The FHWA contracted with O. R. Colan Associates to conduct a research study titled A Study of Reverse Mortgages in Relocation Assistance. The purpose of the study was to collect, analyze and organize information needed to explain reverse mortgages and the impacts to both displacing agencies and persons displaced by Federal or federally-funded projects. The FHWA will use the research to develop guidance for establishing a fair and effective method of addressing reverse mortgages encountered when displacing persons in accordance with the Uniform Act.

What is a Reverse Mortgage?

A reverse mortgage allows homeowners to incur debt against the equity they have established in their homes without the requirement to make monthly payments. The most common reverse mortgage is the Home Equity Conversion Mortgage (HECM) program. It is administered under the oversight of the Federal Housing Administration (FHA), a division of the Department of Housing and Urban Development (HUD), which offers lenders an FHA insured mortgage guarantee. This loan program was originally designed to help meet the needs of elderly homeowners (at least 62 years old) who were experiencing economic difficulties because of reduced income and increasing costs of health care, housing, and other subsistence needs.

The homeowners can elect various methods of disbursement options, which are defined in the HECM regulations at 24 CFR 206.19. These options include the following:

(continued next page)
A tenure plan provides equal monthly payments to borrowers for as long as one borrower lives and continues to occupy the home as a principal residence.

A term plan provides equal fixed monthly payments for a pre-determined period of time. At the end of this period, payments cease and the borrower may continue to occupy the residence.

A line of credit allows the homeowner to borrow any amount, at any time, up to the predetermined principal loan limit. This amount can be withdrawn in one lump sum or a series of withdrawals, at the borrower’s discretion.

A lump sum payment at closing is an option not formally outlined in the HECM regulations. This lump sum payout option is structured as a fixed rate, closed-end loan in which the borrower cannot borrow additional funds at a future date.

A borrower may also combine the tenure or term payments with a line of credit up to a predetermined loan limit.

A HECM or reverse mortgage does contain several repayment triggers:

- Death: When the borrower (or last co-borrower) dies.
- Move-out: When the borrower (or last co-borrower) moves out of the house permanently.
- Extended absence: When the borrower (or last co-borrower) does not physically reside in the property for more than 12 months due to illness or other reasons.
- Sale or gift of the property: When the borrower (or last co-borrower sells the property or transfers title to a third party. This includes conveyance or appropriation under the threat of condemnation.
- Failure to fulfill obligations: When borrowers fail to pay taxes, insurance, or keep home in good repair.

Any of these triggers may constitute a default under the terms of the mortgage.

The HECM program contains two (2) important consumer protection components. First, the borrower may remain in the home indefinitely, regardless of how large the loan balance becomes, as long as the borrower continues to occupy the property as a principal residence, pays the taxes and insurance, and maintains the property. Second, there is a non-recourse clause against the borrower. If the loan balance is greater than the value of the home at the time of the borrower’s death, move-out, sale of property or foreclosure, the lender cannot seek to recover the balance from the borrower’s (or estate’s) assets. The FHA insurance covers any loss that may occur for the lender.

The basic premise of a HECM instrument is that over time the equity position of the homeowner will be distributed, and thereby, diminished to provide funding for the homeowner. The variety of existing HECM instruments allow for the mortgage holder to disburse the equity funds gradually over time. Although property value appreciation may offset some of the decrease in homeowner equity, the nature of the HECM program is that over time, the equity position of the homeowner will diminish. If there is no property value inflation, or there is deflation as has been the case over the past several years, then the decrease in equity would not be offset, or it could even be accelerated.
Reverse Mortgages Present Challenges for Displacing Agencies

Reverse mortgages can present several challenges for displacing agencies. What are an agency’s obligations to a displaced homeowner who has a reverse mortgage? The terms and conditions of a HECM are not similar to the type of mortgage envisioned under the original increased interest provisions of the Uniform Act. Rather than making payments to a lender, the homeowner is obtaining either a revenue stream or a revenue package by drawing down on the property equity that existed when the HECM was originated. Various disbursement options raise different challenges for solutions.

Research Study Recommendations

As a general rule of thumb, a HECM for purchase of a replacement dwelling requires a down payment of approximately 40%. If there is sufficient equity remaining in the subject property to obtain a replacement HECM for purchase, the relocation problem should be fairly uncomplicated. The owner can apply the equity toward the necessary down payment, and should be eligible for incidental expenses. The owner may be eligible for an increased interest payment, although most HECMs to date adjust monthly.

