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# Inside the collapse of RMF, America's fifth-largest reverse mortgage lender

## Reverse Mortgage Funding was forced into Chapter 11 bankruptcy after its warehouse lenders pulled the plug

December 8, 2022, 3:30 pm *By Bill Conroy*

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*A post-mortem on RMF shows that a perfect storm of financial calamity resulted in the fifth-largest reverse mortgage lender declaring Chapter 11 bankruptcy.*


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Four days before Thanksgiving, senior leaders at **Reverse Mortgage Funding** broke the bad news to staffers on a Microsoft Teams meeting: mortgage originations would cease immediately as executives worked toward a solution to the company's very serious financial problems. The call ended so abruptly that staffers at the New Jersey-based reverse lender thought a technical issue caused the call to drop.

Just over a week later, on Tuesday, November 29, two more Microsoft Teams meetings took place. On the first virtual meeting, 472 employees were told that they were being laid off. At the other meeting, about 100 workers were given marching orders: to keep the company's operations functioning during bankruptcy proceedings.

Through over a dozen interviews with company employees, executives at rival lenders, independent analysts, as well as a review of hundreds of pages of bankruptcy and bond documents, a portrait of the failure at RMF emerges.

In many respects, RMF, the nation's fifth-largest reverse lender, is the victim of a perfect storm of financial calamity precipitated by fast-rising interest rates, tightening Federal Reserve monetary policy, and unforgiving regulations and credit markets.

The resulting vortex of market volatility pushed RMF and its parent, **Reverse Mortgage Investment Trust Inc.**, into a death-spiral liquidity crisis and massively devastated the lender's main revenue-generating channels as well as its credit facilities. The resulting sea of red ink forced the company to seek protection from the storm through a Chapter 11 bankruptcy reorganization filed in federal court in Delaware.

And rival lenders are not invulnerable to the conditions that took down RMF.

## A liquidity crisis

The news of RMF's shutdown may have been a shock, but it wasn't necessarily a surprise to its workforce.

"For anyone who had been around the mortgage industry for any period of time, [we] expected to have some sort of downsizing based on volume," one former manager told RMD. "We know being in the business, whether it be forward or reverse, when volume goes down for any given period of time we don't need as much operational staff."

*Given that they're [RMF] declaring bankruptcy, at the end of the day, it's not just that they lost warehouse lines.*

BRETT LUDDEN, MANAGING DIRECTOR AT STERLING POINT ADVISORS

The drop in volume can largely be attributed to a mortgage rate environment that has tested the resolve of lenders across the forward and reverse industries. Such a dramatic spike in rates took a


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hatchet to RMF's originations on both proprietary and government-insured reverse-mortgage loans.

The decline also affected RMF's huge loan-servicing business, which focused on **Federal Housing Administration**-insured Home Equity Conversion Mortgages (HECMs). In addition, the lender's loan-securitization outlets froze up, both for private-label bonds and **Ginnie Mae**-guaranteed HECM-backed securities.

The battering of those three major liquidity and revenue-generating engines created a financial crisis for the lender that triggered a cascading chain of defaults on RMF's warehouse-lending lines, which provide the lifeblood cashflow for the lender, according to RMD's review of bankruptcy documents.

"All of the above reduced the company's profitability and negatively impacted [RMF's] liquidity," pleadings in the lender's bankruptcy filing state, and ultimately "caused the company's business model to become unsustainable."

Executives at RMF, which is owned by entities controlled by private equity giant **Starwood Capital Group**, declined to answer questions. A spokesperson referred RMD to the bankruptcy filings.

## The road to bankruptcy

In Ernest Hemmingway's 1926 novel "The Sun Also Rises," Mike Campell is asked by the friend of a romantic rival how he went bankrupt.

"Two ways," he replied. "Gradually, then suddenly."

For RMF, founded in the wake of the 2008 housing crisis, it wasn't one consequential decision that resulted in its lawyers appearing in federal bankruptcy court in Wilmington, Delaware on the final day of November. There were decisions made months and years ago that little by little, bit by bit, contributed to the collapse.


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There were multiple attempts to rescue RMF along the way – including a sale – before its leaders and advisors ultimately decided to pursue a bankruptcy restructuring, according to court documents and sources.

Starwood affiliates **BNGL Parent LLC** and sponsor **BGNL Holdings LLC** sought to stave off Chapter 11 by providing a $50 million to rescue RMF, but it wasn't enough to overcome a freeze in capital markets, the structure of the HECM loan servicing business and "mounting liquidity issues," bankruptcy documents state.

Leadership at RMF also worked to cut deals with its regulatory partners, **Ginnie Mae** and the **Federal Housing Administration** (FHA); its warehouse lenders; and other stakeholders. As part of those efforts, RMF sought to secure "a potential standstill agreement" that would buy the company more time to address the crisis, which was threatening "liquidity covenants in various of the company's debt facilities," court pleadings state.

But by late October, RMF had fallen out of compliance with the minimum liquidity tests for several of its warehouse credit lines, which totaled more than $1.7 billion. As of the end of November, the lender had drawn slightly more than $1.4 billion on those credit lines, the bulk of which come due in 2022 or were set up under pay "on demand" terms. The lenders include **Leadenhall Capital Partners**, **Credit Suisse**, **Nomura Securities**, **Barclays Bank** and **Texas Capital Bank**.

