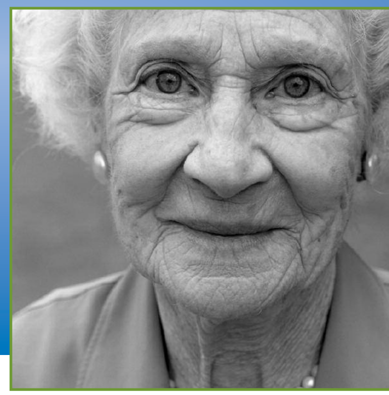
STUDY

Changing Attitudes, Changing Motives



Changing Attitudes, Changing Motives

The MetLife Study of How Aging Homeowners Use Reverse Mortgages

March 2012

NCOA
NATIONAL COUNCIL ON AGING

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Executive Summary

The recent turmoil in the housing market highlights the role of home equity as an important part of our nation's economy. Rising home values bring a sense of wealth that often stimulates consumer spending. During times of trouble, accumulated home equity also offers a financial cushion to support household consumption or to pay for unexpected expenses.

Consumer interest in reverse mortgages, which are available to homeowners age 62 or older, also reflects these trends. Several years ago, many older homeowners took out this loan as a way to enhance their quality of life. But now, people who consider these loans are more concerned about urgent financial needs, including lowering debt. By refinancing with a reverse mortgage, borrowers can defer making principal and interest payments on their existing home mortgage until they move out of the home. Borrowers must also meet all of their other reverse mortgage obligations including making timely property tax and homeowners insurance payments. This may provide immediate relief and help to stabilize a difficult financial situation. For older homeowners with sizable debt, a reverse mortgage may be the only way they can retire. This strategy, however, can also increase financial risks if borrowers do not manage their spending or rapidly draw down their home equity.

The purpose of this report, produced by the MetLife Mature Market Institute in partnership with the National Council on Aging, is to examine the changing attitudes of older homeowners toward using reverse mortgages to manage debt. Currently there are no specific income requirements for Home Equity Conversion Mortgages (HECM), however lenders may conduct a financial assessment of the applicant to ensure that they have the ability and willingness to meet their loan obligations, including paying property taxes and homeowner's insurance.[1] Nevertheless,these loans may now be a more accessible form of credit than other home loans or credit cards.

The age at which homeowners consider a reverse mortgage can provide insights into the ways that they think about using home equity as a retirement resource. An important focus of this study will be on the attitudes of leading edge Baby Boomers, who are now starting to qualify for these loans (the oldest Boomers began turning 62 in 2008). The decisions that these aging homeowners make today will have long-term consequences for their retirement security. In addition, if even a small proportion of Boomers take out this loan, their evolving needs and concerns will have a significant impact on the market for reverse mortgages.

Recent shifts in consumer financial attitudes must be understood within the broader perspective of our nation's current economic situation. The report includes other research that highlights sources of increasing economic insecurity in retirement and their implications for consumers and the financial services industry.

The study is based on responses to questions that U.S. Department of Housing and Urban Development (HUD) approved counselors must discuss with older homeowners as part of mandatory counseling for all reverse mortgage applicants, using a standardized assessment tool developed for this process, the Financial Interview Tool (FIT).[2] Between September and November 2010, counselors completed 21,240 of these counseling sessions and these data were analyzed for the present study.

It is important to recognize that the reverse motgage marketplace is very dynamic. As an indicator of that, in October 2010, HUD introduced the new HECM Saver Reverse Mortgage which may have significantly lower upfront costs than a comparable traditional HECM product. Results from this study therefore reflect consumer attitudes and motivations which may change in response to this new loan option, and the evolving HECM reverse mortgage marketplace.

Key Findings

- Data from recent reverse mortgage counseling sessions suggest that older homeowners are looking for solutions to help manage their often precarious financial situation, and that a reverse mortgage can play an important role in helping them do so.
- More reverse mortgage borrowers are applying at earlier ages. While the average age of borrowers is about 73 years old, the average age of homeowners who went through HECM reverse mortgage counseling between September and November 2010 was 71.5 years old. Of homeowners who are considering a reverse mortgage, 46% are under age 70. One in five (21%) are leading edge Baby Boomers (age 62 to 64), despite lower available loan limits. In comparison, homeowners who were around the minimum age (age 62) for these loans represented only about 6% of borrowers who applied for reverse mortgage loans during 1999.
- Among HECM counseling clients in 2010, most of these homeowners (67%) wanted to lower household debt. Only 27% were considering a reverse mortgage to enhance their lifestyle. Even fewer (23%) saw the need to plan for the future as a reason to take out this type of loan, indicating that reverse mortgages are no longer a "one-size-fits-all" solution.
- About two-thirds (67%) of recent counseling clients have a conventional mortgage that will need to be repaid if they decide to take out a reverse mortgage. About one in four (27%) reported having both housing and non-housing debt. Borrowers with sizable existing debt may rapidly deplete home equity by accessing the equity to repay debt.

- For about one-third (32%) of counseling clients, their existing mortgage may exceed 50% of the value of their home. They may not have enough equity to qualify for a reverse mortgage, or may have to wait several years until they qualify for a loan of a sufficient size to meet their financial goals.

Older homeowners can use assistance and additional consumer education to ensure that they make wise decisions about the most appropriate use of their "nest egg" of home equity. This is especially needed to: 1) enable potential borrowers to compare the pros and cons of different loan options, features, and costs; 2) foster understanding that in paying off an existing mortgage loan, they are not eliminating their housing obligation, but only deferring the repayment of the new debt they take on, and; 3) encourage borrowers to involve other professionals, including, as appropriate, legal advisors, financial planning and tax advisors, and medical advisors.

This study reinforces the need for strong reverse mortgage counseling. In addition, younger borrowers would especially benefit from working more closely with financial advisors, senior advocates, housing specialists, and other experts to develop exit strategies from reverse mortgage obligations, enabling them to plan ahead for this eventuality for themselves, their surviving spouses, or family.

