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Reverse Mortgages: Niche Product or Mainstream Solution?

Report on the 2006 AARP National Survey of Reverse Mortgage Shoppers

by

Donald L. Redfoot
AARP Public Policy Institute

Ken Scholen
AARP Foundation

S. Kathi Brown
AARP Knowledge Management

AARP's Public Policy Institute informs and stimulates public debate on the issues we face as we age. Through research, analysis and dialogue with the nation's leading experts, PPI promotes development of sound, creative policies to address our common need for economic security, health care, and quality of life.

The views expressed herein are for information, debate, and discussion, and do not necessarily represent official policies of AARP.

AARP, 601 E Street, NW, Washington, DC 20049
http://www.aarp.org/ppi

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FOREWORD

Economists and policymakers have long seen the $4 trillion of home equity held by older homeowners as a potential source of funding for long-term financial security. Until recently, however, older homeowners could only access this equity by selling their homes or by taking on mortgage debt with monthly payments.

The advent of reverse mortgages has allowed older homeowners to tap into their equity without selling their homes and without making loan repayments until they die, sell their homes, or move. But, despite the interest of academics and policymakers, little is known about the specific needs older homeowners seek to address with reverse mortgages.

Don Redfoot of AARP's Public Policy Institute, Ken Scholen of AARP Foundation's Reverse Mortgage Education Project, and Kathi Brown of AARP Knowledge Management have conducted the first nationally representative survey of reverse mortgage shoppers—older homeowners who have gone through reverse mortgage counseling and either taken out a loan or decided not to do so. This survey provides the first detailed look at consumer interest in reverse mortgages, consumer experiences with lenders and counselors, why some consumers decide against these loans, how borrowers use the loan proceeds, and how well reverse mortgages address borrower needs.

AARP's research team also analyzed trend data from the Department of Housing and Urban Development, conducted a survey to determine awareness and opinions of reverse mortgages among Americans 45 years and older, and looked at a small reverse mortgage program in Connecticut dedicated to addressing long-term care needs.

The picture that emerges from this comprehensive analysis shows older homeowners have had largely positive experiences with the federally insured reverse mortgage program. The study also shows that borrowers and non-borrowers consider the costs of reverse mortgages to be excessive and that the public appears to be wary of such loans. Moreover, some troubling signs of unethical marketing practices could taint the whole industry if not prevented.

Reverse mortgages offer new opportunities for older homeowners who are relatively house-rich but cash-poor—but they also call for new forms of financial literacy to help consumers manage this asset wisely. The Public Policy Institute offers this report to provide consumers with more information to make decisions, to give the reverse mortgage industry insight into consumer needs, and to brief policymakers about important issues related to reverse mortgages.

Susan C. Reinhard, RN, Ph.D.
Senior Managing Director
AARP Public Policy Institute

EXECUTIVE SUMMARY

I. Introduction—Niche Product or Mainstream Solution?

For most older people, their home equity is their largest single asset. More than 80 percent of older households own their homes (Munnell et al, 2007), which are worth roughly $4 trillion (Harlow, 2007). Economists have looked at these substantial levels of assets as a potential source of savings to fund consumption in old age. According to the “life cycle” hypothesis of savings and consumption, one would predict that individuals would pay down debts and build savings in their working years, then divest those savings to support consumption in their older years.

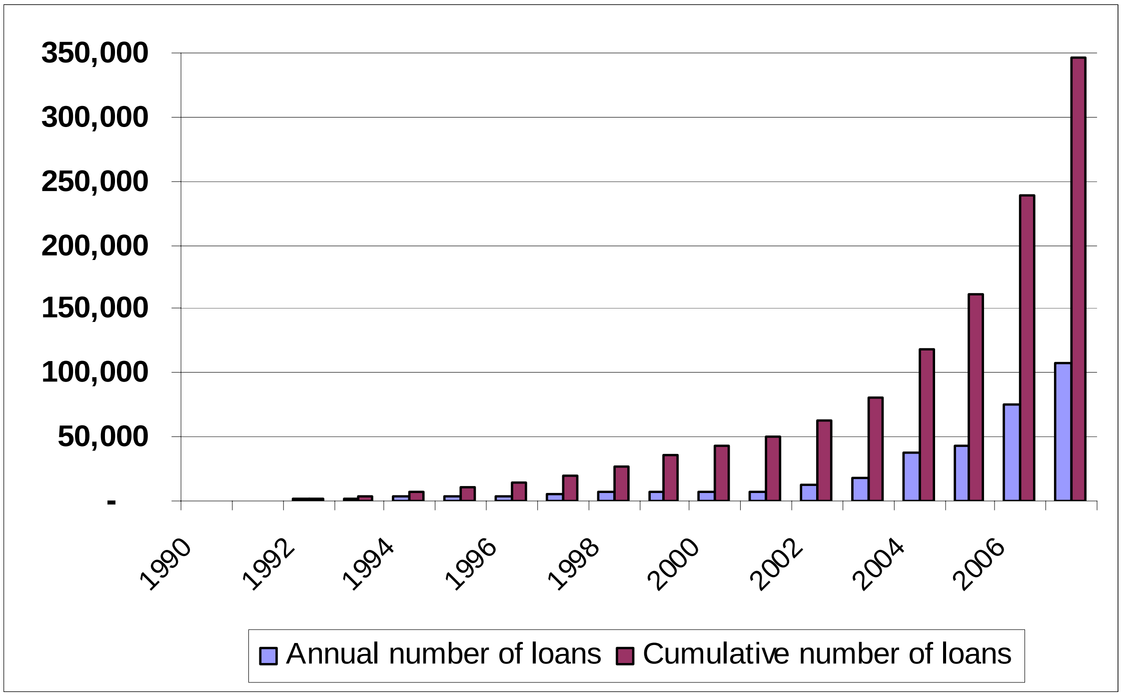
But when it comes to home equity, older homeowners have not followed this pattern. Rather than divesting their home equity, homeownership rates remain stable in old age, and home equity increases with age for older homeowners as they pay off mortgages and experience appreciation in home values (Fisher et al., 2007). One reason for this lack of interest has been the unattractive choices available for divesting home equity. Before the advent of reverse mortgages, older homeowners had two main ways to derive cash from their homes. They could sell them, but that meant moving, and most older homeowners do not want to leave their homes. They could also borrow against their homes, but that meant having to make monthly loan repayments, and most older homeowners are neither eager nor able to incur new monthly obligations.

When they became widely available in the 1990s, reverse mortgages provided a new way to convert a lifetime of home equity savings into cash—one that required neither sale of the home nor monthly payments. Reverse mortgages are loans secured by the home that do not have to be repaid until the borrower dies, sells the home, or moves out of the home permanently. The amount of money that can be borrowed via a reverse mortgage generally depends on the borrower’s age and the value of the home. Typically, the older the borrower and the greater the home value, the more cash can be made available in loan advances. The minimum age for almost all reverse mortgage programs is 62.

Congressional authorization of federal insurance for reverse mortgages in 1988 led some economists to project substantial increases in tapping home equity. In the early 1990s, projections of potential demand for reverse mortgages ranged from 800,000 older households (Merrill, Finkel, and Kutty, 1993) to more than 11 million (Rasmussen, Megbolugbe, and Morgen, 1995). A more recent study (Stucki, 2005) estimated the potential market at 13.2 million older households.

Moving from the potential market to actual uses of reverse mortgages, however, has proven to be a very slow process. Only in the past few years has the number of loans grown substantially. Twenty years after the program was created, the federal Home Equity Conversion Mortgage (HECM) insurance program, which accounts for roughly 90 percent of all reverse mortgages, had insured only 345,762 loans by the end of fiscal year 2007. Of these, nearly one-third (31 percent or 107,367 loans) were insured in FY 2007 alone. Two-thirds (66 percent) were insured in the most recent three years of the program, FY 2005–2007 (U.S. Department of Housing and Urban Development, 2007b).

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



Source: HUD Office of Evaluation, 2007

Despite recent growth, the 265,234 federally insured reverse mortgages in existence at the end of FY 2007 (Department of Housing and Urban Development, 2007b) represented only 0.9 percent of the 30.8 million households with at least one member age 62 and older in 2006 (U.S. Census Bureau, 2006). Adding in non-federally insured reverse mortgages still leaves an estimate of only 1 percent of older households that currently have a reverse mortgage. The small percentage of older households with reverse mortgages despite recent growth in the volume of loans raises the question:

> Is recent growth the harbinger of a future in which reverse mortgages are used more commonly as an asset management tool to address financial needs in retirement?
>
> or
>
> Will reverse mortgages remain a small niche product that relatively few older homeowners are interested in using?

Addressing this question requires more research on the 1 percent of older households that have taken out reverse mortgages as well as the 99 percent that have not. Very little is known about why older households are attracted to reverse mortgages, how borrowers use their loan proceeds, the extent to which the loans meet borrowers' needs, and the impact of the loans on borrowers' lives. Relatively little is also known about why 99 percent of older households do not take out such loans.

In December 2006, AARP began to explore these issues by conducting the first national survey of reverse mortgage borrowers and homeowners who had considered these loans but decided against them. This report presents the results of the 2006 AARP Survey and related research with the goal of informing public policy discussions about the future of this financial option for older consumers. The report ends with conclusions about trends and issues for consumers of reverse mortgages as well as recommendations about what the private sector and government can do to make reverse mortgages less costly, with products designed to meet the multiple needs of consumers while enhancing consumer confidence through improved consumer information and marketing practices.

II. Purposes of the Report

The purposes of this report are to:

- describe changes and trends in the reverse mortgage market;
- understand why older homeowners seek reverse mortgages;
- probe health- and disability-related reasons for looking into reverse mortgages;
- determine why many consumers elect not to take out reverse mortgages;
- explore consumer experiences with lenders, counselors, and other sources of information in the process of looking into a reverse mortgage;
- describe the degree to which reverse mortgages met consumer needs and the degree to which consumers are satisfied with their loans; and
- make recommendations to improve reverse mortgages and the reverse mortgage market for consumers.

III. Methodology

To address these issues, the report relies on the following sources of information:

- *An extensive literature review* of existing research related to uses of home equity by older homeowners and the potential of reverse mortgages.

- *A national telephone survey* of 1,509 reverse mortgage counseling recipients, including 1,309 homeowners, 807 of whom had decided to take out a reverse mortgage ("borrowers") and 502 of whom had not taken out a reverse mortgage at the time of the survey ("non-borrowers"). To focus on the needs of homeowners with high levels of disability, 200 additional interviews were conducted with representatives of homeowners who had a power of attorney (POA), enabling them to make legal/financial decisions on behalf of a homeowner.

- *Four focus groups* of eight to ten participants each, two of homeowner borrowers and two of homeowner non-borrowers, and six in-depth interviews with representatives of homeowners who had a POA for a homeowner.

- *A national telephone survey* of 1,003 persons age 45 and older, replicating a 1999 survey on consumer awareness of and interest in reverse mortgages.

- *Analyses of U.S. Department of Housing and Urban Development (HUD) data* on characteristics of borrowers, use of loan types, and characteristics of HUD's loan portfolio.

- *Information from unpublished research* on a small Connecticut reverse mortgage program targeted to older homeowners with long-term care needs.

IV. Building the Infrastructure of the Reverse Mortgage Industry and Consumer Services: How Far Have We Come?

The Home Equity Conversion Mortgage program has been a public policy success story. In the 20 years since it was authorized, this federal insurance program has moved reverse mortgages from being a financial curiosity to a nascent market that may be poised for substantial growth. Part of its success is that increased consumer demand has spurred significant new private sector initiatives that could become the primary drivers of future market developments.

A. Establishing the Financial Infrastructure for Reverse Mortgages

The first reverse mortgage products only provided monthly loan advances for a fixed number of years and required repayment when the specified fixed term expired. Only a handful of lenders offered such products, typically on a limited project basis in conjunction with nonprofit agencies serving the elderly. Developing better products and the financial infrastructure for the reverse mortgage industry required the intervention of the Federal Housing Administration (FHA).

1. Developing the Insurance Model

The Home Equity Conversion Mortgage (HECM) Insurance Demonstration was enacted in 1988. By implementing the first mortgage insurance program of its kind, FHA's pioneering design effort had to address a number of challenges associated with pooling and pricing the combined risks of borrower longevity, interest rate variability, and property appreciation on a national basis—all with no direct experience data on the risks and performance of reverse mortgage loans.

Perhaps as important in the long run as the development of the insurance model were the data that FHA collected and published on loan risks and performance through evaluation reports in 1992, 1995, 2000, and 2003 (Rodda, Herbert, and Lam, 2000; Rodda et al., 2003). The most extensive and significant data came in a 2007 HUD report on the program's financial performance over the entire history of the HECM program, from 1990 to 2006 (Szymanoski, Enriquez, and DiVenti, 2007).

2. Creating a Flexible Product to Meet Diverse Needs

When implementing the HECM program, FHA developed a flexible product that allowed consumers to meet a variety of needs. Loans could be structured as lump sums at closing, creditlines for periodic withdrawals, or monthly payments either for a specified period or for the duration of the loan. The creditline option featured a growing availability of loan funds over time. This payment option quickly became the most popular among borrowers and a model for non-FHA products in the reverse mortgage industry.

3. Funding the Loans

With FHA insuring the risks, Fannie Mae made a commitment to purchase HECM loans—thereby funding them. Fannie Mae was the only buyer until 2006, when the first HECM loans were bundled into securities to be sold to Wall Street investors. The advent of HECM-backed securities has created the first interest rate competition for such loans, resulting in interest rate cuts of 0.5 percent on many loans. Ginnie Mae, which is part of HUD, has also announced that it will securitize HECM loans (Agbamu, 2007). These developments indicate that competitive forces are taking root in this market and suggest that lower prices and better products are likely to appear within the next few years.

4. Expanding the Network of Originators

After the HECM program was designed and implementing regulations were issued, HUD selected 50 lenders to be part of the initial demonstration project. Each lender could originate only 50 loans during the initial pilot phase. Over time, Congress increased the number of loans that could be insured and made the program permanent. The 2000 evaluation reported that the number of HECM lenders had peaked at 195 in 1997, then declined to 162 during the first nine months of 1999. In response, HUD increased the origination fee limit from a flat $1,800 to 2 percent of the home value or the county-based home value limit. Legislation pending at the time of this report would eliminate the cap on the number of loans in order to spur higher volume and more competition.

5. Providing Consumer Counseling and Disclosures

The HECM authorizing statute required that all borrowers receive counseling from entities that are independent of lenders. Beginning in 2001, HUD formed a partnership with the AARP Foundation's Reverse Mortgage Education Project (RMEP), which has trained and tested counselors and developed HECM counseling policies and procedures and model reverse mortgage loan analysis and comparison specifications and software. However, inadequate funding for counseling services is jeopardizing the ability of the program to provide high-quality, independent information to consumers.

In 1994, Congress made the HECM program's "total annual loan cost" (TALC) disclosure applicable to all reverse mortgages. The TALC disclosure, the most complete in the mortgage industry, requires that all loan costs be expressed as an annualized percentage that can be used to compare reverse mortgage products.

Cumulatively, FHA's efforts since 1988 have established the financial infrastructure for the reverse mortgage industry, which should allow expansion from a low-volume, high-cost market to one characterized by higher volume, more product innovation, and more competitive pricing. With consumer demand growing and longitudinal data becoming available from the HECM program, many more and much larger private companies are showing interest in reverse mortgages. It is not yet clear, however, how the collapse of the mortgage markets and declining home values in 2007 will affect reverse mortgages.

B. Consumer Knowledge of and Confidence in Reverse Mortgages

Consumer awareness among individuals ages 45 and older increased from 51 percent who had heard of reverse mortgages in 1999 to 70 percent in 2007, according to surveys conducted by AARP. The share of respondents who knew someone with a reverse mortgage increased from 3 percent to 7 percent. But the share of homeowners ages 62 and older who indicated they had taken out a reverse mortgage remained constant at 1 percent, and the share of individuals ages 45 and older who indicated a willingness to consider a reverse mortgage in the future declined from 19 percent to 14 percent. A Harris survey (2007) found that reverse mortgages ranked last among various mortgage products in terms of respondents' understanding of the product. Only 25 percent said they had favorable impressions of reverse mortgages, compared to 71 percent who reported favorable impressions of fixed-rate, forward mortgages.

C. Changing Characteristics of Reverse Mortgage Borrowers

HUD data indicate that the average age of borrowers has decreased from 76.6 years in the early 1990s to 73.5 years in 2007. The proportion of single female borrowers declined from 57 percent to 45 percent, and the proportion of couples increased from 28 percent to 37 percent during the period. The average home value in the HECM program increased from $121,300 to $261,900. These factors are important because younger couples with more equity tend to use their reverse mortgages differently from the older, single females with less equity who predominated in the early years of the program.

V. Why Are Older Homeowners Interested in Reverse Mortgages?

The following sections report the first systematic survey data on the needs and desires that lead older homeowners to explore reverse mortgages and on the actual uses borrowers reported.

A. Needs-Driven or Desire-Driven Markets?

The 2006 AARP Survey of reverse mortgage counseling clients asked whether their motivation for looking into a reverse mortgage was "a desire to improve your quality of life, by having more money to spend on extras" or "a need for more money to pay for basic necessities and essential expenses." Among all respondents, those who identified "necessities" as a reason for looking into a reverse mortgage outnumbered those who identified "extras" by a margin of 48 percent to 38 percent. Respondents with incomes less than $20,000, those in fair or poor health, those older than 80 years old, women, and those who were divorced or widowed were especially likely to report that they had looked into a reverse mortgage to deal with necessities.

B. Specific Reasons for Looking into Reverse Mortgage and Actual Uses

When respondents were asked to indicate the reasons they had looked into reverse mortgages, having money to deal with emergencies and to improve the quality of life were the most frequently mentioned reasons. But when asked to name the "main reason" for looking into a reverse mortgage and the "main use" to which they had put the loans, borrowers most frequently mentioned paying off their existing mortgages and making home repairs or improvements.

Reasons for looking into reverse mortgages (RMs) and main uses by borrowers**

	A reason for looking into a reverse mortgage		Main reason for looking - Borrowers (n = 946)	Main use by borrowers (n = 946)
	Borrowers (n = 946)	Non-borrowers (n = 563)		
Pay off mortgage	40%	40%	19%	19%
Home repairs/improvements	47%	43%	14%	18%
Improve quality of life	73%	68%	18%	14%
Everyday expenses	50%*	40%	9%	10%
Emergencies/unexpected	78%*	66%	13%	9%
Pay off non-mortgage debt	28%	27%	6%	7%
Health or disability	28%*	21%	7%	5%
Property taxes/insurance	29%*	21%	4%	5%
Financial help to family	15%	13%	2%	2%
Investments, annuities, or long-term care insurance	13%	17%	2%	1%
Household chores	18%	19%	1%	1%

***** Statistically significant difference at the .05 level between borrowers and non-borrowers; see questions 8, 9, and 31 of the AARP Survey.
**For the first two columns ("a" reason), multiple responses were allowed per respondent. For the last two columns ("main" reason), only one response was allowed per respondent.

C. Uses of Reverse Mortgages to Deal with Health and Disabilities

Three-fourths of the respondents to the AARP Survey indicated that their health was excellent, very good, or good, while 22 percent indicated that their health was fair or poor. Respondents in fair or poor health were twice as likely as those in better health to indicate that they looked into a reverse mortgage for health or disability reasons. Among those who indicated that health or disability needs were a reason for looking into a reverse mortgage, the most frequently mentioned type of cost was for prescription drugs (36 percent), followed by home care (21 percent), medical equipment or devices (14 percent), hospital stays (14 percent), and nursing home use (6 percent). Among borrowers in fair or poor health, 45 percent indicated that their reverse mortgage helped someone with an illness or disability remain in his or her home; 74 percent of borrowers who looked into a reverse mortgage to deal with an illness or disability gave the same answer.

Compared to other homeowners, those who used the assistance of a representative with a power of attorney (POA) were:

- much older (66 percent were 85+ compared to 7 percent of other homeowners);

- more likely to be widowed (72 percent vs. 35 percent);
- more likely to be in poor health (25 percent were in poor health, and 37 percent had passed away since their representatives had gone through counseling—compared to 6 percent of other homeowners in poor health); and
- poorer (63 percent had incomes under $20,000 compared to 32 percent of other homeowners).

Three-fourths of POA respondents indicated that expenses for health care or disability needs were a reason for looking into a reverse mortgage (compared to 24 percent of other homeowners). Home care (75 percent) was the health-related reason most frequently mentioned by POA respondents for looking into a reverse mortgage, followed by prescription drugs (51 percent).

D. Retiring Debts with Reverse Mortgages

The percentage of older people with mortgages and other debts has markedly increased in recent years. Retiring a mortgage or other debt frees up discretionary income and has helped many older homeowners avoid foreclosure or bankruptcy. Nearly half (47 percent) of the respondents in the AARP Survey reported having a mortgage compared to 32 percent of homeowners age 62+ in the general population. Respondents with mortgages were younger and had higher incomes and better health than those with no mortgage.

Over one-fourth (28 percent) of respondents identified retiring non-mortgage debts as a reason for looking into a reverse mortgage; these respondents tended to be younger, non-white, those looking to deal with necessities, and those with low incomes and few financial assets. By far the most frequently mentioned non-mortgage debts were associated with credit cards (70 percent) followed by home equity loans (26 percent), taxes (23 percent), health-related debts (19 percent), and car loans (18 percent).

E. Reverse Mortgages as a Way to Supplement Income

Reverse mortgages often supplement income indirectly; by paying off mortgages or other debts, borrowers free up income that otherwise would have gone to debt repayment. Three reasons for looking into a reverse mortgage are related to supplementing income: a) paying for everyday expenses, cited by 47 percent of respondents; b) improving the quality of life or being able to afford some extras, cited by 71 percent of respondents; and c) having more money available for emergencies or other unexpected expenses, mentioned by 75 percent of respondents.

- Respondents looking to pay for everyday expenses were more likely to be 80 years old or older, widowed, single, those with incomes of less than $20,000, and those who reported that they were looking to deal with necessities or an illness or disability.

- Respondents seeking to improve the quality of their lives were more likely to be seeking extras and to be white.

- Borrowers were much more likely to say they looked into a reverse mortgage to have money for emergencies than were non-borrowers, as were those age 80–84, whites, and those with incomes $10,000–$19,000.

F. Reverse Mortgages and Homeowner-Related Expenses

Respondents to the AARP Survey who mentioned homeowner-related expenses were looking into a reverse mortgage to pay for: a) home repairs or improvements (46 percent); b) property taxes or homeowners insurance (27 percent); and c) household chores and maintenance (18 percent).

- Respondents looking to pay for home repairs or improvements were more likely to be female, have low incomes and assets, and be non-white.

- Respondents looking to pay for property taxes or homeowner's insurance were more likely to be female, 80 years old or older, widowed or single, be in fair or poor health, have low incomes or assets, and be looking to deal with necessities.

- Respondents looking to pay for household chores or maintenance were more likely to be 85+, widowed, have an income less than $20,000, be looking to deal with necessities or an illness or disability, and be in fair or poor health.

