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April 24, 2014

The Honorable Carol Galante
Assistant Secretary for Housing – Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street SW
Washington, DC 20410

Dear Commissioner Galante:

I write today about recent changes to the Federal Housing Administration's Home Equity Conversion Mortgage (HECM) Program and to recommend further reforms to protect seniors and taxpayers.

As you know, the HECM Program offers seniors an opportunity to take out equity from their home to help pay for living expenses or other costs. In recent years the number of reverse mortgages has grown, peaking at 114,412 loans in 2009. Growing pressures on seniors have increased interest in this program, particularly the lump sum option. Unfortunately, default rates are also high and in Fiscal Year 2012 the HECM program cost the Mutual Mortgage Insurance Fund $5.2 billion, in part leading to the transfer of $1.7 billion from the Treasury in the fall of 2013 to help stabilize the account.

Last year Congress passed and President Barack Obama signed the Reverse Mortgage Stabilization Act (Public Law No: 113-29). This law gives the FHA added flexibility to manage the HECM Portfolio and make changes that would improve the fiscal stability of the program. I'm pleased that the FHA has already taken steps to shore up the program by requiring borrowers to undergo a financial assessment before taking out a reverse mortgage, setting up escrow accounts to ensure borrowers have enough funds to continue to pay insurance and taxes, and limiting the amount borrowers can take in an upfront lump sum payment.

However, I believe that the opportunity remains to improve the program for seniors and taxpayers. Right now, lenders have no incentive to guarantee that the loan is the right fit for the senior, because they receive the full backing of the FHA even if the borrower defaults. I believe Congress and regulators need to consider whether companies with default rates exceeding the industry average still deserve the full backing of the FHA. With this approach, lenders with low defaults would continue to receive the full backing of the loans, but those with persistently high default rates could see their federal backing diminish and only be insured for a portion of the value of the loan. Making this change would give lenders an incentive to ensure that seniors are able to fulfill the terms of the loan and help stabilize the Mutual Mortgage Insurance Fund by limiting the payouts for defaults.

In light of the passage of the Reverse Mortgage Stabilization Act, I would appreciate clarification about the FHA's authority to further reform the HECM program. Does the FHA have the authority to pursue reforms that would limit its support for irresponsible lenders, or would it take legislative action to change the way that the FHA insure HECMs?

Thank you for your attention to this matter and your continued leadership at the Federal Housing Administration. I look forward to hearing your thoughts. For further information, please contact Amanda Eaton, on my staff, at 202-225-2305.

Sincerely,

Mark Takano

Mark Takano
Member of Congress