HECM Viability & Government Dependence

The Industry Leader Update by Reverse Focus I April 8th, 2019
Commentary by Shannon Hicks

The United States is in the mortgage business and in a big way. I have had to repeatedly remind myself that Uncle Sam's reach in mortgage lending goes far beyond Home Equity Conversion Mortgages. At times many reverse mortgage professionals may lament our industry's near total dependence on the federal government when in reality the majority of the housing market is regulated and ultimately backed by the taxpayer. The HECM is no exception.

This point should not be overlooked when considering the recent news that President Trump issued a memoranda instructing the Department of Housing and Urban Development to report back on the financial viability of the HECM program. A proposition that has caused considerable concern. It's not a shocking development being mindful the program has generated significant claims since being moved to FHA's Mutual Mortgage Insurance fund in 2009. Subsequently, FHA officials have wrestled with just how to stop the continued stream of HECM insurance claims and payouts responding with numerous program tweaks, product eliminations, insurance premium pricing adjustments, underwriting standards, and reduced principal limit factors- each with the express goal of shoring up the financial soundness of the program. Each lever has been dutifully pulled by FHA in the effort to stem the flow of continued claims.

Some have said the HECM should be treated like any other mortgage instead of a social program. A true mortgage mitigates risk in the loan's design and underlying assumptions. After all, isn't that how the rest of the U.S. mortgage market works? Not necessarily. Consider Alex Pollack, Distinguished Senior Fellow at the R Street Institute in Washing D.C. He recounts his presentation of the U.S. mortgage market system managed by Fannie Mae & Freddie Mac to the Danish Mortgage Banking Association- in the early 2000s before the housing crash. One Danish executive observed afterward, "You know, in Denmark we always say that we are the socialists and America is the land of free enterprise and free markets. But I see that in housing finance, it is just the opposite!" A point worth considering since Fannie, Freddie, & Ginnie Mae together has absorbed over $6.2 trillion in mortgage credit risks.

Truth be told, our government has a long established history of being in the mortgage and finance business. After all, our nation is committed to the 'American dream' of home ownership. Now our government is faced with the challenge of ensuring older American's can age in place without falling into poverty or eroding their quality of life.

The good news is despite the call to examine the financial viability of the program, the HECM remains the government's best option to meet the needs of a rapidly-expanding senior population leveraging their accumulated home equity. Perhaps the President's mandate will lead to the HECM's original assumptions of a national appreciation rate being reconsidered and replaced with localized or geo-centric principal limit factors, or other measures to reduce the HECM's risk exposure.

Either way, a deep dive into the underlying design of the HECM appears to be a bridge we must cross- one we optimistically hope will establish a second age of HECM lending that continues to meet the needs of older homeowners.