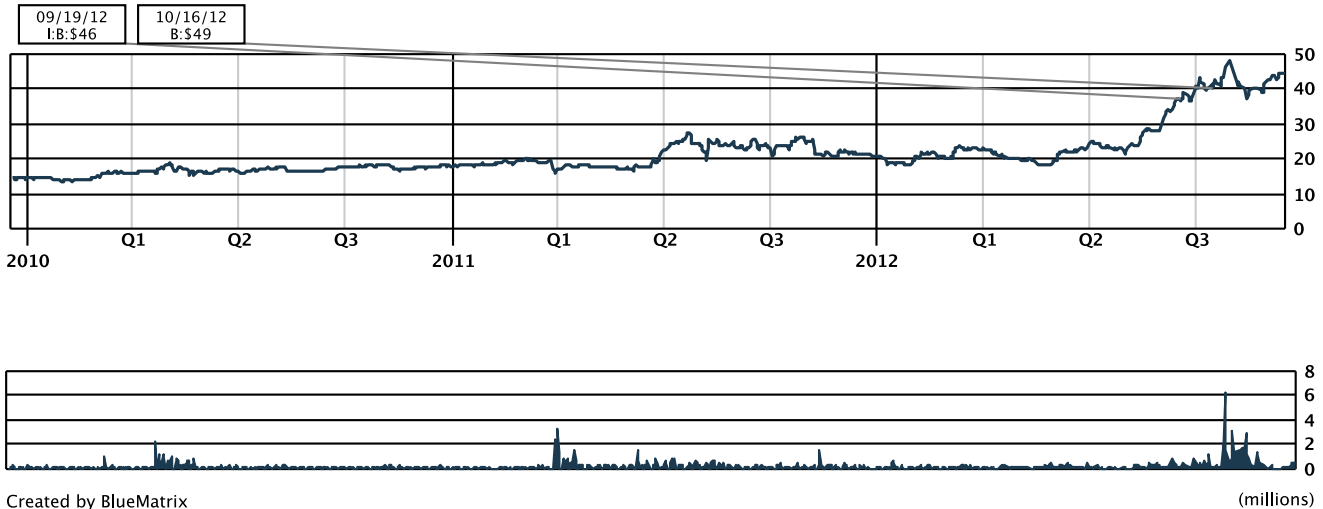
Rating and Price Target History for: Nationstar Mortgage Holdings Inc (NSM) as of 12-17-2012



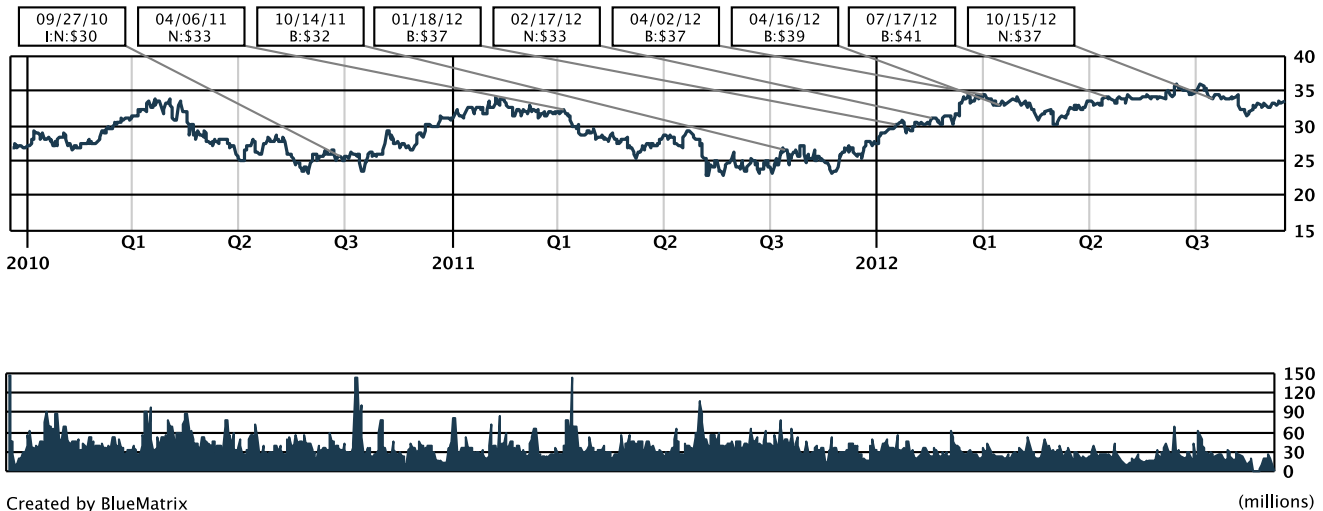
Rating and Price Target History for: Ocwen Financial Corporation (OCN) as of 12-17-2012



Rating and Price Target History for: Walter Investment Corp. (WAC) as of 12-17-2012



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