



# Awareness of Home Equity Products Among Older Homeowners and Financial Advisors

March 2017

**ncoa**  
National Council on Aging

**RMF**  
REVERSE MORTGAGE FUNDING LLC

## Major Findings

- Despite the importance of home equity as part of their financial portfolio, older homeowners do not understand and are reluctant to use home equity products.
- Older homeowners and financial advisors have a strong negative bias against the Reverse Mortgage Line of Credit, based exclusively on product name and driven by preconceived notions and misunderstanding of the product.
- Based on product features alone, both consumers and financial advisors prefer the Reverse Mortgage Line of Credit, citing it as less risky and more desirable than a Home Equity Line of Credit.
- Older homeowners are open to education and information to help them better understand safe and appropriate ways to use home equity products to address their retirement needs.

A white paper presenting an in-depth analysis of the methodology and key learnings from this research will be available in late spring 2017. The paper is being developed by NCOA in collaboration with Stephanie Moulton, PhD, at the John Glenn College of Public Affairs, at Ohio State University.

## Research Methodology

1. Online quantitative survey fielded in April 2016 with a nationally representative sample of 1,002 older homeowners who did not currently have a Home Equity Line of Credit or a Home Equity Conversion Mortgage.
2. Online quantitative survey fielded in April 2016 with 254 financial advisors with one or more of the following credentials: FINRA Series 6 or 7, Certified Financial Advisor or Planner, or NMLS Mortgage Loan Broker.
3. Series of 13 focus groups in three nationally representative cities (Rochester, NY; Minneapolis, MN; and Denver, CO) with 112 consumers aged 60-75 held in October and November 2016.

*This research was funded by a grant from Reverse Mortgage Funding LLC and conducted in partnership with NCOA, Martino Flynn, and Mintel Comperemedia. NCOA has final editorial control of the content.*

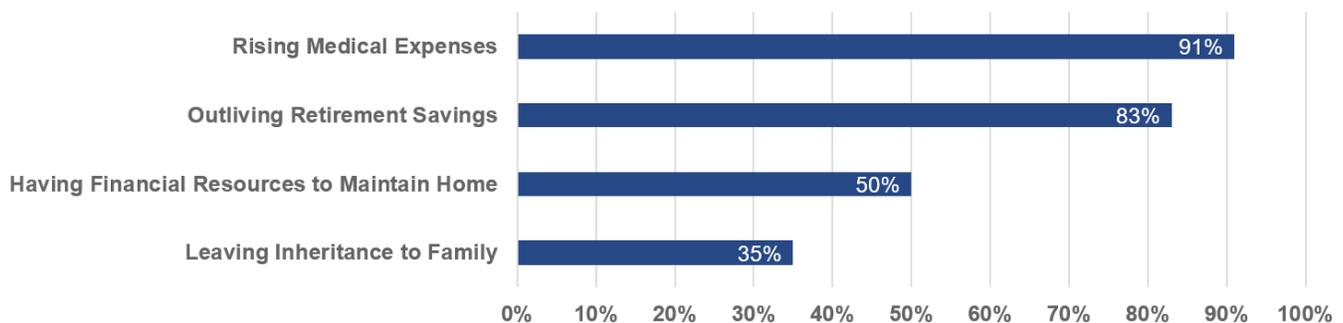




## Retirement Concerns Loom Large

- 91% of older homeowners said they are worried about rising medical expenses.
- 83% are concerned about having enough money to live comfortably in retirement and worry about outliving their retirement savings.
- 80% want to stay in their current homes as long as possible, but they may not know how to accomplish this.
- More than half are concerned with having the financial resources to maintain their home.
- 35% worry about being able to provide financial help or leave an inheritance to their family.