RMF's woes first triggered loan-covenant violations in its warehouse lines with Credit Suisse and Texas Capital Bank, "which each required the company to maintain at least $25 million of liquidity," court pleadings state.

Those defaults triggered cross-default provisions in several of the company's other facilities, including credit facilities advanced by Normura Securities and Barclays Bank, which bankruptcy

documents say may have resulted in other defaults.

Starwood-controlled RMF and its advisors pulled the plug as the end of November approached.

Brett Ludden, managing director of mergers and acquisitions advisory firm **Sterling Point Advisors,** said although he has no inside knowledge of RMF's operations, warehouse lenders across the country over the last six to nine months have been creating watchlists related to lenders who are struggling in the current economic environment.

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*How can you say there's a cancer in the industry when everybody else stopped at the red light when rates started to take off?*

AN EXECUTIVE AT A TOP REVERSE MORTGAGE LENDER

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"Given that they're [RMF] declaring bankruptcy, at the end of the day, it's not just that they lost warehouse lines," he said. "They could have theoretically gone and found another warehouse line or cut volume and kept running [particularly with Starwood Capital as an owner and backer].

"If they declared bankruptcy, that means that they either did not have any liquidity or their net worth was below zero."

According to the company's bankruptcy pleadings, it was clearly the former, a massive liquidity crunch, that ultimately prompted company leadership to throw in the towel after a

months-long battle to stay afloat in raging economic seas. On Nov. 29, RMF issued pink slips to 472 of its 583 employees. The next day, the company filed for Chapter 11 bankruptcy protection.

## Overexposed and undercapitalized

RMD interviewed executives at multiple rival lenders in the reverse mortgage space. The executives, who all requested anonymity to speak openly about the shutdown at RMF, each dismissed the idea that others were in danger of shutting down for the reasons that felled RMF.

One longtime executive speculated that RMF may have been overexposed in its proprietary reverse mortgage business, and had also grown too dependent on HECM-to-HECM volume and were highly vulnerable when the "refi boom" dried up earlier this year.

When rates began spiking during the summer, RMF's rivals reacted quickly, pulling back on proprietary products and focusing on more durable revenue sources, such as AAG's call center model, the executive said.

While other lenders appeared to manage their risk more aggressively, RMF may not have acted quickly enough, the executive said.

A senior executive at a separate reverse mortgage lender told RMD that while all lenders are challenged by difficult conditions – a rocky secondary market, reduced origination volume and liquidity challenges – lenders must be pragmatic in managing their finances. RMF pushed ahead while others showed conservatism, the person added.

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*When you look at the [principal limit factor] changes that have occurred almost radically over the past several months, there's clearly a problem there.*

A C-SUITE EXECUTIVE AT A LEADING REVERSE MORTGAGE LENDER



when everybody else stopped at the red light when rates started to take off?" he said. "I think there has to be a concern and caution among all of us, but RMF clearly ran some red lights. I don't believe this is a systemic industry problem."

Even if some of the causes of RMF's downfall are self-inflicted, there's plenty of risk still out there for reverse lenders to navigate, another reverse executive told RMD.

"When you look at the [principal limit factor] changes that have occurred almost radically over the past several months, there's clearly a problem there," the executive said. "Now, I think some lenders have adjusted in time, such that they're going to be just fine. They're going to probably take some hits, but I think they're going to be just fine."

## Severe weather on three fronts

The beginning of the end for RMF started with a reversal of fortunes in its reverse-mortgage originations, which dropped off significantly year over year as of third-quarter 2022. Court filings note that the dip contributed to a $28.8 million after-tax net loss for the 12 months ending Sept. 30, 2022.

Overall HECM loan originations and acquisitions at RMF were down by nearly 66% in September 2022, compared with October 2021 — dropping

from $151.3 million to $51.2 million over the period. For the year ending September 2022, the total volume of loans originated or acquired by RMF stood at nearly $1.6 billion for HECMs and more than $1 billion for proprietary reverse mortgages, court filings reflect.

The drop-off in originations also affected loan volumes available for securitization while both private-label and Ginnie Mae securitization channels were under intense pressure due to rising rates. As of the end of October, RMF had some $21.4 billion of issued and outstanding HECM mortgage-backed securities (HMBS) and about $2.4 billion of issued and outstanding private-label securitization notes, court filings indicate.

By mid-year both securitizations channels were jammed up, however, due to fast rising rates and the Federal Reserve's winddown of mortgage-backed securities (MBS) purchases, court pleadings indicate, creating an unfavorable pricing climate for mortgage-backed securities generally, which has deterred many issuers from pursuing securitizations.

"Looking at the data that I have on the reverse businesses, starting in the second quarter there was a material decrease in reverse-mortgage margins, more so than on the forward business," Sterling Point's Ludden said. "So, the value of those loans decreased more quickly, and the reverse mortgage business has a niche investor pool.

