

A New HUD Rule for Reverse Mortgages, with Additional Rule Changes Proposed in Congress

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This past month, Washington was busy with rule changes and proposed legislation that underscores the ongoing debate over the origination and foreclosure of reverse mortgages. First, the U.S. Department of Housing and Urban Development reduced the maximum amount a reverse mortgage applicant can borrow. Previously, the maximum amount was exclusively tied to the property's value (at either 60% or 70%). Under the new rule, HUD has tied that maximum amount to three criteria: applicant's age, loan rates and the value of the property. While it is unclear how these new criteria will impact the maximum amount, the [Wall Street Journal](#) reports that Lending Tree's chief sales officer anticipates that a typical applicant will now be able to borrow 58% on the property's value, down from an average of 64%. Second, HUD increased the upfront insurance premium charged on any reverse mortgage from between .5%-2.5% percent and depending on the amount borrowed to a flat 2%. Given the reduction in amount that an applicant can borrow and an increase in upfront insurance payments, HUD's new rules appear aimed at benefiting lenders. The new rules went into effect on October 2, 2017.

The second development involves congressional efforts to protect reverse mortgage borrowers. At the end of October, Congresswoman Maxine Waters, Ranking Member of the House Financial Services Committee, introduced [legislation](#) aimed at adding safeguards to the FHA's reverse mortgage program, specifically to prevent homeowner displacement. The bill, proposed as an amendment to the National Housing Act, includes provisions that would: (1) require loss mitigation for reverse mortgage borrowers in default (now, loss mitigation is just an option); (2) mandate the assignment of reverse mortgage loans to HUD if there is an eligible non-borrowing spouse living in the property (now, assignment to HUD is an option); (3) require lenders to provide prompt notice to a non-borrower spouse of their eligibility to remain in the property if they meet certain requirements; (4) prevent foreclosure of non-borrower spouses once the loan is assigned to HUD unless they fail to meet basic requirements; and (5) grant HUD the authority to reduce or deny insurance benefits to any mortgagee who fails to comply with loss mitigation requirements. The proposed legislation also requires HUD to consult with the CFPB to ensure that future HUD rules are more sensitive to the borrowers.

Given that the “Preventing Foreclosures on Seniors Act” bill was introduced by the ranking Democrat on the Financial Services Committee, and notwithstanding the recent retirement announcement by committee chairman Jeb Hensarling, it is doubtful that this legislation will reach the floor of Congress, much less the President’s desk. Introduction of this borrower favored legislation at one end of October, as compared to rule changes favoring lenders on the other end of October, suggests growing concern and tension in the reverse mortgage industry. Moreover, given the number of baby boomers retiring (at a rate some estimate to be 10,000 per day) while at the same time reaching the age of eligibility (62) for a reverse mortgage application, we assume the debate, as well as additional rule changes and proposed legislation will continue so long as reverse mortgages remain a viable source of necessary retirement income.

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