



Reverse Mortgages for Aging In Community

Growing use of reverse mortgages could have major implications both for the well-being of older homeowners and for public policy. NCOA is working with policymakers and the aging community to make the market work better for vulnerable seniors, and to help older homeowners understand their options and risks so they do not lose the home equity they have spent a lifetime to accumulate.

More Older Americans are Tapping Home Equity

In 2007, about 82 percent of the households headed by people age 65 to 74 were homeowners, as were almost 78 percent of those age 75 and older. (*U.S. Census Bureau 2008*)

Median home value among seniors was about \$168,600 in 2007. (*U.S. Census Bureau 2008*)

Seniors own about \$4 trillion in housing wealth. (*NRMLA 2007*)

The proportion of seniors with some type of home loan has grown from 24 percent in 1999 to 32 percent in 2007. Most of these loans are conventional mortgages or home equity line of credit loans. (*U.S. Census Bureau 2008*)

Reverse mortgages are growing in popularity. The annual number of reverse mortgage loans has risen from about 6,600 loans in 2000 to over 112,000 loans in fiscal year 2008. (*HUD 2008*)

Reverse mortgage borrowers represent about 1 percent of the mortgage market. (*NRMLA 2007*)

What is a Reverse Mortgage and How Does It Work?

A reverse mortgage allows homeowners age 62 and older to convert a portion of their home equity into cash while they continue to live at home for as long as they want.

Two types of reverse mortgage loans are available:

- Home Equity Conversion Mortgage (HECM) – loans offered by the U.S. Department of Housing and Urban Development (HUD) that are insured by the FHA.
- Proprietary reverse mortgages – designed for seniors with high value homes.

Unlike conventional mortgages, there are no income or credit requirements for reverse mortgages. Borrowers do not need to make any loan payments for as long as they (or in the case of multiple owners, the last remaining borrower) continue to live in the home as their main residence. When the last borrower moves out of the home or dies, the loan becomes due.

The money borrowers receive is tax-free, and can be used for any purpose. Borrowers can select to receive payments as a lump sum, line of credit, fixed monthly payments (for up to life in the home) or in a combination of payment options. Reverse mortgage borrowers continue to own the home and are responsible for paying property taxes, hazard insurance, and maintaining the home.

Most of the loan closing costs are similar to those of a conventional home loan. These can include an origination fee and third-party closing costs (fees for services such as an appraisal, title search and insurance, surveys, inspections, recording fees). Borrowers who select a HECM loan pay an upfront mortgage insurance premium. There are limits on the total fees that can be charged for a reverse mortgage. Most closing costs can be financed as part of the mortgage.

A unique feature of reverse mortgages is that HECM borrowers must receive counseling from an independent, HUD-approved counseling agency before taking out this loan. Most lenders offering proprietary reverse mortgages also require counseling.

Reverse mortgages are non-recourse loans. This means that borrowers or their heirs never owe more than the value of the house at the time of sale. Any equity left after repaying the loan belongs to the borrower or heirs.

Borrower Characteristics

About 90 percent of reverse mortgage borrowers select a FHA-insured HECM loan. (HUD 2008)

Only 25 percent of HECM loans endorsed in FY07 were for modest value homes (\$150,000 or less). (HUD 2008)

Over half (52 percent) of reverse mortgage borrowers have low-to-moderate incomes between \$10,000 and \$30,000. (AARP 2007)

About 30 percent of reverse mortgage borrowers are in fair or poor health. (AARP 2007)

Among seniors who take out a reverse mortgage, 28 percent are seeking means to pay for health or disability-related expenses. (AARP 2007)

Consumer Attitudes Towards Reverse Mortgage

Most seniors have heard of a reverse mortgage but few feel they understand this loan. (Harris Interactive 2007)

About 6 percent of adults age 62 to 75 plan to use a reverse mortgage to supplement the cost of retirement. (Financial Freedom Senior Funding Corp. 2007)

Adult children (63 percent) are more likely than seniors (43 percent) to believe that a reverse mortgage can help older people to continue to live at home. (NCOA 2005)

