# Reverse Mortgages Draining FHA Resources, Overhaul Needed

By: Jann Swanson | Wed, Jan 17 2018, 1:54 PM

Several housing authorities recently suggested changes to the form and operation of the Home Equity Conversion Mortgage (HECM) program, more commonly known as reverse mortgages. The program, administered by the FHA, serves homeowners over the age of 62, allowing them to draw on their home equity while remaining in their homes.

Last year the Department of Housing and Urban Development (HUD), FHA's parent agency, made **significant changes** in rules **affecting HECM borrowers**. The first change **reduced the maximum mortgage amount** from 60 to 70 percent of the borrower's home value, and introduced a new formula, tied to not only the property value, but also loan rates and the applicants age. At the time this change was announced, it was predicted the typical applicant, who was previously able to borrow 64 percent of the home's value, would now average 58 percent. Second, the **upfront premium was raised** from a range, depending on the amount of the loan, of 0.5 to 2.5 percent **to a flat 2.0 percent.**

HUD and FHA officials said the overall changes, which went into effect on October 2, 2017, were driven by the agencies' core mission, which was being hampered by the program. They maintained the HECM program was taking resources away from the department's primary goal, helping first-time and lower-income homebuyers achieve their goals. However, the changes appeared to be aimed less at putting the program, which has been **plagued by defaults and foreclosures**, on an even footing than in benefitting lenders.

Still, actuarial reports have confirmed that **the program is an economic drain**; the most recent showed the program with an economic value of negative $14.5 billion, nearly twice the deficit found a year earlier. Now there appears to be growing sentiment for a more radical change.

At a recent seminar hosted by the Urban Institute, former FHA commissioner Carol Galante, now the faculty director of the University of California Berkley's Terner Center for Housing Innovation, suggested that **HECM loans should be separated** from the bulk of FHA lending. She said the agency's capital reserves should be split into two separate units, one for the forward programs and the other for HECM. She also suggested removing the latter from the capital reserve requirement which is mandated by Congress to be a minimum of 2.0 percent of the balance of outstanding loans. Other seminar participants, the Urban Institute's Linda Goodman, and David Stevens, also a former FHA commissioner and current president of the Mortgage Bankers Association concurred with Galante's bifurcation suggestion.

According to Alex Spanko, writing in *Reverse Mortgage Daily*, Galante had other suggestions for reforming FHA apart from the reverse mortgage program.

- **Capping loan limits** at 100 percent of the median home price in the local markets rather than the current 115 percent.
- Redefining local markets into smaller units such as ZIP codes or census tracks to better reflect local conditions.
- Restricting FHA to guaranteeing only **purchase mortgages** and **refinances** of its own mortgages when economic conditions are "normal."
- Provide the agency with greater flexibility in loss mitigation strategies and use of operating capital to minimize losses.
- Establish new capital reserve standards that better account for tail risk.
- **Restructure FHA's management**, allowing Rental Housing Programs, Housing Counseling, and Manufactured Housing to be absorbed into other HUD departments.

"FHA's focus must remain on underserved populations while also continuing to serve a broad spectrum of lower-wealth homebuyers," Galante said.

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