G. Reverse Mortgages to Help Family Members or for Investments, Annuities, or Long-Term Care Insurance

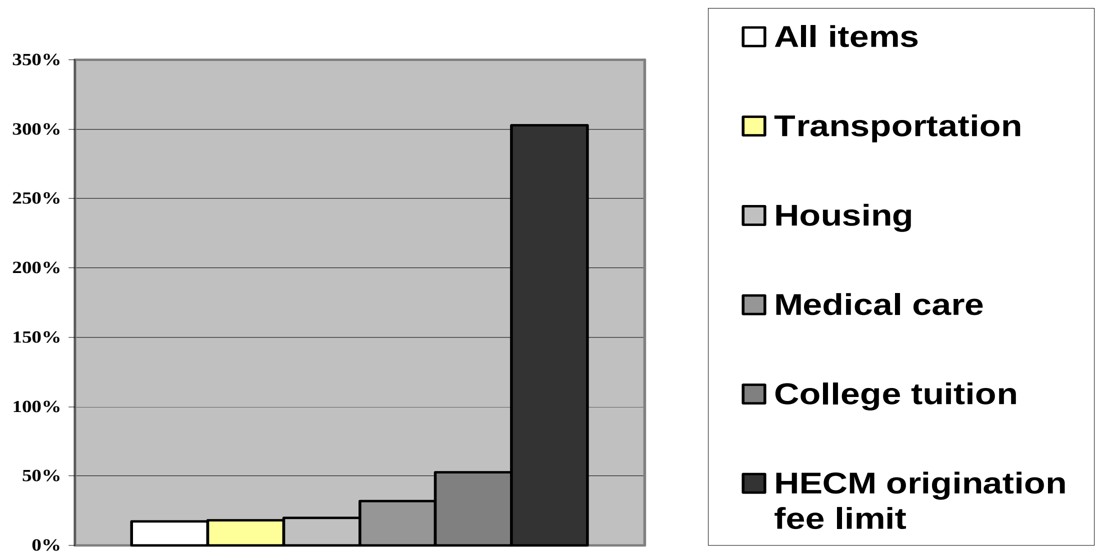
The final group of related reasons for looking into reverse mortgages includes helping family members and looking for funds to invest or to purchase annuities or long-term care insurance. Relatively few respondents (14 percent) indicated that they had looked into reverse mortgages to help family members, and fewer still (only 2 percent) saw these as the main reason for exploring reverse mortgages.

AARP's consumer guide to reverse mortgages strongly cautions against using reverse mortgages to make investments or purchase annuities or long-term care insurance policies. The double transaction costs make purchasing financial products with a reverse mortgage prohibitively expensive. Despite the high costs, 14 percent of respondents indicated that they had looked into a reverse mortgage to purchase one of these financial products, and 4 percent of borrowers said they had used their loans for such purposes.

VI. The Other 99 Percent—Reasons for Not Taking Out a Loan

Many possible reasons have been advanced to explain the reluctance of older homeowners to tap their home equity: aversion to debt, desire to leave a bequest, and the strategy of saving home equity as a last resort for major economic or health crises (Fisher et al., 2007). Among homeowners who had enough interest to go through counseling but did not apply for a loan, high costs were cited most frequently (by 63 percent of non-applicants) as a reason for not applying for a reverse mortgage. Other frequently cited reasons were a desire to keep the home debt-free (57 percent), finding other ways to meet financial needs (56 percent), and deciding that a reverse mortgage was not necessary given the homeowner's financial situation (54 percent). High costs were cited three times more often than the next most important reason as the **main reason** for not applying for a reverse mortgage.

Increases in the maximum HECM origination fee limit compared to Consumer Price Index increases, 2000 to 2006



Source: U.S. Bureau of Labor Statistics, 2007

To illustrate the costs associated with these loans, during the month in which the AARP Survey was conducted, the total lifetime transaction costs on a fairly typical federally insured HECM reverse mortgage for a borrower age 74 living in a $300,000 home could have been about $30,000—about half of which comes from upfront fees and the other half from ongoing monthly fees over the life of the loan. These cost estimates do not include any loan proceeds to meet the borrower's needs or any interest charges. Origination fees charged by lenders have risen dramatically, with the maximum allowable fee rising 303 percent between 2000 and 2006 as shown in the Figure above. Total costs associated with non-FHA loans could be even higher.

High costs were not only the dominant barrier that kept counseling clients from applying for reverse mortgages. Borrowers also deemed costs to be high. Over two-thirds (69 percent) of the borrowers AARP surveyed said that the costs were high: 31 percent said they were "very high," and 38 percent said they were "somewhat high."

The main reasons given by about one-half of non-applicants for not applying suggest that they might revisit their decision not to apply in the future if their circumstances were to change or if the loans were to become less costly.

VII. Lenders, Counselors, and Information Sources

Nine of 10 homeowners said they were satisfied with their experiences with their lenders. Ratings from borrowers were higher than those from non-borrowers —93 percent vs. 75 percent satisfied. Non-borrowers were four times more likely than borrowers to have had a lender experience that was not satisfying: 23 percent of non-borrowers were not satisfied with their lender experience versus only 6 percent of borrowers.

White non-Hispanics were more likely to rate their lender experiences highly than were non-white homeowners (74 to 64 percent). Among non-borrowers, the ethnic difference was more pronounced, with 43 percent of non-white non-borrowers saying they were not satisfied with their lender experiences.

Nine percent of borrowers reported that their lenders had recommended specific financial services products. When asked if they had used loan proceeds to purchase the lender-recommended product, 19 percent of these respondents said they had done so.

Counselor ratings differed little between borrowers and non-borrowers; 95 percent of the borrowers were satisfied with their counselors, versus 92 percent of the non-borrowers. Only 2 percent of the borrowers were not satisfied, versus 6 percent of the non-borrowers.

Survey respondents were asked, “When you were looking for information or advice related to a reverse mortgage, which of the following sources of information were helpful to you?” The only sources a majority of the respondents deemed to be helpful were the reverse mortgage counselors (70 percent) and information from AARP (52 percent).

VIII. Borrower Outcomes

When asked if their reverse mortgages had met their financial needs, 58 percent of borrowers indicated that the loan had completely met their needs, 25 percent said the loan had mostly met their needs, and 12 percent said their needs had been partly met. Only 2 percent said that their needs were not at all met, and another 2 percent said it was too early to tell. Of those whose needs were not completely met, by far the most common reason given was that the loan did not provide enough money (15 percent of borrowers).

Ninety-three percent of borrowers in the survey reported that their reverse mortgages had had a mostly positive effect on their lives, compared to 3 percent who said the effect was mostly negative and 2 percent who said the effect was mixed. When asked how likely they were to recommend a reverse mortgage to a friend, 63 percent reported that they would be “very likely,” and 26 percent said “somewhat likely.” Only 3 percent said they were not too likely, and 5 percent were not at all likely to recommend a reverse mortgage to a friend.

When asked about specific positive impacts, borrowers said their reverse mortgages had:

- given them peace of mind (94 percent);
- helped them have a more comfortable lifestyle (89 percent);
- improved their quality of life (87 percent); and
- helped them remain at home (79 percent).

IX. Conclusions and Recommendations for Practice and Policy

The following sections draw conclusions from the information presented in this report and offer recommendations to deal with emerging issues facing both older homeowners and the reverse mortgage industry.

A. Conclusions

Conclusion 1: FHA's Home Equity Conversion Mortgage insurance program has successfully created the foundation for the financial infrastructure of the reverse mortgage industry.

Among the important achievements of the HECM program are:

- an insurance model that pools the risks involved in open-ended loans that do not become due until the homeowner dies, sells the home, or moves permanently;
- flexible payment options that allow consumers to address a variety of needs through monthly payments for a specific term or for the borrower's tenure in the home, a lump sum, a line of credit, or combinations of these approaches;
- a line of credit payment option with a growing availability of loan funds over time that has become a model for the reverse mortgage industry;
- a total annual loan cost (TALC) disclosure that is more complete than the annual percentage rate (APR) disclosure required for other loans;
- mandatory counseling that educates consumers about reverse mortgages and alternative ways to address their needs; and
- the backing of the federal government, which has resulted in the secondary market funding of these loans, first from Fannie Mae and more recently from Wall Street investors, who are beginning to establish more competitive interest rates.

Conclusion 2: Reverse mortgages have enabled older homeowners to address a range of needs and desires with a high level of initial satisfaction.

AARP's survey found that older homeowners were able to address a wide range of needs and desires. Though relatively small percentages of borrowers used their loans to make investments or purchase annuities and long-term care insurance products, these uses and the involvement of some lenders in marketing such financial products are issues that require greater consumer education and greater emphasis on ethical marketing practices. The survey also found high levels of initial borrower satisfaction with HECM loans, and high levels of consumer satisfaction with reverse mortgage lenders and counselors.

Conclusion 3: Loan costs are too high.

Consumer concerns about high costs, as reflected in the AARP Survey and other research, most likely represent the single greatest impediment to greater acceptance of reverse mortgages. When asked to identify the main reason they decided against a reverse mortgage, high costs were the leading reason by a 3-to-1 margin over the next most frequently cited main reason. Even two-thirds (69 percent) of borrowers deemed the costs high (see Part VI above).

Conclusion 4: Consumer knowledge about and confidence in reverse mortgages is low.

Consumer impressions of and attitudes toward reverse mortgages are still in the formative stages. Most consumers admit that they do not know much about these loans, and misunderstandings about reverse mortgages are still common. Data from research cited above (see Part VI), indicate that many consumers are still wary of such loans. A small market in its formative stages, like the reverse mortgage market, can be particularly susceptible to bad press and the resulting negative impact on consumer confidence. It is prudent to take steps now to build consumer confidence with steps that improve consumer information and prohibit unethical marketing practices.

Conclusion 5: More research is needed on how consumer uses of reverse mortgages change over the course of their loans as well as on the long-term impact of these loans on their financial well-being.

One consequence of the sampling limitations of the AARP Survey is that the results focus on the short-term experiences of HECM borrowers. Future research should focus on the longer-term effects of having a reverse mortgage, such as changing health and disability needs over time as borrowers encounter age-related disabilities later in life. Another aspect of the long-term effects of reverse mortgages deserving of future research is the impact of such loans on asset divestiture and the ability to address needs in late life. Put directly, are some reverse mortgage borrowers trading their long-term savings in home equity for short-term consumption in ways that will jeopardize their future financial security and ability to pay for long-term care services? The unique qualities of reverse mortgages call for a unique kind of financial literacy as older homeowners explore the best ways to manage this asset in a way that will address their needs over the remainder of their lives.

B. Recommendations

The 16 recommendations in the concluding section of the report suggest ways that HUD and the lending industry can reduce costs, improve products to meet diverse needs, strengthen consumer information, and build consumer confidence in reverse mortgages to make them a more mainstream financial instrument for older homeowners.

1. Changes to the HECM Program to Reduce Costs and Build Consumer Confidence

The AARP Survey found that high loan costs are clearly leading some homeowners who might otherwise benefit from reverse mortgages to forgo these loans. Congress and HUD could take several steps to reduce the cost of the program and build consumer confidence in reverse mortgages.

Recommendation 1: Remove the limit on the number of reverse mortgages that FHA can insure to promote higher volume and more competitive pricing.

Recommendation 2: Establish a single national limit on home values in the HECM program **<u>only if</u>** ***the cap on allowable origination fees is reduced substantially.***

Recommendation 3: Reduce the mortgage insurance premiums charged to consumers under the HECM program consistent with the actuarial soundness of the program.

Recommendation 4: Develop policies to avoid foreclosing on consumers who run out of funds to pay property taxes and homeowners insurance.

Recommendation 5: Clarify that the HECM non-recourse limit means that borrowers or their estates will **<u>never</u>** ***owe more than the value of the home.***

2. Product Innovations to Reduce Costs and Meet the Growing Diversity of Consumer Needs

Most prospective borrowers are interested in a line of credit, but some do not want or need the full creditlines they are eligible for under the HECM program. They would prefer much smaller creditlines with lower costs, but do not have that option. As the market develops, “lite” reverse mortgages are likely to appear, either within the HECM program or as a completely private, proprietary product with lower loan limits and substantially lower costs. Other innovations could include low-cost public reverse mortgages or publicly subsidized loans to meet specific needs such as home repairs, taxes, and long-term care needs.

Recommendation 6: HUD and proprietary reverse mortgage programs should develop reverse mortgages with reduced costs for those who want to borrow small amounts.

Recommendation 7: HUD and proprietary reverse mortgage programs should develop reverse mortgages that permit borrowers to increase their available loan funds in the future without all the costs of a formal refinance.

Recommendation 8: HUD and proprietary reverse mortgage programs should develop "reversible mortgages" that can shift from forward to reverse mortgages as homeowners age and their ability to make mortgage payments decreases.

Recommendation 9: States and localities should initiate low-cost public reverse mortgages to defer payment of property taxes and finance home repairs and modifications for older homeowners.

Recommendation 10: HUD and the U.S. Department of Health and Human Services (HHS) should create incentives for state-based demonstrations to lower the cost of reverse mortgages used to support the independence of older persons with disabilities or long-term care needs.

Recommendation 11: Congress should repeal provisions in the 2000 American Home Ownership and Economic Opportunity Act that authorize forgiving the upfront mortgage insurance premiums on HECM loans whose proceeds are used entirely to pay for long-term care insurance.

3. Improvements to Consumer Counseling and Information

The AARP Survey found that significant percentages of respondents answered "don't know" when asked to assess reverse mortgage costs. Most respondents indicated that they had not received information on alternatives to reverse mortgages. These findings suggest that individuals and entities providing information to prospective borrowers and counseling clients should take more time and care to make certain consumers understand the costs and potential alternatives to meet their needs. As the market grows and the products become more diverse, special efforts will be required to establish and enforce high standards for individual counselors and the information they give consumers.

Recommendation 12: HUD should improve the kinds of information it gives to consumers to enable them to understand potential alternatives to reverse mortgages.

Recommendation 13: Sufficiently fund reverse mortgage counseling services.

Recommendation 14: Provide earlier and more complete counseling on the "rising debt, falling equity" nature of reverse mortgages as well as the effects of interest rate or home value changes.

4. Improvements in the Marketing Practices of Lenders

A recent newsletter from the National Reverse Mortgage Lenders Association (NRMLA) stated, "As more companies enter the reverse mortgage business, the need for higher educational and ethical standards becomes critically important" (NRMLA, 2007). The following recommendations are designed to elevate the marketing practices used by companies and individuals who originate reverse mortgages.

Recommendation 15: Lenders should participate in education and accreditation programs that promote the ethical marketing of reverse mortgages.

Recommendation 16: State and federal agencies should develop new cost disclosures and suitability standards for reverse mortgages that are used to purchase investments, annuities, and long-term care insurance.

I. Introduction—Niche Market or Mainstream Solution?

For most older people, their home equity is their largest single asset. More than 80 percent of older households own their homes (Munnell et al, 2007), which are worth roughly $4 trillion (Harlow, 2007). Economists have looked at these substantial levels of assets as a potential source of savings to fund consumption in old age. According to the “life cycle” hypothesis of savings and consumption, one would predict that individuals would pay down debts and build savings in their working years, then divest those savings to support consumption in their older years.

But when it comes to home equity, older homeowners have not followed this pattern. Rather than divesting home equity, homeownership rates remain stable until very late in life, and median home equity increases with age as older homeowners pay off mortgages and home values appreciate (Fisher et al., 2007). Compared to other countries, older Americans are especially unlikely to divest home equity (Churi and Jappelli, 2006). One reason for this lack of interest has been the unattractive choices available for divesting home equity. Before the advent of reverse mortgages, older homeowners had two main ways to derive cash from their homes. They could sell them, but that meant moving, and most older homeowners do not want to leave their homes. They could also borrow against their homes, but that meant having to make monthly loan repayments, and most older homeowners are neither eager nor able to incur new monthly obligations.

When they became widely available in the 1990s, reverse mortgages provided a new way to convert a lifetime of home equity savings into cash—one that required neither sale of the home nor monthly payments. Reverse mortgages are loans secured by the home that do not have to be repaid until the borrower dies, sells the home, or moves out of the home permanently. The amount of money that can be borrowed via a reverse mortgage generally depends on the borrower’s age and the value of the home. Typically, the older the borrower and the greater the home value, the more cash can be made available in loan advances. The minimum age for almost all reverse mortgage programs is 62.

Congressional authorization of federal insurance for reverse mortgages in 1988 led some economists to project substantial increases in tapping home equity among older homeowners. In the early 1990s, projections of potential demand for reverse mortgages ranged from 800,000 older households (Merrill, Finkel, and Kutty, 1993) to more than 11 million older households (Rasmussen et al., 1995). A more recent study (Stucki, 2005) estimated the potential market at 13.2 million older households.

Moving from the potential market to actual uses of reverse mortgages, however, has proven to be a very slow process. Only in the past few years has the number of loans grown substantially. Twenty years after the program was created, the federal Home Equity Conversion Mortgage (HECM) insurance program, which accounts for roughly 90 percent of all reverse mortgages, had insured only 345,633 loans by the end of fiscal year 2007. Of these, nearly one-third (31 percent or 107,239 loans) were insured in FY 2007 alone. Two-thirds (66 percent) were insured in the most recent three years of the program, FY 2005–2007 (Department of Housing and Urban Development (HUD), 2007b).

Despite recent growth, the 265,234 federally insured reverse mortgages in existence at the end of FY 2007 (Department of Housing and Urban Development, 2007b) represented only 0.9 percent of the 30.8 million households with at least one member age 62 and older in 2006 (U.S. Census Bureau, 2006). Adding in non-federally insured reverse mortgages still leaves an estimate of only 1 percent of older households that currently have a reverse mortgage. The small percentage of older households with reverse mortgages despite recent growth in the volume of loans raises the question:

> Is this growth the harbinger of a future in which reverse mortgages are used more commonly as an asset management tool to address financial needs in retirement?
>
> or
>
> Will reverse mortgages remain a small niche product that relatively few older homeowners are interested in using?

Addressing this question requires more research on the 1 percent of older households that have taken out reverse mortgages as well as the 99 percent that have not. Very little is known about why the 1 percent are attracted to reverse mortgages, how borrowers use their loan proceeds, the extent to which the loans meet borrowers' needs, and the impact of the loans on borrowers' lives. Relatively little is also known about why 99 percent of older households do not take out such loans.

In December 2006, AARP began to explore these issues by conducting the first national survey of reverse mortgage borrowers and homeowners who had considered these loans but decided against them. This report presents the results of the 2006 AARP Survey and related research with the goal of informing public policy discussions about the future of this financial option for older consumers. The report ends with recommendations about what the private sector, as well as government, can do to make reverse mortgages less costly, with products designed to meet the multiple needs of consumers while enhancing consumer confidence through improved consumer information and marketing practices.

II. Purposes of the Report

The purposes of this report are to:

- describe changes and trends in the reverse mortgage market;
- understand why older homeowners seek reverse mortgages;
- probe health- and disability-related reasons for looking into reverse mortgages;
- determine why many consumers elect not to take out reverse mortgages;
- explore consumer experiences with lenders, counselors, and other sources of information in the process of looking into a reverse mortgage;
- describe the degree to which reverse mortgages met consumer needs and the degree to which consumers are satisfied with their loans; and
- make recommendations to improve reverse mortgages and the reverse mortgage market for consumers.

III. Methodology

This report relies on the following original sources of information:

A. An extensive literature review of existing research

While little research has been done directly on uses of reverse mortgages, a considerable body of literature exists on homeownership and home equity and its uses or potential uses in old age. This literature provided the context for the original research in this report.

B. National telephone survey of 1,509 reverse mortgage counseling recipients

The national telephone survey consisted of interviews with 1,509 individuals who had completed the reverse mortgage counseling required to obtain a HECM reverse mortgage. Interviews were conducted by ICR, a research firm, between December 4 and December 30, 2006. All survey respondents had completed the counseling between 2001 and 2006. They included 1,309 older homeowners, 807 of whom ultimately decided to take out a reverse mortgage ("borrowers") and 502 of whom had not taken out a reverse mortgage at the time of our survey ("non-borrowers"). To focus on the needs of homeowners with high levels of disability, 200 additional interviews were conducted with representatives of older homeowners who had a power of attorney ("POA"), enabling them to make legal/financial decisions on behalf of a homeowner. (See Appendix A for more details on the methods used in this telephone survey and Appendix B for an annotated questionnaire.)

C. Focus groups and in-depth interviews

Four focus groups of eight to ten homeowners each were conducted in September 2006 with individuals who had completed reverse mortgage counseling between 2001 and 2006. Two groups were of borrowers, and two were of non-borrowers. These groups met in Philadelphia, Pennsylvania, and Costa Mesa, California. In addition, in-depth telephone interviews were conducted with six agents with POAs representing homeowners, some of whom became borrowers and some of whom were non-borrowers. (See Appendix C for more details on the methods used in these focus groups as well as a summary of findings.)

D. National telephone survey of 1,003 persons age 45 and older, replicating a 1999 survey on consumer awareness of reverse mortgages

This national telephone survey of 1,003 adults age 45 and older was conducted from May 31 to June 7, 2007. Interviews were conducted for AARP by ICR, an independent research firm, using its Excel omnibus polling service. The results were weighted based on age and gender to be nationally representative of individuals age 45+. The margin of error for total respondents is +/-3% at a 95 percent confidence interval. (See Appendix D for more details on the methods used in this survey.)

E. Original analyses of HUD data documenting trends in consumer and loan characteristics over the history of the HECM program

The report includes analyses of HUD databases that include information on:

- characteristics of borrowers, such age, gender and marital status;
- the use of loan types, such as creditlines, term monthly payments, monthly payments for the tenure of the loan, and combinations of these approaches; and
- characteristics of HUD's loan portfolio, such as the number of loans, average home values, average initial withdrawals, and average expected interest rates.

F. Information from unpublished research on a small Connecticut reverse mortgage program targeted to older homeowners with long-term care needs

In 2005, AARP's Public Policy Institute contracted with Dr. Maurice Weinrobe of Clark University to gather information about a small reverse mortgage program targeted to older homeowners with long-term care needs run by the Connecticut Housing Finance Agency. In addition to collecting information about characteristics of the program, Dr. Weinrobe conducted interviews with six older homeowners and two family members on their experiences with the loan program. (See Appendix E for more information.)

IV. Building the Infrastructure of the Reverse Mortgage Industry and Consumer Services: How Far Have We Come?

A. How Have Reverse Mortgages Changed Over Time?

1. What Are Reverse Mortgages?

Reverse mortgages are home loans that do not have to be repaid for as long as a borrower lives in the home. When the borrower dies, sells the home, or moves out of the home permanently, the loan must be repaid with interest. The loan may be paid out to the borrower in several ways: a) as a single lump sum of cash; b) via regular monthly advances; c) irregularly as a line of credit; or d) as a combination of these options. The vast majority of borrowers select the line of credit, which permits them to request loan advances at times and in amounts they choose.

The amount of money that can be borrowed via a reverse mortgage generally depends on the borrower's age and the value of the home. Typically, the older the borrower and the greater the home value, the more cash can be made available in loan advances. The minimum age for almost all reverse mortgage programs is 62. Reverse mortgages are typically "non-recourse" loans, which means that the borrower's debt is limited by the value of the home. Borrowers must continue to maintain the home, pay their property taxes, and keep the home insured. Failure to do so places borrowers in default and makes their homes subject to foreclosure (AARP, 2007; for more details about how reverse mortgages work, see www.aarp.org/revmort).

2. Early Developments

The development of reverse mortgages in the United States has been driven to a significant degree by public sector initiatives promoted by consumer interests. Federal and state government agencies have been responsible for most of the innovation in this market to date, and federally insured reverse mortgages account for about 90 percent of the American market (Stucki, 2005). Over the past few years, however, increased consumer demand has spurred significant new private sector initiatives that could become the primary drivers of future market developments.

Although the first reverse mortgage made in the United States occurred in 1961, the first formal lending program of this type did not appear until 1977 (Scholen, 1998). These early products only provided monthly loan advances for a fixed number of years and required repayment when the specified fixed term expired. Neither homeowners nor lenders were very interested in this type of "fixed-term" loan because it did not permit borrowers to remain in their homes indefinitely. By 1988, only about 1,000 of these loans had been closed, and almost all of them had been generated within programs operated by public or nonprofit social or housing services agencies (Weinrobe, 1989).

The impetus for a more consumer-friendly and marketable reverse mortgage began in 1980 when the federal Administration on Aging (AoA) launched a two-year research and development project on "home equity conversion," administered by the Wisconsin Bureau of Aging. A key proposal of the AoA project was for federal insurance of reverse mortgages, the purpose of which was to replace the fixed-term loan with an "open-ended" one that would require no repayment until the borrower dies, sells the home, or moves out of the home permanently (Scholen, 1998).

The AoA project obtained support for its federal insurance proposal from the 1981 White House Conference on Aging and presented it at a hearing before the U.S. Senate Special Committee on Aging in 1982. It also worked with HUD to develop a legislative version of the proposal. In 1983, HUD submitted legislation to create a reverse mortgage insurance program within the Federal Housing Administration (FHA). The subsequent five-year effort to refine and enact the federal insurance proposal—called the Home Equity Conversion Mortgage (HECM) Insurance Demonstration—was spearheaded by AARP.

