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Program Changes Were Dramatic

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By Brad Finkelstein

The increase in the annual mortgage insurance premium for the Federal Housing Administration's Home Equity Conversion Mortgage standard program was a "dramatic" one, a long-time participant in the reverse mortgage business said. This change was introduced at the same time as the HECM Saver program.

The FHA increased the annual premium from 50 basis points to 125 bps. Marc Helm, president and chief operating officer of Reverse Mortgage Services, said to put that into perspective on how big of an increase it actually is, borrowers still have the 2% upfront premium in place.

Then, the average life of a HECM is reported to be seven to eight years. So previously, if the loan lasted eight years, the borrower paid a total of 6% (4% over the life of the loan plus the upfront) into the insurance fund. With the increase, he calculates the borrower will now pay 12% (10% over the life of the loan plus the upfront).

"That is a very large amount of money. What you have to realize is, the HECM insurance program is kind of like an apples and oranges program. For years and years and years, there were no losses on the HECM insurance program the way it was calculated, because the government has a tendency to compare current year to current year, without regard to what the vintage was of the loan that went into foreclosure," Helm said, explaining the losses were looked at against the premiums collected during the year it happened.

The last couple of years there have been losses, which is what drove the change in premium.

Craig Corn, vice president of MetLife's reverse mortgage division, noted that it was just over one year that the Department of Housing and Urban Development made changes to the principal limit factors.

This resulted in a drop in proceeds without a similar drop in costs to consumers that reduced the attractiveness of the reverse mortgage program. So for much of this year, origination volume of HECMs has been down when compared with 2009.

The industry and the FHA recognized the problem and sat together to come up with changes that would achieve different solutions, including one that would make HECMs more sustainable from an insurance fund perspective, Corn said.

Lenders want a sustainable program that is attractive to more older Americans. There is a segment of the market, he said, that is not as focused on maximizing proceeds as they are on minimizing costs.

“The conclusion was that we really needed to create products that served more segments of the older American population,” he said. So the result was two products, one that continues to serve the traditional HECM borrower. This group tends to need more proceeds. Therefore, he explained, they are also riskier to lend to. So “commensurate with that increased risk, there should be costs that reflect that risk, and that is what HECM standard is,” Corn said.

For that other segment, those willing to take less proceeds for lower costs, there is HECM Saver.

When discussing the re-engineering of the HECM program, and with historical penetration rates for reverse mortgages in the area of 2%, he said, it was clear there was a significant segment of the senior population that dismissed the traditional HECM program outright because of its cost structure or considered other financing alternatives such as home equity lines of credit.

It is believed that these people took the HELOC instead of a traditional HECM loan because of the cost structure, Corn said.

HUD also lowered the interest rate floor on both types of HECM loans to 5%, which Helm said caught the industry by surprise.

“We have had borrowers call in wanting to refi (their HECM) because they knew rates were lower than three years ago,” he said, adding RMS has a five-times test, where the borrower needs to be able to get five times in proceeds what the closing costs are. This is to make sure the borrower gets the benefit and it is not some originator doing the loan just to get money.

The lower floor did get Wall Street churned up, Helm said, because loans that were placed into Ginnie Mae securities might refinance at a pace higher than expected. Loans were sold into the secondary market under the assumption they would have a lower probability of refinance, thus a higher premium was paid.

Thus Wall Street now fears that “HUD has now shown they will change that floor. That floor has been stable for some time.

“But now all HUD has to do with the strike of a pen and a mortgagee letter is change that floor, and if they lowered that floor to 4%, tons and tons of people would now qualify for a refi.

“I don’t believe we are going to see that. Typically, a person who goes into a reverse mortgage really doesn’t want to go through the aggravation of refinance,” Helm said.

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