One of the questions that homeowners increasingly need to consider as part of their overall retirement planning is whether to integrate home equity into their ongoing retirement financing, or preserve this asset for major unexpected expenses in the future. Using home equity as more than a "last resort" can help to keep cash shortfalls from becoming big problems. For example, homeowners may choose to use these funds to provide more choice and control in their lives; pay for home repairs, tax bills, and other choices which allow them to stay in their homes. In some situations, a reverse mortgage may stabilize a difficult financial situation such as forestall a foreclosure and allow time for the homeowners to find more effective solutions to their cash flow problems. Use of this strategy, however, can increase financial risks, therefore borrowers must be careful in managing their spending as not to create greater cash flow problems.

Lastly, the study, along with other independent research, suggests that as the Baby Boomer generation ages, reverse mortgages may be part of a growing trend to include home equity as a natural part of retirement planning and addressing income shortfalls in retirement.

Introduction

Reverse mortgages have traditionally been viewed by many as a solution for financially desperate older adults age 62 and over.[3] In the past, the typical borrower was an elderly widow who took out this loan to supplement her meager income. But now, other aging Americans are also looking for ways to increase their cash flow. Those in their late 50s and 60s, many who have been especially hard hit by the ongoing recession, may be starting to think about reverse mortgages as a solution. They are struggling financially to pay for everyday expenses, as well as assist their children and elderly parents. Many have also suffered sizable losses in their retirement accounts and are unsure if they will be able to afford to retire as they had anticipated.

This report, produced by the MetLife Mature Market Institute in partnership with the National Council on Aging, examines attitudes of older homeowners toward using reverse mortgages to manage debt. An important focus will be on those ages 62 to 69, who are looking for ways to tap home equity as a solution to an immediate financial shortfall. While there are no specific income requirements for Home Equity Conversion Mortgages (HECM), new guidelines from The Department of Housing and Urban Development (HUD) state that lenders may conduct a financial assessment of the applicant to ensure that they have the ability and willingness to meet their loan obligations, including paying property taxes and homeowner's insurance.[4] Nevertheless, these loans may become more attractive as other forms of credit become less accessible and more expensive. In addition, reverse mortgages allow borrowers to defer the repayment of new or existing home mortgage payments for many years until they move out of the house.

In the wake of the recent housing and banking crisis, it is particularly important to monitor consumer attitudes and behavior. This information can help to ensure that homeowners use reverse mortgages appropriately to resolve financial difficulties as well as enhance their well-being. To learn more about this changing financial landscape, the report addresses the following questions:

- Are older homeowners interested in using a reverse mortgage to lower debt, among other reasons?
- To what extent does interest in these loans as a financial management tool vary by age?
- What types of debt do homeowners who consider reverse mortgages have?
- What are the implications of the shifting consumer attitudes toward reverse mortgages?
- What new risks might a borrower face if they use a reverse mortgage to pay off existing debt, but continue to accrue fees and growing interest on the reverse mortgage until it is repaid?

The U.S. Department of Housing and Urban Development (HUD) requires all prospective reverse mortgage borrowers to participate in reverse mortgage counseling to educate potential borrowers about the cost and features of these loans, as well as other financing options. Before they can start the loan process, all reverse mortgage borrowers must go through this counseling and receive a Certificate of Counseling.

The study is based on responses to questions that HUD-approved counselors must discuss with older homeowners as part of this mandatory counseling.[5] Between September and November 2010, counselors completed 21,240 of these counseling sessions using a standardized assessment tool developed for this process, the Financial Interview Tool (FIT). These self-reported data provide a rich source of new information about the changing concerns and goals of older homeowners who are considering a reverse mortgage.

HUD Home Equity Conversion Mortgages (HECM) represent the majority (95%) of reverse mortgages that are originated in the United States. This program began in 1990, but only grew in popularity over the past 10 years. In addition, there have been many recent changes to the program, including lower loan limits, the introduction of a fixed-rate HECM, and a new loan option (HECM Saver) with lower upfront fees (origination fee, closing costs, and for HECM loans, a mortgage insurance premium). Since the reverse mortgage is still a relatively new and evolving product, we need to know more about how older homeowners view this option as a solution to their financial concerns.

With this in mind, it is important to note that in October 2010, HUD introduced the new HECM Saver Reverse Mortgage which has significantly lowered upfront costs than a comparable traditional HECM product. The study results, therefore, reflect consumer attitudes and motivations which may change in response to this new loan option, and the evolving HECM reverse mortgage marketplace. It is reasonable to assume that ongoing changes in the economy, low short-term interest rates, and the financial security concerns of eligible consumers will have an impact on the motivations for and uses of reverse mortgages in the future.

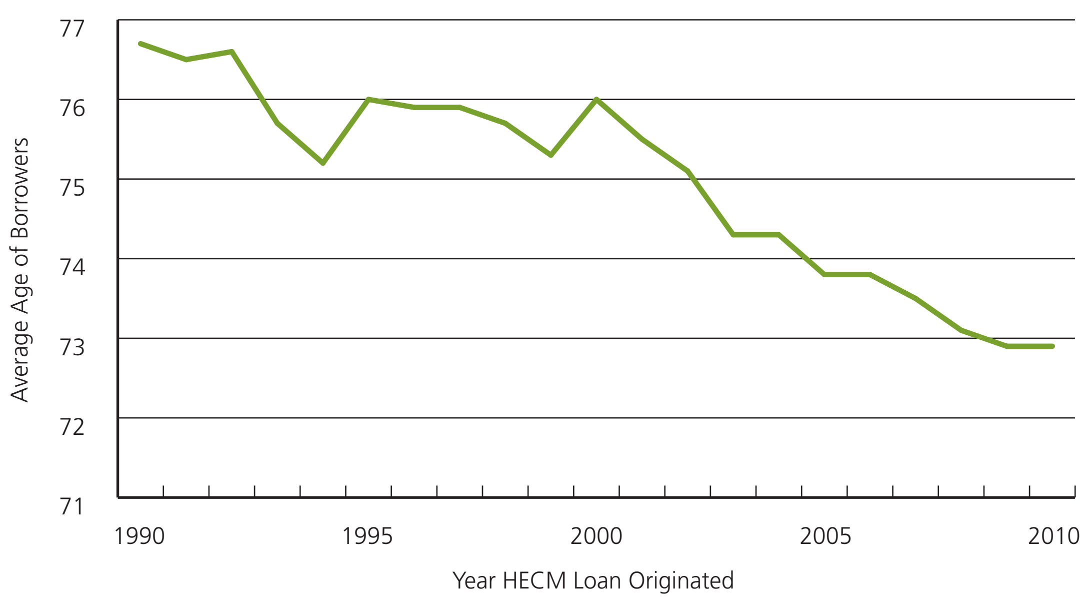
Another reason to examine these issues is that the leading edge of the Baby Boomer generation has begun to reach the age of eligibility (age 62) for a reverse mortgage. To the extent that they decide to tap home equity today, this resource will not be available to meet future needs. The decisions that these aging homeowners make will therefore have long-term consequences for their retirement security. In addition, Boomers have profoundly affected institutions and social values at every stage of life. If even a small proportion of the 79 million Boomers take out this loan, their evolving needs and concerns will have a significant impact on the reverse mortgage market.

