



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

October 25, 2011

Current Conversations with the Federal Housing Administration: HECM Year-In-Review

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FEDERAL HOUSING ADMINISTRATION



Topics of Discussion

- Current State and Challenges
- Portfolio Snapshot – Fiscal Year 2011
- Counseling Update
- Outlook and Priorities
- Appendix – Mortgagee Letters/Announcements



Current State and Challenges



Current State and Challenges

- Continue to experience serious challenges in the economy and in the housing market
- As with Forward mortgages, HECM borrowers have been impacted by the economic downturn and reduced property values
 - As with Forward Mortgages, the HECM is a secured mortgage and addressing issues related to delinquency and default is critical to sustain the program



Current State and Challenges

- More seniors have looked to equity in their property to
 - Replace decreasing savings, asset losses, investment income
 - Pay off mortgages to reduce monthly expenditures and in cases where default on the forward mortgage may be imminent
- Mortgagor profile and use of product has changed
- Major lenders have left the market
- Congress has eliminated funding for HECM counseling grants for 2012



Current State and Challenges

- Mortgagor inability to make required property charge payment and lender advances have increased HECM delinquencies and potential defaults
- Commissioner Letter confirming lender authority to issue financial and credit capacity assessment prior to loan approval



Current State and Challenges

- Several policy changes have been introduced to manage risk and strengthen the MMI Fund
 - New HECM Counseling Protocol (07/10) including Financial Interview Tool (FIT) and BenefitsCheckUp (BCU) (07/10)
 - HECM Saver (10/4/11)
 - Increase in annual MIP (10/4/11)
 - Reduction to Principal Limit Factors reduced available principal limit from 10% to 15% (10/4/11)
 - Mortgagee Letter 2011-01 (1/3/11) addressing T and I (property charge) delinquencies
 - Mortgagee Letter 2011-29 – FHA’s Maximum Loan Limits Effective October 1 – December 31, 2011



Current State and Challenges

- Several policy changes have been introduced to manage risk and strengthen the MMI Fund (Cont.)
 - Mortgagee Letter 2011-09 – Waiver of Counseling Fee
 - Mortgagee Letter 2011-26 – HECM Referral List Update
 - Mortgagee Letter 2011-31 – Revised Certificate of HECM Counseling and Clarification of Counseling Guidance
 - Non-Borrowing Spouse must attend counseling
 - Counseling Protocol: Client Information Packets



HECM Portfolio Snapshot

Fiscal Year 2011

September 30, 2011



HECM Portfolio Snapshot

Volume and Composition

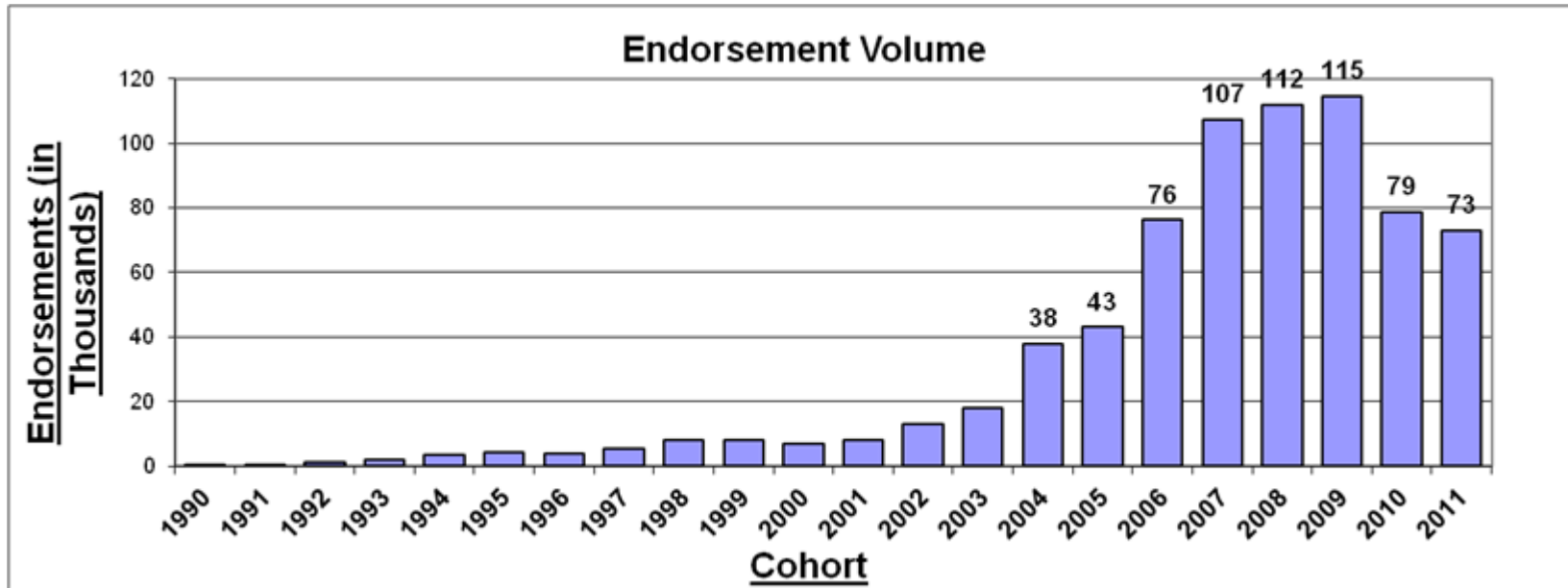
- Volume
 - 725,000 HECM insurance endorsements to date (Oct 1, 1989 through September 30, 2011)
 - \$163 billion
- Current composition of portfolio
 - 154,000 loans have terminated
 - \$29.5 billion
 - 559,000 loans are actively insured
 - \$131.5 billion
 - 12,000 loans are assigned to HUD as active notes in inventory
 - \$2 billion



