

THE WALL STREET JOURNAL.

MONDAY, MAY 14, 2007

© 2007 Dow Jones & Company, Inc. All Rights Reserved.

Countrywide Financial Rolls Out Reverse Mortgages

By LINGLING WEI

NEW YORK (Dow Jones)—Countrywide Financial Corp. (CFC) has launched a reverse mortgage aimed at allowing seniors with pricier houses to convert their homes' equity to greater income, marking the largest U.S. home lender's entry into one of the fastest-growing markets targeting baby boomers.

The nation's aging population, along with the rapid housing-price appreciation from 2000 to 2005, has led to record growth in reverse mortgages, which allow homeowners 62 years old and above to turn home equity into income they don't have to repay until they move out. The reverse mortgage takes its name from the way cash flows between a lender and a borrower. Rather than sending mortgage payments to a bank, as with a traditional mortgage, the borrower receives money in the form of a lump-sum payment, equal payments over time or a line of credit.

The bulk of reverse mortgages funded today are so-called Home Equity Conversion Mortgages, known as HECMs, which are insured by the federal government and cap the amount homeowners can borrow. To cater to people with higher-value homes, lenders increasingly are creating their own products that don't have loan limits. Meanwhile, the increased competition among lenders also is driving down the overall costs for consumers.

Countrywide's proprietary SimpleEquity reverse mortgage program offers lower upfront costs for those who opt for higher initial loan-draw amounts. A typical borrower of the loan has a home valued at \$500,000. Specifically, the Calabasas, Calif., lender will waive both the origination fee and closing costs for borrowers who choose to withdraw the entire loan at the closing.

For those who decide to draw 75% of the loan amount initially and access the rest over time, Countrywide will waive the origination fee. Industry-wide, lenders typically charge an origination fee of 2% or less of a house's value.

Also, Countrywide doesn't charge SimpleEquity borrowers any mortgage insurance premium, which is a common charge on reverse mortgages, as lenders want to assure that borrowers never will owe more than the appraised home value. The insurance premium often accounts for another 2% of a home's value.

In addition, with the SimpleEquity program, Countrywide charges each borrower a \$20 monthly fee for its efforts to service the loan, lower than the current prevailing range of \$30 to \$35 a month.

The lender introduced SimpleEquity in California late last year and rolled it out early this year in 46 states. At the same time, it also started to offer HECM loans in those states. The SimpleEquity product now represents a third of its reverse mortgage production.

Steve Boland, managing director for

reverse mortgages at Countrywide, called the entry into these products "a very natural progression" for a lender that already ranked first among the nation's traditional home mortgage providers by market share. Ultimately, he said, Countrywide aims to "dominate the reverse mortgage industry."

And the race is on. Attracted by reverse mortgages' growth potential as baby boomers retire, more lenders are entering a niche market traditionally dominated by IndyMac Bancorp Inc. (IMB); Wells Fargo & Co. (WFC); Seattle Mortgage Co., which is being acquired by Bank of America Corp. (BAC); and privately held EverBank's BNY Mortgage Co.

Floyd Robinson, president of Bank of America's consumer real estate division, said the purchase of Seattle Mortgage, coupled with the proprietary reverse mortgage it already has been testing, will "propel us to our target of being the No. 1" reverse mortgage originator by the end of 2008.

In light of the evolving market for reverse mortgages, Bronwyn Belling, a reverse mortgage specialist at the AARP Foundation, which doesn't endorse any lenders, suggests, "Unless you have an urgent need, it may be worth your while to see how the changes in the market affect the products, the pricing and the choices."

Shares of Countrywide closed Friday at \$41.08, up \$1.13, or 2.8%.