



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