HECM Portfolio Snapshot

Endorsements

- Endorsements by Cohort



Maximum Claim Amount (in Billions)

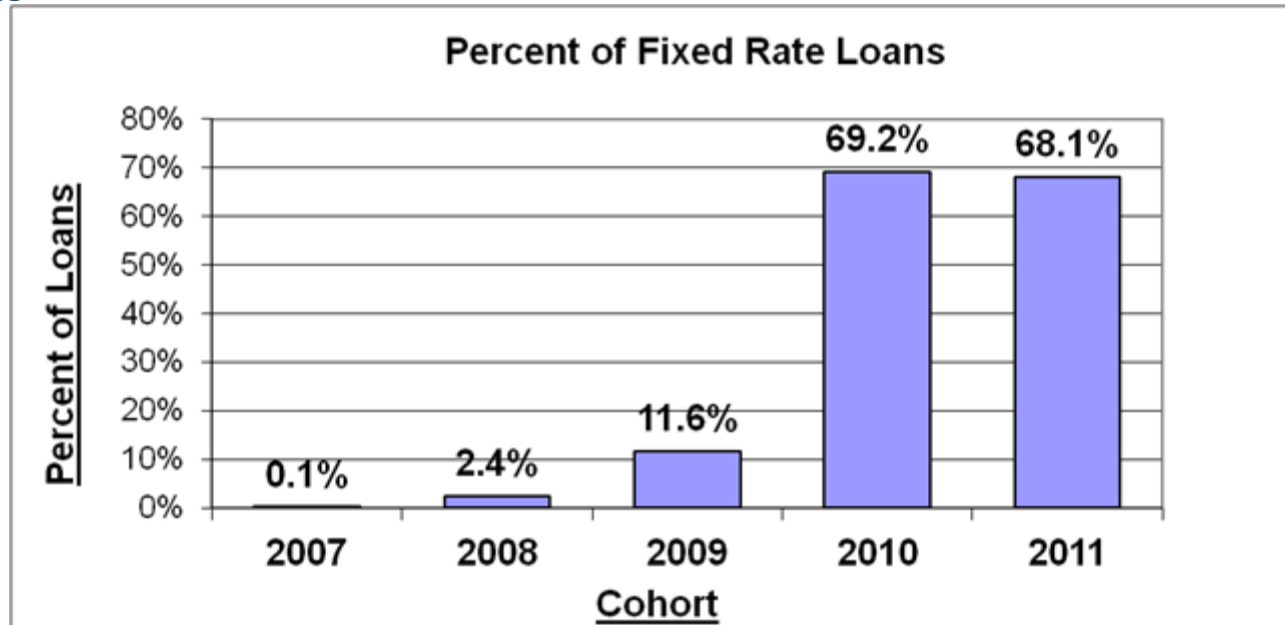
2004	2005	2006	2007	2008	2009	2010	2011
\$ 6.9	\$ 8.9	\$ 18.0	\$ 24.6	\$ 24.2	\$ 30.2	\$ 21.0	\$ 18.2