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*Unless Ginnie Mae changes their ways, you can find this happening throughout the industry.*

DON CURRIE, PRESIDENT OF HIGHTECHLENDING

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“The issue they [RMF] ran into was no different than the forward-mortgage business in that the note rate on the reverse mortgages was so low relative to when interest rates spiked that … they couldn’t find buyers that were willing to even pay par for them.”

## Ginnie troubles in reverse

It was a regulatory requirement, however, that RMF’s bankruptcy pleadings assert led to a major cash bleed that the lender could not stem.

Under Ginnie Mae rules, a HECM loan servicer, such as RMF, is required to purchase loans from Ginnie Mae securitization pools once the balance on a HECM loan is at 98% of the maximum underlying FHA insurance-coverage amount. If a servicer fails to adhere to that policy, it can face termination of its servicing rights.

The carry time until FHA’s insurance program reimburses a servicer for these so-called buyout loans, RMF’s court pleadings state, can range from several months to as long as several years — the latter potentially in cases where foreclosure on a property is required, typically due to a borrower’s death.

This issue is something of a bugbear for the industry.

“If they’re not active, and they come out and you have to buy them out of the security, plus having to forward any advances on the lines of credit, or the monthly payments that have to be issued on behalf of the securitized or to the borrower, all these things are huge cash outlays,” said Don Currie, the president of **HighTechLending**. “And if you’re not able to take those and re-securitize

them at a profit, then that's where the systemic issue is. And unless Ginnie Mae changes their ways, you can find this happening throughout the industry."

In a statement to RMD, **National Reverse Mortgage Lenders Association** President Steve Irwin said that while NRMLA is not commenting directly on RMF's bankruptcy filing, "it is important to note that the association looks at this as an opportunity to engage FHA and GNMA on business continuity plans and operational procedures should the industry face similar disruptions in the future."

Bankruptcy filings illustrate how problematic the buyout obligations were for RMF.

The lender's buyout obligations for November 2022 were approximately $144 million, and the company projected its December 2022 buyout obligations at $161 million. Those buyout obligations are expected to increase over time to an average of $189 million a month over the next 24 months.

RMF also forecasts that it will incur approximately $2.1 billion in buyout obligations over the next 12 months, and a total of approximately $13.8 billion in buyout obligations over the next seven years.

In its Chapter 11 filing, RMF plainly says it did not have sufficient capacity in its warehouse lines to fund those buyout obligations or the liquidity channels to address the situation. In addition, the interest rates on the buyout loans were well below the warehouse-line rates RMF was using to finance the carry time for the loan buyouts.

"The floating interest rates on these [warehouse] facilities have increased to the point where the company incurs substantial losses while it awaits repayment of the funds it has advanced to undertake the buyouts," RMF's court pleadings state.

An analysis in early November of RMF's nonactive buyouts — those resulting from a borrower's death or a failure to meet loan requirements —

that were financed using warehouse facilities revealed that 23% of the HECM loans had fixed rates of 5.01%, court filings state, and 77% were adjustable-rate, with a 5.42% average rate.

"In comparison, the rates the company was required to pay on its warehouse facilities ranged from 6.05% to 7.15%," bankruptcy documents state.

## The reverse industry's future without RMF

In the wake of its Chapter 11 filing, RMF asked the court to approve a debtor-in-possession (DIP) financing plan to fund its operations during the Chapter 11 reorganization process, which includes ensuring an orderly transfer of its MSR portfolio to a new servicer.

In a court hearing on Monday, Dec.  5, the judge in RMF's bankruptcy case approved $13 million in DIP financing that will be provided by BNGL Holdings, an indirect affiliate of Starwood. RMF also is working to line up additional DIP financing through Leadenhall Capital Partners, which has already provided some $181 million to RMF pre-Chapter 11 through a lending facility used to fund RMF's loan-servicing operations, according to a transcript of the Dec. 5 court hearing and other court pleadings.

RMF indicates in its pleadings that it plans to transfer its Ginnie Mae HECM mortgage servicing rights (MSR) portfolio to **Longbridge Financial LLC** by early January, pending court approval. RMF claims in court pleadings to be the largest servicer of owned MSRs in the reverse-mortgage industry, with an MSR portfolio based on loan balances of nearly $26 billion. Mortgage investment firm **Ellington Financial** recently finalized a deal to acquire **Home Point Capital**'s 49.6% ownership stake in Longbridge.

"Debtors [RMF and affiliates] are confident that key parties in interest will identify that the DIP [financing] facility is the debtors' best, and likely

only, hope to transition the MSR rights with minimized consumer disruption and wind down their estates [RMF's holdings] through an orderly Chapter 11 process," the bankruptcy pleadings conclude.

The loss of RMF will reverberate throughout the industry, said HighTechLending's Currie. RMF did a significant amount of education outreach to seniors, and its loss will limit the industry's ability to reach potential borrowers.

"RMF was excellent at marketing, and that always helps the rising tide to lift all ships. And so, to lose a player that was so influential with the seniors affects us all negatively," Currie told RMD in an interview. "This is not a good thing for the industry. Even though some people might benefit temporarily by being able to aggregate some talent, the overall loss of a major player more than offsets that."

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