Homeowners Are Considering Reverse Mortgages at Younger Ages

Reverse mortgages were specifically designed to meet the financial needs of older Americans. The minimum age to qualify for these loans is 62. Seniors often face new economic challenges as they retire or reduce the amount of income they derive from their jobs. In addition, a person's financial goals and needs are likely to shift when they go through significant life changes such as widowhood or declining health. The age at which homeowners consider a reverse mortgage can therefore provide some insights into the ways that seniors think about using home equity as a retirement resource.

For the past 10 years, the average age of HECM reverse mortgage borrowers has declined steadily (see Figure 1). During the 1990s, the typical reverse mortgage borrower was between the ages of 75.2 and 76.7. Since then, the average age of these borrowers has fallen to age 73 during 2010. From 2000 to 2007, home values increased dramatically, which encouraged more seniors, including married couples, to tap the additional equity in their homes. In addition, more lenders began to offer reverse mortgage loans and advertise them as a solution to a wide range of financial and lifestyle goals and challenges.

Figure 1: Average Age of Reverse Mortgage Borrowers Is Declining



Source: HUD (2010). HECM Cases Endorsed for Insurance by Fiscal Year, Also Selected Loan and Borrower Characteristics. December 31, 2010.

While the average age of borrowers in 2010 was 73 years old, as shown in Figure 1, the average age of homeowners who went through HECM reverse mortgage counseling between September and November 2010 was 71.5 years old. This is consistent with the findings from HUD. However, as we look more closely at the age distribution of recent counseling clients, it appears that this broad trend may conceal the start of a major generational shift in the use of reverse mortgage loans.

Boomers Are Entering the Market

Among older homeowners who decided to attend reverse mortgage counseling within the last six months, almost half (46%) were under the age of 70 (see Table 1). This age group is significantly more prevalent today than among homeowners who had a HECM loan in 1999 (23%).[6] Even as recently as 2006, an AARP survey of reverse mortgage borrowers and non-borrowers found that most were between ages 70 to 79.[7] These findings suggest that a change may be occurring in this marketplace.

Table 1: Boomers (Age 62–64) Are Becoming Interested in Reverse Mortgages

Age Group	FIT Review 2010	AARP Survey 2006	HUD Borrowers 1999
62–64	21%	6%	6%
65–69	25%	17%	17%
70–74	21%	24%	28%
75–79	16%	26%	24%
80–84	9%	17%	14%
85 and older	7%	8%	11%
Total	**99%**	**98%**	**100%**
Missing	1%	2%	0%
N	21,240	1,509	30,226

Among today's reverse mortgage counseling clients, about one in five (21%) are age 62 to 64. They represent the leading edge of the Baby Boomer generation who are now becoming eligible for a reverse mortgage (the oldest members of this group began turning age 62 in 2008). The high proportion of homeowners who are age 62 to 64 is very different from the past. This age group only represented about 6% of the borrower population in 1999.

These findings are consistent with a recent industry analysis of the age of reverse mortgage borrowers by year. Results of that review also showed a dramatic shift toward younger borrowers in the past few years. Analysts found that the most common age of borrowers in 2003 was 74. By 2006, the most common age had dropped to 71, and fell further to age 63 among borrowers in 2009.[8] These findings suggest that younger homeowners are not only more interested in learning about reverse mortgages, but they may also be more likely than older homeowners to take out this loan.

Younger Homeowners Are Interested Despite Lower Loan Limits

The growing interest in reverse mortgages among homeowners under age 70 is somewhat surprising. The amount of loan proceeds that lenders offer to younger borrowers is substantially less than the amount available to borrowers at older ages. For example at today's rates, a 65-year-old with a $250,000 home that she owns mortgage-free could expect to receive about $103,000 as a lump sum or line of credit from a HECM Standard reverse mortgage (see Table 2). She could also choose to receive regular payments, which would provide her with $687 per month for as long as she continued to live in her current home. In contrast, if her 85-year-old neighbor also took out a reverse mortgage on a $250,000 home at the same interest rate, he would be able to tap over $141,000 of cash proceeds or receive almost twice as much per month from this loan.

The age difference in the amount of available loan proceeds reflects the fact that the remaining life expectancy for an older borrower on average will be less than that for a younger borrower. HUD sets the amount that younger homeowners can borrow on a HECM loan at a lower level than the amount available to an older borrower in order to equalize the expected payments over the life of the loan.

Table 2: Younger Reverse Mortgage Borrowers Receive Lower Loan Advances

Type of Payment	HECM Standard Loan Age 65	HECM Standard Loan Age 75	HECM Standard Loan Age 85	HECM Saver Loan Age 65	HECM Saver Loan Age 75	HECM Saver Loan Age 85
Maximum monthly advance for as long as the borrower lives in the house	$687	$900	$1,319	$547	$697	$1,015
Maximum line of credit or single lump sum advance (Net Principal Limit)	$103,034	$122,997	$141,471	$82,009	$95,222	$110,446
Total upfront fees and costs	$14,721			$9,746		

Source: NCOA calculations for a $250,000 home with no mortgage debt, using the NRMLA calculator. Actual loan amounts depend on the rates in effect when a loan is closed, and the actual origination fee and closing costs.