HECM Portfolio Snapshot

Fixed Interest Rate Loans

- Low interest rates have encouraged a larger percentage of fixed rate loans in recent cohorts



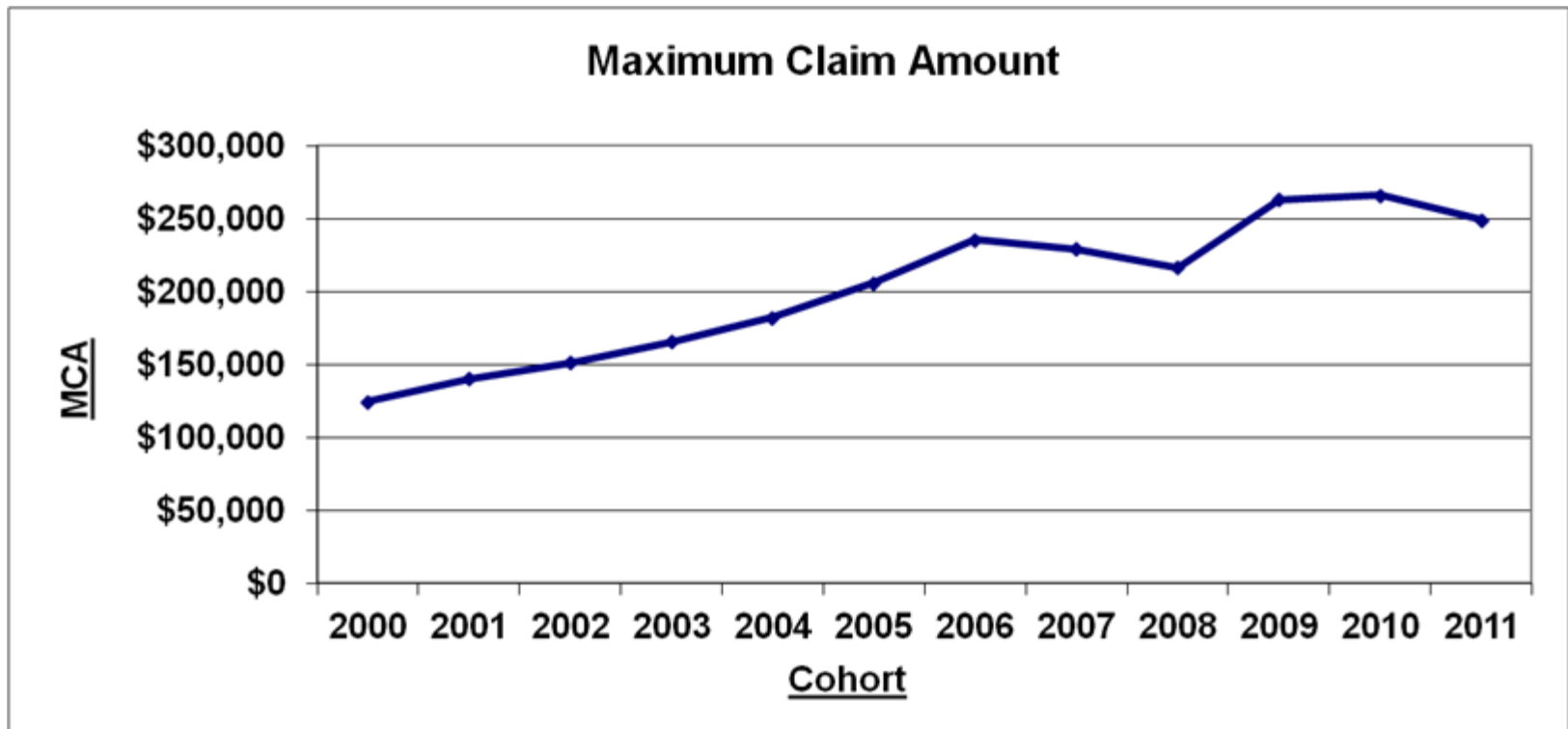
- Cohort 2011
 - 71.0% of Standard loans are fixed rate
 - 14.5% of Saver loans are fixed rate



HECM Portfolio Snapshot

Average MCA of Endorsements

- The average maximum claim amount post-HERA legislation, which increased loan limits, has remained relatively flat in \$200,000 to \$250,000 range.





