Proceed with Caution: The State of the HECM

The Industry Leader Update by Reverse Focus
April 17th, 2017

Recently I had the honor to give a 'State of the Industry' speech in front of a group of reverse mortgage originators and professionals during their sales meeting. State of the Unions speeches typically tout the achievements of the past while recommending necessary and prudent policy changes . Where does our industry stand 30 years after the creation of the Home Equity Conversion Mortgage?

The Irrelevancy of Historical Volumes

A sense of frustration can set in for those expecting rapid expansion of loan volume back to our pre-recession levels.   After several years of rapid expansion culminating in 2009's record endorsement tally of 114,629 loans, last year's endorsements were a sum total of 48,000 endorsements. Such comparisons are suspect for a number of reasons- a simpler product offering, rapid home appreciation, generous underwriting guidelines, increased loan complexity, lending ratio reductions, and the post-recession and housing crash. Considering the headwinds the HECM has endured we can claim both a modicum of success and a measured optimism for future market expansion. However, fixating on the apple and oranges comparison of historic volumes ignores larger macroeconomic forces and serves only to distract us from more pressing matters.

Too good to be true?

One hurdle to increased consumer adoption of the HECM is the fear that if it sounds too good to be true, it probably is. The ability to leverage an illiquid asset and transform it into a potential source of predictable cash-flow is an attractive yet counterintuitive proposition for many Americans wanting to age in place. Sweetening the deal is the fact that the HECM's unused available funds, or principal limit, grows each year based on the current interest rate plus the MIP. Caution must be exercised when making claims as to just how large a HECMs line of credit can grow.

Statements that unused available funds in a HECM can grow to millions of dollars may not only increase skepticism amongst financial professionals but inure the acceptance of the HECM as a legitimate retirement income planning option. While unused funds most certainly grow, a more prudent explanation should error on the side of caution keeping HUD's distribution limits and its stated desire to increase the program's fiscal soundness in mind. In his Re, Tom Davison writes "The Maximum Mortgage Amount is customarily recorded at 150% of the Maximum Claim Amount. For example, a house at the current HECM FHA Lending Limit would have a Maximum Claim Amount of $636,150. The Maximum Mortgage Amount would thus be 1.5 x $636,150 =$954,225. Lower priced homes would have proportionally lower Maximum Mortgage Amounts."

Presently Davison, and other members of the Funding Longevity Task Force are seeking further clarification from HUD on lifetime disbursement limits and the potential impact on HECM payout strategies.

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Other developments include a marked increase in HECM to HECM refinances (up to 12.9% of loans endorsed through the end of February), and the average age of HECM borrowers nearing 72, down from 76 when the program was first launched 30 years ago. With life expectancies increasing and the average age of the HECM borrower decreasing Karin Hill stated "I think this trend really emphasizes the importance of measured access to funds over time."

As we await the deployment of new HECM rules this fall, the long view is that FHA will continue to reengineer the Home Equity Conversion Mortgage as they see fit based on economic forces and demographic shifts. Our industry has proven its resiliency in adapting to both market changes and regulation which will prepare us for the coming new age of HECM lending.

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