Establish A National Loan Limit For Federally-Insured Reverse Mortgages for Seniors

Background

The most popular program for reverse mortgages in America today is the FHA Home Equity Conversion Mortgage (HECM) program. Through this program, the U.S. Department of Housing and Urban Development insures mortgages that allow homeowners age 62 or over to convert their home equity into income. The program has insured over 200,000 reverse mortgages since 1990.

In a HECM, a senior homeowner receives income from the lender – either in a lump sum, regular monthly payments, a line of credit, or a combination of these. Interest accrues on the mortgage as long as the borrower lives in the home. When the home is sold, or the last remaining borrower dies or moves out of the home, the loan amount plus accrued interest is repaid. The homeowner cannot owe more than the sale price of the home.

The amount of income the borrower may obtain through a HECM is based on the value of the home, the age of the borrower, the current interest rate, and the location of the home (because the FHA loan limit varies by county). The loan amount cannot exceed the FHA Section 203(b)(2) limits for a single-family residence, which currently vary by market from a low of $200,160 in most areas to a maximum of $362,790 in areas with high housing costs.

Why a National Loan Limit is Needed

The FHA mortgage insurance programs were established by Congress to enable families that might not be able to obtain a mortgage with private mortgage insurance to purchase modest homes. Because housing costs vary considerably from market to market, Congress established loan limits for FHA that also vary according to the median home price in each market, with a cap for very high-cost areas based on the loan limits for Fannie Mae and Freddie Mac. With this system, a maximum-amount FHA loan should purchase about the same modest amount of housing in any market.

However, the FHA HECM program was established by Congress to enable elderly homeowners to convert their home equity into cash to help pay for living expenses. These expenses, which can include health care and home maintenance, do not vary considerably from market to market, and have little if any relationship to the median home price of the area. The disparities in the current FHA loan limits mean that a senior homeowner living in a city with a low FHA loan limit cannot access as much of his or her home equity as can a senior living in a city with a high FHA limit, regardless of their relative need for the funds. This unfairly penalizes senior homeowners in low-cost areas.

In addition, the variances in loan limits are confusing to seniors. It is difficult for lenders to undertake nationwide marketing efforts for HECMs and create standard explanatory materials that can help homeowners determine how much income they could get from a HECM. This has inhibited the growth of the program and prevented more widespread publication of information about reverse mortgages. As a result, many senior homeowners still do not know they can get a federally-insured reverse mortgage that could dramatically improve their quality of life.

What Congress Should Do

NRMLA urges Congress to support the Expanding American Homeownership Act of 2006 (H.R. 5121 and S. 3535), which would establish a single, nationwide loan limit for the FHA HECM program equal to the conventional Fannie Mae loan limit ($417,000 in 2006).

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