3. HECM Program Creation

The Home Equity Conversion Mortgage (HECM) insurance legislation was signed into law in February 1988 (P.L. 100-242). By creating the first mortgage insurance product of its kind, HUD's pioneering design effort had to address a number of challenges. The central risk in an open-ended reverse mortgage is that borrowers will live so long, their loan balances will grow so much, and their home values will appreciate so little that the amount they owe will eventually exceed their home values, resulting in loan losses. An insurance program must calculate loan amounts that limit the risk of loan losses and charge an insurance premium sufficient to cover the losses that occur. The insurance program must pool the combined risk of borrower longevity in the home, interest rate variability over time, and property appreciation on a national basis.

With the federal government assessing and insuring the risks, the HECM program provided homeowners and lenders with a sound, open-ended reverse mortgage opportunity. The HECM program also spurred the creation of other major elements that would be important for the development of the reverse mortgage market as a whole:

- Fannie Mae, a government-sponsored mortgage buyer and seller, agreed to purchase HECM loans, which meant that individual lenders could focus on originating loans and would not have to lend their own funds.

- Wendover Funding, a North Carolina mortgage company, announced that it would service HECM loans, which meant that individual lenders would not have to develop their own new internal servicing systems.

These developments made HECM lending more like lending in the "forward" mortgage market and reduced the novelty of these loans for lenders. They also provided additional income sources for lenders as they sold their HECMs and their servicing rights.

After the HECM program was designed and implementing regulations were issued, HUD selected 50 lenders to be part of the initial demonstration project. Each lender was permitted to originate 50 loans during the initial phase of the program. In 1989, the James B. Nutter Co. of Kansas City issued the first federally insured HECM loan to Marjorie Mason of Fairway, Kansas (Scholen, 1998).

4. Consumer Counseling

Until well into the 1990s, most homeowners had never heard of a reverse mortgage and were highly unlikely to know of anyone with such a mortgage. To address this lack of knowledge about a financial product that could affect the well-being of older homeowners, the HECM statute included a counseling requirement for all borrowers. The counseling was to be provided by entities that are independent of lenders. Although the main intent of the requirement was to provide consumer protection in the form of independent information about HECMs and alternative ways to address financial needs, counseling also assisted lenders in explaining the reverse mortgage concept in general and the HECM program in particular.

Beginning in 2001, HUD formed a partnership with the AARP Foundation’s Reverse Mortgage Education Project (RMEP) to improve the quality of counseling in the HECM program. This effort has developed curricula for HECM counselor training, delivered the training, created a national exam for HECM counselors, developed a detailed protocol of HECM counseling policies and procedures, provided technical support to HECM counselors, developed model reverse mortgage loan analysis and comparison specifications and software, and conducted an evaluation of HECM counselors.

5. Non-HECM Developments

From the mid-1980s to the late 1990s, a number of privately developed reverse mortgage products without federal insurance came and went. All of them were open-ended loans, and many charged “contingent interest” in the form of “shared equity” or “shared appreciation.” When the loan was repaid, in addition to typical fees and interest, borrowers would owe some portion of their home’s value or some portion of any increase in the home’s value that occurred while the loan was in force. In areas with substantial growth in home values, this additional charge could result in extremely high loan costs. Some of the loans are still in force and are becoming due and payable, with the amounts owed sometimes coming as a shock to the borrowers’ heirs (Harney, 2002, 2003).

In 1985, the Connecticut Housing Finance Agency launched a low-cost reverse mortgage that was limited in later years to borrowers with long-term care needs (see Appendix E for a detailed description). In the later 1980s, state housing finance agencies in Virginia and Maryland briefly offered the first reverse mortgages providing funds as a line-of-credit arrangement (Scholen, 1998). This option was adopted as one of the payment plan choices within the HECM program and has become by far the most popular payout option among HECM borrowers. Line-of-credit arrangements have also been the dominant payout option among private sector reverse mortgage plans.

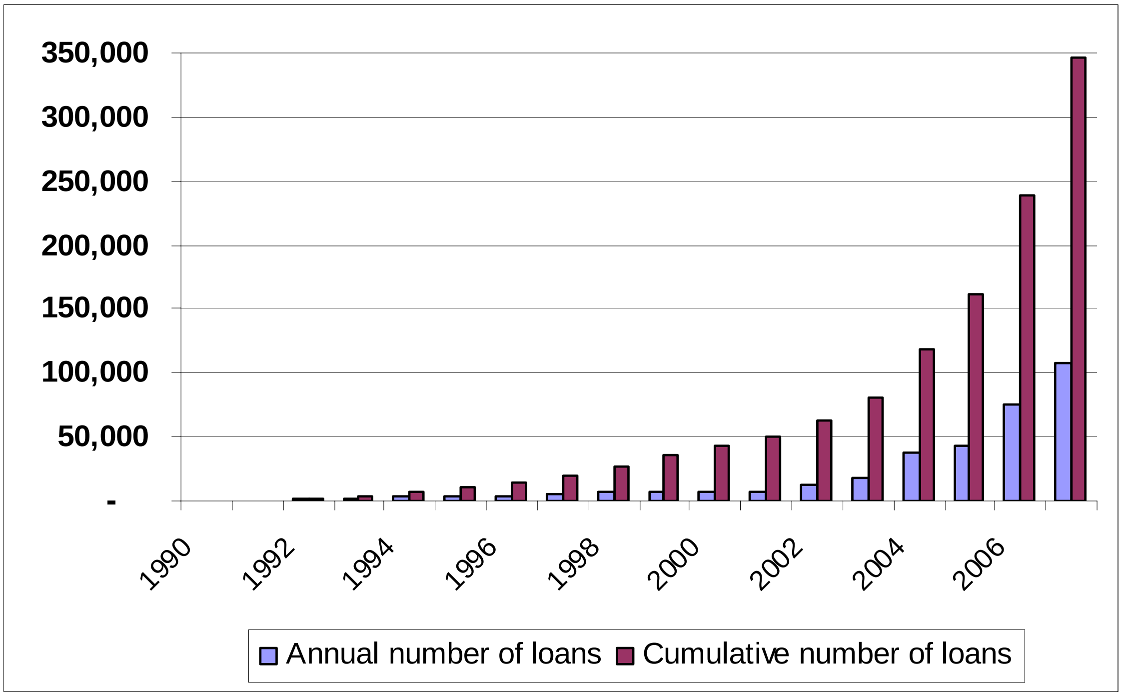
6. Growth in the HECM Program

In 1990, Congress increased to 25,000 the number of HECMs that HUD could insure. It also instituted a "total loan cost" disclosure for HECMs that combined all the costs of the loan into a single average annual rate. The following year, HUD issued regulations opening HECM lending to all HUD-approved FHA lenders. By the end of 1993, the program was available in every state except Alaska, South Dakota, and Texas. In 1994, Congress made the HECM program's "total loan cost" disclosure applicable to all reverse mortgages. The first evaluation of the HECM program found that HUD had insured nearly 8,000 HECMs, and 74 lenders were offering these loans as of July 1994.

By the time of the next HUD evaluation in 2000, HUD had insured a total of 38,000 HECMs, an average of about 6,000 new HECMs a year over the previous five years. But this study also reported that the number of HECM lenders had peaked at 195 in 1997, then declined to 162 active lenders during the first nine months of 1999. It attributed the decline to a lack of demand for HECM loans.

Substantial growth began to occur in the reverse mortgage market in FY 2004, when the number of HUD-insured HECMs (37,789) doubled the number insured in the previous year (18,084) (see Figure 1). Although the program had been broadly available since 1993, the annual number of HECMs had risen to only 6,637 by FY 2000. But that number has increased substantially since 2000, rising to a total of 107,367 loans in FY 2007—the first year in which the number of loans has exceeded 100,000. To put this in perspective, nearly one-third (31 percent) of all HECMs insured by HUD since the program became operational in 1990 (345,762) were insured in FY 2007; two-thirds (66 percent) were insured in the most recent three years of the program, 2005–2007 (HUD, 2007).

Figure 1: HECM loans insured by HUD by federal fiscal year from 1990 to 2007



Source: HUD Office of Evaluation, 2007

This growth has been fueled by lower interest rates, higher home values, and higher HUD home value limits. Each of these factors produces greater loan amounts for borrowers. Taken together, they generate much greater loan amounts. Lower rates mean larger loan amounts because less of a home's equity is consumed by interest, leaving more for a homeowner to borrow. In the year the number of HECMs first topped 10,000 (2002), the average interest rate used to calculate loan amounts dropped below 6.5 percent for the first time and remained there through FY 2007 (see Table 1).

Higher home values produce greater loan amounts because more value is available for making loan advances. But the home values used to calculate loan amounts are restricted by HUD's county-specific limits. When a home value exceeds the county limit, the limit rather than the home value is used to calculate the loan amount. Table 1 shows how average home values and average home values as adjusted by HUD's home value limits[1] have increased since the beginning of the program, and how increasing home values are apparently related to higher loan volumes. During the first two years of the program (1990–91), only 546 loans were made with an average home value of $121,300 and an average adjusted value of $93,700. Ten years later, in 2000, the average value had risen by only 17 percent to $141,700, and the average adjusted value had risen by 33 percent to $124,600. But between 2000 and 2007, the average home value in the HECM program increased by 85 percent to $261,900, and the average adjusted home value increased by 84 percent to $229,300 (HUD, 2007a).

[1]The adjusted home value, also known as the maximum claim amount, is the lesser of the home's value or HUD's county-specific home value limit.

Table 1: Estimated annual average HECM loan amounts by fiscal year

Fiscal Year (10/1–9/30)	Average Interest Rate *	Average** Home Value	Average*** Adjusted Home Value	Estimated Average Loan Amount****	HECMs Insured by HUD
1990	9.8%	$108,700	$84,200	$29,200	157
1991	9.3%	$126,400	$97,500	$37,600	389
1992	8.9%	$124,700	$97,400	$39,600	1,019
1993	7.6%	$119,700	$97,900	$45,800	1,964
1994	7.6%	$124,900	$103,800	$47,600	3,365
1995	8.6%	$124,800	$105,400	$43,300	4,166
1996	6.8%	$117,200	$103,300	$55,100	3,596
1997	8.1%	$117,500	$105,200	$46,400	5,208
1998	7.4%	$118,700	$107,000	$52,600	7,895
1999	6.5%	$131,900	$117,800	$64,700	7,923
2000	7.3%	$141,700	$124,600	$63,200	6,637
2001	6.7%	$167,100	$140,600	$77,200	7,789
2002	6.4%	$178,000	$151,300	$86,000	13,049
2003	5.4%	$197,600	$165,900	$105,200	18,084
2004	5.8%	$219,400	$182,200	$112,500	37,790
2005	5.7%	$254,900	$206,000	$128,200	43,081
2006	6.0%	$289,700	$235,600	$142,800	76,282
2007	6.0%	$261,900	$229,300	$138,700	107,367

Source: HUD Office of Evaluation, 2007.
*The rate used to calculate HECM loan amounts was the 10-Year Constant Maturity Treasury (CMT) rate plus lender margin, which is known as a HECM's "expected rate."
**Rounded to nearest $100.
***A HECM's adjusted home value, also known as its "maximum claim amount," equals the lesser of the home's value or HUD's county-specific home value limit. The figures in the table are each year's average maximum claim amount, rounded to the nearest $100.
****The initially available loan amount is known as a HECM's "net principal limit." The estimates are AARP calculations using HUD's HECM software and based on each year's average interest rate, average adjusted home value, average age per HUD data rounded to the nearest whole age, an origination fee of $1800 through 1999 and 2 percent of the adjusted home value thereafter, third-party closing costs of $2,500, and a servicing fee of $35 per month, with the result rounded to nearest $100.

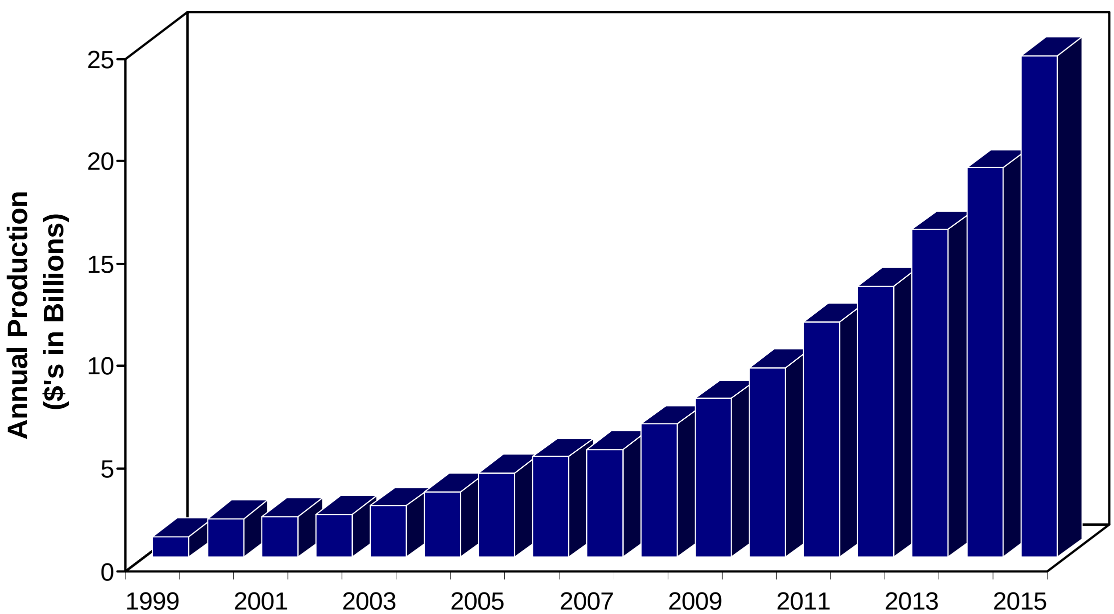
The combined impact of lower rates, higher home values, and higher home value limits can be seen in the estimated annual average loan amount in Table 1. This figure increased by only $34,000 from 1990 to 2000, but it rose by $75,500 from 2000 to 2007. As average loan amounts increased, so did the total annual number of HUD-insured HECMs—by about 6,500 loans per year from 1990 to 2000, but by more than 100,000 loans per year from 2000 to 2007.

Despite this substantial growth in loan volume, reverse mortgages remain a relatively small part of the overall mortgage market. Even in proportion to the older population, the number of reverse mortgage borrowers remains small. The 265,234 federally insured reverse mortgages in existence at the end of FY 2007 (HUD, 2007b) represented only 0.9 percent of the 30.8 million households with at least one member age 62 and older in 2006 (U.S. Census Bureau, 2006). Adding in non-federally insured reverse mortgages still leaves an estimate of only 1 percent of older households that currently have a reverse mortgage. Assuming that about half of older households own homes with sufficient equity to be considered candidates for a reverse mortgage (Stucki, 2005) still yields an estimate of only about 2 percent of the potential market of older homeowners that had taken out a reverse mortgage at the end of FY 2007.

7. Recent Developments

Recent market growth, combined with low overall market penetration to date, suggests that most of the reverse mortgage market's growth has yet to occur. Indeed, FHA is projecting substantial increases in the dollar value of HECM loans over the coming decade as shown in Figure 2.

Figure 2: HECM loan growth in dollars, real and projected, from 1999 to 2015.



Source: Federal Housing Administration, 2006

Three key events in summer 2006 are undoubtedly responsible for much of the recent upsurge in product development and lay the foundation for further growth in this industry.

- *HUD publication of detailed data on the HECM program* (Szymanoski et al., 2007)—This report provided in-depth information on the program's actual and projected cash flows, including insurance premiums, claims, and payments. It also analyzed the program's loan portfolio by insurance claim statuses, loan characteristics, and refinancing trends. A particularly noteworthy finding was that the estimated average duration of a HECM loan was only six years, much shorter than HUD had expected. HUD's data analyses provided the industry with the empirical information needed to evaluate and develop new product pricing and design options.

- *The first significant reduction in fees and increase in loan amounts in the only broadly competitive, completely private sector reverse mortgage program*—Major growth in the HECM program came as other reverse mortgage lenders were developing similar proprietary products, and several major financial services corporations were looking to enter this market with new products of their own. Substantial fee cuts signaled that the market for reverse mortgages on higher-valued homes was beginning to see some competition.

- *The first bundling of HECM loans into securities to be sold to investors on Wall Street*—Before 2006, Fannie Mae had been the only buyer of HECM loans, but had never sold them. The advent of HECM-backed securities meant that buyers other than Fannie Mae would be bidding for these loans and establishing interest rates on them. The first HECMs sold in this way brought a higher price for the seller than Fannie Mae had been paying, creating the first competition in the secondary market for HECM loans.

These three harbingers of greater competition within the reverse mortgage market proved to be sound bellwethers. By fall 2006, three new proprietary reverse mortgage products were in development, and Ginnie Mae had announced it would enter the market by securitizing HECM loans (Agbamu, 2007). In January 2007, a major reduction in HECM interest rate margins occurred, and new interest rate options were offered. These developments clearly demonstrated that competitive forces were taking root in this market and suggested that even lower-priced and better products were likely to appear within the next few years (Agbamu, 2007; Opdyke, 2006; Quinn, 2006).

A key characteristic of these recent developments is that they represented greater involvement by more and larger private sector interests. Heretofore, innovation in the reverse mortgage market had been led largely by the public sector in response to consumer interests. But now that consumer demand was growing and longitudinal data were becoming available from the HECM program, many more and much larger private companies were beginning to show interest in reverse mortgages.

As this report was being written, it was not yet clear how the collapse of the mortgage markets in fall 2007 will affect reverse mortgages. On one hand, substantial new resources were clearly becoming available for product and market development; on the other, the demise of the secondary market for subprime loans was showing signs of reducing the availability of secondary financing for reverse mortgages as well. Although it is too soon to tell the degree to which this effect might be transitory, similar concerns were surfacing about the duration of the national decrease in home values. Meanwhile, a report on the Australian reverse mortgage market provided a reminder that unfavorable economic conditions can trump demographics, finding that "rising interest rates, uncertain property prices and the global credit crunch led to decelerating growth rates" at a time when the market penetration rate for reverse mortgages had reached 1.6 percent (Collins, 2007).

B. Reverse Mortgage Borrower and Non-borrower Characteristics

It has often been said that reverse mortgages are for the "house-rich, cash-poor," and that the older the borrower, the better the loan works, since loan amounts are tied to age. While those statements are valid, the portrait of borrowers has changed in recent years. Borrowers are somewhat younger and are more likely to be married and to live in higher-valued homes. The following sections document trends in borrower characteristics over time. We also compare characteristics of the borrowers and non-borrowers who participated in the 2006 AARP Survey with data from HUD sources on HECM borrowers and with the older population in general.

1. Age

The average age of borrowers has declined significantly over the past few years. In the first three years of the start-up phase of the HECM program, the average age of borrowers at the time they closed on their loans was 76.6 years. By 2000, the average age had only declined to 76.0 years. But since that time, the average age of borrowers has declined to 73.5 years old in FY 2007, a decline of three years on average since the early years of the program (HUD, 2007b). The median age of borrowers in the 2006 AARP Survey was 75, which may be roughly comparable to the HUD average, since the AARP median age was at the time of the survey rather than at the time of the loan closing. The median age for non-borrowers in the AARP Survey was 73. Table 2 below compares more detailed age categories among a 1999 analysis of HECM borrowers with the borrowers and non-borrowers in the 2006 AARP Survey. Once again, the 2006 AARP data reflect the age at the time of the survey rather than at the time of closing as in the 1999 HUD data.

Table 2: Age distribution of borrowers from HUD in 1999 compared to age distributions of borrowers and non-borrowers from AARP Survey in 2006*

Age	Borrowers 1999 (HUD Data)	Borrowers 2006 (AARP Survey, n = 946)	Non-borrowers 2006 (AARP Survey, n = 563)
62–64	6%	4%**	8%
65–69	17%	16%**	20%
70–74	28%	24%	24%
75–79	24%	27%	25%
80–84	14%	18%	14%
85+	11%	9%	7%
Refused	NA	2%	3%

*1999 data come from Rodda, Herbert, and Lam (2000); see question 46 for the AARP Survey data.
**Differences between borrowers and non-borrowers in 2006 survey that were significant at the .05 level.

2. Gender and Household Composition

During the early years of the HECM program, a substantial majority of borrowers were single females; for the first three years, single females averaged 57 percent of all HECM borrowers. Single females still accounted for 57 percent of borrowers in 2000, but they declined to 45 percent in 2007. The proportion of single males has fluctuated somewhat, declining from 15 percent in the earliest three years to 13 percent in 2000, before rising to 18 percent in 2007. The proportion of couples, which includes all multi-borrower households independent of gender, rose slightly, from 28 percent in the first three years of the program to 30 percent in 2000, before accelerating to 37 percent of all borrowers in 2007 (HUD, 2007b).

Of the AARP Survey respondents, 60 percent were female and 40 percent were male.[2] Table 3 shows striking differences between male and female respondents regarding marital status, household income, financial assets, health status, and race. Female respondents were far more likely than males to have incomes under $20,000 (41 vs. 20 percent); to be widowed, divorced, or separated (68 percent vs. 21 percent); and to be black or African American (12 percent vs. 6 percent). Males were far more likely than female respondents to have incomes over $30,000 (42 percent vs. 18 percent)[3], to have financial assets in excess of $100,000 (13 percent vs. 4 percent), and to be married (74 percent vs. 23 percent).

[2]Phone interviewers were instructed to target the "primary owner" under the assumption that the primary owner would have played a larger role than the co-owner in the reverse mortgage decision-making process. The majority of married survey respondents are male (68 percent), which suggests that, among married couples, men were more likely than women to be listed as the "primary owner."
[3]These over $30,000 percentages include some responses that were unspecified income levels greater than $30,000 not included in the table.

Table 3: Characteristics of respondents by gender

	Male (n = 580)	Female (n = 925)
Age		
<70	20%	24%
70–74	24%	24%
75–79	30%*	24%
80–84	18%	16%
85+	8%	10%
Marital Status		
Married	74%*	23%
Widowed	13%	52%*
Divorced/Separated	8%	16%*
Single	5%	7%
Income		
<$10,000	3%	10%*
$10,000–$19,999	17%	31%*
$20,000–$29,999	26%	25%
$30,000–$49,999	30%*	14%
$50,000+	10%*	3%
Financial Assets		
<$25,000	45%	56%*
$25,000–$99,000	15%	11%
$100,000+	13%*	4%
Health Status		
Fair/Poor	17%	25%*
Good/Excellent	82%*	72%
Race/Ethnicity		
White, non-Hispanic	88%*	82%
Black, non-Hispanic	6%	12%*
Other	5%	4%

*Statistically significant differences between columns at the .05 level; see questions 46, 47, 52, 54, 55, and 57.

The AARP Survey asked about marital status rather than household composition, as HUD asked. Table 4 gives the closest approximation to the HUD numbers regarding household composition by combining the widowed, divorced, and single responses as “single.” Reported in this way, household composition was virtually identical between borrowers and non-borrowers in the AARP Survey. As these numbers indicate, the AARP sample of borrowers had somewhat more couples and somewhat fewer single males than HUD data for all borrowers in 2007.

Table 4: Household composition among borrowers and non-borrowers from AARP Survey compared to HUD data for borrowers in 2006

	Borrowers (AARP Survey; n = 946)*	Non-borrowers (AARP Survey; n = 563)*	Borrowers (HUD Data 2007)
Married/Partner	44%	45%	37%
Single Female	45%	45%	45%
Single Male	10%	10%	18%

*Question 47 of the AARP Survey addressed marital status at time of counseling. In this table, "single" includes respondents reporting they were single, separated, divorced, or widowed at the time of counseling.

Marital status is also an important characteristic that distinguished respondents to the AARP Survey. While the household composition of borrowers and non-borrowers among respondents to the AARP Survey in Table 4 was nearly identical, some differences in marital status emerge when we distinguished among widowed, divorced, and single respondents. Non-borrowers were more likely to be divorced or separated than borrowers at the time they received reverse mortgage counseling. As noted in the discussion of Table 3, the marital status of respondents varied significantly by gender with females being more likely to be widowed, divorced, or separated, while males were more likely to be married. As shown in Table 5, other important differences were related to:

- **Age—**Respondents age 80 or older were more likely to be widowed, while respondents under the age of 70 were more likely than those 70 or older to be divorced, separated, or single.

