

HUD outlines its reverse mortgage priorities in budget proposal

The Department outlined its perspectives on the reverse mortgage program in its 2024 budget request document, including several legislative proposals

March 13, 2023, 3:35 pm By Chris Clow

The budget proposal submitted to Congress indicates strong performance for the Home Equity Conversion Mortgage (HECM) program within the Federal Housing Administration (FHA)'s Mutual Mortgage Insurance (MMI) Fund, according to a U.S. Department of Housing and Urban Development (HUD) section in the budget document, which was released by the White House this week.

Building upon proposals made last year, HUD also makes a number of legislative recommendations for the HECM program, including suggestions related to limits, non-borrowing spouses (NBS), foreclosure notices and the current HECM loan cap.

HECM program projected to generate receipts

A document featuring HUD's summary of loan levels, subsidy budget authority and outlays listed by program shows that the FHA HECM program is projected to operate at a credit subsidy level equal to -2.87% in fiscal year (FY) 2024.

This means that HECM book of business is projected to generate more receipts for the federal government than it will pay out in claims in 2024. That would potentially mark a third consecutive year of black ink for the HECM portfolio.

The HECM program estimated credit subsidy level for the remainder of FY 2023 is estimated to be equal to -4.19%, an improvement over the actual FY 2021 figure, which was equal to -2.54%, according to the budget document. However, if the performance holds true, then the performance in 2024 will drop below the actual 2021 performance.

Based on the FY 2024 estimates in the proposed budget, the HECM program's estimated -2.87% credit subsidy indicates that it is expected to outperform the -1.32% credit subsidy of the entire MMI Fund.

As detailed in the first part of its budget proposal, released last week, HUD's FY 2024 request of \$73.3 billion is only 1.6% higher than the figure for 2023. That's lower than the other agencies' average increase requests. However, HUD's budget is larger than those of many other federal agencies or organizations that the White House is requesting additional funding for.

Regional lending limits back on the table

As it did in 2022, HUD has made several HECM program legislative recommendations that would require congressional action to pursue. HUD has made some of the recommendations consistently over the years, while others are new or are recommendations made by previous administrations.

The one likely to garner the most discussion is related to HECM loan limits.

"This proposal would establish HECM regional loan limits aligned to the limits currently in place for the single-family Forward program," the proposal states.

Regional loan limits were the norm for the HECM program until 2006 and were previously recommended by HUD officials during the Trump administration. The United States Department of the Treasury submitted a recommendation for regional limits as part of its housing finance reform plan in 2019, but the reverse mortgage industry has historically been against reverting to the prior way of conducting business.

"[Regional lending limits] create more of a nationwide opportunity for 'jumbo' reverse mortgage offerings, whereas before those were heavily concentrated in a few states," RMI President John Lunde said in 2019. "It could easily lead to short-term gaps in product coverage where HECM has pulled back on lending limits where proprietary products have not yet been licensed/offered. That's unfortunate for the potential borrowers affected but not an enormous effect from an industry perspective."

When commenting on an upcoming HECM limit increase in December 2021, National Reverse Mortgage Lenders Association (NRMLA) President Steve Irwin explained why a national limit is a better choice from the association's perspective.

"It is important to note that the single-national loan limit for HECM (as opposed to the area-by-area limits) is something that exists because of NRMLA's advocacy efforts," Irwin said in 2021. "NRMLA successfully persuaded Congress, and key HUD officials, that the area limits used for forward mortgages did not really make sense for HECMs."

Area-specific lending limits make more sense for those aiming to purchase a home in their area, but a HECM has fundamentally different guiding principles, Irwin said.

“The costs of aging, prescription drugs, durable medical equipment, adapting a home with stair glides, etc., do not differ regionally,” Irwin said. “So a homeowner with a higher value property in an area with a low FHA loan limit should not be penalized by only being able to borrow based on [their area’s] forward mortgage loan limit.”

Other legislative recommendations

Several proposals have returned from previous years, including the elimination of the statutory cap on the number of HECM loans that can be insured by FHA; changes to HECM foreclosure notices; counseling for borrowers seeking a HECM-to-HECM refinance; and codifying a restriction for HECM non-borrowing spouse (NBS) protections.

The loan cap is already routinely waived in budget and appropriations legislation. Removing the cap would streamline the process instead of requiring a repeated waiver.

Housing counseling for borrowers seeking a reverse mortgage refinance was introduced one year ago and would “extend the housing counseling requirement to include borrowers who apply for refinances of HECMs obtained within the last five years.”

For NBS, the recommendation would “clarify that automatic foreclosure protections apply only to non-borrowing spouses identified at HECM origination, consistent with current policy, while also establishing flexibility to extend further protections at the Secretary’s discretion,” it said.

NBS protections have been a sticking point in HECM policy for the last several years, with HUD and FHA addressing this issue most recently in 2021 with an expansion of NBS qualifying criteria.