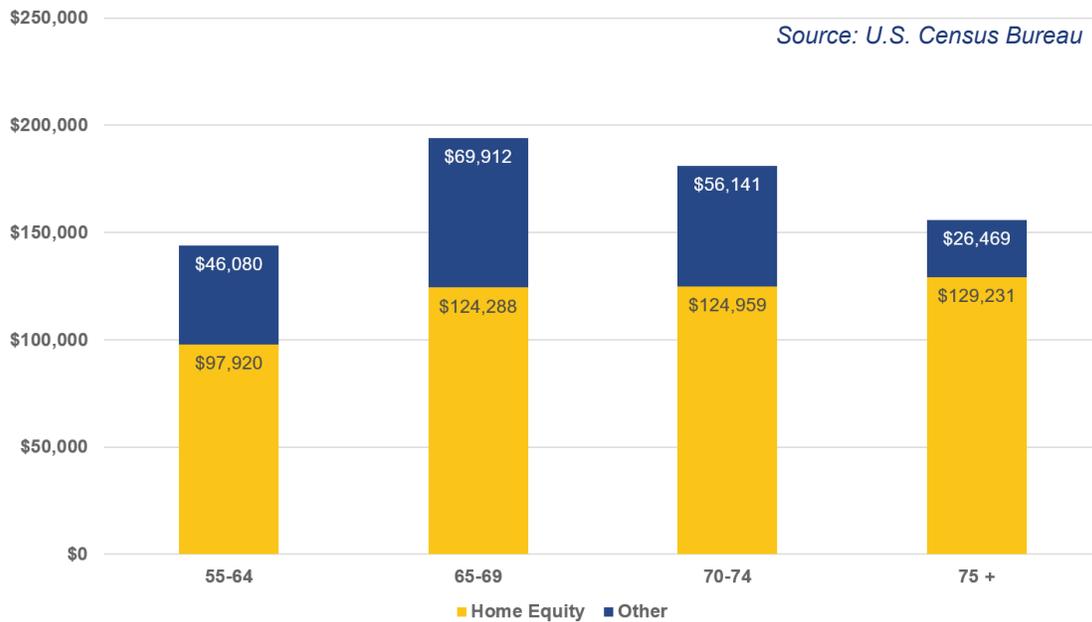
### Financial Worries Top Older Adults' Retirement Concerns



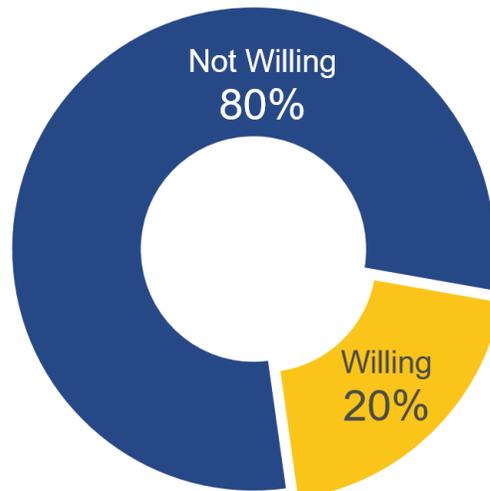
## Home Equity: An Overlooked Opportunity

- For the 80% of adults aged 65+ who own their homes, home equity represents 60-80% of their total net worth, making it an important factor in addressing retirement needs.<sup>1</sup>
- 41% of those aged 65-74 and 63% of those aged 75+ own their homes free and clear.<sup>2</sup>
- However, in the NCOA research, only 20% of older consumers indicated a willingness to draw on home equity in retirement.
- This research suggests that lack of understanding of existing home equity products and worries about making a wrong choice contribute to this reluctance.

Older Homeowners Have 60-80% of Net Worth in Home Equity



Lack of Understanding Leads to Low Willingness to Draw on Home Equity in Retirement



1 U.S. Census Bureau. Wealth and Asset Ownership. Accessed April 2016 at <http://www.census.gov/topics/income-poverty/wealth.html>

