NRMLA

National Reverse Mortgage Lenders Association

Eliminating Cap on Outstanding HECM Loans

Background

A reverse mortgage enables older homeowners (62+) to convert part of the equity in their homes into tax-free income without having to sell the home, give up title, or take on new monthly mortgage payments. The Home Equity Conversion Mortgage (HECM)—insured by the Federal Housing Administration (FHA)—is the most popular reverse mortgage product, accounting for 90 percent of total production. Since its adoption in 1990, FHA has insured over 200,000 HECMs.

With a HECM, a senior homeowner receives income from the lender—either as a lump sum, fixed monthly payments, a line of credit, or a combination of these. The loan is repaid when the homeowner (or last remaining spouse) ceases to occupy the home as a principal residence.

The amount of funds a homeowner is eligible to receive depends on several factors, including age, appraised home value, current interest rates, and the location of the home (because the maximum FHA loan limit varies by county).

The funds from a reverse mortgage can be used for anything: daily living expenses; home repairs or modifications; health care expenses, including prescription drugs or in-home care; pay-off of existing debts; lifestyle enhancement; prevention of foreclosure; and other needs. For some living on fixed incomes the program is a godsend. For others, it is a financial planning tool that can enhance quality of life throughout retirement.

Numerous consumer protections are built into the program. For example, all eligible borrowers must first undergo counseling through a third-party agency approved by HUD or AARP, the fees charged by a lender are regulated by HUD, and the homeowner will never owe more than the value of the home.

Eliminating Cap

In response to rapid growth in the reverse mortgage program, a key legislative priority for NRMLA in 2006 will be to remove the cap on the number of reverse mortgages that the U.S. Department of Housing and Urban Development can insure.

Without legislation, the U.S. Department of Housing and Urban Development can only insure 250,000 HECM loans—a cap that our industry could approach within the next 12-24 months as volume increases.

Key Recommendations

Support S. 1710, the Reverse Mortgages to Help America's Seniors Act introduced by Sen. Rick Santorum (R-PA) which eliminates the HECM loan cap. The U.S. House of Representatives has already passed a companion bill (H.R. 2892) sponsored by Reps. Michael Fitzpatrick (R-PA) and Jim Matheson (D-UT) by unanimous consent on December 16, 2005. Both bills enjoy bipartisan support and are endorsed by AARP.

In addition to S. 1710, we urge Congress to support the Expanding American Homeownership Act of 2006 (H.R. 5121 and S. 3535), which would also remove the cap, and implement other changes beneficial to the HECM program.

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