HECM Portfolio Snapshot

Average MCA of Endorsements

- The average maximum claim amounts for the new Standard and Saver products

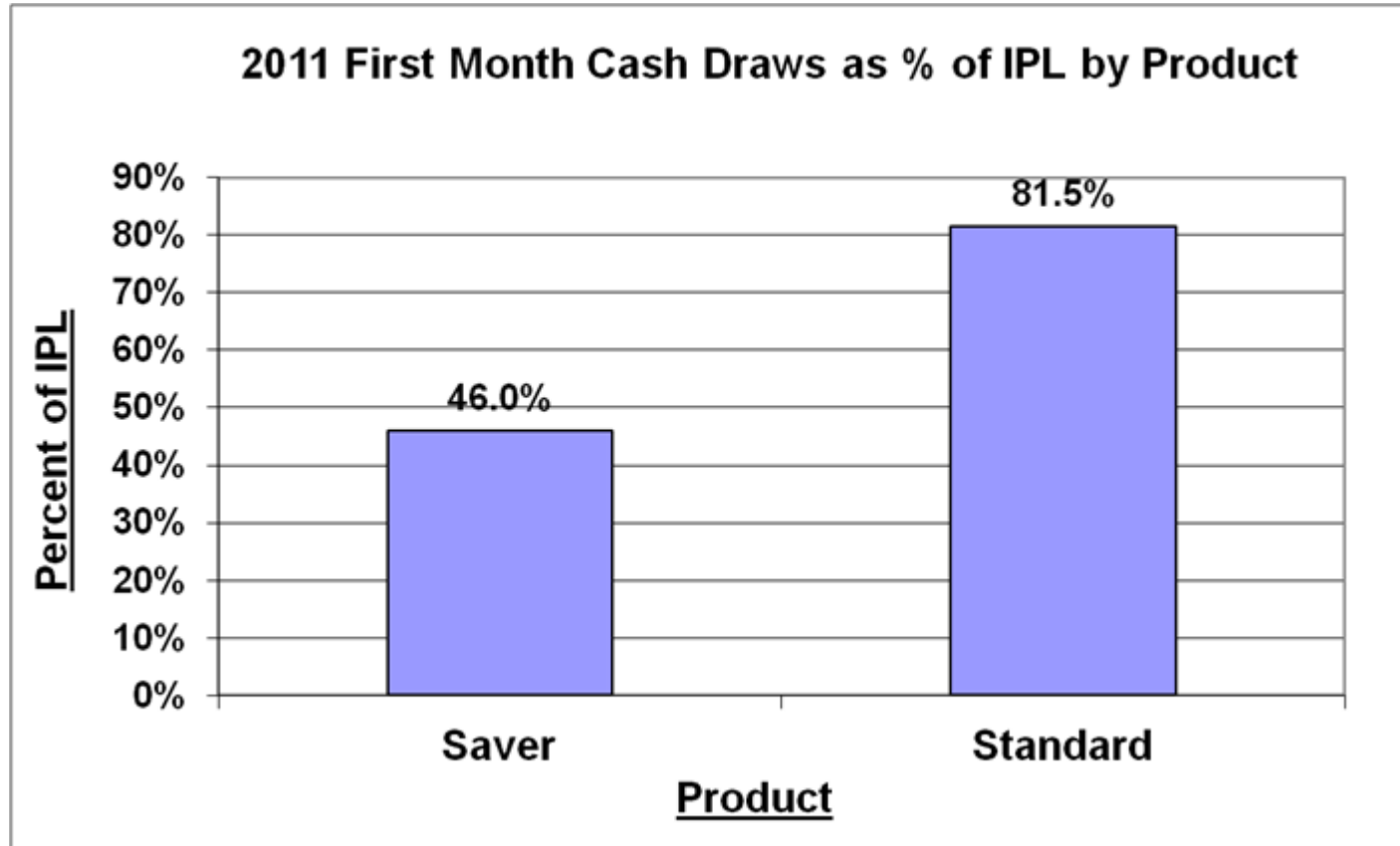
Month	Average MCA		Loan Count	
	Standard	Saver	Standard	Saver
Oct-10	\$ 242,283	\$ -	5,285	-
Nov-10	\$ 252,569	\$ 339,637	6,535	19
Dec-10	\$ 254,461	\$ 366,276	6,471	78
Jan-11	\$ 255,677	\$ 368,559	6,297	168
Feb-11	\$ 248,723	\$ 356,093	6,582	300
Mar-11	\$ 248,045	\$ 363,477	6,891	410
Apr-11	\$ 241,521	\$ 357,811	5,724	394
May-11	\$ 232,678	\$ 350,491	4,821	368
Jun-11	\$ 233,889	\$ 354,202	5,332	524
Jul-11	\$ 229,331	\$ 351,187	5,015	496
Aug-11	\$ 232,106	\$ 340,055	5,268	536
Sep-11	\$ 235,421	\$ 367,506	5,046	538
Total	\$ 243,205	\$ 355,659	69,267	3,831

