

Reverse Mortgages: A Consumer Perspective



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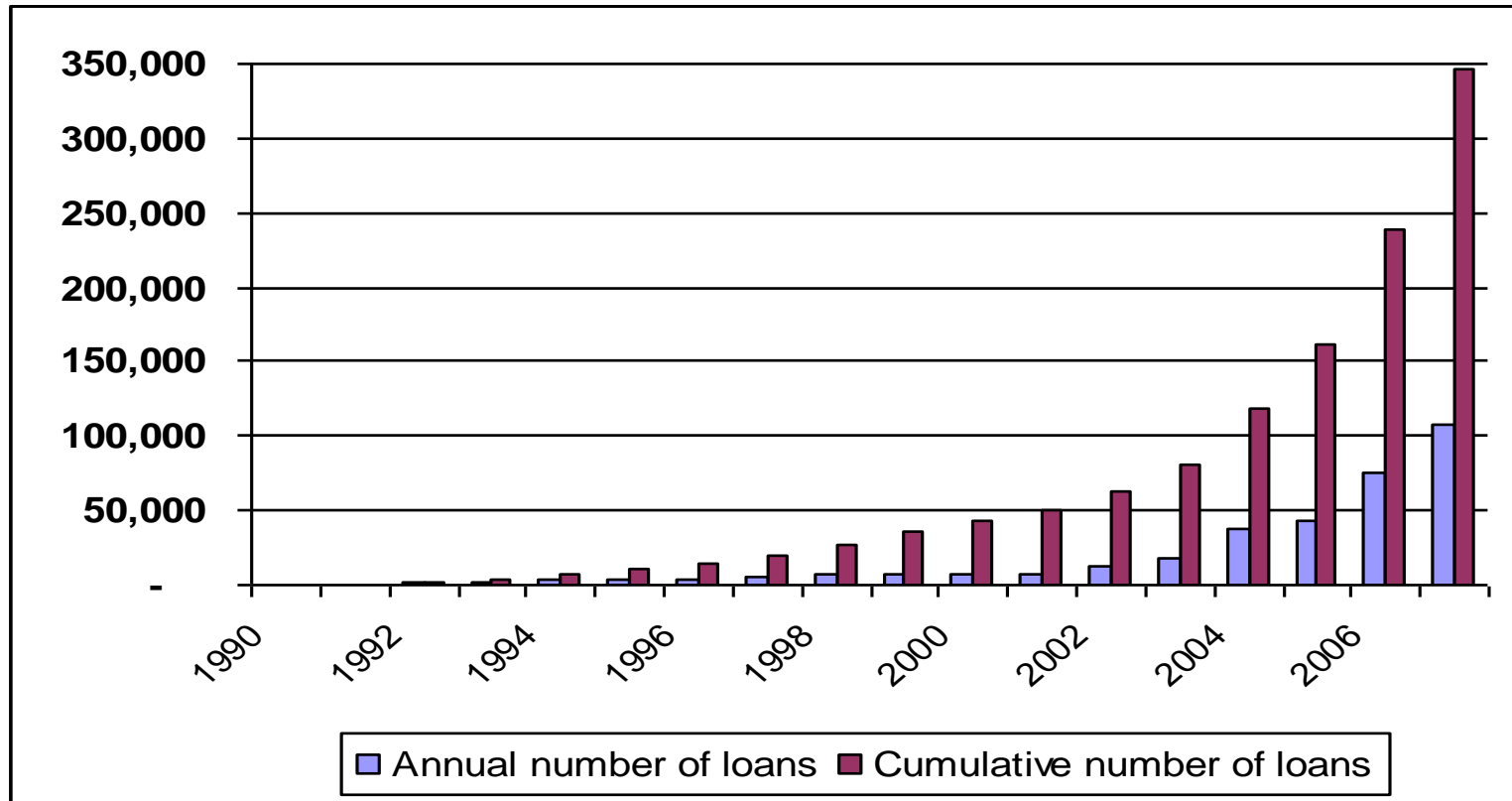
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RM Loans Increasing

One-third of all loans under the HECM program, 107,000, were made in the most recent year (2007). Two-thirds were made in the most recent three years (2005-07). Nonetheless, only 1% of older households have ever taken out a reverse mortgage.

HECM loans insured by HUD by federal fiscal year from 1990 to 2007



AARP Report

To address gaps in our knowledge about why consumers take out reverse mortgages, AARP's Public Policy Institute published a report in December 2007 with the following sources of information:

- First ever national survey of 1,509 reverse mortgage counseling clients—borrowers and those who decided not to borrow;
- Focus groups and in-depth interviews;
- National telephone survey of 1,003 persons aged 45+ replicating a 1999 survey on consumer awareness of reverse mortgages;
- Analyses of HUD data and data from other sources; and
- Data from research on a small Connecticut program targeted to older homeowners with long-term care needs.