Table 2 also highlights the fact that the total fees and upfront costs of a reverse mortgage are based on the value of the home, and not on the age of the borrower. This means that homeowners who opt to get this loan at an early age can expect to get less money from their loans as older borrowers receive with the same upfront costs. Younger homeowners could select a HECM Saver loan, which has lower upfront costs because the upfront mortgage insurance payment is less. However, the loan amount available from the HECM Saver is less than that from a HECM Standard loan.

Living on the Edge

Reverse mortgages are unique among home loans, in that lenders consider a person's age for underwriting, but there are no specifc income requirements.[9] The higher relative cost of these loans at younger ages suggests that there must be other factors that account for the influx of homeowners under age 70 who are interested in, or taking out reverse mortgages.

Part of the explanation may be that Boomers are more willing to take on debt to fund major purchases, pay for their children's or grandchildren's college tuition, or to pursue their lifestyle dreams. Between 2004 and 2007, households headed by someone age 56 to 61 increased their debt (both housing and consumer debt) by 38%.[10] Another reason that younger homeowners may be interested in these loans is that they have over-extended themselves financially. When the recession hit in 2008, about 59% of people age 50 to 64 cut back on their spending; a much higher proportion than among those age 65 and older (36%).[11] Boomers attitudes toward debt may also extend to reverse mortgages. A 2009 survey of homeowners age 62 and older found that younger respondents were more interested in the HECM program than respondents of older ages.[12]

By spending rather than saving, many Americans are financially unprepared for retirement. Even among the oldest Boomers (those born in 1946), only 38% feel that they are on track to reach their retirement savings goal or have already achieved them.[13] Among workers of all ages in 2010, few were very confident about having a financially secure retirement (16%).[14] Only 29% felt very confident that they will have enough money to pay for basic expenses during retirement.

Common Types of Reverse Mortgages

The most common reverse mortgages in the market today are HECM (Home Equity Conversion Mortgage) loans, which are insured by the federal government. Homeowners age 62 and older have several options when considering these loans.

- **HECM Standard Program — This is the traditional reverse mortgage where borrowers can continue to live in their homes without having to make the mortgage payments. They can choose how they want to withdraw the funds, whether in a fixed monthly amount or a line of credit or a combination of both. Homeowners selecting this option must pay an initial mortgage insurance premium of 2% of the value of the home (up to the FHA maximum claim amount).**
- **HECM Saver Program — This type of reverse mortgage was designed for homeowners who want to borrow a smaller amount than what would be available with a HECM Standard loan. Borrowers who select this option pay a significantly lower initial mortgage insurance premium (.01% of the FHA maximum claim amount). There are no extra eligibility requirements for HECM Saver, and this loan is available for all HECM transaction types and payment plans.**

In addition to different loan programs, HECM borrowers can also select loans with different interest rates:

- **Adjustable Rate HECMs — Traditionally, reverse mortgages have been offered with an adjustable interest rate option. These rates are typically lower than for a fixed-rate loan. There is a cap on the maximum increase in interest rates for HECMs. Since there are no monthly mortgage payments, changes in your interest rate do not affect the funds you receive, however, the amount of interest charged to your loan can increase (or decrease) with an adjustable-rate HECM.**
- **Fixed Rate HECMs — In the past few years, lenders began offering HECM loans with a fixed interest rate. Borrowers who select this option may receive more loan funds than with an adjustable rate HECM, however they must draw the entire loan balance at closing, and be charged interest on this amount.**

A unique feature of the HECM program is that all prospective borrowers must attend counseling before they can take out this loan. Independent HUD-approved HECM counselors discuss program eligibility requirements, financial implications and alternatives to obtaining a HECM. They also discuss borrower obligations. The goal of this counseling is to help homeowners make an independent, informed decision of whether this product will meet their needs.

Many Consider a Reverse Mortgage to Manage Debt

The recent turmoil in the housing market highlights the role of home equity as an important part of our nation's economy as well as the economic security of individuals and families. Rising home values bring a sense of wealth that often stimulates consumer spending. During difficult economic times, accumulated home equity offers a financial cushion to support household consumption or pay for unexpected expenses. This "nest egg" can be especially important for older Americans who may not have enough time or cannot return to work to recover from stock market declines or other financial losses.

Table 3: Most Potential Borrowers Are Interested in Paying Off Debt

Reason for Interest in a Reverse Mortgage	Age Group		Total
	Under 70	70 and Older	
Pay off debt	7,156 (73%)	6,923 (62%)	14,079 (67%)
Increase income	3,027 (31%)	4,006 (36%)	7,033 (33%)
Enhance quality of life	2,530 (26%)	3,178 (28%)	5,708 (27%)
Plan ahead for emergencies	2,082 (21%)	2,670 (24%)	4,752 (23%)

Note: Clients could select multiple reasons for interest in reverse mortgages.

One of the main reasons that homeowners are talking to reverse mortgage counselors these days is because they are concerned about immediate financial needs. The majority are looking into a reverse mortgage as a way to reduce debt (67%). One-third of these seniors want to use their home equity to generate additional income to meet everyday expenses.

Consumer Attitudes Are Shifting

With fixed retirement incomes and limited savings, older Americans often struggle to make ends meet. During the 1990s, HUD began offering reverse mortgages as a way to help seniors who had few options to deal with financial shortfalls. At that time, many advisors recommended these loans only as a "last resort" for financially desperate homeowners.

Table 4: Planning for the Future Is Less Appealing

Reason	FIT Review 2010	AARP Survey 2006
Enhance quality of life	27%	70%
Plan ahead for emergencies	23%	73%
Pay off debt	67%	N/A
Pay off mortgage	N/A	34%
Pay off non-mortgage debt	N/A	27%
Increase income	33%	46%

The motivation to take out a reverse mortgage is often based on immediate or long-term financial needs. However, at the height of the housing "bubble," when homeowners saw their home values increase dramatically, consumers' attitudes toward these loans may have changed. At that time, it appears that seniors were more interested in using the equity in their homes to increase their future well-being. Evidence for this shift comes from the 2006 AARP survey of reverse mortgage borrowers and non-borrowers. About 70% of the survey respondents indicated that one reason they considered this loan was to improve their quality of life (see Table 4). About 73% were interested in tapping home equity as a way to plan ahead for unexpected expenses and emergencies.