- **Income—**Respondents with household incomes below $20,000 were much more likely to be widowed or divorced, while those with higher incomes were more likely to be married.

- **Financial Assets—**Respondents with financial assets of less than $25,000 were more likely than those with higher levels of assets to be widowed, while those with higher levels of assets were more likely to be married.

- **Health Status—**Respondents reporting that their health or their spouse's health was fair or poor were more likely to be married, while those reporting good to excellent health were more likely to be widowed.

- **Race—**Whites were more likely to be married, while non-whites were much more likely to be divorced, separated, or single (see Table 5).

Table 5: Characteristics of respondents by marital status at time of counseling

	n =	Married/ Partner	Widowed	Divorced/ Separated	Single
Total	1,509	45%	36%	13%	6%
Borrowers	946	44%	37%	12%	6%
Non-borrowers	563	45%	33%	17%*	5%
Gender					
Male	580	74%*	13%	8%	5%
Female	925	24%	52%*	16%*	7%
Age					
<70	319	45%	25%	21%*	9%*
70–74	330	47%	32%	13%	8%
75–79	368	49%	37%	10%	4%
80–84	242	42%	45%*	9%	4%
85+	213	31%	63%*	2%	3%
Income					
<$10k	132	11%	54%*	23%*	12%*
$10,000–$19,999	402	24%	54%*	16%*	6%
$20,000–$29,999	361	52%*	32%	10%	6%
$30,000–$49,999	286	64%*	23%	7%	5%
$50,000+	85	73%*	14%	9%	4%
Financial Assets					
<$25,000	791	38%	42%*	14%	6%
$25,000+	299	56%*	28%	12%	4%
Health Status					
Fair/Poor	451	49%*	32%	13%	5%
Good/Excellent	964	43%	38%*	13%	6%
Race/Ethnicity					
White, non-Hispanic	1264	46%*	36%	11%	5%
Other	222	30%	38%	21%*	10%*

* Statistically significant differences between rows at the .05 level; see question 47.

Only 5 percent of borrowers in the AARP Survey indicated that their marital status had changed since they received counseling; of these, 62 percent had been widowed, and 28 percent had married. Among non-borrowers, 7 percent reported a change in marital status, of whom 60 percent had been widowed and 22 percent had been married.

3. Race/Ethnicity

In the early years of the HECM program, some observers expressed concerns about the low rate of participation among non-whites. In a 1995 analysis, 93 percent of HECM borrowers were white, and only 7 percent were non-white. In a subsequent analysis in 1999, participation among non-whites had risen to 14 percent of borrowers, roughly equal to their proportion of older homeowners, which was 13 percent in 1997 (Rodda, Herbert, and Lam, 2000). The data from the 2006 AARP Survey in Table 6 indicate that the percentage of non-white borrowers may have risen slightly since 1999. However, these data also indicate higher rates of non-whites among non-borrowers than among borrowers, which may indicate issues that affect non-Hispanic whites and non-whites differently in the process of taking out a loan. We deal with these issues later in the report.

Table 6: Race of American homeowners age 62+ compared to the race of borrowers and non-borrowers among AARP Survey respondents

	Homeowners 62+ (2005 American Housing Survey)	**Borrowers (AARP Survey; n = 946)**	**Non-Borrowers (AARP Survey; n = 563)**
White, non-Hispanic	89%	86%	80%
Non-White	11%	13%	18%
Refused	--	1%	2%

Source: American Housing Survey, U.S. Census Bureau, 2005; see question 51 of AARP Survey.

Table 7 compares non-Hispanic white and black respondents, who constituted two-thirds (67 percent) of the non-white respondents to the AARP Survey. Black respondents were more likely than whites to be non-borrowers, female, and divorced or single. Black respondents were also more likely than whites to have annual incomes under $20,000, financial assets under $25,000, and a mortgage. All of these characteristics are important factors driving the interest in reverse mortgages and experience with the borrowing process. The small number of non-white respondents in the AARP Survey does not allow for detailed analyses based on other races and ethnicities. Accordingly, the tables in the rest of the report present data only by white and non-white respondents.

Table 7: Characteristics of respondents to AARP Survey by race*

	Non-Hispanic Whites (n = 1,275)	Blacks (n = 148)
Borrowers	76%	65%
Non-borrowers	24%	35%
Gender		
Male	42%	26%
Female	58%	74%
Age		
Age <70	22%	25%
70–74	24%	23%
75–79	26%	28%
80–84	17%	16%
85+	9%	5%
Marital Status		
Married	44%	19%
Widowed	40%	42%
Divorced/Separated	11%	27%
Single	5%	11%
Income		
<$10,000	7%	12%
$10,000–$19,999	25%	32%
$20,000–$29,999	26%	18%
$30,000–$49,999	21%	15%
$50,000+	6%	7%
Financial Assets		
<$25,000	51%	66%
$25,000+	22%	9%
Mortgage	44%	62%
No Mortgage	55%	38%

* Non-Hispanic whites constituted 85% of all respondents, and blacks constituted 10%; see question 51 on the AARP Survey.

4. Educational Attainment

Respondents to the AARP Survey are better educated than the general older population as shown in Table 8. Some of the differences in reported education levels between the census data and the AARP survey are due to the wording of the survey question; the AARP Survey asked for some college or vocational technical training after high school while the census data count only some college or an associate degree. But the most striking difference is the low percentage of respondents who had less than a high school education in the AARP Survey compared to the general older population. Data for the general older population include renters, who are more likely to have less than a high school education.

But it may also be that older homeowners with more education are more likely to be aware of and to look into reverse mortgages.

Table 8: Educational attainment among the population age 65+ compared to borrowers and non-borrowers in the AARP Survey

	Population 65+ (Census Data, 2003	Borrowers (AARP Survey; n = 946)	Non-borrowers (AARP Survey; n = 563)
<High School	29%	8%	9%
High School	36%	34%	34%
Some College/Vocational	18%	35%	34%
College+	17%	22%	22%

Sources: U.S. Census Data as reported in He, Sangupta, Velkoff, and Debarros, 2005; see AARP Survey question 49.

5. Income and Assets

Between 1993 and 2004, the median annual income of HECM borrowers increased from $12,289 to $18,240 (HUD, 2007b). The median income of HECM borrowers in 2004 was 39 percent lower than the median income for older households in the United States, which was $25,336 (DeNavas-Walt, Proctor, and Lee, 2006). The self-reported income data from the AARP Survey in Table 9 indicate that 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.

Table 9: Income distribution among borrowers and non-borrowers

	Borrowers (n = 946)	Non-borrowers (n = 563)
Less than $10,000	7%	8%
$10,000–$19,999	26%	23%
$20,000–$29,999	26%	23%
$30,000–$49,999	21%	20%
$50,000–$74,999	5%	4%
$75,000 or more	<0.5%	3%
Total less than $30,000*	62%	56%
Total $30,000 or more*	27%	29%
Refused/Don't Know	11%	16%

*Totals include some respondents who indicated less than or greater than $30,000 without further specifying.
Source: 2006 AARP Survey; see question 54.

According to census data, the median net worth among the general population of older households, excluding home equity, was $23,369 in 2000; among households age 75 and older, median net worth was only $19,025 (He et al., 2005). As Table 10 indicates, more than half of reverse mortgage borrowers in the AARP Survey (54 percent) reported having less than $25,000 in financial savings. Significantly more borrowers than non-borrowers reported having less than $25,000 in savings, though these data should be read with caution since one-fourth (26 percent) of borrowers and one-third (33 percent) of non-borrowers either did not know the amount of their savings or refused to answer the question.

Table 10: Financial assets among borrowers and non-borrowers

	Borrowers (n = 946)	Non-borrowers (n = 563)
<$25,000	54%*	45%
$25,000–$49,999	7%	7%
$50,000–$99,999	6%	7%
$100,000+	8%	8%
Don't Know	9%	11%
Refused	17%	22%*

* Statistically significant difference at the .05 level; see 2006 AARP Survey question 55.

V. Why Are Older Homeowners Interested in Reverse Mortgages?

Previous research on reverse mortgages has focused primarily on loan characteristics and how growth in the older population may stimulate more demand for such financial products. Little to no research has been done on what needs and desires consumers wish to address through reverse mortgages—and no systematic surveys have been conducted on what borrowers use the money for. The following sections report the first systematic survey data on the needs and desires that lead older homeowners to explore reverse mortgages as well as the actual uses that borrowers report.

A. Needs Driven or Seeking Extras?

The reverse mortgage industry has sometimes been described as "needs driven"; that is, the presumption, based on anecdote as much as data, has been that older consumers are willing to take out reverse mortgages as a last resort to address pressing needs. The AARP Survey sought to address this issue through the following global question:

> Which of the following best describes the **main** reason that you originally looked into a reverse mortgage? Was it mostly…?
>
> 1. A desire to improve (your/the homeowner's) quality of life, by having more money to spend on extras
> 2. A need for more money to pay for basic necessities and essential expenses

While most respondents noted a variety of reasons for looking into reverse mortgages, which might include a mix of desires and needs, this question provides an important look at older homeowners' primary motivation for exploring reverse mortgages.

1. Needs Driven vs. Desire-Driven Markets

As the data in Table 11 show, the degree to which respondents reported being driven by "needs" versus a "desire for extras" varies substantially by key social, economic, and borrower characteristics. These differences suggest at least two different markets and types of motivations among potential reverse mortgage borrowers.

- **Borrowers and Non-borrowers—**Non-borrowers who responded to this question were divided almost equally between those who said they were looking to deal with basic needs and those who were looking for extras. Borrowers were more likely than non-borrowers to be looking to deal with needs.

- **Gender—**Females were more likely than males to indicate they were looking to address basic needs. Males, on the other hand, were more likely than females to say they were looking for extras to improve the quality of their lives.

- **Age—**Younger respondents (under age 75) were about evenly divided regarding needs and desires for extras. Those age 80 and older were more likely than younger respondents to be looking to address needs.

- **Marital Status—**Respondents who were married or single were somewhat more likely than those who were widowed or divorced/separated to be looking for extras. Conversely, compared to those who were married or single, needs were a much more important driver for those who were widowed or divorced/separated.

- **Income—**The lower the income, the more likely consumers were to indicate they were looking to address needs. Those with incomes less than $30,000 were more likely than those with higher incomes to be looking to address needs (71 percent vs. 51 percent; not in table below). In contrast, those with incomes of $30,000 or more were more likely than those with lower incomes to be looking for extras (38 percent vs. 19 percent; not in table below).

- **Assets—**Respondents with less than $25,000 in financial assets were much more likely than those with more assets to address needs, while those with financial assets worth $25,000 or more were more likely to be looking for extras.

- **Home Values—**Similar to other economic characteristics, respondents with home values under $150,000 were much more likely than those with higher home values to be looking to address basic needs.

- **Health Status—**Respondents who reported that they were in good, very good, or excellent health were roughly equally divided in whether they were looking for extras or basic necessities. Those in fair or poor health were more likely than those in good, very good, or excellent health to be looking to address basic needs. Similarly, respondents who indicated that illness or disability was a reason for looking into a reverse mortgage were much more likely to indicate they were primarily concerned with dealing with basic necessities.

Table 11: Respondents who indicated that the main reason for looking into a reverse mortgage was "having more money to spend on extras" and those who indicated that the main reason was the "need for more money to pay for basic necessities and essential expenses"

	n =	Necessities	Extras	Don't Know/ Refused
Total	1,509	48%	38%	14%
Borrowers	946	50%*	38%	12%
Non-borrowers	563	41%	40%	19%
Gender				
Male	580	40%	45%*	15%
Female	925	53%*	34%	13%
Age				
<70	319	44%	43%*	13%
70–74	330	44%	42% *	14%
75–79	368	47%	39%*	14%
80–84	242	60%*	28%	11%
85+	213	52%	34%	15%
Marital Status				
Married	576	41%	47%*	12%
Widowed	640	53%*	33%	14%
Divorced/Separated	196	54%*	27%	19%
Single	85	46%	43%*	12%
Home Value				
<$150,000	512	55%*	31%	14%
$150,000–$299,999	469	46%	41%*	13%
$300,000+	330	42%	45%*	13%
Household Income				
<$10,000	132	66%*	20%	14%
$10,000–$19,999	402	62%*	31%	8%
$20,000–$29,999	361	47%	38%	16%
$30,000–$49,999	286	37%	50%*	12%
$50,000+	85	22%	62%*	12%
Financial Assets				
<$25,000	791	56%	33%	11%
$25,000+	299	35%	50%*	15%
Health Status				
Fair/Poor	451	62%*	27%	11%
Good/Excellent	964	42%	44%*	15%
Illness/Disability a Reason?				
Yes	296	69%*	21%	9%
No	1,206	44%	41%*	15%

*Statistically significant difference at the .05 level between rows. See question 10 of the AARP Survey.

Table 12: Summary of reasons for looking into reverse mortgages (RMs)**

	A reason for looking into RMs**		The main reason for looking into RMs	
	Extras (n = 550)	Necessities (n = 744)	Extras (n = 550)	Necessities (n = 744)
Pay off mortgage	40%	41%	19%	19%
Pay off non-mortgage debts	25%	33%*	5%	8%*
Home repairs/improvements	46%	47%	13%	10%
Household chores	14%	25%*	<0.5%	1%
Financial help to family	14%	15%	1%	2%
Health or disability	16%	37%*	3%	10%*
Everyday expenses	43%	60%*	4%	15%*
Improve quality of life	86%*	73%	32%*	12%
Emergencies/unexpected	79%	81%	13%	12%
Investments, annuities, or long-term care insurance	17%	13%	4%*	<0.5%
Property taxes/insurance	18%	39%*	2%	6%*

*Statistically significant difference at the .05 level between respondents seeking extras and those addressing necessities; see questions 9 and 10 of AARP Survey.
**For the first two columns ("a" reason), multiple responses were allowed per respondent. For the last two columns ("main" reason), only one response was allowed per respondent.

B. Specific Reasons for Looking into Reverse Mortgages and Actual Uses

The previous section introduced the 11 categories of reasons for looking into reverse mortgages that were used in this survey. Using these categories, the following section examines more closely how borrowers and non-borrowers differed in what they were looking for in a reverse mortgage as well as the degree to which borrowers actually use their loans for the reason that originally drove their decision to look into them. Finally, this section presents patterns of related reasons for looking into reverse mortgages identified by using factor analysis.

1. Specific Reasons for Looking into Reverse Mortgages and Borrower Status

Table 13 summarizes the specific reasons respondents gave for taking out reverse mortgages. These data show relatively few statistically significant differences between borrowers and non-borrowers regarding the reasons they looked into reverse mortgages, though borrowers were somewhat more likely than non-borrowers to look into a reverse mortgage to pay for health or disability needs, everyday expenses, emergencies or unexpected expenses, and property taxes or homeowners insurance.

Table 13: Summary of reasons for looking into reverse mortgages (RMs)

	A reason for looking into RMs		The main reason for looking into RMs	
	Borrowers (n = 946)	Non-borrowers (n = 563)	Borrowers (n = 946)	Non-borrowers (n = 563)
Pay off mortgage	40%	40%	19%	20%
Improve quality of life	73%	68%	18%	19%
Home repairs/improvements	47%	43%	14%	13%
Emergencies/unexpected	78%*	66%	13%	10%
Everyday expenses	50%*	40%	9%	8%
Health or disability	28%*	21%	7%	5%
Pay off non-mortgage debts	28%	27%	6%	7%
Property taxes/insurance	29%*	21%	4%*	2%
Financial help to family	15%	13%	2%	3%
Investments, annuities, or long-term care insurance	13%	17%	2%	3%
Household chores	18%	19%	1%	1%

*****Statistically significant difference at the .05 level between borrowers and non-borrowers; see questions 8 and 9 of the AARP Survey.

2. Did Borrowers Use Their Loans as They Originally Intended?

To this point we have compared borrowers and non-borrowers regarding the reasons they originally looked into taking out a reverse mortgage. But did borrowers actually use the loan proceeds as they had anticipated? When asked if borrowers had used the money "in the ways you had planned to," 92 percent said they had, compared to only 7 percent who said no. This survey had no way to confirm the actual uses, and the high rate of respondents who answered "yes" may be due, in part, to the retrospective nature of the survey. In other words, respondents may have adjusted their responses regarding their original intent to correspond to their subsequent experiences in actually using the loans. Of the few who answered "no," more than half indicated they had not yet spent the money for some reason, such as they hadn't had the time to spend it, they hadn't needed it, or they hadn't received the money yet. Relatively few said they hadn't used the money as anticipated because they had changed their minds, had unexpected needs or, in the case of respondents acting as POA for a homeowner, a homeowner died.

For all borrowers, Table 14 below compares their original reasons for looking into a reverse mortgage and their reported uses of the funds. In a number of cases, the percentage of borrowers who reported using funds for a given purpose is considerably lower than the percentage of borrowers who indicated they had originally looked into taking out the loan for this purpose, as with household chores, financial help to families, health or disability (for all borrowers), everyday expenses, and insurance products or investments.

Table 14: Comparison of reasons for originally looking into a reverse mortgage and reported uses of loan proceeds among all borrowers*

	A reason for looking into RMs (n = 946)	Used RM for this purpose (n = 946)
Emergencies/unexpected	78%	62%
Improve quality of life	73%	60%
Home repairs/improvements	47%	43%
Everyday expenses	50%	36%
Pay off mortgage	40%	32%
Pay off non-mortgage debts	28%	25%
Property taxes/insurance	29%	22%
Health or disability	28%	16%
Household chores	18%	9%
Financial help to family	15%	9%
Investments, annuities, or long-term care insurance	13%	4%

*See questions 8, 30, and 31 of the AARP Survey.

Table 15 displays the main use for reverse mortgage funds identified by all borrowers. The top three reasons—paying off the mortgage, home repairs, and improving the quality of life—accounted for half of the main uses for reverse mortgages.

Table 15: Ranking of main uses for reverse mortgages among all borrowers*

Uses of Reverse Mortgages	Percent selecting this main use (n = 946)
Pay off mortgage	20%
Home repairs/improvements	18%
Improve quality of life	14%
Everyday expenses	10%
Emergencies/unexpected	9%
Pay off non-mortgage debts	7%
Health or disability	5%
Property taxes/insurance	5%
Financial help to family	2%
Investments, annuities, or long-term care insurance	1%
Household chores	1%

* See question 31 of the AARP Survey.

3. Factor Analysis of Reasons for Looking into a Reverse Mortgage

In addition to reviewing the degree to which each individual reason above was a consideration in respondents' decision-making about reverse mortgages, we conducted a factor analysis to identify whether any of the individual reasons appear to be related to one another (for more information about this factor analysis, please see Appendix A). This analysis identified four groups of related reasons for looking into a reverse mortgage other than reasons related to "health care, medical, or disability needs." These four groups of reasons are:

1. Extra Expenses/Everyday Non-Health-Related Expenses
2. Homeowner-Related Expenses
3. Debt
4. Investments or Insurance/ Family Member Help

The following sections of this report discuss in detail each of these four groups of non-health care-related reasons for considering a reverse mortgage. Because a major objective of our study was to examine the role health and disability play in the reverse mortgage decision-making process, we first explore the role of health care- and disability-related reasons separately in its own section.

C. Uses of Reverse Mortgages to Deal with Health and Disabilities

The potential for using reverse mortgages to pay for heath and long-term care costs has received increasing attention in recent years. For example, a National Council on Aging study estimated that older homeowners could tap $953 billion through reverse mortgages to pay for in-home services and supports—roughly one-third of that ($308 billion) would have been available to those who were receiving Medicaid benefits or those who were at risk of needing Medicaid in the event of a serious disability (Stucki, 2005). Proponents of using reverse mortgages for long-term care costs argue that they could enable more older persons with disabilities or long-term care needs to remain at home, with services they control, while potentially saving public dollars being spent through the Medicaid program.

Public policy recommendations for tapping home equity to pay for long-term care costs have taken three forms:

- incentives to use reverse mortgages to pay for private long-term care insurance;
- denial of Medicaid eligibility based on home equity and/or mandatory requirements to use home equity before becoming eligible for public benefits under Medicaid; and
- voluntary incentives to use reverse mortgages to pay for long-term care costs.

In the first category related to incentives, Congress enacted provisions in the 2000 American Home Ownership and Economic Opportunity Act (P.L. 106-569) to forgive the upfront mortgage insurance charged on federally insured HECM loans if all of the proceeds were used to purchase long-term care insurance. Studies of this approach have shown that using reverse mortgages for this purpose would be extremely expensive (Merlis, 2005; Ahlstrom, Tumlinson, and Lambrew, 2005; AARP, 2005a and b); could be costly and cause administrative problems for the HECM program (Rodda et al., 2003); and piqued little consumer interest (Long Term Care Group, 2003). Because of these concerns, HUD has never implemented these provisions.

The second approach requiring that consumer use home equity is illustrated by a proposal from the National Governors Association (NGA), which would count home equity as an asset for purposes of eligibility under the Medicaid program to force older homeowners to pay for health and long-term care needs with a reverse mortgage. The logic of this approach is that the home has been a protected asset under Medicaid to avoid forcing older homeowners to sell their homes to receive needed benefits. Reverse mortgages offer a way to tap home equity, while enabling older homeowner to stay put. The NGA proposal would effectively require that homeowners spend down their home equity to $50,000 or 10 percent of the market value of the home, whichever is lower (NGA, 2005).

The federal Deficit Reduction Act (DRA) of 2005 took a step in this direction with a provision that denies Medicaid long-term care benefits to some homeowners whose homes are worth more than $500,000 (up to $750,000 at state discretion) with the express interest of encouraging those with substantial home equity to take out reverse mortgages to meet their long-term care needs until they spend down to the limit (Crowley, 2006). Critics have noted that forcing low-income homeowners to spend down their home equity with a reverse mortgage requires them to incur the high costs of a private loan to qualify for public benefits and provides no protection for younger homeowners who do not qualify for a reverse mortgage (Crowley, 2006; AARP, 2005a and b).

An example of the third approach of offering voluntary incentives is the Connecticut Reverse Annuity Mortgage program. This program was created by the Connecticut Housing Finance Agency in 1984, and was revived and refocused in 1995 to concentrate on older homeowners with long-term care needs. The program allows a limited upfront disbursement to the homeowner, plus monthly disbursements. The program has low origination fees and no explicit mortgage insurance or services fees, and the interest rate is a fixed 7 percent, which makes these loans considerably less expensive than regular HECM loans. But, because funding for these loans relies on funds from the housing finance agency, the number of loans has dwindled to very few in recent years. Since the program was refocused in 1995, only 135 loans have been made—and only 37 loans since 1999. (See Appendix E for a more detailed discussion about the Connecticut program and its implications for public programs looking to provide low-cost reverse mortgages for homeowners needing long-term care services.)

The Office of the Assistant Secretary for Policy and Evaluation (ASPE) in the U.S. Department of Health and Human Services (Stucki, 2007) has commissioned a study of voluntary programs to encourage reverse mortgages to pay for long-term care costs in three states. However, these programs are either in the proposal stage (Minnesota) or focus on information rather than on subsidies (Los Angeles).

In short, while the issue has received considerable interest in recent years from policy decision-makers at state and federal levels, very little has been done at either level to provide incentives to use reverse mortgages to pay for long-term care costs. For now, older homeowners are largely on their own to determine whether currently existing reverse mortgages are viable ways to deal with long-term care needs. Because of the policy interest in this area, the AARP Survey included a number of questions about the health status of respondents and their spouses and interest in reverse mortgages to deal with health and long-term care needs.

1. Health Status of Reverse Mortgage Consumers

Table 16 shows the self-reported health status of respondents and, for the 40 percent of respondents who were married, their spouses. Among all respondents, 76 percent reported that their health was excellent, very good, or good, while 22 percent reported that their health was fair or poor. In comparison, according to data from the Department of Health and Human Services, 27 percent of all persons age 65 and older reported that they were in fair or poor health in 2004 (HHS, 2006). As these data from the AARP survey indicate, respondents who reported themselves to be in excellent, very good, or good health were more likely to be:

- **Male—**Female respondents were not only more likely than men to report that their own health was fair or poor, but married women were also more likely than men to report that their spouse's health was fair or poor.