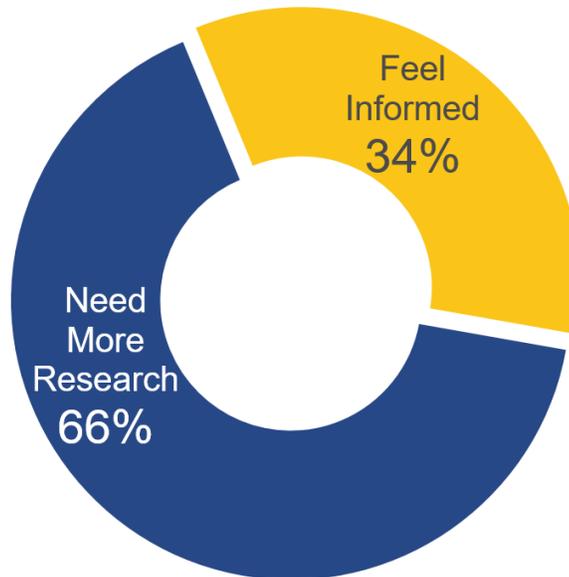
2 Varanasi, N. Free and Clear American Homeowners. Jan. 9, 2013. Accessed March 2017 at <http://www.zillow.com/research/free-and-clear-american-mortgages-3681>

## Lack of Knowledge about Home Equity Products

- Ironically, consumers expressing the greatest concern about having enough money for retirement are those with the greatest resistance to and least understanding of home equity products.
- 66% of those surveyed said they would need to do more research to understand a Reverse Mortgage Line of Credit.
- Product acceptance requires both understanding and confidence.



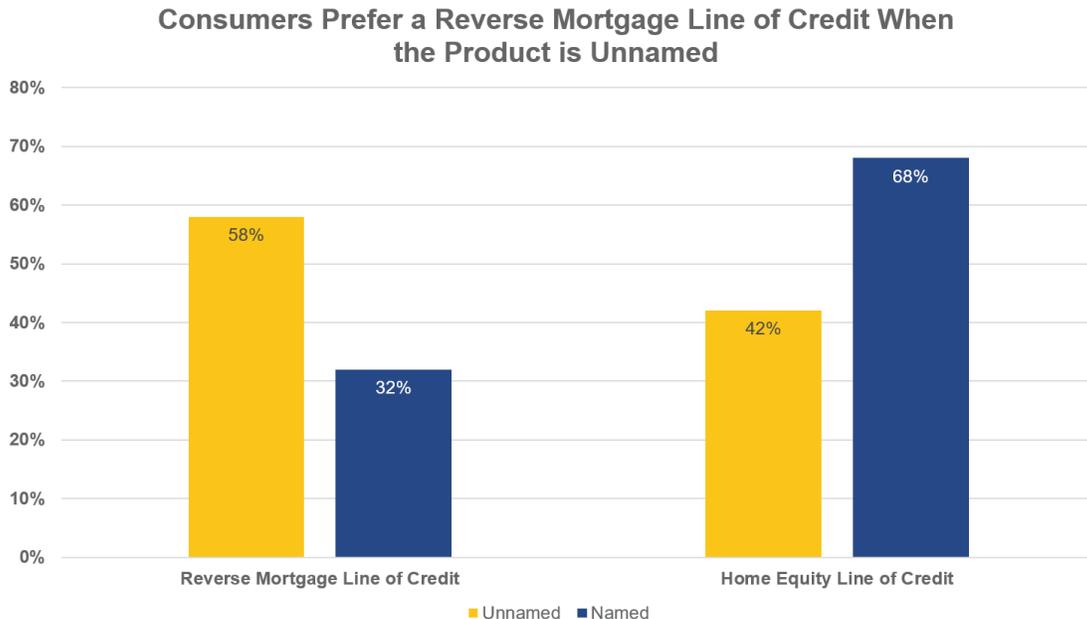
### Consumers Need More Information to Understand a Reverse Mortgage Line of Credit



## What's in a Name? Plenty When It Comes to Home Equity Products

- The research showed a significant bias based on product names—the Reverse Mortgage Line of Credit and the Home Equity Line of Credit.
- In the focus groups, older consumers overwhelmingly preferred the Reverse Mortgage Line of Credit when it was presented to them as “Loan Product B.” However, when it was revealed as a Reverse Mortgage Line of Credit, the product was viewed as less desirable.
- In the online survey, 58% of older consumers preferred the Reverse Mortgage Line of Credit when it was presented as “Loan Product B,” compared with only 42% who preferred the Home Equity Line of Credit, presented as “Loan Product A.”
- But when both products were named, the preferences reversed. Even with the identical product features and descriptions previously presented, 68% of consumers preferred the Home Equity Line of Credit compared to 32% who preferred the Reverse Mortgage Line of Credit.

