



ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: September 23, 2019

Mortgagee Letter 2019-16

To: All FHA-approved Mortgagees
All Direct Endorsement Underwriters
All FHA Roster Appraisers
All HUD-Approved Housing Counselors

Subject Home Equity Conversion Mortgage (HECM) Program – Continuation of HECM Collateral Risk Assessment Requirements

Purpose This Mortgagee Letter (ML) is issued pursuant to the authority granted in the Reverse Mortgage Stabilization Act (RMSA) of 2013 to provide new requirements to the Federal Housing Administration's (FHA) HECM program regulations. This ML eliminates the termination date for policies established in ML 2018-06 ("Home Equity Conversion Mortgage (HECM) Program – Changes to Appraisal Submission and Assessment for all HECM Originations").

Effective Date The provisions of this ML are effective immediately.

Public Feedback HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide any feedback on this policy document, please send comments to the FHA Resource Center at answers@hud.gov. HUD will consider the feedback in determining the need for future updates.

Affected Programs This guidance applies to all HECM originations.

Continued on next page

Background

The Department published ML 2018-06, which requires a second appraisal of a property where a collateral risk assessment by FHA of the initial appraisal submitted for use in the HECM origination determines that additional support for the collateral value is required. The requirements of ML 2018-06 are applicable to HECM case numbers assigned from October 1, 2018 through September 30, 2019.

FHA has evaluated the HECM program requirements implemented under ML 2018-06 and has determined that the collateral risk assessment requirement is having the desired effect of mitigating significant collateral valuation risks posed to the Mutual Mortgage Insurance Fund (MMIF) and borrowers. The findings from the 6-month and 9-month evaluations provide evidence of policy effectiveness and support the continuation of the collateral risk assessment requirement.

The 6-month and 9-month policy review evaluated specific measurable costs to HECM borrowers, American taxpayers, and mortgagees. Using the average cost of an appraisal and the projected volume of initial appraisals flagged for a second appraisal, the estimated cost of the collateral risk assessment to HECM borrowers is \$2.85 million per year. Examining all cases since implementing the collateral risk assessment policy, regardless of whether the case was flagged for a second appraisal, appraisal values are 1.8 percent lower than prior to policy implementation. Lower appraisal values for all HECM cases provides an estimated reduction of FHA's exposure of approximately \$250.3 million per year, resulting in lower expected losses to the MMIF and the American taxpayer. FHA's actuarial model shows a projected reduction in appraisal inflation will lower lifetime default rates and increase lifetime recoveries. An indirect cost of requiring a second appraisal is the impact to mortgagees from a potential delay in receipt of profits from originating a HECM. Data indicates that cases flagged for a second appraisal take longer to close than those not required to obtain a second appraisal, but also indicate that mortgagees have adjusted processing times to accommodate for a potential second appraisal. Consequently, HECM cases on average are closing faster than prior to the implementation of the collateral risk assessment and this indirect cost is not being sustained beyond the fixed cost mortgagees incurred to adjust the origination process.

To continue to sustain the HECM program as a viable financial resource for elderly homeowners and for HUD to comply with its statutory responsibilities to the MMIF, the Secretary has determined that the changes to the HECM program announced in ML 2018-06 continue to be necessary to improve the fiscal safety and soundness of the HECM program.

Mortgagee Letter 2019-16

Background
(continued)

Therefore, based on the referenced evaluation and pursuant to the authority granted to the Department by RMSA, this ML updates HECM requirements to eliminate the September 30, 2019 deadline in ML 2018-06 and HECM program requirements set forth in ML 2018-06 shall continue in effect.

Summary of Changes

The effective date of ML 2018-06 was October 1, 2018 through September 30, 2019. This ML eliminates that termination date of September 30, 2019. The requirements of ML 2018-06 shall remain in effect.

Paperwork Reduction Act

The information collection requirements contained in this document are approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1996 (44 U.S.C. 3501-3520) and assigned OMB Control Number 2502-0524, 2502-0494, and 2502-0538. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to a collection of information unless the collection displays a currently valid OMB Control Number.

Questions

For additional information on this ML, please visit www.hud.gov/answers or call FHA's Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Relay Service at 1-800-877-8339.

Signature

Brian D. Montgomery
Assistant Secretary for Housing –
Federal Housing Commissioner
