Acceptance of the new ‘norm’

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Despite it’s initial chilly industry reception, the HECM Financial Assessment has been accepted- so said HUD’s Phil Caulfield. During his remarks at the NRMLA western regional meeting in Huntington Beach Caulfield emphasized the importance of the assessment stating “if we hand’t done this, there probably would not be a HECM program. It’s that important”.

Necessity is the mother of invention. Several factors contributed to the genesis of the Financial Assessment, but the two most notable were lenders seeking to reduce the risk of paying delinquent property charges before or during the prolonged foreclosure process, and the reputation risk of issuing loans to borrowers who would likely default on property charges and the subsequent public fallout from the resulting foreclosure.

In October 2011, FHA issued guidance that HECM lenders could consider an applicant’s credit history and financial capacity- perhaps in response to pressure from lenders seeking a public statement . The largest HECM lenders weighed whether to launch their own financial assessment guidelines in the hopes that other lenders would follow suit. MetLife was the first to venture into the uncharted waters of HECM underwriting in November 2011.

Without an industry-wide standard, brokers shifted their business to other lenders where their applicants would more likely qualify. A few short months later in January 2012, a MetLife spokesman said “Therefore, even as it continues to support industry efforts, and works with the FHA to formalize industry-wide financial assessment rules and regulations, effective today MetLife Home Loans has suspended the use of its financial-assessment models.” Less than a year later the name-brand lender exited HECM lending in August 2012.

It wasn’t until April 2015 that an industry-wide Financial Assessment was enacted. While it created a level playing field for HECM lenders it also decimated the number of qualified applicants, and ultimately, endorsed HECM loans. The ratio of HECM counseling certificates issued to endorsed loans plunged to 53% for fiscal year 2016, Today, conversion ratios have improved hovering around 60%.

The seeds of the Financial Assessment were sown with the massive shift to fixed rate HECMs with full draws that were likely to be assigned to HUD before the lender left the property, and the collapse of home values during the economic crisis. While previous lending ratio cuts, first-year distribution limits, and two-tiered insurance premiums have helped, it appears that the assessment is here to stay. Perhaps HUD can more easily manage the risk of the program with stagnant or marginal endorsement volumes versus the challenges a rapidly expanding market would present.

While the industry may have accepted the new norm of the assessment, many originators lament that they can no longer help those who need the HECM the most.

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