A FULL FALL ON THE HILL

by Marty Bell

For those Congressmen who have had it with the healthcare town meeting circuses at home, we're ready for you to come back to DC. We're awaiting some big decisions when the Drama on the Hill autumn act begins. Still on the table are the possibility of an appropriation to cover OMB's projected HECM insurance shortfall for fiscal 2010, an extension of the $625,500 national loan limit and continuation of the suspension of the cap on total reverse mortgage output.

Here's an update on where the issues stand:

APPROPRIATION

To recap: The request for a credit subsidy for the first time in the history of the HECM program appeared in the President's fiscal 2010 budget. OMB estimated a subsidy of $798 million would be required to cover losses that might be incurred over the life of loans originated in FY 2010. The need is apparently based on an estimated continued drop in home prices, though OMB does not reveal what that estimate is in fear of creating a self-fulfilling prophesy.

The estimate was then confirmed in an independent program assessment made by the Congressional Budget Office.

In June, newly confirmed HUD Secretary Shaun Donovan was quoted as saying, "We are open to raising premiums or restricting eligibility to cover the subsidy."

Where we now sit: The bill passed by the House contains no appropriation but advises the HUD Secretary to make adjustments to the principal limit factors to achieve a net zero subsidy rate.

The bill passed by the Senate Committee on Appropriations provides for a subsidy of $288 million. It also calls for a 5% reduction in the principal limit. This bill will be voted on by the entire Senate when it returns from August recess.

Negotiations continue among Congressional staffers while members of Congress are away on recess. The fact that the House and Senate versions of the bill have differing provisions on HECM means that the issue is a highly negotiable item.

The discrepancy simply throws the bill into conference. The final decision doesn't necessarily have to be what's in either bill. It could be completely different, even providing the entire $798 million credit subsidy initially requested in the President's budget proposal.

NRMLA has been providing information to key Congressional staffers and others who are trying to help us preserve the HECM program as it currently operates. For example, an analysis of three of our major lenders' portfolios has shown that nearly 21% of current borrowers would have come up with too little cash from the reverse mortgage to pay off their existing indebtedness if principal limits are reduced by 10% - resulting in many being forced to move out of their homes.

PRINCIPAL LIMIT

In February 2009, the American Recovery and Reinvestment Act raised the maximum claim amount for HECMs from $417,000 to $625,500—but only through December 31, 2009.

The House bill would extend the $625,500 limit through September 30, 2010.

The Senate committee version of the bill does not address loan limits for HECM or other FHA programs. If the language in the current Senate version were to be enacted, the HECM maximum claim limit would return to $417,000 as of January 1, 2010 for the balance of fiscal 2010 (which runs through September 30, 2010.) Historically, the House has been more assertive on FHA loan limits and the Senate has typically accepted the House provisions on this topic.

Once again, this will be decided in conference and current positions are no indication of where that committee will come down.