With the collapse of the housing market, consumer motivation for taking out a reverse mortgage may be shifting again, back to meeting immediate cash needs. Among HECM counseling clients in 2010, only 27% were considering a reverse mortgage to enhance their lifestyle (see Table 4). Even fewer (23%) saw the need to plan for the future as a reason to take out this type of loan. Instead, most of these homeowners wanted to lower household debt.

Recession Lowers Retirement Security

Many Americans have been struggling financially since 2007 as a result of the economic recession. Those age 50 to 64 have been especially hard hit, both in terms of their household budgets and their future retirement prospects. About 72% of workers age 55 and older feel that their financial situation is worse than it was two years ago.[15] Over half (58%) have had to make a major change to their lifestyle. The unemployment rate in this age group was 7% in December 2010. Among those who lost their jobs, 39% made up for income shortfalls by increasing their credit card debt, and 18% had to borrow money from their families or friends.[16] These difficult economic realities may help to account for their current growing interest in reverse mortgages.

The recession has also lowered the possibility of a secure retirement for many Boomers. Two-thirds of people age 50 to 64 have lost money in mutual funds, individual stocks or 401(k)-type investment accounts in 2008.[17] About 29% saw their investment or retirement funds decline by 20% to 40%, and nearly one in seven lost more than 40%. About 75% of people in this age group worry that the recession has made it harder for them to meet their financial needs in retirement. With these challenges, the burden of carrying a mortgage and other debt becomes more difficult and potentially risky.

Housing and Non-Housing Debt

Many people appear to have had difficulty controlling their spending habits and staying out of debt. Among homeowners who recently went through reverse mortgage counseling, 79% are laden with debt. As shown in Table 5, younger homeowners (16%) are less likely to be debt-free than those age 70 and older (24%). Overall, about two-thirds (67%) of recent counseling clients have a conventional mortgage. A sizable proportion (27%) are dealing with both housing and non-housing debt, although the amounts of debt are unknown.

Table 5: Most Recent Counseling Clients Are Dealing with Debt

	Age Group		
Debt Status	Under 70	70 and Older	Total
No debt	1,570 (16%)	2,752 (24%)	4,322 (21%)
Mortgage debt only	4,179 (43%)	4,251 (38%)	8,430 (40%)
Non-mortgage debt only	1,174 (12%)	1,511 (13%)	2,685 (13%)
Both mortgage and other debt	2,906 (30%)	2,736 (24%)	5,642 (27%)
Total	9,829 (100%)	11,250 (100%)	21,079 (100%)

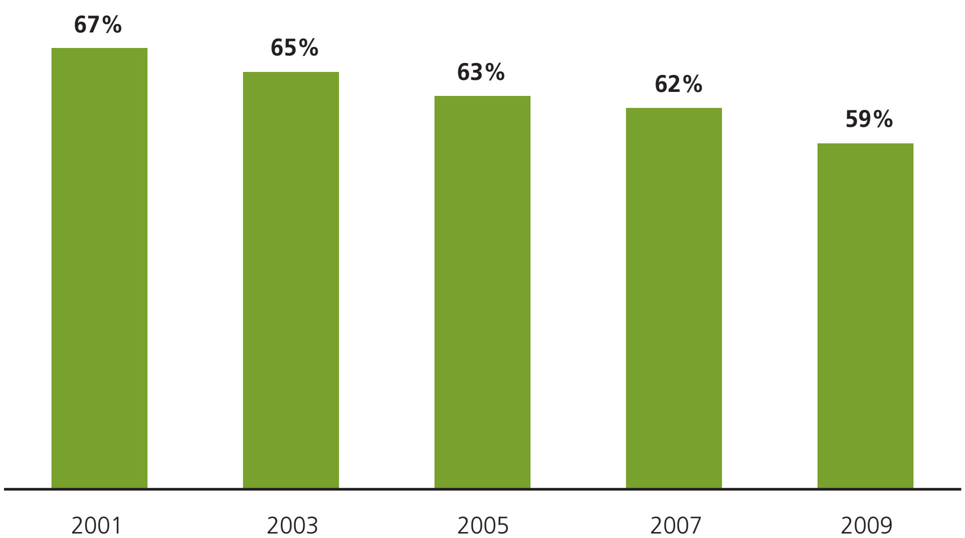
Among respondents to the 2006 AARP survey, a smaller proportion (47%) than today's counseling clients indicated that they had a mortgage. However, survey respondents under age 75 were also more likely than those at older ages to indicate that they were considering a reverse mortgage to pay off a mortgage and other debts. About one-third (32%) of these younger borrowers also reported that they had used their reverse mortgages to reduce debt.

Growing Economic Insecurity

To understand the significance of these findings, it is important to put them into the broader economic landscape. In the past, an important milestone for homeowners was to pay off their mortgages. Most worked hard to achieve this objective during their working years. This would allow them to reduce their living expenses, and assure that they could continue to live in their homes during retirement. Unfortunately, the number of Americans who are achieving this financial goal is rapidly declining. In the last 10 years, the proportion of older homeowners age 55 and older who own their homes free and clear of any debt decreased from 67% in 2001 to 59% in 2009 (see Figure 2).

It can take many years to pay off a sizable debt burden. A study of seniors age 62 to 75 found that 23% of those with debt do not believe that they will ever be able to pay it off, and 11% never expect to pay off their mortgages.[18] Falling home values have added to the problem, since homeowners may not be able to get out from under the mortgage by selling their house. These factors have contributed to the sharp rise in delinquencies, foreclosures, and bankruptcies among older Americans. About 28% of mortgage delinquencies (30 to 180 days late) and foreclosures in 2007 were for people age 50 and older.[19] The impact of a foreclosure can be devastating for seniors, since they may have limited time and resources to recover from losing their houses.