- **Married—**Married respondents reported better health for themselves than did respondents who were widowed, divorced or separated, or single. They were more likely to describe their spouse's health as fair or poor than to describe their own health in those terms.

- **Wealthier—**Respondents with higher incomes and wealth also reported better health than lower-income respondents, though they were also more likely to note that their spouses were in fair or poor health than to describe their own health in this manner.

- **Those looking for extras—**Respondents looking into reverse mortgages to deal with necessities were twice as likely as those looking for extras to report that their own health status or that of their spouses was fair or poor.

Table 16: Self-reported health status for respondents and spouses

	Respondent			Spouse, if Married		
	n =	Excellent, Very Good, or Good	Fair or Poor	n =	Excellent, Very Good, or Good	Fair or Poor
Total	1509	76%	22%	558	73%	26%
Borrowers	946	76%	22%	351	74%	25%
Non-borrowers	563	74%	23%	207	70%	28%
Gender						
Male	580	82%*	17%	387	76%*	23%
Female	925	72%	25%*	169	66%	32%*
Age						
<70	319	79%*	21%	129	73%	26%
70–74	330	80%*	20%	144	76%	23%
75–79	368	74%*	25%	153	75%	24%
80–84	242	77%*	22%	85	69%	31%
85+	213	60%	28%	37	62%	38%
Marital Status						
Married	576	83%*	16%	558	73%	26%
Widowed	640	72%	26%*	NA	NA	NA
Divorced/Sep.	196	69%	29%*	NA	NA	NA
Single	85	74%	24%*	NA	NA	NA
Income						
<$10,000	132	56%	39%*	10	71%	29%
$10,000–19,999	402	65%	33%*	66	59%	41%*
$20,000–29,999	361	80%*	19%	162	66%	33%*
$30,000–49,999	286	88%*	11%	167	80%*	19%
$50,000+	85	80%*	19%	61	80%*	20%
Financial Assets						
<$25,000	791	69%	28%*	238	67%	32%*
$25,000+	299	85%*	14%	149	78%*	21%
Looking for						
Extras	550	85%*	14%	254	80%*	19%
Necessities	744	67%	30%*	228	64%	36%*
Race/Ethnicity						
White	1264	76%	22%	497	73%	26%
Other	222	76%	22%	74	74%	24%

* Statistically significant differences between rows at the .05 level; see questions 52 and 53.

2. Health Status and Reasons for Looking into Reverse Mortgages

Health status was an important predictor of the reasons for which older homeowners looked into reverse mortgages. . As shown in Table 17, those respondents who reported that their health was fair or poor were twice as likely as respondents in better health to indicate that they had looked into reverse mortgages to deal with health or disability-related needs; and they were more than four times as likely as respondents in better health to indicate such needs as the main reason for looking into a reverse mortgage. Respondents reporting fair or poor health were also more likely than those in better health to look into reverse mortgages to pay for household chores and for property taxes and homeowners insurance.

On the other hand, respondents in better health were more likely than those in poor/fair health to indicate that they were looking into reverse mortgages to pay off their existing mortgages. They were also more likely to indicate that the main reason for looking into reverse mortgages was to have money for emergencies and unexpected expenses as well as to use for financial products such as investments or to purchase insurance.

Table 17: Reasons for looking into a reverse mortgage by health status

	Reason for Looking into RM		**Main Reason**	
	Excellent/Very Good/Good (n = 964)	**Fair/ Poor** (n = 451)	**Excellent/Very Good/Good** (n = 964)	**Fair/ Poor** (n =451)
Pay off mortgage	42%*	36%	21%	16%
Pay off non-mortgage debts	27%	30%	6%	5%
Home repairs/improvements	45%	48%	13%	14%
Household chores	17%	21%*	<0.5%	1%
Financial help to family	14%	16%	2%	2%
Health or disability	20%	40%*	3%	14%*
Everyday expenses	46%	50%	9%	9%
Improve quality of life/extras	74%	70%	19%	17%
Emergencies/unexpected	76%	76%	14%*	8%
Investments, annuities, or long-term care insurance	15%	13%	2%*	<0.5%
Property taxes/insurance	24%	34%*	3%	5%*

***** Statistically significant difference at the .05 level between respondents seeking extras and those addressing necessities; see questions 8 and 9.

3. Who Indicated that Health and Disability Was a Reason for Looking into Reverse Mortgages?

Table 18 gives more detail about the characteristics of respondents who indicated that they looked into a reverse mortgage "to pay for expenses or purchases for health care, medical, or disability needs." The table shows the intensity of the reason—*a* reason or *the* main reason—and the degree to which borrowers actually used the loan proceeds for these purposes. Respondents who were more likely to indicate that health and disability needs were a reason for looking into a reverse mortgage were more likely to be:

- **In Fair or Poor Health—**As noted above, respondents who indicated that their health was fair or poor were more likely than respondents reporting excellent, very good, or good health to indicate that health and disability needs were a reason, as well as the main reason, for looking into reverse mortgages. They were also more than four times as likely as borrowers in better health to indicate that they had actually used their reverse mortgages for such purposes.

- **Dealing with Necessities Rather than Extras—**Respondents who were looking into reverse mortgages to deal with necessities were more than twice as likely as those looking for extras to say that health or disability needs were a reason for looking into reverse mortgages. They were also more than three times as likely to report that such needs were the main reason for looking into reverse mortgages. Borrowers looking to address necessities were more than four times as likely as borrowers looking for extras to say that they had actually used their reverse mortgage proceeds to deal with health-related needs.

- **Widowed—**Widowed respondents were significantly more likely than married, single, or divorced respondents to have looked into reverse mortgages for health and disabilities needs, and widowed borrowers were more likely to have actually used the proceeds for this purpose.

- **85+**—Age was significantly related to looking into reverse mortgages and using them to meet health and long-term care needs only for those age 85 and older.

Among all respondents, 14 percent (13 percent of borrowers and 17 percent of non-borrowers) indicated that they looked into a reverse mortgage to have money to invest, to purchase an annuity, or to purchase long-term care insurance, and 4 percent of borrowers said they actually used the proceeds for any of these purposes. In spite of interest from some policy decision-makers, AARP has opposed the use of reverse mortgages to purchase long-term care insurance because of the high costs associated with the dual transaction costs and the possibility that homeowners could exhaust their equity and have to drop their insurance coverage at the time when they are most likely to need it (AARP, 2005 a and b).

Table 18: Health or disability as a reason for looking into a reverse mortgage and actual use by borrowers by select characteristics**

	All Respondents			Borrowers		
	n =	A Reason	Main Reason	n =	Actually Used	Main Use
Total	1509	26%	6%	--	--	--
Borrowers	946	28%*	7%	946	16%	5%
Non-borrowers	563	21%	5%	--	NA	NA
Gender:						
Male	580	26%	6%	365	15%	6%
Female	925	26%	7%	578	16%	4%
Age:						
<70	319	24%	5%	171	11%	6%
70–74	330	24%	6%	203	17%	4%
75–79	368	24%	5%	234	14%	2%
80–84	242	27%	7%	163	17%	5%
85+	213	47%*	18%*	152	30%*	16%*
Marital Status:						
Married	576	25%	7%	359	13%	5%
Widowed	640	30%*	7%	418	19%*	6%
Divorced/Sep.	196	20%	3%	104	13%	2%
Single	85	24%	4%	57	18%	5%
Income:						
<$10,000	132	31%	12%*	82	22%	10%*
$10,000–19,999	402	34%	5%	265	17%	4%
$20,000–29,999	361	28%	8%	233	21%	8%*
$30,000–49,999	286	20%*	5%	179	8%	3%
$50,000+	85	25%	9%	45	18%	4%
Financial Assets						
<$25,000	791	30%	6%	534	19%*	6%
$25,000+	299	24%	7%	179	11%	4%
Health						
Fair/Poor	451	40%*	14%*	280	33%*	12%*
Good/Excellent	964	20%	3%	607	8%	2%
Looking for						
Extras	550	16%	3%	332	6%	3%
Necessities	744	37%*	10%*	503	25%*	7%*
Race/Ethnicity						
White	1264	27%	7%*	815	17%	5%
Other	222	22%	2%	118	11%	3%

*Statistically significant differences between rows at the .05 level; see questions 8, 9, 30, 31.

**The columns reporting "reasons" for looking into reverse mortgages include both borrowers and non-borrowers. The last two columns related to actual uses are for borrowers only.

4. Specific Health and Disability Needs and Reverse Mortgages

For those respondents who indicated that health and disability needs were a reason for looking into a reverse mortgage, the survey probed further to explore the specific types of needs that older homeowners were looking to address. As shown in Table 19, the most common health-related reason was the need to pay for prescription drugs. It may be that the high number of respondents noting prescription drug costs was due partly to the substantial media coverage related to implementation of the new Part D prescription drug benefit under Medicare. Future research may want to probe this need with respect to reverse mortgages to see if it diminishes over time as the effects of the Part D benefits are experienced more widely. Important differences in specific reasons for looking into reverse mortgages were expressed along the following dimensions:

- **Borrowers vs. Non-borrowers—**As noted above, borrowers were significantly more likely than non-borrowers to indicate that health or disability needs were a reason for looking into reverse mortgages. Among those who expressed a general health-related need, borrowers were nearly twice as likely to be looking to pay for prescription drug costs (39 percent vs. 21 percent). On the other hand, non-borrowers were much more likely than borrowers to indicate that long-term care-related needs—specifically home care (29 percent vs. 19 percent) and nursing home care (12 percent vs. 5 percent)—were the reasons they looked into a reverse mortgage. Understanding why those who were looking to deal with long-term care needs were disproportionately likely to be non-borrowers merits more study in light of the interest in using reverse mortgages for such purposes. Were the costs too high? Were the homeowners able to address their needs in some other way? Were there other obstacles to using reverse mortgages for this purpose? The answers to these questions are beyond the ability of this survey to address, but they should serve as topics for future research.

- **Marital Status—**Widowed respondents were much more likely than married respondents to cite prescription drug costs and home care needs as reasons for seeking a reverse mortgage.

- **Gender—**Males were more likely than females to look into a reverse mortgage to pay for hospital stays and medical equipment or devices, such as wheelchairs, specialized vans, hearing aids, etc. On the other hand, females were more likely than males to indicate that they were looking to pay for help with home care. This finding may be related to the fact that the female respondents in the AARP Survey were three times as likely as the males to be widowed (54 percent vs. 18 percent), and widows were more likely to be looking for ways to pay for home care.

- **Health Status**—With the exception of nursing home costs where the differences were not statistically significant, respondents reporting fair or poor health were much more likely to indicate that they were looking to address every one of the health-related costs asked about in this survey.

Table 19: Of respondents who indicated they had looked into a reverse mortgage to address health or disability needs, what expenses were they looking to use the loan for?

	n =	Hospital Stay	Rx Drugs	Nursing Home	Home Care	Equipment or Devices
Total	564	14%	36%	6%	21%	14%
Borrowers	386	13%	39%*	5%	19%	14%
Non-borrowers	178	18%	21%	12%*	29%*	11%
Gender						
Male	199	19%*	32%	8%	15%	18%*
Female	361	10%	37%	5%	24%*	11%
Age						
<70	109	18%	35%	7%	16%	17%*
70–74	99	9%	44%*	3%	17%	14%
75–79	120	17%	30%	5%	14%	7%
80–84	84	10%	30%	8%	19%	14%
85+	146	11%	39%	11%*	45%*	18%*
Marital Status						
Married	181	17%	29%	7%	14%	15%
Widowed	286	12%	39%*	6%	27%*	14%
Divorced/Separ.	66	11%	35%	5%	19%	15%
Single	31	12%	51%*	5%	20%	5%
Income						
<$10,000	68	11%	39%	3%	25%	12%
$10,000–19,999	189	14%	43%*	4%	22%	13%
$20,000–29,999	131	14%	33%	5%	19%	17%
$30,000–49,999	80	17%	25%	12%*	16%	13%
$50,000+	25	20%	35%	13%	16%	14%
Financial Assets						
<$25,000	348	15%	41%	5%	20%	14%
$25,000+	102	14%	29%	10%	25%	12%
Health						
Fair/Poor	250	18%*	47%*	5%	26%*	20%*
Good/Excellent	244	10%	25%	3%	12%	8%
Looking for						
Extras	132	16%	26%	6%	16%	17%
Necessities	378	13%	40%*	5%	22%	13%
Race/Ethnicity						
White	488	14%	35%	7%	20%	14%
Other	73	12%	38%	4%	26%	11%

*Statistically significant differences between rows at the .05 level; see question 35.

In addition to probing with respect to health-related needs, probes on two other reasons for looking into reverse mortgages yielded results relevant to using the loans to deal with health or long-term care needs. Among respondents who were looking into reverse mortgages to retire debts, the survey asked if those debts were related to “health needs or prescription drug expenses.” Among respondents who were looking to pay for home repairs or improvements, the survey asked if those improvements were made to “make it easier for someone with a disability or illness to live in the home.” As Table 20 indicates, the most important predictors of using loans in these ways were those whose interest in reverse mortgages was driven by poor health or necessity.

- **Health Status—**Among respondents looking into a reverse mortgage to make home improvements, those whose own health or whose spouse’s health was fair or poor were more than three times as likely as those in better health to be making such improvements to make it easier for a person with disabilities (25 percent vs. 7 percent). Among respondents looking to retire debts, those in fair or poor health were more than twice as likely as those in better health to be looking to retire health-related debts (30 percent vs.14 percent).

- **Illness a Reason—**Respondents were asked, “[T]hinking about all of the reasons that you looked into a reverse mortgage, were any of those reasons related to a physical or mental illness or disability, either your own illness or disability or a family member’s illness or disability?” Among respondents who were considering a reverse mortgage to make home repair or improvements, those answering “yes” to this question were far more likely than those who answered “no” to be looking to make home improvements for someone with an illness or disability (41 percent vs. 7 percent). Similarly, among respondents looking to pay off debts, those for whom illness or disability was a motivation for seeking a reverse mortgage were much more likely to be looking to pay off health-related debts (47 to 13 percent).

- **Necessities vs. Extras—**Among respondents considering a reverse mortgage to pay for home improvements, those looking into reverse mortgages to deal with necessities were more likely than those seeking extras to want to use the loan to make such improvements to assist someone with an illness or disability. Among respondents looking to pay off debts, those looking to deal with necessities were also more likely to be looking to pay off health-related debts.

Table 20: Of respondents who looked into a reverse mortgage for home repairs and improvements or for retiring debts, the percentages who considered using them for disability- or health-related reasons

	n =	Of respondents who considered RM for home improvements, % who considered using to help someone with disability	n =	Of respondents who considered RM to retire debts, % who considered using for health-related debts
Total	697	12%	422	19%
Borrowers	456	11%	274	20%
Non-borrowers	241	16%	148	19%
Marital Status				
Male	221	12%	155	15%
Female	474	13%	267	22%
Marital Status				
Married	232	14%	161	17%
Widowed	319	12%	177	21%
Divorced/Separ.	89	12%	55	22%
Single	50	8%	25	27%
Income				
<$10,000	63	21%*	41	31%*
$10,000–19,999	221	13%	125	29%*
$20,000–29,999	175	13%	106	18%
$30,000–49,999	110	7%	85	13%
$50,000+	31	15%	20	9%
Financial Assets				
<$25,000	410	15%	277	21%
$25,000+	110	9%	50	15%
Health				
Fair/Poor	212	25%*	133	30%*
Good/Excellent	452	7%	271	14%
Looking for				
Extras	253	9%*	141	11%
Necessities	356	15%	238	26%*
Illness/Disability a Reason?				
Yes	134	41%*	83	47%*
No	557	7%	336	13%
Race/Ethnicity				
White	554	12%	334	20%
Other	110	16%	81	20%

*Statistically significant at the .05 level; see questions 34 and 36.

5. Did Reverse Mortgages Meet Health and Disability Needs?

Two questions addressed the degree to which reverse mortgages were able to meet the needs of borrowers with poor health or those who identified an illness or disability as a reason for looking into a reverse mortgage. The first question asked borrowers to describe the degree to which their reverse mortgages had met their financial needs. Among those whose own health or whose spouse's health was fair or poor and those who looked into a reverse mortgages to deal with illness or disability, 54 percent said their financial needs had been completely met, a level that was not statistically different from other borrowers as shown in Table 21. However, 21 percent of borrowers with fair or poor health indicated that they could not get enough money from their reverse mortgages to meet their needs, compared to 13 percent of those in good to excellent health. Similarly, of those who identified illness or disability as a reason for looking into a reverse mortgage, 21 percent indicated that they did not receive enough money to meet their needs, compared to 14 percent who did not identify this reason for looking into a reverse mortgage.

A second question asked whether the reverse mortgage has enabled the respondent or someone with a disability to remain in his or her home. Borrowers whose own health or whose spouse's health was fair or poor were somewhat more likely than those in better health to say reverse mortgages enabled them to remain at home, but were much more likely to agree that the reverse mortgage helped someone with an illness or disability remain in the home (see table 21). This pattern was more pronounced for those who identified an illness or disability as a reason for looking into a reverse mortgage. They were more likely than those who did not refer to illness/disability as a reason to agree that the reverse mortgage helped them stay at home and more than five times as likely to agree that the reverse mortgage helped someone with an illness or disability to remain in the home.

Table 21: Degree to which a reverse mortgage met financial needs and helped someone remain at home by health status and illness or disability as a reason for looking into a reverse mortgage

	Health Status		Illness/Disability a Reason	
	Fair/Poor (n = 280)	**Excellent/ Very Good/ Good (n = 607)**	**Yes (n = 192)**	**No (n = 749)**
Financial need completely met	54%	59%	54%	58%
Not enough money	21%*	13%	21%*	14%
Enabled you to remain in the home	84%*	76%	90%*	76%
Helped someone with disability or illness remain in the home	45%*	13%	74%*	14%

*Statistically significant at the .05 level; see questions 39, 40, and 42.

C(1). Homeowners Who Had Granted a Power of Attorney (POA) to Make Decisions Regarding a Reverse Mortgage

Because of the interest in using reverse mortgages to deal with health and long-term care costs, the AARP Survey included a sub-sample of 200 respondents who had been through counseling as a decision-maker acting on behalf of an older homeowner with a POA. Older persons can authorize another person to make financial decisions on their behalf through a power of attorney, as long as they have the cognitive ability to understand the delegation of decision-making. Typically, the person with the POA is a family member (91 percent in the AARP Survey) or a friend (7 percent). Durable powers of attorney may authorize the agent to manage financial affairs and borrow money when the homeowner has disabilities that make the logistics of such transactions difficult to manage. Even though such homeowners represented only 3 percent of the total database of people who had received HECM-required counseling, their likely need for assistance with health and long-term care issues provided an opportunity to explore in more depth the needs of such homeowners and why the family member with the POA looked into obtaining a reverse mortgage on their behalf.

1. Characteristics of Homeowners Using and Not Using a POA

As Table 22 indicates, those homeowners who granted a POA were significantly different from other homeowners on many dimensions, including:

- **Age—**Two-thirds (66 percent) of POA homeowners were 85 or older, compared to only 7 percent of other homeowners. Indeed, 39 percent of the homeowners using POAs were 90 years old or older. The median age for borrowers using a POA was 88, compared to a median of 75 among borrowers not using a POA; the corresponding median ages for non-borrowers were 86 and 73, respectively.

- **Marital Status—**Homeowners using POAs were more than twice as likely as other homeowners to be widowed. On the other hand, other homeowners were almost three times as likely as those with POAs to be married.

- **Education—**Homeowners using POAs were more likely than other homeowners to have a high school education or less, while other homeowners were more than twice as likely as those with POAs to have at least some postsecondary education.

- **Health Status—**Nearly two-thirds (62 percent) of homeowners using a POA were either in poor health (25 percent) or had passed away (37 percent) by the time of the survey, according to their decision-makers. In contrast, only 6 percent of other homeowners reported that their own health was poor, and 12 percent of married homeowners reported that their spouses were in poor health.

- **Income—**Homeowners using a POA were about twice as likely as other homeowners to have household incomes under $20,000. More than one of five (22 percent) homeowners using a POA reported an income of under $10,000.

Table 22: Characteristics of homeowners using and not using a POA and characteristics of decision-makers with the POA

	Homeowners not using POA (n = 1,309)	POA Homeowner (information from decision-maker) (n = 200)	Decision-Maker (acting on behalf of POA Homeowner) (n = 200)
Age			
<75	48%*	6%	<50 14%
75–84	44%*	27%	50–61 48%
85+	7%	66%*	62+ 35%
Gender			
Female	60%	72%	60%
Male	40%	26%	41%
Marital Status			
Married/Partner	46%*	16%	NA
Widowed	35%	72%*	NA
Div./Sep./Single	19%	14%	NA
Education			
<High School	8%	24%*	2%
High School	34%	47%*	21%
Some College	36%*	15%	28%
College Graduate	22%*	13%	48%
Race/Ethnicity			
White	86%	86%	NA
Other	12%	13%	NA
Health Status			
Excellent/Very Good/ Good	77%*	21%	NA
Fair	15%	17%	NA
Poor	6%	25%*	NA
Passed Away	0%	37%*	NA
Income			
<$10,000	7%	22%*	<$50K 34%
$10,000–$19,999	25%	41%*	>$50K 48%
$20,000–$29,999	26%*	14%	Refused 19%
<$30,000 (unspecified)	3%	6%*	NA
$30,000+	28%*	8%	NA
Financial Assets			
<$25,000	51%	71%*	NA
$25,000+	18%	14%	NA

*Statistically significant difference between POAs and Homeowners at the .05 level; see questions 2a—3.

2. Characteristics of Decision-Makers Using POA

Because of the very old ages of the homeowners using a POA, the adult children who were generally their decision-makers were themselves in late middle age and older. Only 14 percent were under age 50, 48 percent were age 50–61, and 35 percent were 62 and older—and would also be eligible for reverse mortgages themselves. Sixty percent were female, which is less than the 72 percent of homeowners on whose behalf they are acting. While the homeowners using a POA had lower educational levels than other homeowners, nearly half (48 percent) of those acting with the POA had at least a college education; indeed, roughly one-fourth (24 percent) reported having a postgraduate education. Similarly, the homeowners using a POA had very low incomes—more than one in five (22 percent) earned less than $10,000—but roughly half (48 percent) of those acting with a POA reported annual incomes of $50,000 or more.

3. Reasons for Looking into Reverse Mortgages: Homeowners and POAs

Respondents who acted with a POA on behalf of an older homeowner identified needs that were significantly different from homeowner respondents with respect to most of the categories asked about in the survey. As shown in Table 23, POA respondents were far more likely than homeowners to identify needs related to:

- **Health or Disability—**POA respondents were three times more likely to identify health- or disability-related expenses as a reason for looking into a reverse mortgage (75 percent vs. 24 percent). They were eight times more likely to identify such needs as the main reason for looking into a reverse mortgage (41 percent vs. 5 percent).

- **Household Chores—**POA respondents were roughly twice as likely to look into reverse mortgages to pay for household chores (35 percent vs. 18 percent).

- **Everyday Expenses—**By a 64 to 46 percent margin, POA respondents were more likely to indicate that everyday expenses were a reason why they looked into a reverse mortgage.

On the other hand, POA respondents were significantly less likely than homeowner respondents to identify the following reasons for looking into a reverse mortgage:

- **Paying Off a Mortgage—**Homeowner respondents were twice as likely as POAs to indicate that they had looked into a reverse mortgage to pay off a mortgage (40 percent vs. 21 percent) and more than twice as likely to indicate that this was their main reason for looking into a reverse mortgage (19 percent vs. 7 percent).

- **Home Repairs—**By a 46-to-39-percent margin, homeowner respondents were more likely to indicate that home repairs were a reason for looking into a reverse mortgage; the margin was 14 percent vs. 8 percent as the main reason.

- **Improving the Quality of Life—**Homeowners were somewhat more likely to indicate that improving their quality of life was a reason for looking into a reverse mortgage (71 percent vs. 64 percent), but were more than twice as likely to indicate that this was the main reason (19 percent vs. 8 percent).

