Checking the HECM Fusion

By Atare Agbamu

FINANCIAL PRODUCTS COME WITH STRENGTHS AND weaknesses. The HECM Traditional (or HECM Fusion as we call it here) is no exception.

About two weeks on the market at this writing, it may be too early to gauge its impact on borrowers, lenders, FHA, and investors. Yet we set out to find out what some industry members consider the pluses and minuses of the fusion of the former HECM Saver and HECM standard.

Reflecting a Wall Street angle, Michael McCully, partner at NewView Advisors, sees no "material change in the inherent value" of HECM Mortgage-Backed Securities (HMBS). He believes the longer duration associated with lower loan-to-value products such as the Fusion "slightly enhances the value of HMBS."

If loan limits come down to the Fannie Mae limits of $417,000, McCully thinks the Fusion could spark a rebirth of proprietary reverse mortgage products. At this writing, Generation Mortgage Company's *Generation Plus* is the only private product in the market.

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On the minus side, McCully expects "a drop in profitability" because of the fall in both "dollar and unit volume. Short term, he says the changes create disorientation and uncertainty.

Change fatigue aside, Paul Franklin (manager) and David Heilman, CRMP (branch manager) at Franklin Funding (Charleston, SC), admit that the Fusion's overriding strength is that it ensures the program's survival.

Another advantage they see is the Fusion's appeal as a "viable tool in retirement planning for financial planners" when loan draws remain under 60 percent and the line-of-credit option is used.

Franklin and Heilman agree that the Fusion will spur competition in private reverse mortgages and create choices, adding that "Choices are good!"

And with financial assessment in January 2014, they view extra consumer safeguards that will "help both borrower and lender determine whether a reverse mortgage is appropriate for their situation" as pluses.

A highly-regarded reverse-mortgage broker for more than 12 years until two years ago when it became a lender, Franklin Funding understands the economics of reverse-mortgage brokering. Heilman suggests that new regulatory changes, compliance regime, and reporting requirements could encourage many brokers to make the transition to lenders or partner with strong lenders as correspondents.

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One of the most astute practitioners and students of HECM in the industry, Franklin says the Fusion's biggest weakness is the "program's retreat from seniors who live on just social security or on limited fixed income." The pull-back, he contends, makes the HECM program "more vulnerable to attacks" from policymakers and consumer advocates on both left and right of the political spectrum.

If reducing complexity was a reason for the HECM Fusion, then, at least for one Twin-Cities-based HECM counselor who prefers anonymity, that purpose is a work-in-progress, especially with new confusing rules and concepts and costs around principal-limit draws at 60 percent, above 60 percent, and below 60 percent.

"Gosh! First-year draw restrictions, mandatory obligations, 60-percent draw, above 60-percent draw, below 60-percent draw and the different costs; it is confusing to me much less to seniors," says the counselor.

"I am still trying to refine how I am going to explain it to seniors. It is going to take me a while, and I think it is going to stretch the capacity of seniors to absorb," the counselor adds.

This counselor admits he has struggled through two counseling sessions since the Fusion's October 1 debut. He accepts that the more counseling sessions he completes the better his understanding of the new product will be, but he adds: "I want to be at the top of my game for the first one. I hope we'll get more opportunity for training."

While observing correctly that it is too early to tell how easy or challenging it will be for counselors to explain (and for seniors to understand) the Fusion, Amy Ford, director of reverse mortgage counseling at National Council on Aging (NCOA), thinks HECM counselors can explain the Fusion when they use "all the counseling tools available to them, including the financial interview tool (FIT)." And she agrees that HECM is moving away from a "crisis management to a financial planning loan."

As they say, the jury is still out on the HECM Fusion's impact on borrowers, on lenders, on FHA, and on investors. Could the Fusion's strengths dwarf its weaknesses in the long run? Time and experience will tell. RM