- When asked which product they would consider for help paying for major expenses in retirement, consumers preferred the Reverse Mortgage Line of Credit when it was presented as “Loan Product B,” but preferred the Home Equity Line of Credit when both products were presented by their product names.
- The research suggests that consumers’ perceptions of the value derived from these home equity products is highly influenced by the product name, all else being equal.



## Loan Type A

- Borrower has access to line for 10 years
- Must make minimum monthly payments
- Lender can freeze or reduce the loan amount
- Home subject to foreclosure if minimum payments, taxes, or insurance not paid
- Loan balance must be paid back in full, even if borrower owes more than house is worth

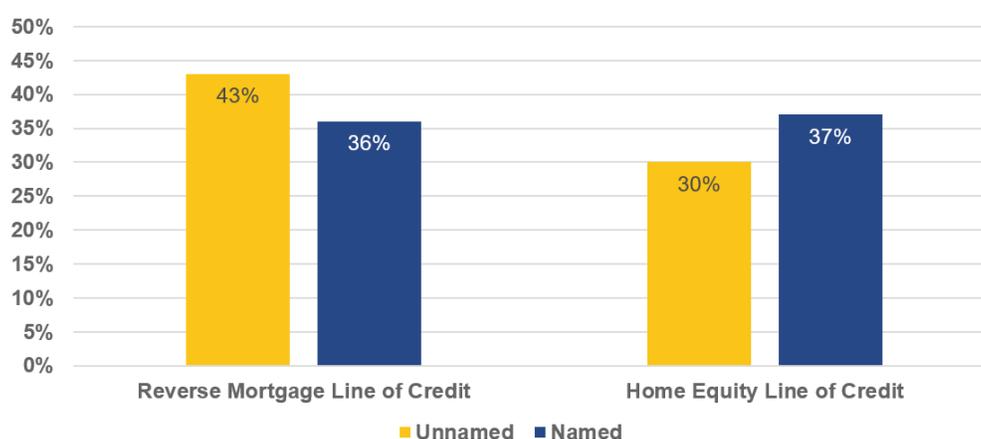
## Loan Type B

- No mandatory 10-year draw period
- No minimum payments required
- Lender cannot freeze or reduce the loan amount
- Home subject to foreclosure if taxes or insurance not paid
- Borrowers or heirs never pay back more than the home’s fair market value when it is sold

## Financial Advisors Share the “What’s in a Name” Bias

- Based solely on product attributes, 43% of financial advisors surveyed said they would recommend the Reverse Mortgage Line of Credit when it was presented as “Line of Credit B,” compared with 30% willing to recommend the Home Equity Line of Credit presented as “Line of Credit A.”
- But when the product names were revealed, the likelihood of recommending a Reverse Mortgage Line of Credit dropped to 36% and interest in the Home Equity Line of Credit rose to 37%.
- The research also reveals a great disparity in the level of knowledge and comfort among financial advisors about Reverse Mortgage Lines of Credit, indicating a need to educate these key influencers about home equity options.

**Financial Planners Prefer a Reverse Mortgage Line of Credit When the Product is Unnamed**



## Key Conclusions

- The desire among older homeowners to age in place and maintain quality of life in retirement is at odds with their understanding and acceptance of various options for leveraging home equity as a retirement resource.
- The research shows that home equity products are poorly understood.
- Given the large share of net worth that lies in older adults’ home equity, it is critical that they have access to the most objective and up-to-date information about whether and how to safely access home equity to meet the large and growing financial concerns they face in retirement.
- An important barrier is the strong negative bias revealed in the research, among both consumers and financial advisors, associated with the name Reverse Mortgage Line of Credit.
- More education and awareness are needed to overcome these negative preconceptions, so consumers can get objective and complete information to fairly consider whether these home equity solutions are appropriate for them.
- Consumers acknowledge limited understanding of these products and express a desire for information from independent third parties to educate them on their retirement options.

**For more information, please visit [ncoa.org/HomeEquity](http://ncoa.org/HomeEquity).**