What the HECM Loan Limit Increase Means for You

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Commentary by Shannon Hicks

The Department of Housing and Urban Development announced the third consecutive increase of its national lending limit to $726,525 for the federally-insured reverse mortgage and FHA loans beginning January 1st, 2019. An increase of over $46,000 from its previous limit of $679,650. The risks the Home Equity Conversion Mortgage poses to FHA's mutual mortgage insurance fund have been well-documented which may lead some to ask will the loan limit increase losses or negatively impact the thriving jumbo reverse market?

Well generally lauded by industry participants there are perspectives that warrant further consideration. Will this make a notable change to help boost overall loan volume? Are there any particular advantages in HUD attracting more owners of higher-valued properties? How does this impact the recent growth of private or proprietary jumbo reverse mortgage loans? To answer these question we reached out to a few our fellow reverse mortgage professionals.

Dan Hultquist VP of Education & Organizational Development at Live Well Financial and author of Understanding Reverse sees the move as such a positive he's written a new chapter in the 5th edition of his book. Dan sees more money for the homeowner and lower risk for FHA. "Consider a 73-year old borrower with a 5% expected rate, that allows the borrower a principal limit factor (PLF) of 47.50%. So long as the home appraises for at least $726,525, this borrower's initial principal limit will be $345,099. However, when you calculate the initial maximum Loan-To-Value (LTV) for homes above this amount, it is obvious that FHA's risk declines with higher property values." The bonus for FHA is that these borrowers will pay the maximum upfront mortgage insurance premium of $14,530.50- even when there is a lower loan to value ratio.

2018 could be called the year of the private jumbo reverse mortgage. AAG, Finance of America, One Reverse Mortgage, and Reverse Mortgage Funding to name a few, have proprietary or private jumbo reverse mortgages on the market today. The primary advantages of these loans are that the loan is based on the appraised value up to a maximum loan amount that far exceeds even today's higher loan limit and there are no upfront or ongoing FHA mortgage insurance premiums. Some make the loan available to those under the age of 62. Will FHA's increased loan limit erode the growth of these loans?

Hultquist isn't overly concerned. "If we begin to see no HECM loans originated at the MCA limit, then we'll know those higher-priced homes are better served by proprietaries. But that's not the case…yet." He says in 2017 only 11% of HECM endorsements were above the loan limit, and 8% in 2018 exceeded the national lending limit. He adds that states with higher-valued homes not approved for jumbo reverse mortgage loans stand to benefit the most from the loan limit increase.

One unanswered question remains: how long will HECM borrowers with high-valued properties enjoy access to more of their home's value? Only time will tell as future principal limit factor cuts could erase some of their gains. The increase will certainly attract more costly homeowners to 2019's endorsement volume, albeit modestly. In the meantime, mark this news as a win.