Changes to reverse mortgage rules proposed

By Editorial Staff *Thu, May 26, 2016*

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The Federal Housing Administration has proposed a set of new rules aimed at strengthening the Home Equity Conversion Mortgage (HECM) program, including changes to the origination and servicing process and protections for the Mutual Mortgage Insurance Fund (MMIF).

FHA plans to take several actions to ensure that reverse mortgages remain a viable and sustainable resource for senior homeowners who wish to remain in their homes and age in place, while also protecting the Mutual Mortgage Insurance Fund (MMIF).

The proposed rule will reinforce and codify recent HECM reforms that FHA has implemented in the past several years, and will also add new consumer protections.

The proposed changes include making certain that required HECM counseling occurs before a mortgage contract is signed; requiring lenders to fully disclose all HECM loan features; capping lifetime interest rate increases on all HECM adjustable rate mortgages (ARMs) at 5%; reducing the cap on annual interest rate increases on HECM ARMs from 2% to 1%.

FHA is also proposing to require lenders to pay mortgage insurance premiums until the HECM is paid in full, foreclosed on, or a Deed-in-Lieu (DIL) is executed rather than until when the mortgage contract is terminated.

Additionally, the proposal would include utility payments in the property charge assessment; and create a “cash for keys” program to encourage borrowers to complete a (DIL) and “gracefully” exit the property versus enduring a lengthy foreclosure process.

The policies outlined in its proposal may reduce HECM endorsements by $1.9 billion per year, “representing transfers from potential HECM borrowers to other debtors,” the FHA said.

Also, FHA anticipates its rule will reduce the MMIF credit subsidy for the HECM portfolio by $42 million per year; reduce foreclosures due to tax and insurance default by up to 6,000 cases each year, totaling about $1.5 billion in loan amount.

The proposal follows the most recent program changes the agency has made to the HECM program over the past several years, including the introduction of the Financial Assessment, upfront draw limitations, as well as updates to the non-borrowing spouse policy.

FHA is inviting interested persons to submit comments regarding this proposed rule to the Regulations Division, Office of the General Counsel at the Department of Housing and Urban Development. Comments may be submitted electronically through the Federal eRulemaking Portal.