- **Meeting Emergencies or Unexpected Expenses—**Similarly, homeowners were more likely to indicate that meeting emergencies or unexpected expenses was a reason for looking into a reverse mortgage (76 percent vs. 64 percent), but they were four times as likely to indicate this reason as the main reason (13 percent vs. 3 percent).

Table 23: Summary of reasons for looking into a reverse mortgage among homeowner and POA respondents

	Reason for Looking		Main Reason	
	Homeowners n = 1,309	**POA n = 200**	**Homeowners N = 1,309**	**POA N = 200**
Pay off mortgage	40%*	21%	19%*	7%
Pay off non-mortgage debts	28%*	18%	6%	6%
Home repairs/improvements	46%*	39%	14%*	8%
Household chores	18%	35%*	1%	5%*
Financial help to family	14%	11%	2%	3%
Health or disability	24%	75%*	5%	41%*
Everyday expenses	46%	64%*	9%	12%
Improve quality of life	71%*	64%	19%*	8%
Emergencies/unexpected	76%*	64%	13%*	3%
Investments, annuities, or LTC insurance	14%	10%	2%	1%
Property taxes/insurance	27%	34%	4%	1%

*Statistically significant difference at the .05 level between POA respondents and Homeowners; see questions 8 and 9.

Clearly, health and disability reasons were the dominant focus of the POA respondents' interest in reverse mortgages. As further evidence of this focus, Table 24 documents the intensity of health and disability needs as a driver of interest among POA respondents and of the uses to which these loans were put by the homeowners on whose behalf they were acting. Among homeowners, respondents were split about evenly between those who saw health and disability reasons as a major or minor reason for looking into a reverse mortgage. But 59 percent of POA respondents viewed such reasons as major, compared to 16 percent who saw them as a minor reason. In terms of actual uses among borrowers, POA respondents were nearly five times as likely as homeowner respondents (64 percent vs. 14 percent) to say they had used their reverse mortgages to address health and disability needs. They were also more than 10 times as likely as homeowner respondents (42 percent vs. 4 percent) to identify such reasons as the main use for their reverse mortgages.

Table 24: POAs and homeowners who considered a reverse mortgage for health- or disability-related reasons and borrowers who actually used a reverse mortgage for these reasons

	All Respondents				Borrowers		
	n =	A Reason	Major Reason	Main Reason	n =	Actually Used	Main Use
Total	1509	26%	14%	6%	946	16%	5%
POAs	200	75%*	59%*	41%*	139	64%*	42%*
Homeowners	1309	24%	13%	5%	807	14%	4%

*Statistically significant differences between POAs and Homeowners at the .05 level; see questions 8, 9, 30, and 31.

4. Specific Health-Related Reasons for Looking into a Reverse Mortgage

Survey respondents who indicated that health and disability were a reason they originally looked into a reverse mortgage were asked to identify which, if any, of the five different health-related reasons on the AARP Survey best described their own reason for considering a loan. Consistent with the intensity of their interest in health- and disability-related reasons, Table 25 shows that POA respondents were far more likely than homeowner respondents to indicate that each specific health-related need asked about in the survey was a reason for looking into reverse mortgages—except for paying for hospital stays. Among homeowner respondents, prescription drug costs were the dominant health-related reason (34 percent) for looking into a reverse mortgage, but among POA respondents home care was the dominant reason (75 percent)—no doubt reflecting the desire among these homeowners with care needs to remain independent.

Table 25: Specific health- and disability-related reasons for looking into a reverse mortgage among POA and homeowner respondents

	n =	Hospital Stay	Rx Drugs	Nursing Home	Home Care	Equipment or Devices
Total	564	14%	36%	6%	21%	14%
POAs	163	13%	51%*	18%*	75%*	26%*
Homeowners	401	14%	34%	5%	16%	13%

*Statistically significant differences between POAs and Homeowners at the .05 level; see question 35.

In-depth interviews with six POA respondents in preparation for the 2006 survey found that they were also interested in using reverse mortgages for home modifications to enable their disabled relative to remain independent. As the summary report notes:

> Home repairs also factor into POAs' interest in reverse mortgages and dovetail with their underlying desire to keep their elderly relative at home and, accordingly, in a comfortable environment. POAs often envision using the funds for much-needed repairs such as replacing a roof or trimming overgrown trees. In a few instances where the POA moves in with the elderly relative, the funds are occasionally slated for renovations designed to accommodate the additional household members, e.g., waterproofing the basement in order to expand living space.

Results from the 2006 AARP Survey confirmed this interest in home modifications, as shown in Table 26. Among respondents who had looked into a reverse mortgage to address home repairs/improvements, POA respondents were much more likely than homeowner respondents to say they had looked into a reverse mortgage to make home improvements that would make the home more accessible for someone with a disability or illness (38 percent vs. 12 percent). In addition, among respondents who had expressed interest in using a reverse mortgage to retire debts, POA respondents were more likely than homeowners to be looking to retire health-related debts (41 percent vs. 19 percent).

Table 26: Of those who considered using reverse mortgages for home repairs and improvements or for retiring debts, the percentages of POA and other homeowner respondents who considered using them to deal with disability or illness

	n =	Of respondents who considered RM for home improvements, % used to help with disability	n =	Of respondents who considered RM to retire debts, % for health-related debts
Total	697	12%	422	19%
POAs	78	38%*	37	41%*
Homeowners	619	12%	385	19%

*Statistically significant differences between POAs and Homeowners not using a POA at the .05 level; see questions 34 and 36.

5. Were the Needs of Homeowners Using a POA Met?

By a margin of 76 percent to 57 percent, POA respondents were much more likely than other homeowners to indicate that their financial needs had been met completely, despite lower incomes and home values among homeowners using a POA decision-maker. As shown in Table 27, POA decision-makers were only slightly less likely to report that they couldn't get enough money from the reverse mortgage, by a statistically insignificant 12 percent to 15 percent margin. More than nine of 10 (91 percent) POA decision-makers reported that the reverse mortgage had helped the homeowners on whose behalf they were acting to remain in the home—compared to 78 percent of other homeowners. By a more than three-to-one margin (74 percent vs. 21 percent), POA decision-makers reported that the reverse mortgage had helped someone with a disability or illness remain in the home.

Table 27: Degree to which a reverse mortgage met financial needs and helped someone to remain at home among homeowners using and not using a POA

	POA Borrowers (n = 139)	Borrowers not using a POA (n=807)
Financial need completely met	76%*	57%
Not enough money**	12%	15%
Enabled homeowner to remain in the home	91%*	78%
Helped someone with disability or illness remain in the home	74%*	21%

* Statistically significant at the .05 level; see questions 39/40 and 42.
** Note that "not enough money" was a response to an open-ended question while the other rows in this table represent responses to closed-ended questions.

D. Retiring Debts with Reverse Mortgages

According to the life-cycle theory of consumption, individuals and families normally: a) accumulate debt early in life as they buy homes and receive an education; b) pay down debt and increase savings in middle age; and c) draw down on savings in old age (Fisher et al., 2007; Masnick, Di, and Belsky, 2006). While that pattern undoubtedly applies to many people, recent data indicate that people are increasingly entering their older years with substantial debt burdens. Even those who entered old age with no debts are accumulating debts at an increasing rate. The proportion of households age 65 and older with debt increased from 34.7 percent in 1989 to 47.8 percent in 2004 (Weller, 2006). Mortgage debt rose especially rapidly from 14.6 percent to 22.3 percent of older households—increasing in dollar terms from $15,000 to $47,000 during that period. Masnick et al. (2006) similarly found that average mortgage debt among older households had increased 45 percent in real terms between 1990 and 2000, as older households increasingly turned to mortgage debt to substitute for other forms of consumer debt.

The monthly payments required for mortgages and consumer credit have created serious problems for many older households (Fellowes and Mabanta, 2007). Golmant and Ulrich (2007) note that bankruptcies have increased far more among older households than among other age groups; Chapter 7 bankruptcies increased by 87 percent among households age 55 and older between 1994 and 2002, and Chapter 13 bankruptcies increased by 75 percent. Moreover, credit card debt amounts among debtors age 60 and older filing for Chapter 7 bankruptcies were far higher than for other ages—as much as five times as high as the amounts involved with debtors under age 25 (2007). One major contributor to the higher bankruptcy rates among the older population has been the increasing cost of health care. Among debtors age 65 and older filing for bankruptcy, nearly half (47.9 percent) cited health care debts as a reason, compared to just 7.5 percent of debtors under age 25 (Warren, Sullivan, and Jacoby, 2000). The following sections examine the use of reverse mortgages to retire forward mortgages and other consumer debts.

1. Retiring Existing Mortgages

According to the 2003–2004 American Community Surveys, 69 percent of households age 62 and older and 83 percent of households age 75 and older owned their homes free and clear of any mortgage debt (U.S. Census Bureau, 2004). In contrast, nearly half (47 percent) of AARP Survey respondents reported that they had a mortgage or other debt against the home at the time they looked into taking out a reverse mortgage. As Table 28 shows, having a mortgage was more likely among respondents who were:

- **Younger—**The percentage of respondents who had a mortgage decreased with increasing age—with those under age 70 more than twice as likely as those over age 85 to have a mortgage (54 percent vs. 23 percent).

- **Divorced or Separated—**More than half (54 percent) of divorced or separated respondents reported having a mortgage.

- **Higher Income**—The percentage of respondents who reported having a mortgage increased as income increased—from 39 percent of respondents with incomes less than $10,000 to 59 percent of those with incomes greater that $50,000.

- **Non-white—**Almost two-thirds (62 percent) of the non-white respondents reported having a mortgage, compared to 44 percent of whites.

- **Healthier**—Perhaps reflecting the relationship between age and health status, those reporting that their health was excellent, very good, or good were somewhat more likely to report having a mortgage than those whose health was fair or poor.

Table 28: Characteristics of respondents by mortgage status

	n =	Mortgage	No Mortgage
Total	1,509	47%	53%
Borrowers	946	46%	53%
Non-borrowers	563	48%	51%
Gender			
Male	580	50%	50%
Female	925	45%	55%
Age			
<70	319	54%*	45%
70–74	330	50%	49%
75–79	368	46%	53%
80–84	242	45%	55%
85+	213	23%	77%
Marital Status			
Married	576	48%	51%
Widowed	640	44%	55%
Divorced/Separated	196	54%*	46%
Single	85	41%	59%
Income			
<$10,000	132	39%	61%*
$10,000–$19,999	402	42%	58%*
$20,000–$29,999	361	48%	51%
$30,000–$49,999	286	51%*	48%
$50,000+	85	59%*	40%
Financial Assets			
<$25,000	791	49%	51%
$25,000+	299	46%	53%
Race/Ethnicity			
White	1,264	44%	55%*
Other	222	62%*	38%
Health Status			
Fair/Poor	451	42%	57%*
Good/Excellent	964	49%*	50%
Illness/Disability a Reason?			
Yes	296	44%	56%
No	1,206	47%	52%
Looking for			
Extras	550	48%	51%
Necessities	744	47%	53%

*Statistically significant differences between rows at the .05 level; see question 6.

Retiring an existing mortgage is a condition of taking out a reverse mortgage, so it is not surprising that respondents with a mortgage indicated that retiring that debt was a reason for looking into a reverse mortgage. As Table 29 shows, retiring their mortgages was overwhelmingly the main reason for looking into a reverse mortgage for those who had mortgages, while those without mortgages were more likely to be looking for money for home repairs, emergencies, everyday expenses, health-related expenses, and property taxes or homeowner's insurance.

At least three major reasons for retiring a mortgage appear to be relevant and would warrant further research. For many potential borrowers, retiring a mortgage is a way to free up discretionary income that was going toward mortgage payments to meet other needs or desires. For other potential borrowers, retiring the mortgage is an incidental requirement before being able to borrow additional amounts for other specific purposes. For a small but crucial number of potential borrowers who are in financial distress, reverse mortgages can be essential in avoiding foreclosures—sometimes on sub-prime or home equity loans with very high interest rates. The survey did not probe further into the specific reasons why the respondents were looking into retiring their mortgages, though 38 percent of those who said that retiring their mortgage was a reason for looking into a reverse mortgage had indicated that they wanted to improve their quality of life by having more money from a reverse mortgage to spend on extras, while 49 percent said they needed more money to pay for basic necessities and essential expenses.

Table 29: Main reasons for looking into reverse mortgages among homeowners with and without mortgages

	Mortgage (n = 672)	No Mortgage (n = 824)
Pay off mortgage	38%*	2%
Pay off non-mortgage debts	5%	7%
Make home repairs or improvements	7%	19%*
Help with chores and maintenance	<0.5%	1%
Financial help to family	2%	3%
Health, medical, or disability needs	5%	8%*
Everyday expenses	6%	12%*
Improve quality of life	17%	19%
Emergencies and unexpected expenses	10%	14%*
Investments, annuities, or insurance	1%	3%
Property taxes/homeowner's insurance	2%	6%*

*Statistically significant at the .05 level; see question 9.

2. Mortgage Debts Compared to Other Debts

Tables 30 and 31 show some important similarities and differences among categories of respondents who indicated that they were looking to pay off a mortgage and those who were looking to pay off other debts:

- **Having a Mortgage—**Those who had a mortgage were far more likely than those who had paid off their mortgage to indicate that they looked into a reverse mortgage to pay off such debt, and borrowers with mortgages were likely to indicate that they had used their loans for that purpose. With respect to other loans, the situation is somewhat more complex; those with a mortgage were somewhat more likely to indicate that paying off other debts was one of the reasons for looking into a reverse mortgage, but borrowers without a mortgage were more likely to indicate that paying off other debts was the main use to which they put their loans.

- **Gender—**Females were significantly more likely than males to indicate that paying off nonmortgage debts was a main reason for looking into a reverse mortgage. Female borrowers were also more likely than males to use their loans for this purpose.

- **Age—**Respondents under age 75 were more likely to indicate that both mortgages and other debts were reasons for looking into a reverse mortgage. Younger borrowers were also more likely than older borrowers to indicate that they used their reverse mortgages to retire debts.

- **Income—**Borrowers with annual incomes of more than $20,000 were more likely than those with lower incomes to indicate that they had used their loans to pay off a mortgage; but those with incomes less than $20,000 were more likely to indicate that they had used their loans to pay off other debts.

- **Other Assets—**Respondents with financial assets of more or less than $25,000 were equally likely to indicate that they had looked into a reverse mortgage to pay off an existing mortgage and to use their loans for such purposes. However, those with low levels of financial assets were much more likely than those with higher levels of financial assets to indicate that other debts were a reason for looking into a reverse mortgage, and borrowers with less than $25,000 in financial assets were more likely to use their reverse mortgages to pay off other debts.

- **Race—**Non-whites were more likely than whites to indicate that both mortgages and other debts were reasons for looking into a reverse mortgage, but racial differences disappeared when comparing the actual uses borrowers reported.

Table 30: Respondents who indicated that they considered a reverse mortgage to pay off a mortgage and borrowers who actually used it for that purpose

	All Respondents			Borrowers		
	n =	Mortgage a reason	Mortgage the main reason	n =	Used to pay off mortgage	Mortgage payoff the main use
Total	1,509	40%	19%	--	--	--
Borrowers	946	40%	19%	946	32%	19%
Non-borrowers	563	40%	20%	NA	NA	NA
Mortgage	672	76%*	38%*	413	65%*	40%*
No Mortgage	824	8%	2%	525	4%	1%
Gender						
Male	580	42%	19%	365	32%	18%
Female	925	38%	19%	578	32%	20%
Age						
<75	649	48%*	25%*	374	40%*	26%*
75+	823	33%	14%	549	25%	15%
Marital Status						
Married	576	42%	18%	359	32%	18%
Widowed	640	37%	19%	418	31%	20%
Divorced/Sep.	196	44%	18%	104	31%	19%
Single	85	39%	30%*	57	32%	26%
Income						
<$20,000	534	36%	19%	347	26%	17%
$20,000+	732	44%*	20%	457	36%*	22%*
Financial Assets						
<$25,000	791	43%	20%	534	34%	20%
$25,000+		38%	19%	179	33%	20%
Health Status						
Fair/Poor	451	36%	16%	280	26%	13%
Good/Excellent	964	42%*	21%	607	35%*	22%*
Looking for						
Extras	550	40%	19%	332	32%	19%
Necessities	744	41%	19%	503	32%	19%
Race/Ethnicity						
White	1,264	38%	18%	815	32%	19%
Other	222	53%*	25%*	118	35%	24%

*Statistically significant differences between rows at the .05 level; see questions 8, 9, 30, and 31.

Table 31: Respondents who indicated that they considered a reverse mortgages to pay off non-mortgage debts and borrowers who actually used it for that purpose

	All Respondents			Borrowers		
	n =	**Debt payoff a reason**	**Debt payoff the main reason**	**n =**	**Used to pay off debts**	**Debt payoff the main Use**
Total	1509	28%	6%	--	25%	7%
Borrowers	946	28%	6%	946	25%	7%
Non-borrowers	563	27%	7%	NA	NA	NA
Mortgage	672	33%*	4%	413	26%	5%
No Mortgage	824	24%	7%	525	24%	10%*
Gender						
Male	580	26%	4%	365	21%	5%
Female	925	29%	7%*	578	27%*	9%*
Age						
<75	649	32%*	7%	374	28%*	10%*
75+	823	25%	5%	549	18%	5%
Marital Status						
Married	576	27%	4%	359	19%	6%
Widowed	640	29%	7%	418	25%	8%
Divorced/Separated	196	27%	8%	104	22%	10%
Single	85	34%	6%	57	34%*	8%
Income						
<$20,000	534	32%	9%*	347	27%	10%*
$20,000+	732	28%	4%	457	23%	6%
Financial Assets						
<$25,000	791	35%*	8%*	534	30%*	9%*
$25,000+	299	16%	3%	179	14%	4%
Health Status						
Fair/Poor	451	30%	5%	280	29%	9%
Good/Excellent	964	27%	6%	607	23%	6%
Looking for						
Extras	550	25%	5%	332	23%	7%
Necessities	744	33%*	8%*	503	28%	8%
Race/Ethnicity						
White	1264	26%	6%	815	25%	7%
Other	222	37%*	6%	118	25%	7%

*Statistically significant differences between rows at the .05 level; see questions 8, 9, 30, and 31.

3. Non-mortgage Debts

More than one-fourth (28 percent) of the AARP Survey respondents indicated that paying off non-mortgage debts was a reason for looking into a reverse mortgage. When they were asked about the type of nonmortgage debt they wanted to repay (see Table 32), they most frequently mentioned credit card debt (70 percent), followed by home equity loans (26 percent), taxes (23 percent), health- and drug-related debts (19 percent), and car loans (18 percent). Although credit card debt was the most common type of debt mentioned by all categories of respondents, Table 32 indicates the following differences among respondents who had considered a reverse mortgage to pay off non-mortgage debt:

- **Borrowers** were more likely than non-borrowers to look into reverse mortgages to pay off tax bills.

- **Females** were more likely than males to be looking to pay off credit cards.

- **Younger respondents** (under age 75) were more likely to be looking to pay off car loans; **older respondents** (75+) were more likely to be looking to pay tax bills.

- **Married respondents** were more likely to look into a reverse mortgage to pay off a car loan; **widowed respondents** were more likely to be looking to pay off credit card debts.

- **Respondents with incomes less than $20,000** were more likely to be looking to pay off credit cards, taxes, and health-related debts; **respondents with incomes of $20,000 or more** were more likely to cite home equity or car loans as reasons for looking into a reverse mortgage.

- **Respondents with financial assets of less than $25,000** were more likely than those with more assets to indicate that credit cards and taxes were reasons for looking into a reverse mortgage.

- **Respondents in fair or poor health** were more likely than those in better health to cite health-related debts as a reason for looking into a reverse mortgage.

- **Respondents who indicated that they had looked into a reverse mortgage to deal with basic necessities** were more likely than those who wanted to pay for extras to indicate that taxes and health-related debts were reasons they looked into a reverse mortgage.

Table 32: Of respondents who indicated that they considered a reverse mortgage to pay off non-mortgage debts, what did they consider using it for?

	n =	Car Loan	Health or Drug Costs	Home Equity	Taxes	Credit Card
Total	445	18%	19%	26%	23%	70%
Borrowers	274	19%	20%	25%	25%*	70%
Non-borrowers	148	17%	19%	30%	16%	68%
Gender						
Male	155	22%	15%	28%	23%	62%
Female	267	16%	22%	25%	24%	74%*
Age						
<75	216	21%*	21%	26%	20%	70%
75+	198	15%	18%	25%	28%*	69%
Marital Status						
Married	161	26%*	17%	26%	20%	62%
Widowed	177	12%	21%	31%	27%	80%*
Div/Sep/Single	80	17%	23%	19%	23%	67%
Income						
<$20,000	166	12%	29%*	21%	32%*	78%*
$20,000+	211	23%*	15%	29%*	20%	66%
Financial Assets						
<$25,000	277	18%	21%	25%	27%*	77%*
$25,000+	50	24%	15%	28%	10%	57%
Health Status						
Fair/Poor	133	16%	30%*	24%	26%	70%
Good/Excellent	271	19%	14%	27%	22%	69%
Looking for						
Extras	141	18%	11%	22%	19%	70%
Necessities	238	19%	26%*	29%	29%*	71%
Race/Ethnicity						
White	334	20%	20%	26%	23%	72%
Other	81	12%	20%	26%	26%	63%

*Statistically significant at the .05 level;, see question 34.

E. Reverse Mortgages as a Way to Supplement Income

Since reverse mortgages first came to the attention of academic researchers, economists have written about their potential to supplement retirement income. For example, Venti and Wise (1991) demonstrated the potential for supplementing income, with those over age 85 able to increase their incomes on average by almost half. Recent concerns about the savings rates of those near retirement have sparked new interest in the potential of tapping home equity (Eschtruth, Sun, and Wee, 2007). While Harlow (2007) shows that investing in housing has a poor rate of return and fairly high risks compared with other ways one might save for retirement, he nonetheless argues that reverse mortgages can be a useful way to augment income and suggests that the demand for reverse mortgages is likely to increase as loan costs decline and consumer familiarity increases. Similarly, Munnell, Soto, and Aubrey (2007) note low rates of saving for retirement and show that home equity dominates all other forms of savings, except for the imputed wealth of Social Security benefits. They, too, argue that reverse mortgages are likely to become more popular way to supplement retirement income, given the profile of those nearing retirement.

Despite these recent predictions, there is little evidence to suggest that reverse mortgages are becoming a major part of retirement income planning for older homeowners. Despite his prediction, Harlow (2007) notes that only 1 percent of older households have taken out reverse mortgages, and that reverse mortgages represent only 8 percent of all home equity borrowing of older households. Munnell and colleagues' (2007) prediction that reverse mortgages will become a more popular income supplement flies in the face of their own survey, which found that only 6 percent of respondents age 50–64 were planning to use home equity to pay for ordinary living expenses. In contrast, 44 percent saw their home equity as last resort insurance for the costs of living or for major health care costs, and another 20 percent viewed their home equity as a bequest for their children.

HUD data tracking types of payments under the HECM program also suggest that reverse mortgage borrowers are not using their loans as a basic income supplement, at least not in a straightforward way. Under the HECM program, borrowers can receive payments as:

- monthly payments similar to an annuity, either for a specific term or for the duration of their tenure in their homes;

- a line of credit that allows them to draw up to the limit of their loans in increments they choose; or

- a combination of a line of credit and monthly payments.

Presumably, a monthly payment approach would be more consistent with tapping home equity as a basic income supplement. In the first years of the HECM program (1990–91), nearly half of borrowers (47 percent) set up monthly payments, either alone (19 percent) or in combination with a line of credit (28 percent). These proportions declined throughout the 1990s, until only 20 percent received monthly payments either alone (7 percent) or in combination with a line of credit (13 percent) by FY 2000. These numbers have fluctuated very little since that time, as only 19 percent of HECM borrowers elected monthly payments in FY 2005 (FHA data as of February 28, 2006). Szymanoski et al. (2007) show that the typical payout for HECM loans is 58 percent of the initial loan limit in the first year of the loan, followed by 7 percent in the second year, and leveling out to 5 percent per year through the 10th year of the loan. Borrowers clearly are using their loan proceeds primarily to retire debts and pay for upfront expenses, not to supplement their incomes directly through monthly payments.