*Standard includes Standard and original HECM loans; resulting factor pricing may be different between loans



HECM Portfolio Snapshot

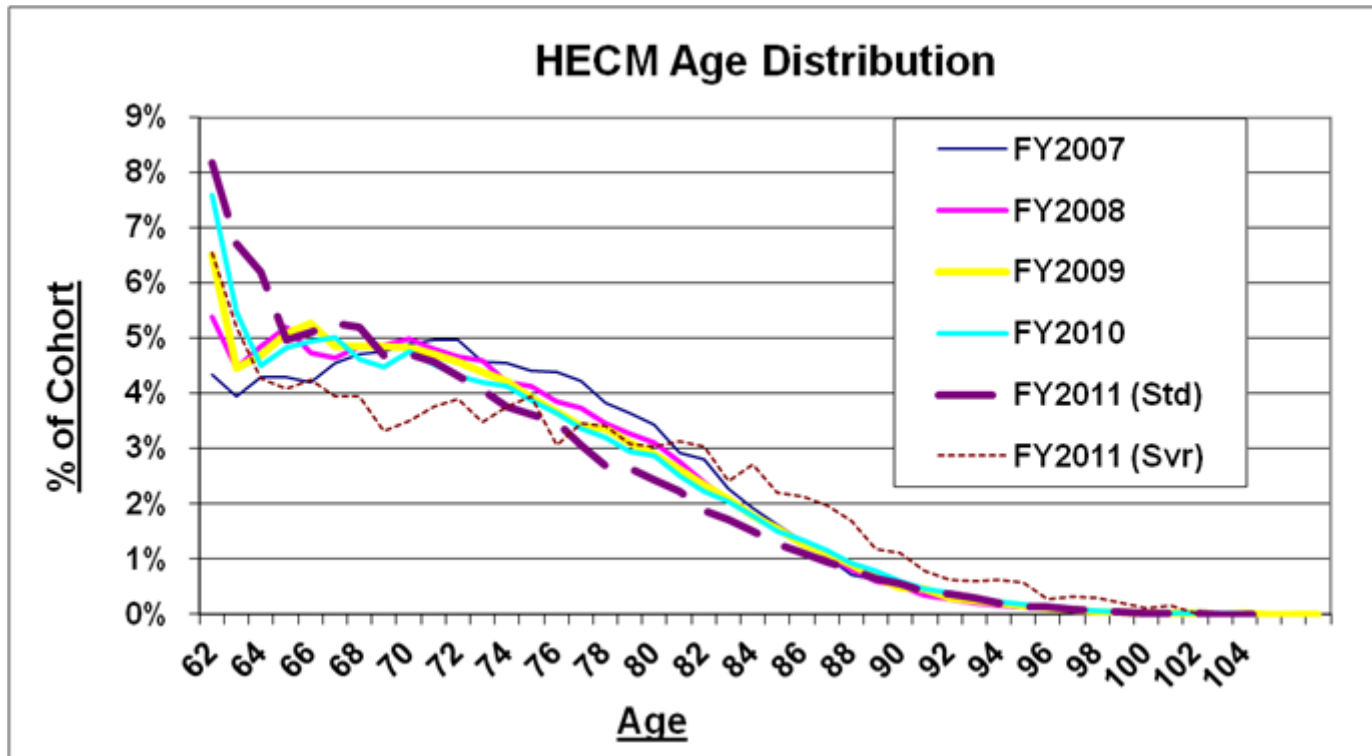
HECM Cash Draws (Saver and Standard FY2011)