Figure 2: Fewer Homeowners Age 55+ Are Aging without a Mortgage



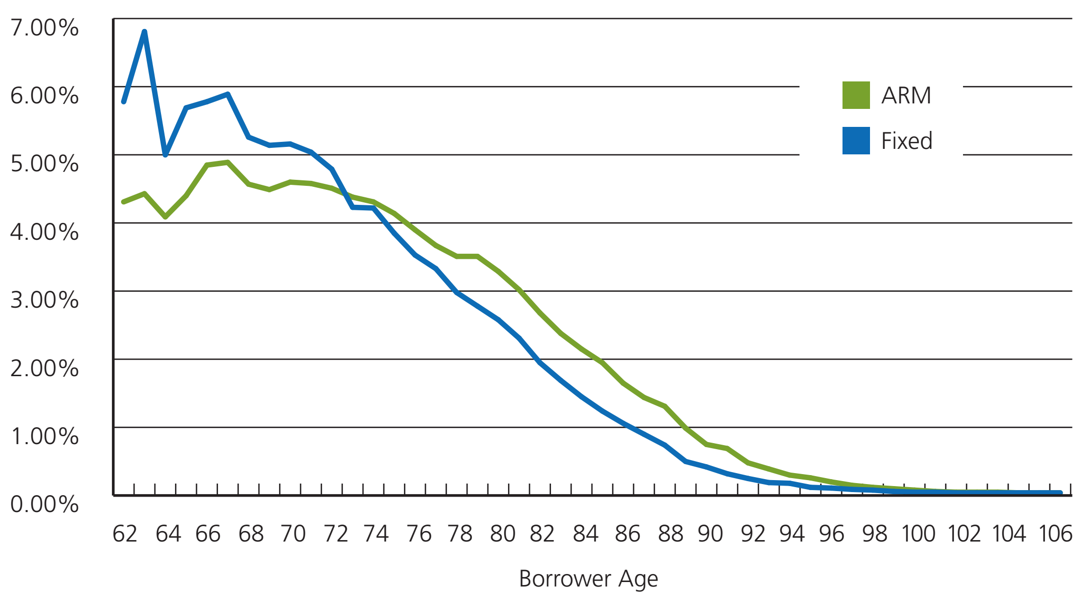
Source: MetLife Mature Market Institute (2011). *Housing Trends Update for the 55+ Market: New Insights from the American Housing Survey.* Data based on the 2009 American Housing Survey.

To ensure that they can make monthly mortgage or other payments on their debts, many older homeowners are continuing to work. The percentage of workers aged 55 or older who are still employed has increased from 29% in 1993 to 40% in 2010.[20] However, staying in the workforce can become increasingly difficult as people get older. Seniors often need less physically demanding jobs and may have to give up work if their health declines. Family crises such as losing a spouse or having to provide care to an elderly parent may also take time away from work. Older workers are also more susceptible to losing their jobs due to plant closures or other layoffs than in the past.[21]

Deferring the Debt

Older homeowners who struggle to pay the mortgage and other non-housing debt could consider taking out a reverse mortgage to refinance their mortgages and defer their existing debts until they leave their homes. Those who need a large lump sum to pay off an existing forward mortgage or other sizable debt often consider a fixed-rate HECM loan. Fixed-rate reverse mortgages generally offer a higher loan amount than HECMs with an adjustable interest rate. However, these loans typically have higher interest rates than an adjustable rate HECM loan. They also require borrowers to draw the full amount of the loan at closing, which means that they will be charged interest on a large loan balance starting the day they take out this loan.

Figure 3: 2009 HECM Age Distribution by Rate Type



Source: Reverse Market Insight (2010). Reverse Mortgage Borrower Age Analysis, Part 2. ReverseIQ Newsletters, July 2010.

Figure 3 shows the difference in age among borrowers who are taking out a fixed-rate rather than the traditional adjustable-rate HECM loan. Based on this industry analysis, it appears that younger borrowers today are more likely to select a fixed rate HECM loan that may provide a higher loan amount and locks in the interest rate. Based on findings from the reverse mortgage counseling clients, these results may also reflect that homeowners under age 70 are likely to be dealing with a significant debt burden.

There are also risks associated with these new financing strategies. It requires discipline and commitment to manage the family budget. This might be a challenge for some of the homeowners who recently participated in reverse mortgage counseling. Most of these seniors are already saddled with debt. If they cannot control their spending, then a reverse mortgage may not be an appropriate option for them. These homeowners might be better served if they resolved their financial problems now, rather than deferring them through a reverse mortgage loan with interest to the future.

Homeowners Who Consider a Reverse Mortgage Often Have a Sizable Existing Mortgage

There are numerous reasons why people decide to tap the equity in their homes. For instance, they may decide to refinance and cash out a portion of the loan to supplement their incomes. A popular use for home equity line-of-credit loans (HELOCs) is to make major home repairs or improvements. Homeowners may also decide to borrow against their homes to consolidate credit cards and other, more costly debts. Interest rates on reverse mortgages are much lower compared with rates on credit cards.

Table 6: Ratio of Estimated Debt on the House to Home Value of Those with an Existing Mortgage, by Age Group

Mortgage Relative to Home Value	Age Group		Total
	Under 70	70 and Older	
25% or less	1,691 (24%)	2,029 (29%)	3,720 (26%)
26% to 50%	3,166 (45%)	2,626 (38%)	5,792 (41%)
More than 50%	2,229 (31%)	2,332 (33%)	4,561 (32%)
Total	7,086 (100%)	6,987 (100%)	14,073 (100%)

