Guest Editor's Introduction

HECM, Ed Szymanoski's Legacy, at 30

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The Federal Housing Administration's (FHA's) Home Equity Conversion Mortgage (HECM) insurance program began as a "demonstration," authorized by Congress with Section 417 of the Housing and Community Development Act of 1987, adding Section 255 to the National Housing Act. It authorized the Secretary of the U.S. Department of Housing and Urban Development (HUD) to insure 2,500 reverse mortgages through September 30, 1991, on the homes of elderly homeowners. The intent was to enable the elderly to continue living in their homes while turning a portion of their equity into cash to reduce the effect of economic hardship caused by the increasing costs of health, housing, and subsistence needs at a time of reduced income.

The HECM program assists elderly homeowners to age in place by enabling them to turn home equity into cash through a mortgage in which proceeds can be accessed up front or over time and interest due is simply added to the outstanding loan balance. HECM borrowers make no payments on their loans as long as they live in their homes, maintain them, and keep current on property taxes and hazard insurance. The loans are paid off either by the homeowners' heirs, through the sale of the home, and/or through a claim on FHA's Mutual Mortgage Insurance Fund.

One cannot talk about the HECM program without also talking about a long-time member of HUD's Office of Policy Development and Research family. FHA's HECM program is fundamentally a reflection of the initial and continuing integral involvement of Edward J. Szymanoski, who was widely held in the highest regard for his HECM expertise and advocacy. During the late 1980s, throughout the 1990s, and until his recent death, Ed was a principal architect in the design, implementation, and evaluation of HUD's HECM reverse mortgage program, beginning with initial design research in 1988 and continuing with ongoing analytical support and leadership to FHA program staff in implementation, policy decisions, and review of legislative initiatives through congressional authorization of a full-fledged permanent program. Ed did the heavy analytical lifting for the establishment of the HECM demonstration, became an internationally known expert on the program through writing and speaking engagements, and provided critical policy input to restore the program to health after the housing and mortgage crisis of the 2000s.

Ed encouraged academic research on the HECM program both within and outside HUD, with advice and support of research partnerships. Much of the current and ongoing research on the HECM program deals with the issues raised in the aftermath of the rapid rise of home prices followed by the Great Recession and falling home prices. Ed was involved in the early stages of commissioning this symposium volume, but sadly was unable to see it through to fruition, having passed away last year following a valiant battle with cancer. Ed leaves a legacy of fond friendships and more than 930,000 elderly homeowner households that have been helped to age in place through HECMs. Far more will come, because a well-functioning HECM program will only grow in importance to the nation as the baby boom generation ages into retirement.

This symposium of *Cityscape* includes articles motivated by a number of HECM issues and remedies considered in the wake of the mortgage crisis and Great Recession. One problem identified recently was that house prices upon loan termination were falling short of expectations. The possibility of poor maintenance was considered as a cause of this problem and periodic inspections were considered as a solution. Kevin A. Park, however, finds that the source of the problem was probably not poor maintenance leading to lower sale prices. A likelier cause was over-appraisals at origination that led to inflated house price expectations at termination, and the inspection proposal was not adopted (Park, 2017).

Tax defaults on HECM loans have been a problem recently. Silda Nikaj and Joshua J. Miller find that numerous tax abatement programs are available to elderly homeowners, but it is not known how many HECM borrowers take advantage of these opportunities. If improved counseling or some other technique could lead to higher usage of available tax breaks, HECM borrowers would find it easier to stay current on tax payments or could have more money left over for discretionary use (Nikaj and Miller, 2017).

Szymanoski, Alven Lam, and Christopher Feather discuss recent proposals considered to restore fiscal soundness to the HECM program. For example, they examine how higher losses associated with large first-year draws could be reduced with limitations in the size of first-year draws and the adoption of risk-based pricing. They also discuss how initial financial assessments might ensure that borrowers have the resources to cover property taxes, insurance, and maintenance. This discussion is followed by a clear and comprehensive discussion of how the secondary market for HECMs has evolved and how important sound servicing rules are to keep the secondary market functioning well so it can provide reliable low-cost funding for HECM loans (Szymanoski, Lam, and Feather, 2017).

Stephanie Moulton, Cäzilia Loibl, and Donald Haurin examine demographic and financial characteristics of HECM borrowers and look at demand for HECM loans. They find that, among other things, HECM borrowers have lower incomes and liquidity along with substantial home equity and that many have an existing first mortgage they want to pay off. Moreover, borrowers are generally satisfied with HECM counseling and have high satisfaction with their loans (Moulton, Loibl, and Haurin, 2017).

Masahiro Kobayashi, Shoichiro Konishi, and Toshihiko Takeishi examine the Japanese experience with HECMs in the context of a major housing price decline with prices stabilizing at a much lower level. Current conditions include an aging population of people with long life expectancies, a very high home vacancy rate, and a falling population. Although the United States and Japan both experienced a housing crash and have growing numbers of the elderly, the Japanese have a falling overall population and a high housing vacancy rate. The challenge for the Japanese is to design a HECM that can survive under these difficult circumstances (Kobayashi, Konishi, and Takeishi, 2017).

Finally, George R. Carter III and Joshua J. Miller examine the U.S. market. They examine the financial and demographic characteristics of those who own their homes free and clear, have forward mortgages, and have HECMs. With the elderly population growing steadily, a strong preference to age in place, a high elderly homeownership rate, and high equity for the elderly, they find a strong potential for growth in the number of HECM loans (Carter and Miller, 2017).

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Guest Editor

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