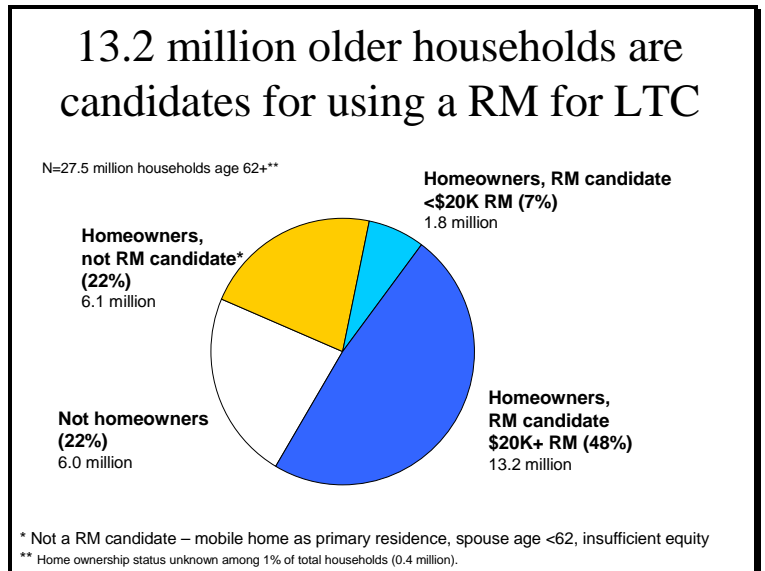
Most reverse mortgage borrowers (93 percent) report that these loans have had a positive effect on their lives, and 89 percent would recommend a reverse mortgage to a friend. (AARP 2007)

Among seniors who received counseling and decided not to take out a reverse mortgage, 63 percent were discouraged by high loan costs. (AARP 2007)

Recent Federal Legislative Changes

The newly enacted Housing and Economic Recovery Act of 2008 includes several provisions that make it safer and less costly for seniors to take out a reverse mortgage. Under the new law:

- The amount a senior can borrow was increased to \$417,000 nationally, and could be as high as \$625,500 for those living in high housing-cost areas.
- The origination fee is reduced to 2 percent of the first \$200,000 borrowed and 1 percent for any amount after that. The minimum origination fee is \$2,500 and cannot exceed \$6,000.



- Lenders cannot require borrowers to buy other financial products (such as annuities or insurance) as a condition for a reverse mortgage.

NCOA's Role: Making the Market Work Better for Seniors

There are many unresolved issues, and unanswered questions, on how best to use home equity to assist financially vulnerable older homeowners who struggle to remain at home. NCOA's role in this area is to make the reverse mortgage market work better for seniors in the following ways:

- Increase the knowledge base – We are conducting research to evaluate the benefits and risks of unlocking home equity, to better understand the limitations of current loan products and public policies, and to develop safer and more effective solutions for seniors.
- Increase accessibility to consumer education– We are partnering with the Administration on Aging (AoA) to help the Aging Services Network become a focal point for reverse mortgage education and counseling. We are also working with policymakers, senior advocates, and financial planners to broaden the conversation from “reverse mortgages” to “how to appropriately unlock home equity.”
- Strengthen consumer protections and products – We are working with HUD, aging organizations, and the industry to reduce loan costs, improve loan products, and advance public policy, especially for frail and impaired elders, and those with modest value homes.

These policy research efforts have been supported by grants from the Robert Wood Johnson Foundation, the Centers for Medicare and Medicaid (CMS), the Assistant Secretary for Planning and Evaluation (ASPE-HHS), and AoA.

With encouragement from HUD and assistance from AoA, NCOA became a HUD HECM Counseling Intermediary in 2007, and created and piloted a new counseling network – Reverse Mortgage Counseling Services. This network currently offers mandatory reverse mortgage counseling through nine aging agencies (including AAAs, ADRCs, and independent organizations) in seven states (CA, MT, MN, LA, IN, OH, MD). Based on the success of the pilot we are now expanding this counseling service to further improve consumer education for seniors.

To promote unbiased and comprehensive counseling that is appropriately financed with public and private funds, NCOA helped to create the National Housing Counseling Association (NHCA), in partnership with other HUD HECM Counseling Intermediaries and lenders. NHCA's mission is to improve the quality and transparency of reverse mortgage counseling.

References

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For other research and consumer information see NCOA's Use Your Home to Stay at Home Initiative at: <http://www.ncoa.org/content.cfm?sectionid=250> or contact Dr. Barbara Stucki at barb.stucki@ncoa.org.