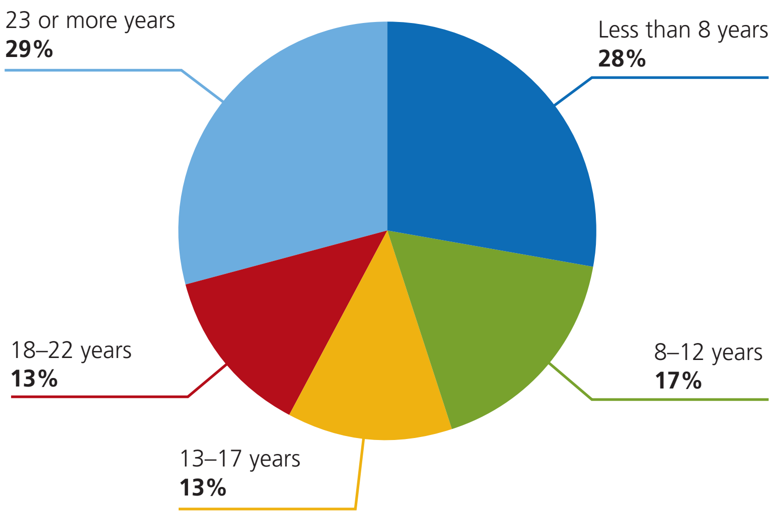
Without careful control on household spending, however, these obligations combined with a mortgage can add up to a large sum. Based on the estimates from the counseling clients, for many older homeowners who are considering a reverse mortgage today, the size of their conventional mortgages may be large relative to the value of their homes. For about one-third of these homeowners, the loan-to-value ratio might exceed 50% (see Table 6).

Is 60 the New 40 for Homeowners?

Homeowners who are considering a reverse mortgage are not the only ones who are entering later life with a mortgage. With increasing life expectancy, many older Americans will live longer during retirement. As the definition of what it means to be "old" slips further into the future, the idea of making mortgage payments after age 65 may seem less daunting. According to the 2009 American Housing Survey (AHS), seniors who have a mortgage typically owe about $55,000.[22] About 23% have an outstanding principal amount of $100,000 or more.

Seniors also seem willing to take on new housing debt. The AHS found that about 8% of homeowners age 65 and older took out a “forward” mortgage within the last four years, and almost 15% did so within the last eight years. Others may feel that they have more time to pay off their conventional mortgages. About 43% of older borrowers can expect to have their “forward” mortgages for at least 18 more years, if they only make the minimum monthly payment (see Figure 4). This means that mortgage holders who are 65 will be in their mid-80s before they pay of their loans. Some of these seniors may never be free of mortgage payments.

Figure 4: Time Remaining on “Forward” Mortgage for Borrowers 65+



Source: NCOA calculations based on the 2009 American Housing Survey, Table 3.15. Mortgage Characteristics Owner-Occupied Units.

If their health is good, seniors may feel younger and more energetic than the traditional stereotypes associated with their chronological age. Nonetheless, these older homeowners are still getting older. Over time, they may find it difficult to do everyday chores and home maintenance. Those who cannot keep up with borrower obligations, such as keeping the house in good repair, risk losing their homes due to foreclosure. This holds for both conventional and reverse mortgage loans.

Homeowners who don't plan to pay off their conventional mortgages soon may be interested in using a reverse mortgage to defer these payments. It eliminates the need for the homeowner to make monthly payments, which reduces the risk of default. Depending on the amount of equity in the house, they may also be able to draw additional funds that they can use to get help with household chores, home maintenance, and to pay property taxes and homeowners insurance.

Timing Matters

Carrying sizable housing debt into retirement also can cause problems. One of the requirements for a reverse mortgage is that borrowers must first pay off any existing debt on the house. They can do this by tapping their savings or liquidating other assets. Those who do not have these resources can use a portion of the reverse mortgage. However, to make this work, the existing "forward" mortgage cannot exceed the amount that they could get from the reverse mortgage. Borrowers also need to have enough loan funds to cover fees and other upfront costs, which can be sizable. Otherwise they have to pay down the difference at closing.

Among other factors, the amount that homeowners receive from a reverse mortgage varies by age.[23] All other factors being equal, this means that younger borrowers will be able to tap less home equity than older borrowers to pay off existing housing debt. Currently, a 62-year-old can expect to get about 48% of the appraised value of the home from an adjustable rate HECM Standard loan (ARM), before deducting fees and closing costs (loan principal limit). This would increase to almost 60% of home value for a fixed rate HECM Standard loan. An 80-year-old borrower might receive about 61% of home value for a HECM Standard ARM and 69% for a HECM Standard fixed rate loan.

Because of these loan limits, younger homeowners with sizable housing debt may have to wait several years until they qualify for a loan of a sufficient size to meet their financial goals. This situation could affect a significant number of homeowners under age 70. Among those who recently participated in a HECM counseling session, 31% estimated that they owe more than 50% of the value of their homes (see Table 6). Since homeowners tend to overvalue their homes in today's market, the percentage of those who may not be able to get immediate relief could be higher.

Implications

People in their 50s and 60s, who are predominantly Baby Boomers, are approaching retirement differently than older generations. Many expect to continue to work for some years, in part because they still are paying off housing and non-housing debts. They also face greater uncertainties surrounding Medicare and Social Security. Since fewer Boomers have a traditional pension or other sources of guaranteed retirement income than those in prior generations, they will depend more on their savings and assets, including home equity, to achieve a secure retirement.

Data from recent reverse mortgage counseling sessions suggest that older homeowners are looking for solutions to help manage their often precarious post-recession financial situations. For those with sizable debt, a reverse mortgage may be the only way they can retire. There are other studies that show how seniors are starting to explore new ways to use home equity to meet their financial goals.[24] The findings presented here suggest that these loans may be part of a small but growing trend to include this asset in retirement planning and financing.

Expand and Strengthen Consumer Guidance and Education

It is important to encourage the orderly drawdown of this valuable retirement asset. While the home is a valuable source of financial security, without appropriate and effective guidance, tapping home equity may also increase the financial vulnerability of older homeowners. There are several areas where older homeowners could use more help:

- **Reverse mortgage counseling is critical** — Expanded and strengthened consumer education is an important component that will assist borrowers in making wise decisions.
- **Provide customized advice** — Potential borrowers need to understand the pros and cons of different loan options, features, and costs in order to solve their unique financial situations. With recent changes including lower loan limits, the introduction of a fixed-rate HECM, and a new loan option (HECM Saver), reverse mortgages are no longer a one-size-fits-all solution.
- **Revise outdated thinking** — Based on their experience with conventional loans, consumers may believe that it is better to get a fixed rate rather than an adjustable rate HECM. However, a fixed rate HECM can be more costly and potentially offers less flexibility than an ARM HECM loan. In addition, consumers may not be aware that lenders may now offer reverse mortgages with minimal upfront costs, which can make this loan appropriate for more short-term needs.

