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HUD Revises the HECM Program in Response to Changing Market Conditions

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Last week, the Department of Housing and Urban Development (HUD) revised multiple regulations and requirements related to servicing Home Equity Conversion Mortgages (HECMs, more commonly known as “reverse mortgages”), with the goal of updating and streamlining the program to improve its long-term performance.

In recognition of rising interest rates and other market conditions that are making the HECM Program more costly for mortgagees, HUD published Mortgagee Letter (ML) 2023-23 on November 30, 2023. HUD asserts that the revisions outlined in the ML will ultimately “simplify servicing requirements, incentivize actions that improve outcomes for all HECM Program participants, and protect the [Mutual Mortgage Insurance Fund (MMIF)],” as well as “yield better financial outcomes for current and prospective FHA-approved Mortgagees.” While the revisions impact multiple sections of the FHA Single Family Housing Policy Handbook (FHA Handbook), they can be grouped into revisions that take effect immediately and revisions that take effect on March 25, 2024.

Revisions Effective Immediately

Verbal Occupancy Certifications – Mortgagees have historically been required to obtain written occupancy certifications from borrowers and Eligible Non-Borrowing Spouses annually. ML 2023-23 allows mortgagees to contact the borrower over the phone to verbally complete the annual occupancy certification. The mortgagee must verbally provide a disclosure, note the name and phone number used to obtain occupancy verification, and maintain a recording of the call.

Expanding Mortgagee – Funded Cures to HOA/COA – HUD has expanded the definition of “Mortgagee-Funded Cure” to allow mortgagees to use corporate funds to pay for all property charges, not just payments for outstanding property taxes or insurance payments.

One-Year Restriction on Assignment Following Mortgagee-Funded Cures – Mortgagees are prohibited from assigning a HECM to HUD following a Mortgagee-Funded Cure until the borrower has made one year of property charge payments. Since 2016, HUD prohibited assignment for three years following a Mortgagee-Funded Cure, though it had waived that restriction during COVID-19 to allow immediate assignment.

Inclusion of HOA/COA Dues in Repayment Plans – ML 2023-23 now allows mortgagees to include homeowner and condominium association dues in a borrower’s total arrearage when calculating repayment plans.

Increase of De Minimis Property Charge Defaults – ML 2023-23 increases the threshold for when a mortgagee must submit a due and payable request to HUD for outstanding property charges from $2,000 to $5,000, expanding a mortgagee's ability to work with borrowers that have fallen behind on taxes, insurance, or other property charges.

Revisions Effective March 25, 2024

Loss Mitigation Incentives – Mortgagees may now offer up to $7,500, plus an additional $5,000 for probate costs, to borrowers who agree to short sales, deeds in lieu, or post-foreclosure eviction avoidance loss mitigation options. The amount of payments mortgagees may offer borrowers varies depending on the type of loss mitigation outcome and how quickly the borrower completes it. HUD will also pay mortgagees incentives of $1,500 to complete a short sale or deed in lieu.

Elimination of Maturity Appraisal – Appraisal requirements are consolidated to ensure that all HECMs are subject to the same appraisal standards, regardless of origination date. As part of these revisions, mortgagees are no longer required to obtain maturity appraisals for loans with FHA case numbers assigned prior to September 19, 2017.

HUD's revisions to HECM-related requirements will have a significant impact on mortgagees and servicers participating in the HECM Program. True to the stated goal of the ML, it appears HUD has made revisions that consolidate program requirements, provide a more clear and robust incentive structure for participating mortgagees, and reduce certain servicing obligations that had proven onerous to mortgagees and servicers. As a result, while we will continue to monitor the implementation of these revisions and any related developments, it appears that these revisions to the HECM Program will likely benefit both HECM borrowers and mortgagees.

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