HECM Portfolio Snapshot

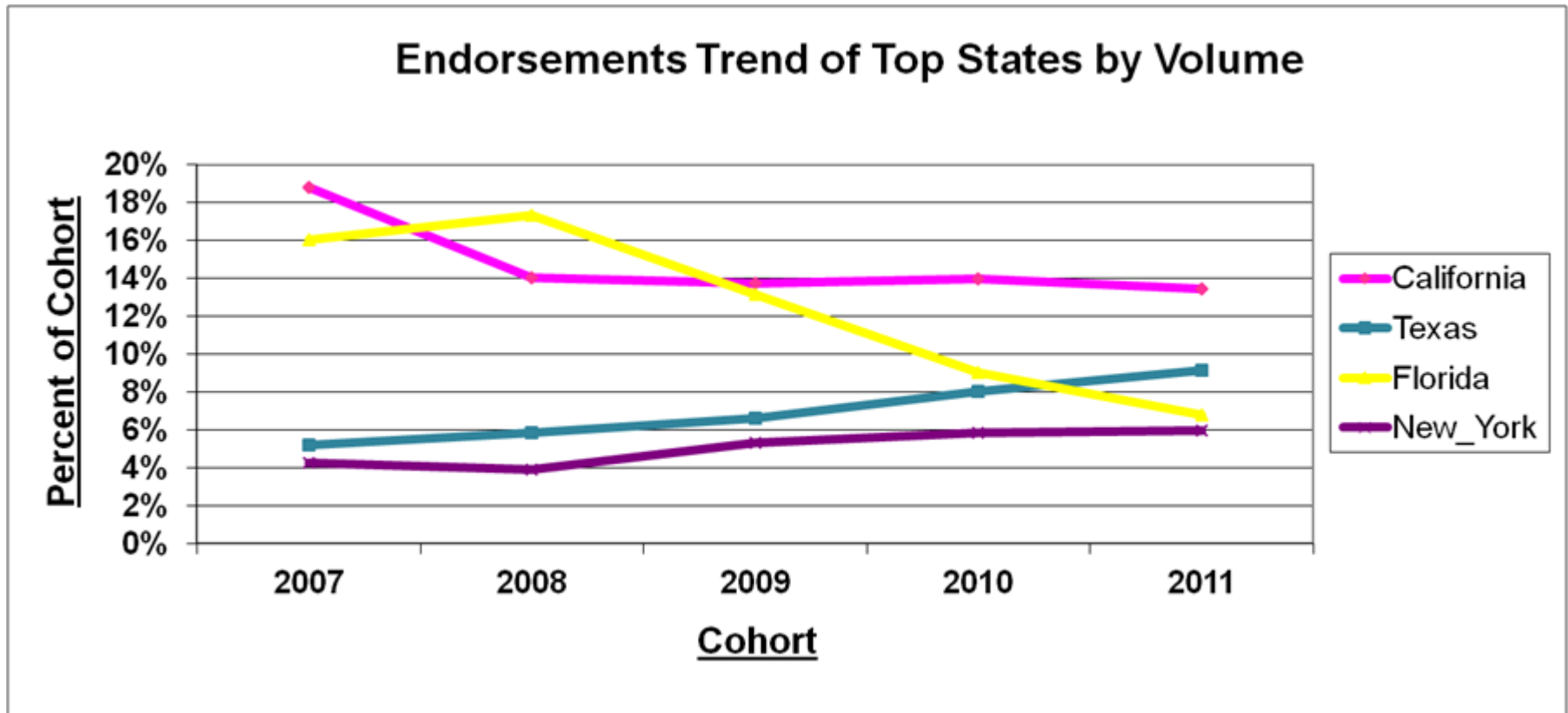
HECM Age Distribution





HECM Portfolio Snapshot

Geographic Endorsements (Ranking of Top States by Volume)