When the homeowner with a HECM has little or no equity in the subject property at the time of acquisition, it is unlikely they can qualify for a replacement HECM for purchase. In these situations, the displacing agency must still offer comparable replacement housing. The ORC research team proposed a range of solutions for these situations that the FHWA is considering, but they are not finalized at this time. These possible solutions include:

- Compute a rental assistance payment for the displaced homeowner, and convert the owner to tenant status.
- Provide assistance under Housing of Last Resort that could involve:
  - Offer a supplemental payment to enable the homeowner to reestablish a replacement HECM for purchase.
  - Provide a direct loan to the homeowner with the same terms as the original reverse mortgage. The amount and tenure payment, if applicable, would be calculated based on the current age of owner and actuarial tables.
  - Create a life estate for the homeowner in the replacement dwelling provided by the agency, specifying the agency as the remainderman. The homeowner would be responsible for taxes, insurance and maintenance of property.
  - Purchase a replacement dwelling and rent/lease back to homeowner for life with no monthly payment. The homeowner would be responsible for taxes and insurance although maintenance may be the responsibility of the agency since it is the owner.

Obviously, the displacing agency needs flexibility in resolving these situations. Like many residential relocations, an agency should address each situation on a case-by-case basis, and determine which solution will work for the displaced homeowner.

FHWA will publish the research study on its website at a later date. It may consider the recommendations of the study in the Notice of Proposed Rulemaking for 49 CFR Part 24, which is anticipated to be published in early 2015.

The O. R. Colan research team included Robert Merryman, Lisa Barnes, Richard Moeller and Robert Kleinburd. For more information please contact Lisa Barnes at lbarnes@orcolan.com.
Focus on an ORC Project: Opportunity Corridor

By Stephen J. Toth, COO

The Ohio Department of Transportation (ODOT) is embarking on a series of highway infrastructure projects near downtown Cleveland, Ohio.

One such project proposed is Opportunity Corridor, which is a transportation and economic development project aimed at connecting I-490 to the University Circle neighborhood. The Opportunity Corridor encompasses nearly 1,000 acres on Cleveland’s southeast side and is anchored by University Circle and the Cleveland Clinic. The area between I-490 and University Circle has become known as the “Forgotten Triangle” due to the lack of economic activity. Outside of the transportation benefits it could bring to the Cleveland area, this project opens the potential for new economic development, new jobs and a new identity for the community.

The $331 million dollar project is a new roadway, extending from the Intersection of Interstate 77 and Interstate 490, and East 55th Street, northeast to the University Circle/Medical Center area at Chester Avenue and E. 105th Street. The project is broken into two (2) sections as follows: **Section 1** – reconstruction and widening of East 105th Street from Quebec Avenue to just north of Chester Avenue a distance of 0.85 miles; and **Section 2** – a new 4-6 lane landscaped boulevard stretching from E. 55th Street to Quebec Avenue, just north of the Norfolk Southern Railway Lines, a distance of approximately 2.67 miles.

The overall project impacts the following community neighborhoods: Slavic Village, Kinsman, Buckeye, Fairfax and University Circle. A total of 552 parcels will need to be acquired for the project, including the relocation of 76 residential occupants, 19 businesses and 29 landlord relocations.

The RW for Opportunity Corridor will be acquired in 2 sections. **Section 1** will be the East 105th Street Section, which contains 129 parcels and includes 9 residential and 3 business relocations. **Section 2** was approved by ODOT and O. R. Colan was awarded the contract to be the RW Acquisition services with a RW clear date of September 2014. Section 2 will...
be the West & Central Section, which contains 423 parcels and includes 67 residential and 16 business relocations. The RW phase for this section is expected to be authorized by June 2014.

O. R. Colan’s role on the project includes program management, title research, appraisal, acquisition, relocation assistance, closings, asbestos reports, property management and coordination with the Design firm on plan and survey issues.

Section 1 will be bid as a Design-Bid/Build with sale date for construction scheduled for September 2014 and completion in 2016. The project is partially funded by bonds sold against the Ohio Turnpike by Governor Kasich in 2013.

ORC Announcements

RICHLIE MCNALLY, UTILITY DIRECTOR

O. R. Colan (ORC) is pleased to announce the hiring of Richie McNally as Director of the Utility Division of O. R. Colan Group, LLC – ORC Utility & Infrastructure Land Services, LLC. Richie McNally brings more than a decade of experience in the Right of Way (ROW) industry from American Electric Power (AEP) and Team Fishel. Richie has completed successful major transmission projects across the U.S. including in Ohio, Indiana, Michigan and West Virginia. He will bring his expertise of Right of Way contract negotiations including the acquisition of land, land rights, licenses, leases and permits and of the utility industry in transmission and distribution to this new position. Richie is a graduate of the College of Wooster, in Wooster, Ohio, where he earned a Bachelor of Arts in Sociology earning his way through college on scholarships and a Columbus Dispatch Scholarship. Richie and his wife Stephanie have two young children and live in the Columbus, Ohio, area.

