A Sigh of Relief: No HECM changes announced…yet

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Commentary by Shannon Hicks

You can breathe a sigh of relief. While no official statement has been made it appears that the reverse mortgage industry will not see additional changes to the HECM program this fall. Good news, since these changes typically entailed significant cutbacks in borrower benefits. A brief respite is appreciated considering the fact a recent [Aspen Institute report] shows Americans median retirement account balance is only $14,500. The need for older homeowners to tap home equity to fund retirement has never been greater.

Just one year ago reverse mortgage lenders were rocked with the news of a reduction of principal limit factors, higher upfront mortgage insurance premiums for low-utilization borrowers, and a lowering of the interest rate floor. Where does that leave us for the coming year and is there a reason for optimism?

First, let's be honest. We didn't get to historically low loan volumes overnight and we won't bounce back in one or two years time. However, we should remember that we have a new FHA Commissioner who has been openly supportive of the reverse mortgage program and who are committed to finding the root causes of continuing HECM losses. "We are digging deep in the portfolio to find out of the problem is on the front end or the back end. My sense is that it's more on the back end in terms of the losses we are experiencing". He also added, "We need to find that tipping point. If you make further changes to [principal limit factors], pricing changes, what is the tipping point to where volume drops, and there are impacts to the [HECM mortgage-backed securities]?", said FHA Commissioner Brian Montgomery.

Speaking of tipping points, Scott Norman, vice president of retail sales and government relations at Finance of America Reverse sees one."So at some point, there is going to be a tipping point when members of Congress, members of the [state] Legislature, and city councils all across the country are going to need to start looking at home equity as a retirement source", said Norman in a recent interview with Reverse Mortgage Daily.

While no one welcomes the retirement crisis seniors face, it may be the driving force in lawmakers preserving and strengthening the Home Equity Conversion Mortgage. After all, to place further restrictions on the program or to encourage further cutbacks is tantamount to effectively eliminating the loan for most. A politically untenable position if you ever wish to seek reelection.

Where does that leave us for next year? We can expect a significant growth in proprietary reverse mortgage loans as long as property values continue to appreciate modestly. In addition, 2019 will also bring more traditional lenders encouraging their originators to offer HECM loans. Both should help us potentially reach or exceed the 55,000 plus loans endorsed in 2017. The coming year will also provide the opportunity for HUD to do a 'deep dive' into the root causes of continued HECM losses, despite the Financial Assessment and repeated principal limit factor cuts. Accordingly, we should count on seeing significant, albeit different, HECM changes announced next summer for the fiscal year 2019.

Notwithstanding the significant setbacks we have faced, we have significant tailwinds in our favor. The increasing shortfall in retirement savings, an average of $16,000 in home equity gains this year, and an experienced and supportive FHA commissioner all hold the promise of a renaissance in HECM lending. Will it be immediate? No. But it certainly could be the reason for measured optimism.