Consumer awareness has increased but interest has decreased

- According to AARP surveys, the share of individuals ages 45 and older who had heard of reverse mortgages increased from 51 percent in 1999 to 70 percent in 2007.
- But the share of respondents who said they were willing to consider a reverse mortgage in the future declined from 19 percent to 14 percent.
- According to a 2007 Harris survey on various mortgage products, only 15 percent of respondents said that they were very knowledgeable and 34 percent said they were somewhat knowledgeable about reverse mortgages – the lowest numbers among all mortgage types.
- Among those who said they were aware of reverse mortgages, only 5 percent said they had a very favorable impression of them, 20 percent were somewhat favorable, and 18 percent were very unfavorable – also among lowest ratings of any mortgage type.

Characteristics of Reverse Mortgage Borrowers

According to HUD data on HECM borrowers...

- The average age of borrowers has decreased from 76.6 years in the early 1990s to 73.0 years in 2008.
- The proportion of single female borrowers declined from 57 percent to 44 percent; couples increased from 28 percent to 36 percent during this period. (Single men increased from 13% in 2000 to 20% in 2008.)
- The average home value in the HECM program increased from \$121,300 to \$240,400.

According to AARP survey...

- 13% of borrowers were non-white, compared to 11% of older homeowners who were non-white.
- A third of borrowers (33 percent) reported incomes of less than \$20,000, and nearly two-thirds (62 percent) reported incomes of less than \$30,000.

What are consumers looking for in a reverse mortgage?

- Respondents were more likely to identify “necessities” rather than “extras” by a margin of 48% to 38%.
- The top two reasons were: to have money available for emergencies and unexpected costs (75%) and to improve the quality of your life or to be able to afford some extras (72%).
- A second tier of responses included everyday expenses (48%), home improvements (46%), and paying off the mortgage (40%).
- A third tier of responses included paying off non-mortgage debts (28%), property taxes and homeowners insurance (27%), and healthcare or disability costs (26%).
- The least mentioned reasons were household chores (18%), financial help to families (14%), and investment, annuity, or LTC insurance purchases (14%).

Reported Uses

When borrowers were asked the **main use** for their loans, they reported:

- Paying off the mortgage – 19%
- Home repairs/improvements – 18%
- Improve quality of life – 14%
- Everyday expenses – 10%
- Emergencies – 9%
- Paying off non-mortgage debt – 7%
- Health or disability-related expenses – 5%

Satisfaction was high

When respondents were asked what about their experiences with their loans:

- 58% of borrowers indicated that the loan had completely met their needs; 25% said their needs were mostly met, and 12% said their needs had been partly met.
- 93% of borrowers reported that their reverse mortgages had had a mostly positive effect on their lives, compared to 3% who said the effect was mostly negative.
- 63% of borrowers reported that they would be “very likely” to recommend a reverse mortgage to a friend and 26% said they were “somewhat likely.”
- 93% of borrowers and 75% of non-borrowers reported that they were satisfied with their experiences with lenders.
- 95% of borrowers and 92% of non-borrowers reported that they were satisfied with their experiences with counselors.

Caveat on Satisfaction

- 92% of AARP sample of borrowers had participated in reverse mortgage counseling within the past three years, so their evaluations were based on short-term experiences.
- Longer term evaluations may be different if needs change and fewer resources are available.
- The average duration of HECM loans is 6 years but the median remaining life expectancy of the average borrower is 12 years. Average duration doesn't vary much by age of borrower.
- Borrowers who take out loans at relatively young ages, then sell their homes a few years later may find that they have little equity remaining to meet needs in later years.
- More research is needed on long-term experiences and consequences.

Costs and reverse mortgage decisions

- High costs were most frequently cited (by 63% of non-applicants) as being a reason for not applying for a reverse mortgage.
- Other frequently cited reasons for not applying for a loan were a desire to keep the home debt-free (57%), finding other ways to meet financial needs (56%), and deciding that a reverse mortgage was not necessary given the homeowner's financial situation (54%).
- When reverse mortgage counseling clients were asked for the **main reason** why they did not apply, high costs were cited three times more often than the next most important reason.
- Among borrowers, 69% said that loan costs were very high (31%) or somewhat high (38%).

Health, long-term care (LTC), and reverse mortgages

- 26% of respondents indicated that health or disability needs were a reason for looking into a reverse mortgage.
- Among this group, the most frequently mentioned type of cost was for prescription drugs (36%) followed by home care (21%), medical equipment or devices (14%), hospital stays (14%) and nursing home use (6%).
- 47% of respondents aged 85+ and 40% of those with fair or poor health said that health or disability needs were a reason for looking into a reverse mortgage.
- Among borrowers in fair or poor health, 45% indicated that their reverse mortgages helped someone with an illness or disability remain in their homes.

Recommendations: Consumer protections

- Sufficiently fund counseling in order to guarantee its independence.
- Improve information received in consumer counseling.
- Improve consumer information on costs related to purchasing annuities, long-term care insurance, or investment products.
- Forbid sales agents from being independent counselors and forbid certain marketing practices related to selling insurance or investment products.

**Reverse Mortgages:
Niche Product or Mainstream Solution**

**Report on the 2006 AARP Survey of
Reverse Mortgage Shoppers**

For a copy of the full report, go to:

www.aarp.org/reversemortgage

For more consumer information, go to:

www.aarp.org/revmort