



FHA's Office of Single Family Housing

Federal Reserve Bank of Philadelphia
Issues and Challenges Facing LMI Homeowners on Reverse Mortgages
HECM Financial Assessment Requirements

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Why A Financial Assessment for HECM

- Economic recession and changes in the way HECM was used resulted in declines in the value of the HECM portfolio
- In FY 2011 the HECM portfolio had a value of \$1.36 billion, which included a transfer of \$535 million from forward loan reserves
- In FY 2012 the economic value of HECM portfolio was a *negative* \$2.80 billion
- An estimated 9.4% of the HECM mortgagors were in default for non-payment of taxes and insurance



Why A Financial Assessment For HECM

- FHA has a legislative requirement to maintain an overall (forward and HECM) capital reserve ratio of 2.00%
- In FY 2011 that figure was 0.24%
- In FY 2012 that figure was *negative* 1.44%
- In FY 2013 that figure was *negative* 0.11%
- In FY 2014 that figure was 0.41%
- The performance of the HECM portfolio was a major contributor to FHA's failure to meet its legislative requirements



Financial Assessment

- In 2013 FHA was required to take a mandatory appropriation from Congress of \$1.7 billion and transferred \$4.3 billion from its forward loan reserves to HECM loss reserves
- This increased the economic value of HECM portfolio to a positive \$6.541 billion (almost \$6 billion of that was based on transfers)
- In FY 2014 economic value of HECM portfolio was a negative \$1.036 billion, despite a transfer of \$770 million from forward loan reserves and programmatic changes



Why A Financial Assessment for HECM

- FHA could not sustain its Mutual Mortgage Insurance Fund at these levels
- FHA could not continue to transfer funds from its forward loan reserves to sustain the HECM program
- Despite changes to the Principal Limit Factors and other program changes, additional measures had to be taken to ensure the financial health of the HECM program



Why A Financial Assessment for HECM

- In it's 2012 Annual Report to Congress, HUD promised to take additional actions to help restore the financial health of the Mutual Mortgage Insurance Fund. These included...
- “a financial assessment of borrowers as a basis for loan approval and determining the suitability of various HECM products to protect consumers from acquiring loans not fit for their situation” and
- “establishing a tax and insurance set-aside to ensure sufficient equity or an annuity is available to pay taxes and insurance ...so that defaults resulting from nonpayment of taxes and insurance can be avoided”



Why A Financial Assessment for HECM

- In June, 2014 Ohio State University published *An Analysis of Risk in the HECM Program*
- Results suggest a statistically significant relationship between future default and
 - credit score;
 - prior mortgage delinquency
 - property tax burden; and
 - prior tax liens



HECM Financial Assessment Requirements

- Monthly residual income that ranges from \$529 to \$1,160 depending upon family size and geographic region
 - May be less depending upon compensating factors
- Acceptable credit history
 - May include extenuating circumstances
- Acceptable property charge payment history
 - May include extenuating circumstances
- Life Expectancy Set-Asides may be required where standards are not met
- Even where Life Expectancy Set-Aside is required, mortgagee must still determine that HECM is a sustainable solution to mortgagor's financial circumstances



HECM Financial Assessment Results

- A Fully Funded Life Expectancy Set-Aside is required in about 11% of endorsed loans
 - Requirement for Fully Funded Life Expectancy Set-Aside is mostly based on credit and/or property charge history
- A Partially Funded Life Expectancy Set-Aside is required in about 0.25% of endorsed loans
 - Residual income shortfalls seem to be mostly dealt with using Compensating Factors
- Financial Assessment requirements appear to be having an effect on HECM approvals



HECM Financial Assessment Results

| FY | | MAY | JUN | JUL | AUG | SEP |
|------|-----------------|--------------|--------------|--------------|--------------|--------------|
| 2011 | CASE#S | 7,464 | 8,761 | 7,639 | 7,937 | 7,392 |
| | ENDORSEMENTS | 5,087 | 6,019 | 5,120 | 5,281 | 4,942 |
| | AS % OF CASE #S | 68.2% | 68.7% | 67.0% | 66.5% | 66.9% |
| 2012 | CASE#S | 6,992 | 7,028 | 7,372 | 8,108 | 6,875 |
| | ENDORSEMENTS | 4,594 | 4,583 | 4,764 | 5,433 | 4,539 |
| | AS % OF CASE #S | 65.7% | 65.2% | 64.6% | 67.0% | 66.0% |
| 2013 | CASE#S | 6,526 | 6,495 | 7,397 | 8,167 | 16,006 |
| | ENDORSEMENTS | 4,147 | 4,302 | 4,890 | 5,453 | 9,817 |
| | AS % OF CASE #S | 63.5% | 66.2% | 66.1% | 66.8% | 61.3% |
| 2014 | CASE#S | 5,858 | 6,145 | 5,823 | 11,415 | 7,788 |
| | ENDORSEMENTS | 3,442 | 3,110 | 1,979 | 8,205 | 5,378 |
| | AS % OF CASE #S | 58.8% | 50.6% | 34.0% | 71.9% | 69.1% |
| 2015 | CASE#S | 4,186 | 6,183 | 6,364 | 6,089 | 6,754 |
| | ENDORSEMENTS | 2,414 | 3,545 | 3,706 | 3,646 | 3,902 |
| | AS % OF CASE #S | 57.7% | 57.3% | 58.2% | 59.9% | 57.8% |





What's Next for the HECM Financial Assessment

- The HECM financial assessment is here to stay
- Proposed rule published in the Federal register on May 19, 2016 incorporates financial assessment requirements into federal regulations
- FHA is collecting data on financial characteristics of HECM mortgagors that will provide a statistical basis for risk assessment and future policy changes