- **Clarify confusing concepts** — Although borrowers need to pay off existing debt on the home to get a reverse mortgage, they are not "paying off the mortgage." By transferring this debt to the reverse mortgage loan, they are only deferring these payments (with interest) until they die or move out.
- **Offer a holistic approach** — Borrowers may benefit from involving other professionals in decision-making as appropriate, including legal advisors to review the reverse mortgage contract, financial planners, tax advisors, and medical advisors to provide input on health challenges that could make it hard to stay at home.

Achieving these goals will present new challenges and responsibilities, not only for reverse mortgage lenders and counselors, but for all professionals who serve seniors. As homeowners consider a reverse mortgage at younger ages, it will be critical to help them consider options that can solve their immediate need and sustain them in the home for many years.

Importance of an Exit Strategy

Reverse mortgage borrowers can stay in the home as long as they wish. But sooner or later, the loan must be repaid. Where a borrower stands financially at this point depends on what happened in the intervening years. Those who took out a large lump sum at closing, or drew heavily on their loan for many years, will have accumulated a sizeable loan balance along with interest payments and other fees. If home values increased in their neighborhoods, there may be funds left after paying off the reverse mortgage. If not, or if interest rates rise substantially, then there may be little or no equity left.

It is hard for people to envision what might lie ahead in their future. As a result, some reverse mortgage borrowers are already struggling to pay property taxes and insurance premiums each year. Many lenders and reverse mortgage counselors also tend to review a homeowner's current circumstances. But with the arrival of the Baby Boomer generation in the reverse mortgage marketplace, this may not be enough. Financial advisors, senior advocates, housing specialists, and other experts will need to work together to develop scenarios for the future with appropriate exit strategies to guide consumers through these transitions. With this longer range perspective, reverse mortgage borrowers may be able to better navigate the uncertainties that lie ahead.

Creating a Financial Buffer: Now or Later?

When home values and consumer optimism were high, the reverse mortgage marketplace experienced rapid growth. But now people are more cautious about making financial decisions that involve their homes. For many Americans, the house is their most valuable asset. In our uncertain times, it is hard to predict the challenges that may lie ahead, or to calculate the benefit/cost tradeoffs of tapping home equity as a financial solution.

One of the questions that homeowners increasingly need to consider as part of their overall retirement planning is whether to integrate home equity into their ongoing retirement financing, or preserve this asset for major unexpected expenses in the future. Using home equity as more than a “last resort” can help to keep cash shortfalls from becoming big problems. For example, homeowners may choose to use these funds to provide more choice and control in their lives; pay for home repairs, tax bills, and other choices which allow them to stay in their homes. In some situations, a reverse mortgage may stabilize a difficult financial situation such as forestall a foreclosure and allow time for the homeowners to find more effective solutions to their cash flow problems. Use of this strategy, however, can increase financial risks, therefore borrowers must be careful in managing their spending as not to create greater cash flow problems.

At the same time, the growing trend toward borrowing at earlier ages also raises concerns. Aging Baby Boomers are likely to live somewhat longer than their parents. Many have not saved enough for these additional retirement years. Consequently, seniors may need to preserve a portion of their home equity as a financial buffer against inflation, and to pay for health-related expenses that inevitably increase as people age.

It has become clear that reverse mortgages have evolved both as a product, and as a solution for many to ongoing financial security concerns. They have emerged from what was originally a last-resort response of desperation to a responsible decision-making process about an important asset and source of financial support. Continued changes in both the reverse mortgage and the marketplace are inevitable as the Baby Boomers comprise larger portions of the pool of potential borrowers, encouraging continued research for continued insights and understanding of this emerging solution to challenging economic times.

Endnotes

1 The U.S. Department of Housing and Urban Development (HUD) does not have specific income requirements for HECM reverse mortgage borrowers. However, HUD has stated that HECM lenders may now conduct a financial assessment of the applicant as part of the process of qualifying them for these loans. This assessment could include a review of their credit history, income, debts, and cash flow situation. The purpose of this assessment is to ensure that applicants have the ability and willingness to meet their obligations of HECM loans, including paying ongoing property taxes and homeowner's insurance. Applicants who do not meet the lender's requirements may have their loan application denied by the lender. This assessment can vary among lenders, depending on the different reverse mortgage products that they offer.

2 With the recent introduction of new HUD counseling guidelines, reverse mortgage counselors must now collect more systematic data on the financial concerns and shortfalls of all their clients. Data on the risks and realities facing today's HECM counseling clients were collected by HUD-approved reverse mortgage counselors using the Financial Interview Tool (FIT). All the responses reflect self-reported data.

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4 See endnote 1.

5 See endnote 2.

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7 The AARP study was based on a national telephone survey of 1,509 reverse mortgage counseling clients. Of these, 1,309 were homeowners who had taken out a reverse mortgage (807) and 502 respondents who still had not decided to take out this loan. The survey also included interviews with 200 representatives of homeowners who had power of attorney. The age reported in the study reflects age at the time of the survey, not at the time of loan origination. See: Redfoot DL, Scholen K, and Brown SK. (2007). *Reverse Mortgages: Mainstream Solution or Niche Product?* Washington DC: AARP.

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20 Copeland C (2010). Labor Force Participation Rates: The Population Age 55 and Older, 2008. *EBRI Notes.* 31(2): 10-16.

21 Garr E (2009). Older Americans in the Recession. *Economic Policy Institute Issue Brief #251.*

22 NCOA calculations based on American Housing Survey Table 3.15. Mortgage Characteristics — Owner-Occupied Units. From the U.S. Census Bureau website: www.census.gov/hhes/housing/ahs/ahs09/ahs09.html.

23 The total amount a homeowner may receive through a HECM is calculated by a formula that includes the age of the youngest borrower, the interest rate, the value of the home or sales price, and the upfront mortgage insurance premium option (HECM Standard or HECM Saver).

24 See for example: MetLife Mature Market Institute (2009). *Tapping Home Equity In Retirement.*

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