Home Equity Conversion Mortgage Program (HECM)
Fact Sheet

You've seen the TV commercials promoting Reverse Mortgages as a safe and reliable product to supplement the incomes of senior homeowners who want to remain in their homes as they age. FHA's *Home Equity Conversion Mortgage (HECM) Program* can be that resource for aging homeowners. The HECM Program helps qualified seniors to borrow upon their home equity they've built over the years and to age in place. Since the program's inception, FHA has insured more than one million reverse mortgages for senior borrowers.

However, due to the uncertainty of home prices, interest rates, and other factors, the HECM Program has been historically volatile. Since fiscal year (FY) 2009, FHA-insured reverse mortgages have resulted in a net cost of $11.7 billion to the FHA MMI fund. Last year alone, the economic value of the program was a *negative* $7.7 billion. In addition, HECM losses are making it increasingly challenging for FHA to maintain the overall level of reserves that Congress requires. If FHA does not act, the HECM Program would require an appropriation from Congress for FHA to endorse new reverse mortgages in FY 2018.

Since 1934, FHA's single family insurance fund has always been a self-sustaining, operating entirely on the premiums homeowners pay—with the exception of one year. In FY 2013, FHA required a one-time $1.7 billion mandatory appropriation from the Treasury to restore reserves in its Mutual Mortgage Insurance Fund (MMIF), a cash infusion that was required largely due to losses in the HECM Program.

Today, younger, lower-income homeowners with traditional FHA-insured 'forward mortgages' are routinely bailing out the HECM program through the mortgage insurance premiums they pay, placing a significant burden on the overall health of FHA's Mutual Mortgage Insurance Fund. We can no longer tolerate putting American taxpayers and future generations of seniors at risk. Quite simply, the HECM Program is losing money and can no longer remain viable in its present form.

Today, FHA is announcing several needed changes to the HECM Program to improve its financial health and ensure that it remains a resource for senior borrowers. FHA is:

1. ***Implementing policy changes to HECM servicing.*** These changes implement FHA's Final Rule ("Strengthening the Home Equity Conversion Mortgage Program") published earlier this year. Specifically, they address defaults associated with unpaid property charges; facilitate property sales once a loan becomes "due and payable;" and provide incentives to reduce lag time in conveying eligible properties to FHA. These changes are effective September 19, 2017

Read FHA's mortgagee letter related to the HECM servicing policy changes.

2. ***Adjusting Mortgage Insurance Premiums (MIPs).*** New HECM Borrowers will pay lower annual premiums partially offset by higher up-front premiums. For all new HECM borrowers, the *initial* MIP will be a standard two percent (2.00%) of the Maximum Claim Amount (MCA). This is revised from the prior schedule of either two and one-half percent (2.50%) for higher draws or one-half percent (0.50%) for lower draws. The new upfront premiums recognize that all borrowers taking out a HECM, regardless of how much they draw upfront, represent potential risk and should contribute to the fiscal health of new business.

   HECM's *annual* MIP will be one-half of one percent (0.50%) of the outstanding mortgage balance, reduced from the prior schedule for all borrowers from 1.25%. This change provides fee relief for all borrowers in the program, and preserves more equity for borrowers over time by slowing the rate at which the loan balance grows. These changes are effective on October 2, 2017.

3. ***Adjusting the amount seniors can draw, the Principal Limit Factors (PLFs).*** New PLFs will preserve the homeowners' equity in the home if they continue to occupy the house for the expected life of the loan. The amount seniors can draw, or PLFs, for new endorsements on or after October 2, 2017 will be subject to a new schedule. At current rates, PLFs will be lower compared to prior levels. As was the case with the prior PLF schedule, PLFs generally rise with borrower age and decline for higher interest rates.

   None of the changes will impact current HECM borrowers. These changes affect new endorsements for FY2018 to prevent future projected losses and will not affect losses stemming from HECMs from prior books of business. Given the program's historical volatility, FHA will continue to carefully monitor the HECM program and the impact of these changes.

   Read FHA's mortgagee letter related to HECM's new premiums and PLF schedule.