1. Ways of Supplementing Income

Using a line of credit for large draws, however, can be compatible with supplementing income in indirect ways, as demonstrated by the data from the AARP Survey. One-third (32 percent) of the borrowers indicated that they had used their reverse mortgages to retire existing mortgages, and one-fourth (25 percent) had used their loans to pay off other debts. By paying off mortgages or other debts, borrowers free up income that otherwise would have gone to debt repayments. Indeed, the responses from the AARP Survey indicate that supplementing income in various ways is an important motivation for those seeking reverse mortgages, even if they do not elect to receive loan proceeds in monthly payments.

The factor analysis used in this study identified three related reasons for looking into a reverse mortgage that we refer to as supplementing income: a) paying for everyday expenses; b) improving one's quality of life or being able to afford some extras; and c) having more money available for emergencies or other unexpected expenses. As Table 33 shows, the "supplementing income" category of reasons represents those reasons respondents cited most often when asked to identify the main reason why they looked into a reverse mortgage.

Cumulatively, respondents with incomes of $20,000 or greater were slightly more likely to indicate that they were looking to supplement their incomes (41 percent vs. 38 percent). However, in looking more closely at the three types of reasons related to supplementing income, striking differences are apparent by respondents' income. Respondents with incomes of less than $20,000 were twice as likely as those with higher incomes to indicate that the main reason they had looked into a reverse mortgage was to pay for everyday expenses (12 percent vs. 6 percent). On the other hand, respondents with higher incomes were more likely to indicate that the main reason they had looked into a reverse mortgage was to improve the quality of their lives or afford some extras (22 percent vs. 15 percent).

Table 33: Main reasons for looking into reverse mortgages by income*

	Income <$20,000 (n = 534)	Income $20,000+ (n = 732)
Health care/disability	7%	7%
Total paying off debts	27%	24%
Pay off mortgage	19%	20%
Pay off non-mortgage debts	8%	4%
Total income supplements	38%	41%
Everyday expenses	12%	6%
Quality of life	15%	22%
Emergencies	11%	13%
Total homeowner expenses	20%	17%
Home repairs	14%	13%
Help with chores	1%	1%
Taxes or homeowners insurance	5%	3%
Total help to family or investments	2%	5%
Help to family	2%	3%
Investments, annuities, LTC insurance	<0.5%	2%

*See question 9 of AARP Survey.

2. Everyday Expenses

Nearly half (47 percent) of the respondents indicated that spending for everyday needs was one of the reasons they looked into a reverse mortgage, and more than one-third (36 percent) of borrowers indicated that they had used their loans for this purpose. Table 34 shows significant differences between categories of respondents with respect to looking into reverse mortgages for everyday expenses and reported uses for this purpose among borrowers. The following respondents were more likely than their counterparts to have looked into reverse mortgages for everyday expenses:

- Borrowers (vs. non-borrowers)
- Age 75 and older (vs. younger respondents)
- Widowed or single (vs. married respondents)
- Those with incomes under $20,000 (vs. higher-income respondents)
- Those with assets worth less than $25,000 (vs. those with more assets)
- Those who saw their loans as primarily for necessities (vs. those who primarily sought extras)
- Whites (vs. non-whites)

Table 34: Respondents who indicated that they considered a reverse mortgage and borrowers who actually used a reverse mortgage to pay for everyday expenses other than health care-related expenses

	All Respondents			Borrowers		
	n =	Everyday expenses a reason	Everyday expenses main reason	n =	Everyday expenses a use	Everyday expenses main use
Total	1,509	47%	9%	--	--	--
Borrowers	946	50%*	9%	946	36%	10%
Non-borrowers	563	40%	8%	NA	NA	NA
Age						
<75	649	42%	7%	374	31%	7%
75+	823	52%	10%	549	40%	11%
Marital Status						
Married	576	42%	7%	359	30%	9%
Widowed	640	53%*	11%*	418	41%*	10%
Divorced/Sep.	196	43%	8%	104	34%	9%
Single	85	56%*	9%	57	45%*	11%
Income						
<$20,000	534	58%	12%	347	47%	12%
$20,000+	732	42%	6%	457	30%	7%
Financial Assets						
<$25,000	791	51%*	9%	534	40%	8%
$25,000+	299	44%	8%	179	32%	10%
Looking for						
Extras	550	43%	4%	332	28%	3%
Necessities	744	60%*	15%*	503	48%*	16%*
Race/Ethnicity						
White	1,264	49%*	9%	815	37%	10%*
Other	222	40%	6%	118	29%	4%

*Statistically significant differences between rows at the .05 level; see questions 8, 9, 30, and 31.

3. Quality of Life and Extras

Nearly three-quarters (72 percent) of respondents indicated that improving their quality of life and paying for extras were reasons they looked into a reverse mortgage, and 60 percent of borrowers indicated they had used their loans for this purpose. Table 35 shows significant differences between categories of respondents with respect to looking into reverse mortgages to enhance quality of life or for extras as well as uses for this purpose among borrowers. The following respondents were more likely than their counterparts to have looked into reverse mortgages to improve their quality of life or for extras:

- Male (vs. females)
- Married (vs. widowed or divorced)
- Those who saw their loans as primarily for extras (vs. necessities)
- Whites (vs. non-whites)

There were no significant differences by income and health status regarding reasons for looking into a reverse mortgage. But borrowers with incomes of $20,000 or higher and those reporting good to excellent health were more likely than their lower-income, less-healthy counterparts to report that they had used their loans for this purpose. Whites were more likely to report looking into reverse mortgages for quality of life or extras, but white borrowers were not more likely to have used their loans for these purposes.

Table 35: Respondents who indicated that they considered a reverse mortgage and borrowers who actually used a reverse mortgage to improve their quality of life or be able to afford some extras

	All Respondents			Borrowers		
	n =	Quality of life a reason	Quality of life the main reason	n =	Quality of life a use	Quality of life the main use
Total	1,509	72%	18%	946	60%	14%
Gender						
Male	580	75%*	22%*	365	61%	19%*
Female	824	69%	16%	578	59%	12%
Marital Status						
Married	576	75%*	22%*	359	61%	17%*
Widowed	640	69%	15%	418	60%	11%
Divorced/Sep.	196	69%	19%	104	54%	13%
Single	85	77%	22%	57	69%	20%
Income						
<$20,000	534	73%	15%	534	58%	10%
$20,000+	732	73%	22%	179	63%	19%
Health Status						
Fair/Poor	451	70%	17%	280	55%	9%
Good/Excellent	964	74%	19%	607	63%*	17%*
Looking for						
Extras	550	86%*	32%*	332	76%*	28%*
Necessities	744	73%	12%	503	56%	7%
Race/Ethnicity						
White	1,264	73%*	19%	815	61%	14%
Other	222	66%	15%	118	52%	17%

*Statistically significant differences between rows at the .05 level; see questions 8, 9, 30, and 31.

4. Emergencies and Unexpected Expenses

Three-quarters (75 percent) of respondents indicated that having money for emergencies or unexpected needs was a reason they looked into a reverse mortgage, the most frequently indicated reason in this study. Three of five (61 percent) borrowers said they had used their loans for this purpose. Table 36 shows significant differences between categories of respondents with respect to looking into reverse mortgages for emergencies and reported uses for this purpose among borrowers. The following respondents were more likely than their counterparts to identify obtaining money for emergencies or unexpected needs as a reason for looking into a reverse mortgage:

- Borrowers (vs. non-borrowers)
- Divorced or separated (vs. widowed or single)
- Those with financial assets worth more than $25,000 (vs. those with fewer assets)
- Those reporting that their health was good to excellent (vs. those in poorer health)
- Whites (vs. non-whites)

In addition, borrowers who were male, married, white, and had assets worth more than $25,000 were more likely than their counterparts to indicate that emergencies were the main use for their loans.

Table 36: Respondents who indicated that they considered a reverse mortgage and borrowers who actually used a reverse mortgage to pay for emergencies or unexpected needs

	All Respondents			Borrowers		
	n =	Emergencies a reason	Emergencies main reason	n =	Used for emergencies	Emergencies main use
Total	1,509	75%	12%	--	--	--
Borrowers	946	78%*	13%	946	61%	9%
Non-borr.	563	66%	10%	NA	NA	NA
Gender						
Male	580	76%	13%	365	59%	11%*
Female	925	75%	12%	578	63%	7%
Marital						
Married	576	75%	14%	359	58%	11%*
Widowed	640	75%	10%	418	63%	6%
Div./Sep.	196	73%	17%*	104	58%	9%
Single	85	79%	7%	57	61%	6%
Assets						
<$25,000	791	78%	10%	534	65%	6%
$25,000+	299	74%	16%*	179	57%	11%*
Health						
Fair/Poor	451	76%	8%	280	62%	10%
Good/Excel	964	76%	14%*	607	62%	9%
Race						
White	1,264	77%*	13%	815	63%	10%*
Other	222	66%	12%	118	54%	3%

*Statistically significant differences between rows at the .05 level; see questions 8, 9, 30, and 31.

F. Reverse Mortgages and Homeowner-Related Expenses

Homeownership is a major source of life savings for most older persons. But for many, maintaining their home and its value can be increasingly burdensome in later years. The physically taxing work of ongoing chores and maintenance, the expense of repairing or replacing structural items or major appliances, and the costs associated with property taxes and homeowners insurance can jeopardize the independence and financial security of older homeowners. The following sections examine how homeowners look to reverse mortgages to help with these issues.

Older homeowners are not only more likely to have lower incomes to maintain their properties and diminished physical capacity to do routine maintenance chores, they also live in older housing that is more likely to need maintenance and repair. According to data from the 2001 American Housing Survey (He et al., 2005), the median age of a home owned by an older household was 39 years, eight years older than the median for all homes. The loan guidelines for the HECM program require that homes used as collateral for the reverse mortgages insured by the program be in generally good repair and meet basic code requirements. An evaluation of the HECM program in 2000 (Rodda et al., 2000) found that the average home in the HECM program was 41 years old, which was three years older than the average home owned by older homeowners at that time. Nonetheless, they found that fewer than one-fourth of HECM borrowers were required to make home repairs as a condition of their loans, and the average cost of these repairs that were needed was $666.

Faced with the costs and difficulties of home repair and maintenance, too many older homeowners simply defer such maintenance at considerable cost to the value of their homes. According to research by Davidoff (2004), homeowners age 75 and older with homes worth $100,000 spent $270 per year less on routine maintenance than younger homeowners and $1,100 per year less in total maintenance and home improvements. As he notes, even without taking out a reverse mortgage, older homeowners are effectively spending the down the equity of their homes by deferring maintenance and modernization costs. As a result, their homes appreciate about 3 percent a year less than those of younger homeowners. An analysis by Quercia (1997) found that appreciation is especially low among “housing-rich, income-poor homeowners age 71 or older.” These characteristics are a profile of many reverse mortgage borrowers.

Older homeowners are also more likely than younger persons to have disabilities that require modifications to their homes. A supplement to the 1995 American Housing Survey asked questions about disability levels by housing tenure and other characteristics of respondents. According to Redfoot and Kochera (2004), 16 percent of older households indicated that they needed assistance with at least one activity of daily living (ADL) or instrumental activity of daily living (IADL).[4] A 2000 AARP report found that the incidence of homeowners making major home modifications to deal with physical limitations increased with age, with 30 percent of households age 75 and older having made three or more such modifications (Bayer and Harper, 2000). An AARP Survey of people age 50 and older with disabilities found that over half of those with unmet needs (55 percent) identified adapting their homes to their needs as a factor that would improve the quality of their lives (Gibson and Verma, 2006).

Property taxes and homeowners insurance can also take a sizable bite out of the limited incomes of older homeowners. According to Baer (2007), when median property tax was measured as a percentage of incomes, older homeowners had a higher burden than younger homeowners in every state—exceeding 5 percent of income for older households in 10, mostly northeastern, states. In comparison, only two states had a median property tax burden exceeding 5 percent of income for younger homeowners. Moreover, property taxes represent a higher percentage of income for homeowners in the lowest income categories. Among older homeowners in the lowest income quartile, the median property tax burden exceeded 5 percent of income in 36 states and exceeded 10 percent of income in 11 states (2007).

[4]Activities of daily living involve such basic activities as bathing, dressing, toileting, transferring, and eating. Instrumental activities of daily living involve activities related to maintaining a household, such as managing bill paying, doing light housekeeping, and preparing meals.

1. Home Repairs and Modifications

According to data presented in Table 37, 43 percent of borrowers in this survey had used their loans for home repairs; of these, 30 percent indicated that the loan required those repairs. In other words, only 13 percent (.30 × .43) of all borrowers in this survey had made repairs required by their loans. The following groups were more likely than their counterparts to identify home repairs as a reason for looking into a reverse mortgage:

- Female (vs. male)
- Widowed or single (vs. married)
- Non-whites (vs. whites)
- Those with financial assets of less than $25,000 (vs. those with more assets)

Table 37: Respondents who indicated that they considered a reverse mortgage and borrowers who used a reverse mortgage to pay for home repairs or improvements

	All Respondents			Borrowers		
	n =	Home repairs a reason	Home repairs the main reason	n =	Used for home repairs	Home repairs the main use
Total	1,509	46%	13%	--	--	--
Borrowers	946	47%	14%	946	43%	18%
Non-borr.	563	43%	13%	NA	NA	NA
Gender						
Male	580	38%	9%	365	35%	14%
Female	925	52%*	16%*	578	48%*	20%*
Age						
<75	649	48%	14%	374	46%	19%
75+	823	44%	12%	549	40%	16%
Marital						
Married	576	40%	13%	359	36%	17%
Widowed	640	51%*	15%	418	48%*	18%
Div./Sep.	196	44%	12%	104	47%	20%
Single	85	56%*	9%	57	45%	15%
Income						
<$20,000	534	55%	14%	347	52%	20%
$20,000+	732	42%	13%	457	40%	17%
Assets						
<$25,000	791	52%*	16%*	534	50%*	20%
$25,000+	299	36%	10%	179	35%	14%
Race						
White	1,264	44%	12%	815	42%	16%
Other	222	57%*	19%*	118	51%	26%*

*Statistically significant differences between rows at the .05 level; see questions 8, 9, 30, and 31.

The survey also asked about specific home repair and improvement reasons for looking into a reverse mortgage. By far the most frequently mentioned reason, cited by 56 percent of respondents who cited home repairs as a reason for considering a reverse mortgage, was to fix a major problem such as replacing a roof or furnace. As shown in Table 38, respondents who looked to a reverse mortgage to make such major repairs were more likely than their counterparts to be:

- In fair or poor health (vs. those in better health)
- Those with lower home values (vs. those with higher home values)
- Those looking to deal with necessities (vs. those looking for extras)
- Non-white (vs. white)

In contrast, whites were more likely than non-whites to indicate that they had looked into a reverse mortgage to add a room or remodel their homes, as were those looking for extras compared to those looking to address necessities. Those who indicated that the repairs were a condition of the loan were more likely to be non-white and to have less than $25,000 in financial assets. Respondents who indicated that they had looked into a reverse mortgage to make life easier for someone with a disability were more likely to be in fair or poor health and to be looking to deal with necessities.

Table 38: Of respondents who indicated that they looked into a reverse mortgage to make home repairs and improvements, reasons they cited for wanting to make repairs

	n =	Fix major problem, e.g., roof, furnace, etc.	Make it easier for someone w/ disability	Add room or remodel	Required as condition of the loan
Total	697	56%	12%	34%	28%
Borrowers	456	56%	11%	32%	30%*
Non-borrowers	241	56%	16%	39%	21%
Age					
<75	324	57%	13%	37%	27%
75+	359	55%	13%	30%	30%
Income					
<$20,000	284	60%	15%	33%	34%
$20,000+	316	54%	11%	36%	26%
Financial Assets					
<$25,000	410	60%	15%	36%	32%*
$25,000+	110	63%	9%	34%	20%
Home Value					
<$150K	252	63%*	15%	37%	31%
$150,000–299,999	204	52%	12%	29%	26%
$300,000+	146	59%	8%	38%	32%
Health Status					
Fair/Poor	212	63%*	25%*	38%	28%
Good/Excellent	452	53%	7%	32%	28%
Looking for					
Extras	253	49%	9%	39%*	24%
Necessities	356	58%*	15%*	29%	31%
Race/Ethnicity					
White	554	53%	12%	36%*	26%
Other	130	74%*	16%	25%	37%*

*Statistically significant differences between rows at the .05 level; see question 36.

2. Household Chores and Maintenance

Only 1 percent of respondents cited household chores or maintenance as the main reason for looking into a reverse mortgage, and only 1 percent of borrowers indicated that it was the main use of their loans as shown in Table 39. However, 18 percent of respondents cited such needs as one reason for looking into a reverse mortgage, especially those who:

- were over age 75
- were widowed
- had incomes under $20,000

- reported fair or poor health
- indicated that they were looking to deal with necessities rather than extras

Table 39: Respondents who indicated that they considered a reverse mortgage and borrowers who used it to pay for household chores and maintenance

	All Respondents			Borrowers		
	n =	Chores/ maintenance a reason	Chores/ maintenance main reason	n =	Chores/ maintenance a use	Chores/ maintenance main use
Total	1,509	18%	1%	946	9%	1%
Gender						
Male	580	16%	1%	365	6%	1%
Female	925	19%	1%	578	12%*	1%
Age						
<75	649	14%	<0.5%	374	7%	1%
75+	823	22%	1%	549	12%	1%
Marital						
Married	576	14%	1%	359	5%	1%
Widowed	640	24%*	1%	418	15%*	1%
Div./Sep.	196	17%	<0.5%	104	7%	1%
Single	85	17%	--	57	9%	--
Income						
<$20,000	534	24%	1%	347	14%	1%
$20,000+	732	15%	1%	457	6%	<0.5%
Health						
Fair/Poor	451	21%*	1%	280	15%*	2%
Good/Excel.	964	17%	<0.5%	607	7%	1%
Looking for						
Extras	550	15%	<0.5%	332	6%	1%
Necessities	740	25%*	1%	503	13%*	1%

*Statistically significant differences between rows at the .05 level; see questions 8, 9, 30, and 31.

3. Property Taxes or Homeowners Insurance

About one-quarter of respondents (27 percent) indicated that paying property taxes or homeowners insurance were reasons for looking into a reverse mortgage. As Table 40 shows, 22 percent of borrowers indicated that they had used their loans for this purpose. The following individuals were more likely than their counterparts to have looked into reverse mortgages for these reasons:

- Borrowers (vs. non-borrowers)
- Female (vs. males)
- Age 80 or older (vs. younger respondents)

- Widowed (vs. married)
- Those with incomes under $20,000 (vs. those with higher incomes)
- Those with financial assets under $25,000 (vs. those with greater assets)
- Those reporting fair or poor health (vs. those reporting better health)
- Those looking to deal with necessities (vs. those looking for extras)

Table 40: Respondents who indicated that they considered a reverse mortgage and borrowers who actually used it to pay property taxes or homeowners insurance

	All Respondents			Borrowers		
	n =	Property taxes/ insurance a reason	Taxes/ insurance the main reason	n =	Taxes/ insurance a use	Taxes/ insurance the main use
Total	1509	27%	4%	--	--	--
Borrowers	946	29%*	4%*	946	22%	5%
Non-borrowers	563	21%	2%	NA	NA	NA
Gender						
Male	580	24%	4%	365	17%	4%
Female	925	29%*	4%	578	26%*	5%
Age						
<70	319	24%	2%	171	17%	2%
70–74	330	26%	2%	203	25%	4%
75–79	368	24%	4%	234	19%	5%
80–84	242	35%*	8%*	163	27%*	10%*
85+	213	34%*	5%	152	28%*	3%
Marital Status						
Married	576	22%	3%	359	13%	3%
Widowed	640	31%*	5%	418	32%*	6%
Divorced/Separated	196	26%	3%	104	19%	5%
Single	85	35%*	4%	57	28%*	2%
Income						
<$20,000	534	37%*	5%	347	34%	6%
$20,000+	732	21%	3%	457	17%	4%
Financial Assets						
<$25,000	791	33%*	5%	534	28%*	6%
$25,000+	299	17%	2%	179	14%	4%
Health Status						
Fair/Poor	451	34%*	5%*	280	28%*	9%*
Good/Excellent	964	24%	3%	607	20%	3%
Looking for						
Extras	550	18%	2%	332	13%	2%
Necessities	744	39%*	6%*	503	32%*	7%*

*Statistically significant differences between rows at the .05 level; see questions 8, 9, 30, and 31.

G. Reverse Mortgages to Help Family Members or for Investments, Annuities, or Long-Term Care Insurance

Another group of related reasons for looking into reverse mortgages includes helping family members and looking for funds to invest or to purchase annuities or long-term care insurance. Relatively few respondents (14 percent in each case) indicated that they had looked into reverse mortgages for these purposes, and fewer still (only 2 percent in each case) saw these as the main reasons for exploring reverse mortgages.

1. Financial Help for Families

The relationship between the demand for reverse mortgages and family relationships has been the object of much discussion but little research. For example, it is often assumed that a major obstacle to taking out a reverse mortgage is older homeowners' desire to leave a bequest to their family members. Some evidence from research in the UK and New Zealand indicates that childless couples are more likely to take out a reverse mortgage (Dolan, McLean, and Roland, 2005). A survey of U.S. homeowners age 50–65 found that, among those who did not intend to tap their home equity in retirement, 20 percent indicated that leaving a bequest was the reason (Munnell et al., 2007). Strength of family relations may also play a role, as one study found that older homeowners were more likely to take out reverse mortgages in communities characterized by high out migration among younger people, which was used as a measure of relatively weak family relations (Knapp, 2001).

Reverse mortgages potentially allow an older homeowner to tap home equity to help a family member before dying and leaving a bequest. But such uses are not high on the list of reasons the respondents in our report looked into reverse mortgages. Moreover, the survey found very little variation among groups of respondents—only non-whites were more likely than whites to look into reverse mortgages for this purpose. Even that difference disappeared when looking at the actual uses among borrowers.

2. Investments, Annuities, and Long-Term Care Insurance

In general, taking out a reverse mortgage with substantial upfront costs to invest the money or purchase another financial instrument is, at best, a very risky strategy.

- With respect to investments, AARP's website on reverse mortgages warns (see http://www.aarp.org/money/revmort/revmort_decisions/a2003-03-27-equity.html), "Investing any money you get from a reverse mortgage is not wise. It is extremely unlikely that you can safely earn more from an investment than the loan would cost."

- Similarly, some homeowners have been induced to purchase tax-deferred variable annuities with reverse mortgage proceeds. But such purchases incur the double loading costs of the reverse mortgage and the annuity, which may also include stiff "surrender" charges if annuitants want to terminate the arrangement. As an alternative, a reverse mortgage can be structured to allow for monthly payments similar to an annuity—and a reverse mortgage allows the added flexibility of taking a lump-sum payment or converting to a creditline at any time (see www.aarp.org/money/revmort/revmort_decisions/a2003-03-27-equity.html).

- As noted in the health and disability section above, some policy decision-makers have been interested in promoting the use of reverse mortgages to purchase long-term care insurance. But here, too, the dual costs of the reverse mortgage and the insurance make this approach very expensive. As Merlis (2005) notes, a typical long-term care insurance policy pays out 60 percent to 70 percent of premiums in benefits—but the comparison of benefits to costs would be cut roughly in half, to 36 percent, when purchasing a long-term care insurance policy with a reverse mortgage. In comments submitted to HUD, AARP (2005) estimated that using a reverse mortgage would add roughly two-thirds to the monthly cost of a long-term care policy initially—but would double the monthly cost after year 10 and would more than triple the monthly cost by year 20 of the loan.