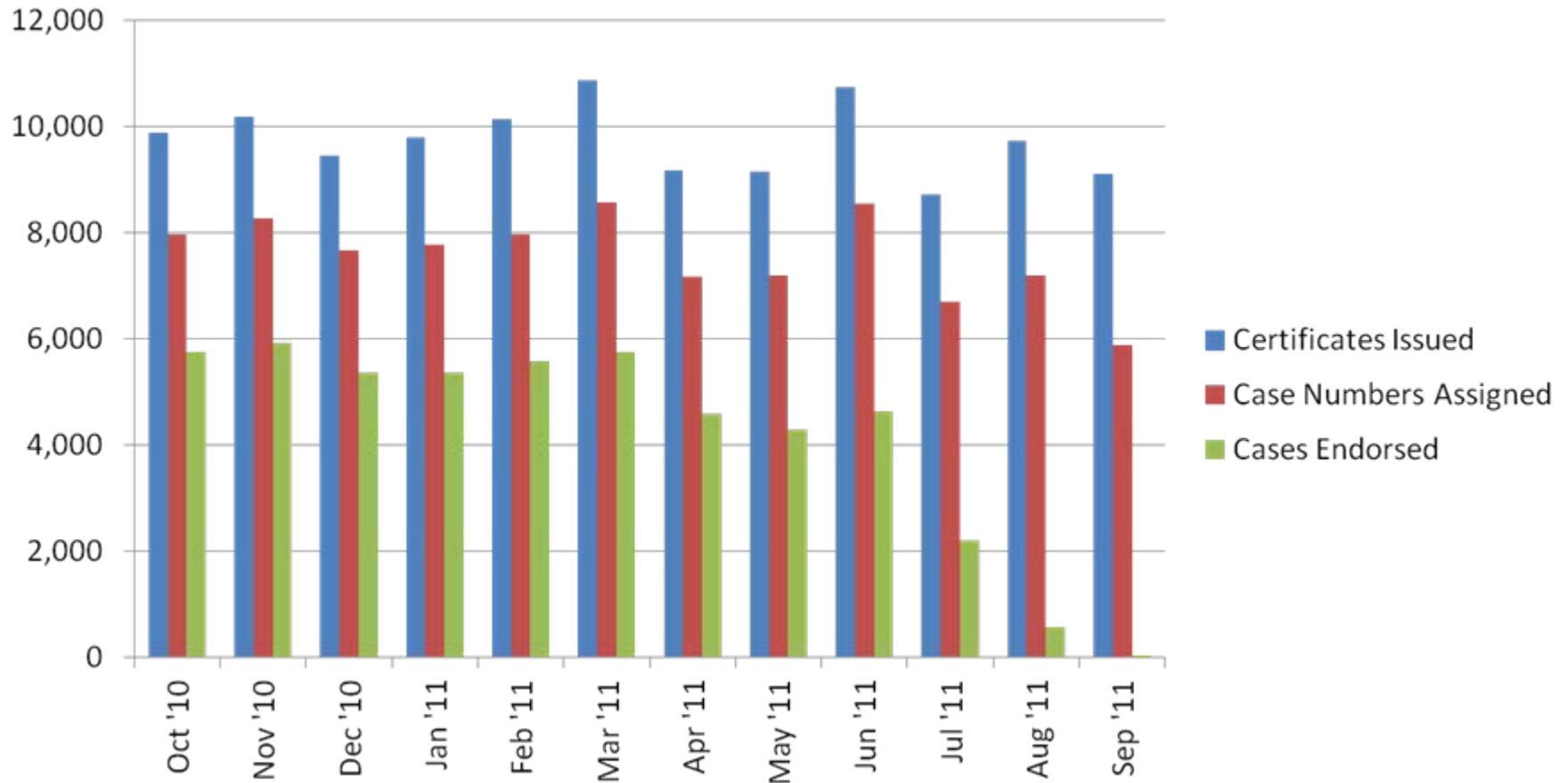




Counseling Update



HECM Counseling Certificates to Loans Endorsed (Pull-through)





HECM Counseling Client Demographics

Majority of HECM counseling clients

- have incomes between \$15K to \$24,999
- are between 65 – 74
- are married or widowed
- live in CA, TX, FL or NY
- 88% of those who complete the BenefitsCheckUp qualify for some type of benefit
- incomes range between 100% to above 200% of Federal Poverty level



Property Charge Delinquency Counseling

Results to date

- > 2,862 sessions completed through Sept. 30, 2011
- > 769 signed repayment agreements
- At least 489 clients referred to local AAAs for additional assistance

Lessons learned

- Each case is unique
- Most lack financial resources to pay all expenses and debts
- Many clients will need some type of public benefit to improve financial situation
- Range of capacity at local social service agencies



HECM Counseling Funding Situation

- Many HUD grant agreements have been extended—stretch funds in to 2012
- Recent Grants awarded totaling approximately \$10 M for 2012 for foreclosure prevention
- Housing counseling funding may be available in FY 2012
- Cuts impact training and other support for HECM counseling industry
- Lenders can continue to fund loss mitigation counseling for HECM Property Charge Loss Mitigation



HUD's Activities to Reinstatement HC Funds

- Acting Commissioner testimony on FHA priorities and status before the House Subcommittee on Insurance, Housing and Community Opportunity on 9/8/11
- Acting Deputy Assistant Secretary testimony on Housing Counseling before that same committee on 9/14/11
- Complete process overhaul of NOFA clearance and award process to allow grant money to be distributed in the same fiscal year that appropriations are made