ORC Utility & Infrastructure Land Services, LLC is an affiliate of O. R. Colan Group, LLC headquartered in Charlotte, North Carolina. For additional information contact rmcnally@orcolan.com.
DONNA ROCHE, SR/WA, R/W-RAC

Donna Roche has joined ORC as a Senior Project Manager responsible for Project Management Oversight of statewide contracts for Arkansas. Donna has more than 25 years of experience in right of way. She began her career in the industry in 1988 as an employee for the ODOT (Oklahoma Department of Transportation) and was employed by the agency until 2004. Since that time she has worked with various right of way consultants. Donna was Chair of the IRWA’s International Relocation Assistance Committee from 2002 to 2004.

B. SCOTT WARE, APPRAISAL MANAGER

Scott Ware has joined ORC as the Appraisal Manager for West Virginia. In 2011, Scott formed his own appraisal company. Prior to that time he was the Chief Review Appraiser for the West Virginia Department of Highways. Scott attended Davis and Elkins College and Fairmont State College majoring in Marketing and Business Administration with a minor in Real Estate. He is a Certified General Appraiser in West Virginia, Virginia and Pennsylvania.

JANNA WAMPLER, SR/WA, R/W-NAC, R/W-AMC

Janna Wampler has joined ORC as a Project Manager in the Dallas, Texas, office. Janna has a 24 year career of Right of Way experience with Federally Funded Projects, Local Public Agency (LPA) Projects and design build highway projects. During her 14 years with the Texas Department of Transportation (TxDOT), she worked in all areas of right of way acquisition and relocation. Her experience also includes property management, utility certifications and coordination with various local public agencies to ensure compliance with Federal/State rules and regulations during acquisition and relocation. Janna is an active member of International Right-of-Way Association (IRWA) has earned the prestigious SR/WA designation and the R/W-AMC.
On the Road with Bob: Hartford – IRWA, Planes, Pickles and Domes!

By Bob Merryman, Senior Vice President, O. R. Colan Associates/ORC Training, LLC

For many years I have attended the IRWA Annual Education Conference. I am a much better participant than an attendee, and volunteer to moderate panels or participate in a presentation. In the past I have participated in presentations about actual direct loss, substitute personal property, complex business relocations, use of a planning consultant, etc. This year the topic was reality and personality. It was a combined presentation with a member of the Valuation Committee, Richard Pino, an appraiser from Boston, Massachusetts. I also moderated the Business Relocation Talk Show—a sort of question and answer session—that is open to any subject. But even with these commitments, there is usually time to see some of the sights.

Steve Adams, an IRWA attendee from NYSDOT, Buffalo, New York, asked me if I wanted to go tour the New England Air Museum near the Bradley (Hartford) Airport. Since it was a slow afternoon, I agreed. He gave me no information as to why he wanted to go to this museum, but it sounded interesting.

The museum has three display hangers which house over 66 aircraft, 26 helicopters, and a variety of other flying vehicles. The concept of the museum is to show a history of air travel beginning with balloons.

When we arrived at the visitor center, Steve explained to the manager that he had previously visited the museum in 2012 to participate in the reunion of the members of the 416th Bomb Group and the unveiling of a restored plane, an A-26 light bomber. Steve’s father was a member of the Bomb Group and piloted an earlier version of the plane during World War II. Needless to say the museum gave us the VIP treatment with our own escort to show us around. I was really surprised when the escort pulled over a ladder and let us climb into several of the planes. It turned out to be a great afternoon.

Hartford is an old city, founded in 1637, and the layout reminds me of Boston. It has meandering streets, which will get you where you are going, just not in a straight line. Hartford boasts that it is the “Insurance Capital of the World.” The downtown area is easy to walk around and has some interesting sights. The convention center area is completely new, and the convention facility is probably one of the better ones that IRWA has used.

While my opportunity to explore unique out of the way restaurants was limited due to the convention schedule, I did get out a few times. One interesting quirk is that both restaurants at which I ate had homemade pickles! Lunch one day was at Ted’s, a restaurant owned by Ted Turner that serves bison meat. The food was good, and the homemade pickles were a great treat. The other restaurant was a sports bar, the City Steam Brewery, which had good food and more homemade pickles.

There was one mystery of Hartford that had me curious. There is a building that can be seen from the convention area with a deep blue dome covered in small gold stars. It is truly unique. I finally learned that it is the Colt Gun museum — yep, the old rifle and six-shooter company. The owner just liked unusual architecture so he chose the blue dome to top his building.