HECM Counseling Funding Situation

- Clients may find it difficult to find counseling available unless they are willing to pay an upfront fee
- Most counseling agencies are collecting fees:
 - Paid directly by borrower
 - Financed into the loan
- Agencies are using HUD grants to provide free counseling to hardship clients
- ML 2011-09 – Agencies may charge clients below 200% Federal Poverty Level
- Counseling agencies have come up with innovative ways to stretch funds without jeopardizing HUD requirements



FY 2012 HECM Counseling Policy Changes

- FY 2012 all intermediaries requested and received grant extensions for another year
 - Result - the list of intermediaries remains the same as FY 2011
- Lender Financial Assessment



Outlook and Priorities - HECM



Outlook and Priorities - HECM

- HECM is an important and viable financial option for senior homeowners
- Many lenders have confirmed their interest in continuing to participate in the program
- The program was developed as a pilot and has changed very little over the last 20 years
- Recognize that this is not a subsidized product – must be self sustaining and must be effective financial solution based on borrower's capacity to meet the obligations of the loan



Outlook and Priorities - HECM

- Low Interest rates have been beneficial to this program as with forward mortgages
- HUD is working closely with industry trade groups and lenders to develop policies that will support the HECM program
 - Financial Assessment – Lenders
 - FHA Policy Development
- Work to obtain congressional approval to reinstate counseling budget



Appendix: Mortgage Letters and Announcements

Note: Servicing Related Mortgage Letters and Announcements are in the Servicing Deck



HECM Counseling Fee Waiver

Mortgagee Letter 2011-09 – Issued February 4, 2011

<http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/11-09ml.pdf>

- Provides guidance on:
 - When a HECM counseling fee should be waived
 - Activities performed by a counselor that should be included in time recorded on HECM Certificate
 - Standard procedure for determining client’s ability to pay
- In addition, clarified HCAs may base counseling on cost to provide counseling. Fees:
 - Must be reasonable and customary
 - Do not exceed a level commensurate with the counseling services provided, and
 - Are not being charged to pay for the same portion of or for an entire service that is already funded with HUD HC grant funds or other funds received for HECM or delinquency counseling



HECM Counseling Referral List

Mortgagee Letter 2011-26 – Issued August 12, 2011

<http://portal.hud.gov/hudportal/documents/huddoc?id=11-26ml.pdf>

- Updates guidance found in ML 2010-37 issued on November 8, 2010
- Updated guidance was posted on 4/8/11 - FHA Connection Message Board <https://entp.hud.gov/clas/html/main.cfm>
- When a borrower meets with a lender prior to counseling, the lender must provide the borrower with a listing of Agencies
 - Include all intermediaries receiving HECM funding and 5 local/state agencies – one within reasonable driving distance
 - Complete HECM Referral List screen in FHA connection prior to submitting case to FHA for endorsement
- As of May 1, 2011 a new field - “referral date” - must be completed in FHA Connection documenting the date the client received the counselor list from the lender



FHA's Maximum Loan Limit Effective October 1, 2011 Mortgagee Letter 2011-29 - Issued August 19, 2011

<http://portal.hud.gov/hudportal/documents/huddoc?id=11-29ml.pdf>

HECM National Mortgage Limit will remain at \$625,500 through December 31, 2011

- 150% of national conforming limit of \$417,000
- Applicable to special exception areas
 - Alaska
 - Hawaii
 - Guam
 - Virgin Islands

Legal Authority: National Housing Act

- Traditional – Section 255 (g)
- Refinance – Section 255 (g)
- Purchase – Section 255 (m)



Revised HECM Certificate

Mortgagee Letter 2011-31 – Issued August 26, 2011

<http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/11-31ml.pdf>

- Requires non-borrowing spouse to attend counseling and sign certificate
- Revised 92901 Certificate of HECM Counseling.
Changes made:
 - Added signature line for Attorneys in Fact, Guardian or court appointed conservator
 - Revised Homeowner Certification to include HECM for Purchase Certification
 - Revised Counselor Certification to include HECM Saver and HECM for Purchase
- Certificates signed by all owners on the property deed **and** non-borrowing spouse



Client Information Packets

HECM Protocol

<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=7>

[610-0.4.1](#)

- If lender provides the information packet to client prior to a counseling session, the lender should provide counselor with copy of loan comparison
- Lender can submit them to counselor by fax, email or web-based system
- There can be lender contact with counselor prior to counseling for this purpose



Letter from Carol Galante

Titled: HECM Program Update

To download a copy of the October 5, 2011 Letter:

http://portal.hud.gov/hudportal/documents/huddoc?id=FHACG_05OCT11_FINAL.PDF



Questions?