Perhaps because of the costs involved in using reverse mortgages for any of these financial instruments, 14 percent of respondents indicated that they had looked into reverse mortgages to invest or to purchase an annuity or a long-term care insurance policy, and 4 percent of borrowers said they had actually used their loans for these purposes. In other words, nearly one-third (30 percent) of those who indicated that purchasing financial products was a reason for looking into a reverse mortgage actually used the loan for this purpose. Males and higher-income borrowers were somewhat more likely than females and lower-income borrowers to say they looked into reverse mortgages for these reasons, but the only statistically significant difference in actual use was that borrowers who reported good to excellent health were somewhat more likely than those with fair or poor health (6 percent vs. 2 percent) to say they used their loans for these purposes.

VI. The Other 99 Percent—Reasons for Not Taking Out a Loan

As noted in the Introduction to this report, only 1 percent of older households have taken out a reverse mortgage. What about the other 99 percent? Are reverse mortgages destined to remain a relatively minor market, or do they have the potential to become more of a mainstream financial service? What changes in the current array of products might appeal to a broader segment of older homeowners? The following sections look at three types of reasons why older people do not take out reverse mortgages: a) factors related to eligibility such as homeownership and amount of equity; b) consumer knowledge of and attitudes toward reverse mortgages; and c) characteristics of the reverse mortgages that lead informed consumers to decide against them.

A. Only a Minority of Older Households Could Potentially Take Out a Reverse Mortgage

Any exploration of these questions should begin with a realistic sense of the potential market for reverse mortgages. This potential can be estimated by identifying the number of households headed by persons age 62 and over that are likely to be eligible for such loans and who might deem their benefits to be worth their costs.

According to a National Council on the Aging study, 27.5 million American households were headed by someone age 62 or older, 21.1 million of them (78 percent) were homeowners, and about 15 million households were likely to meet the eligibility criteria for a federally insured reverse mortgage (Stucki, 2005). The study also found that about 13.2 million households could have derived at least $20,000 from such a loan. But given the high costs of these loans, discussed later in this chapter, most homeowners would likely need to obtain substantially more than $20,000 before they would consider the cash benefit to be worth the cost. With a more reasonable minimum loan amount, the realistic potential market for reverse mortgages would most likely be less than 10 million households.

B. Lack of Consumer Knowledge and Confidence Regarding Reverse Mortgages

Two national surveys of consumers age 45 and older conducted in 1999 and 2007 by AARP found that consumer awareness of reverse mortgages has increased but that interest in taking out such a loan has decreased. As shown in Table 41, these surveys found that the share of respondents who indicated that they had heard of reverse mortgages increased from 51 percent to 70 percent between 1999 and 2007, and the proportion of those who knew someone with a reverse mortgage increased from 3 percent to 7 percent (see Table 41). But the share of homeowners age 62 and older who reported that they had a reverse mortgage remained constant at 1 percent, and the proportion of all respondents who indicated that they might consider a reverse mortgage in the future declined from 19 percent to 14 percent. Perhaps more ominous for future growth of the reverse mortgage industry, interest in using a reverse mortgage in the future remained constant between 1999 and 2007 at 10 percent among respondents age 65 and older but declined sharply from 24 percent to 16 percent among respondents age 45–64 (see Appendix D for more details on this survey). Despite the growth in the reverse mortgage market between 1999 and 2007, these results suggest that greater public awareness may be associated with relatively less interest in reverse mortgages.

Table 41: Percentage of respondents who answered "yes" to the following questions related to knowledge of and interest in reverse mortgages

	1999 Survey	2007 Survey
Have you heard of this type of loan [reverse mortgage] before?*	51%	70%
Do you (or your spouse/partner) have a reverse mortgage?**	1%	1%
Do you know personally someone who has a reverse mortgage (other than you)?***	3%	7%
Do you think a reverse mortgage is something you might consider in the future?****	19%	14%

*Asked of all respondents; n = 2,000 in 1999, n = 1,003 in 2007.
**Asked of respondents age 62+ or whose spouse/partner is 62+ who own their homes and have heard of a reverse mortgage; n = 486 in 1999, n = 336 in 2007.
***Asked of all respondents who had heard of a reverse mortgage; n = 1,022 in 1999, n = 769 in 2007. Results are reported as a percentage of total respondents, counting those who had not heard of reverse mortgages as a "no" response.
****Asked of all respondents, excluding those who already had a reverse mortgage; n = 1,995 in 1999, n = 1,000 in 2007.

In July 2007, the Harris polling organization asked a national sample of 2,383 adults a series of questions about their familiarity with and attitudes toward a variety of mortgage products (Harris, 2007). Roughly three-fourths of respondents were aware of home equity loans (78 percent), adjustable-rate mortgages (74 percent), and fixed-rate mortgages (72 percent), but less than two-thirds (64 percent) had heard of reverse mortgages. But awareness does not necessarily mean that consumers have much knowledge about reverse mortgages. Of those who were aware of the various mortgage products, reverse mortgages ranked last in terms of the respondent's understanding of the product, with only 15 percent saying they were very knowledgeable and 34 percent saying they were somewhat knowledgeable. Moreover, 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. By contrast, of the larger number of respondents who were aware of fixed-rate mortgages, 40 percent had a very favorable impression, 31 percent were somewhat favorable, and only 2 percent had a very unfavorable impression.

Some of the wariness toward reverse mortgages may reflect negative attitudes toward the lending industry in general. The Harris survey found that only 3 percent of respondents had a very favorable impression of banks and other financial institutions that provide mortgages, and 24 percent had a somewhat favorable impression—and this survey was done before much of the recent negative press coverage related to the meltdown in the subprime mortgage industry. But as the results above indicate, even among mortgage products, reverse mortgages rate relatively low.

Contributing to these negative attitudes is the fact that most older people are not interested in tapping their equity in old age. A 2007 survey by Fidelity Research (Harlow, 2007) found that only 13 percent of retirees had leveraged their home equity. A 2007 survey of pre-retirees by the Center for Retirement Research at Boston College (Munnell et al., 2007) found that only 6 percent of respondents age 50–65 planned to tap their home equity for ordinary living expenses in retirement.

But even among the minority of middle-age and older people who are willing to tap their equity in retirement, reverse mortgages have not been not a popular option. Among retirees who had tapped their equity in the Fidelity survey, only 8 percent had taken out a reverse mortgage. Among pre-retirees who were planning to use their home equity in retirement, more than one in five said they did not "trust" reverse mortgages. As the Fidelity report concludes, "Despite its potentially promising future, the reverse mortgage is not a popular strategy among pre-retirees and retirees today and suffers to a degree from a lack of credibility" (Harlow, 2007, p. 28).

Some of this negativity may be the continuing legacy of the extraordinarily high-cost, non-HECM reverse mortgages that were introduced from the mid-1980s to the late 1990s with features that required borrowers to share a portion of their equity or equity appreciation with lenders. Although none of those products is currently being offered in the same form, the loans have continued to become due and payable, resulting in extremely high costs and sensational news coverage (Harney, 2002, 2003). More ominous, this type of high-cost product began to reappear in the latter half of 2007.

C. Informed Consumers Who Say No to Reverse Mortgages

Nonetheless, the number of homeowners considering reverse mortgages and becoming borrowers is clearly growing, as documented in Part IV. But why do some homeowners who consider these loans decide against them? While there has been much speculation about the answer to this question, no survey to date has focused on the homeowners with the strongest interest in these loans, and the reasons why some of them decide not to apply for a reverse mortgage. The 2006 AARP Survey provides a unique perspective on consumer attitudes toward reverse mortgages. Instead of surveying consumers in general, as in the surveys cited in the previous section, the AARP Survey focused on homeowners who were sufficiently interested in reverse mortgages that they had requested and obtained counseling about these loans.

Counseling is a formal eligibility requirement for obtaining a federally insured reverse mortgage, and is often the last step before applying for these loans. When they requested counseling, the homeowners AARP surveyed were strongly encouraged to read AARP's website or consumer guide on reverse mortgages before their counseling sessions. They were also screened for loan eligibility, given an estimate of their likely loan amounts, and referred to other options for meeting their financial needs. Of these homeowners who completed the counseling process and were reached through the AARP Survey, 75 percent became reverse mortgage borrowers.

To learn why relatively motivated and informed consumers reject reverse mortgages, the survey also included a sample of the remaining 25 percent of counseling recipients who were interested enough to complete the counseling process and only then decided against a reverse mortgage. The survey's findings provide insight into the reasons why the homeowners who came closest to becoming reverse mortgage borrowers decided against doing so. Because of the narrow group of highly interested homeowners from which we drew our sample, the results reported in this section regarding "non-borrowers" do not necessarily characterize the reasons why the vastly larger number of "non-borrowers" who are not sufficiently interested to go through counseling do not take out reverse mortgages.

1. High Costs Top Reason for Not Applying

As noted in Part IV, the AARP Survey revealed few statistically significant differences between borrowers and non-borrowers regarding the reasons they looked into reverse mortgages. Both groups came to consider these loans for essentially the same reasons. When asked directly why they did not apply for a loan, non-borrowers cited multiple reasons for not applying. As shown in Table 42, four of the possible reasons included in the AARP Survey were cited by more than 50 percent of those who did not apply ("non-applicants"). Two other reasons were cited by approximately forty percent of non-applicants, and another three by approximately 30 percent of non-applicants.

High costs were most frequently cited (by 63 percent of the non-applicants) as being a reason for not applying for a reverse mortgage. Other frequently cited reasons were a desire to keep the home debt-free (57 percent); finding other ways to meet financial needs (56 percent); and deciding that a reverse mortgage was not necessary, given the homeowner's financial situation (54 percent). Deciding that a reverse mortgage would make more sense in the future than at present, and wanting to preserve the home for heirs were cited by 43 percent and 40 percent, respectively. Thirty-one percent cited a concern that a reverse mortgage would put them into too much debt, and 31 percent also said they had not yet made a final decision about applying for a reverse mortgage.

Table 42: Reasons why counseling clients did not apply for a reverse mortgage

Reasons for not applying*	A reason (n = 346)	The main reason (n = 340)
The costs of the reverse mortgage were too high	63%	30%
You decided that a reverse mortgage was not necessary given (your/the homeowner's) financial situation	54%	10%
You decided that a reverse mortgage would make more sense for you in the future than it would now	43%	9%
You found another way to meet (your/the homeowner's) financial needs	56%	9%
You like knowing that (you own your/the homeowner owns the) home completely, free of any mortgages	57%	6%
The amount of money you would have received was too small	28%	5%
You are still considering whether to apply for a reverse mortgage	31%	5%
The process of taking out a reverse mortgage was too long or too complicated	20%	4%
You want your children or other loved ones to inherit the home/You want the home to remain in the family when you/the homeowner dies	40%	4%
You are concerned that a reverse mortgage will put (you/the homeowner) in too much debt	31%	3%
The costs of the home repairs required to get the reverse mortgage were too expensive	13%	1%

*See questions 11 and 12 of AARP Survey. Base: Respondents who decided not to apply, even though the counseling process determined that they were eligible (n = 346), excluding six POA respondents who identified the homeowner's subsequent death as the reason for not applying (n = 340).

High costs were also the **main reason** why reverse mortgage counseling clients did not apply for one of these loans, as shown in Table 42. Thirty percent of the non-applicants cited high costs as the main reason why they did not apply. High costs were selected three times more often than the next most important main reason, which was that homeowners decided a reverse mortgage was not necessary given their financial situation, cited by 10 percent of the non-applicants. Cited by 9 percent each were finding other ways to meet financial needs, and deciding that a reverse mortgage would make more sense in the future than it would at the present time.

When asked for all the reasons they did not apply, non-applicants cited high costs most frequently (63 percent). But they did not cite high costs a lot more frequently than several other reasons, for example, finding another way to meet financial needs (56 percent), and deciding that a reverse mortgage wasn't necessary, given the homeowner's financial situation (54 percent). When asked to select the **main reason** for not applying, high costs were the top choice by a three-to-one or greater margin over all other main reasons, which indicates the importance of the cost issue as the dominant reason for not applying for a reverse mortgage.

The degree to which non-applicants identified high loan costs differed significantly by education and ethnicity, as shown in Table 43. Thirty-five percent of clients who had completed some college and 36 percent of those who had earned college or graduate degrees cited high costs as their main reason for not applying. By contrast, only 21 percent of those with a high school diploma or less cited high costs. A sharper difference occurred with respect to ethnicity, with 34 percent of white non-Hispanics citing high costs as their main reason for not applying versus only 7 percent of others (non-whites).

Table 43: Characteristics of counseling clients who cited high costs as the main reason for not applying for a reverse mortgage

	n =	Percentage citing high costs as the main reason for not applying
All Non-applicants	340	30%
High School	134	21%
Some College	118	35%*
College Graduate+	84	36%*
White (non-Hispanic)	284	34%*
Other (non-white)	48	7%

*Statistically significant at the .05 level; see question 12 of AARP Survey.
Base: Respondents who decided not to apply (even though the counseling process determined they were eligible), excluding those POA respondents who identified the homeowner's subsequent death as the reason for not applying.

2. Analyzing High Loan Costs

The relatively low incomes and financial assets of reverse mortgage counseling clients mean that their homes typically represent the bulk of their lifetime savings. So the decisions they make about that equity are likely to be the most important financial decisions they make for the rest of their lives—and they are making these decisions at a point in their lives when it would be difficult to recover from a mistake. In effect, the clients who decide against a reverse mortgage due to high costs are declining to devote a substantial portion of their last remaining asset to the costs of a loan.

The non-interest costs of a HECM can exceed the annual incomes and other financial assets of prospective HECM borrowers. The majority of survey respondents (61 percent) reported that their annual incomes were less than $30,000, and their total savings and investments were less than $25,000 (52 percent). In comparison, during the month in which the AARP

Survey was conducted, the total transaction costs on a fairly typical federally insured HECM reverse mortgage for a borrower age 74 living in a $300,000 home could have been about $30,000—about half of which were from upfront fees and the other half were from ongoing monthly charges over the course of the loan as shown in Table 44. The total non-interest costs would be greater for younger borrowers, those living in higher-valued homes, or those living in areas with higher third-party closing costs. For the youngest borrowers living in the highest-valued homes in the areas with the highest closing costs, the total of all non-interest costs could exceed $50,000 over the course of the loan (AARP, 2007).

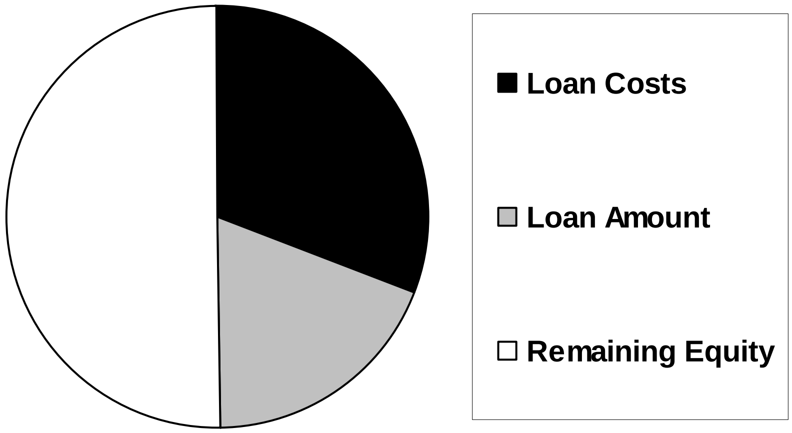
Table 44: Total non-interest costs on a HECM for a 74-year-old borrower in a $300,000 home in December 2006

Cost Category	Amount
Upfront costs	
Mortgage insurance premium	$6,000
Origination fee	$6,000
Third-party closing costs	$2,000–$3,000
Accumulated monthly costs over the life of the loan	
Mortgage insurance premium	$10,000
Servicing fee	$5,040
TOTAL	$29,040–$30,040

Source: AARP, 2007, pp. 14–16.

The interest charges on a HECM grow larger over time as borrowers receive loan advances but make no repayments. For example, the 74-year-old borrower in December 2006 cited above would have qualified for a HECM creditline of about $180,800. If she had taken one-half of this amount ($90,400) as a cash advance at closing and none thereafter (which is the assumption required for federal Truth-in-Lending disclosures), she would owe total loan costs, including interest, of about $148,100 (for a total debt of $238,500) when she reaches her remaining median life expectancy, which is 12 years. Figure 3 shows that if her home's value appreciates at 4 percent per year, her $90,400 loan amount would equal 19 percent of her home's value at that point, her $148,100 in total loan costs would equal 31 percent, and her remaining equity ($241,800) would equal 50 percent of her home's projected future value.

Figure 3: Projected loan costs and remaining equity after 12 years for a 74-year-old HECM borrower in a $300,000 home on a $90,400 loan advance in December 2006



While older homeowners considering reverse mortgages are making important financial decisions that will affect the rest of their lives, they are doing so with incomplete information about costs and, therefore, may have an incomplete understanding of the costs and how they accumulate over time. Current disclosure requirements show upfront costs, but do not enable borrowers to see the total non-interest costs over the course of the loan. Moreover, HUD does not require that HECM counselors show consumers projections of the future amounts they would owe during a counseling session, when such information would be most helpful to them in understanding how reverse mortgage debt grows larger over time.

Research on a small sample of reverse mortgage borrowers in Australia showed that roughly half did not know what their loans would cost and more than one in five did not understand the effects of compounding interest. Few had made long-range plans regarding their financial future or the potential effects of exhausting their equity through a reverse mortgage (Australian Securities and Investments Commission, 2007). Such research has not been done in the United States, where counseling and disclosure laws are more favorable to consumers. But many of the issues regarding consumer understanding of costs and planning for future needs are likely to be similar.

One reason for the high cost of HECM loans is that they are based on the largest loan amount for which borrowers qualify—even if they do not want to borrow that much. In the example cited above, a consumer may be interested in a creditline of substantially less than the maximum $180,800, and may strongly prefer a lesser amount if it were accompanied by lower costs. But at present, this borrower would have no option within the HECM program to trade off a lesser creditline for lower loan costs.

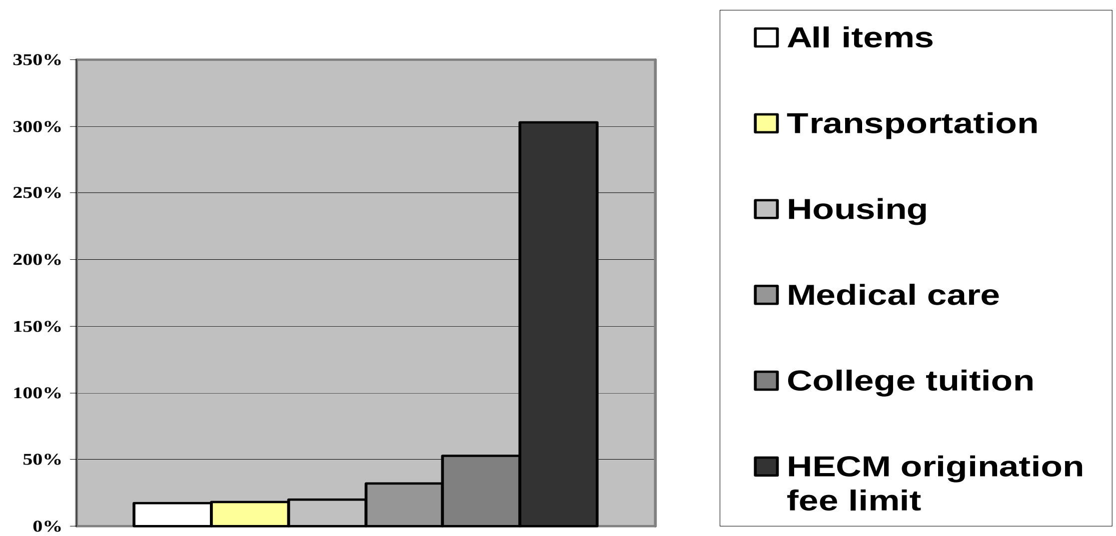
Another factor that contributes to the high cost of HECM loans is their relatively short average duration. For example, the average age of HECM borrowers is 74, and HUD's

HECM insurance model assumes that the median remaining life expectancy of such a borrower is 12.2 years. But based on HECM experience to date, HUD estimates that the actual loan duration for such a borrower is about six years (Szymanoski et al., 2007). The substantial upfront costs have a greater percentage impact on the real total cost than they would if the loans lasted longer because the upfront costs are spread over a shorter period of time.

Articles about reverse mortgages in newspapers and magazines often warn consumers about the high cost of these loans. For example, in the *Newsweek*, personal finance expert Jane Bryant Quinn (2006) wrote, "Financial planners hate reverse mortgages for new retirees. That's because the costs are huge." Similarly, *Wall Street Journal* columnist Jonathan Clements opined that because the costs can be "staggering," reverse mortgages should be viewed as "a last resort" (2007).

HECM origination fees have risen rapidly in recent years. HUD's maximum allowable HECM origination fee rose 303 percent, from $1,800 in 2000 to $7,256 in 2006. By comparison, Consumer Price Index (CPI) increases over that period were 17.1 percent for all items, 18 percent for transportation, 19.8 percent for housing, 31.8 percent for medical care, and 52.7 percent for college tuition (see Figure 4).

Figure 4: Increases in maximum HECM origination fee limit and Consumer Price Index from 2000 to 2006



Source: U. S. Bureau of Labor Statistics, 2007

Despite the high cost of HECM loans, they are generally less costly than privately insured reverse mortgages that may offer lower upfront costs but typically charge much higher interest rates. In early November 2007, for example, borrowers could get a HECM with a 4.93 percent interest rate versus an initial "teaser" rate of 7.79 percent on a privately insured reverse mortgage that would adjust to 8.29 percent six months later.

3. Borrowers Also Deem Costs High

High costs were not only the dominant barrier that kept counseling clients from applying for reverse mortgages. Clients who applied for these loans and became borrowers also deemed costs high. Over two-thirds (69 percent) of the reverse mortgage borrowers surveyed by AARP said that the costs were high: 31 percent said they were “very high,” and 38 percent said they were “somewhat high” (see Table 45). The borrowers who were more likely than others to deem the costs high were males, white non-Hispanics, those whose homes were valued at more than $300,000, and those with over $25,000 in other assets. Females, non-whites, those with homes valued at less than $300,000, and those with other assets under $25,000 were less likely to say the costs were high. Females and white non-Hispanics were also more likely to answer “don’t know” when asked about loan costs.

The overall differences between whites and non-whites on this question were particularly striking. Whites deemed the costs high rather than low by a 71 percent to 7 percent margin, but non-whites deemed them so by a much narrower 56 percent to 16 percent margin. In addition, while 5 percent of the whites answered “don’t know” to this question, 14 percent of the non-whites answered “don’t know.”

The following groups were more likely than others to say “don’t know” when asked about loan costs:

- females (8 percent vs. 4 percent of males),
- widows (9 percent vs. 5 percent of married),
- those saying their health was fair or poor (10 percent vs. 5 percent of those in excellent/good health),
- borrowers age 85 or more (12 percent vs. 5 percent of younger borrowers), and
- non-white borrowers (14 percent vs. 5 percent of white borrowers).

These results suggest that the costs may have been more difficult to assess for these groups, perhaps due to the structure of the loans or a relative lack of experience in assessing mortgage costs.

Table 45: Borrower assessments of reverse mortgage costs

Category (n)	High			Neither high nor low	Low			Don't know
	Very	Some-what	Total		Some-what	Very	Total	
All borrowers (946)	31%	38%	69%	16%	5%	3%	8%	7%
Male (365)	32%	41%	73%*	14%	5%	4%	9%	4%
Female (578)	30%	36%	66%	17%	5%	2%	8%	8%*
Home Value								
<$150,000 (285)	27%	35%	62%	21%*	6%	4%	9%	6%
$150,000–$299,999 (301)	32%	36%	67%	16%	6%	3%	8%	8%
$300,000+ (218)	36%	41%	76%*	11%	5%	2%	7%	5%
Assets <$25,000 (539)	29%	36%	66%	18%	6%	3%	9%	8%
Assets $25,000+ (179)	33%	44%	77%*	12%	3%	4%	7%	4%
White (815)	31%	40%*	71%*	16%	5%	2%	7%	5%
Other (118)	28%	28%	56%	12%	9%	8%*	16%*	14%*

*Statistically significant at the .05 level; see question 43 of AARP Survey.

The report on focus groups AARP conducted in preparation for its survey of counseling clients suggested some subjective elements to the cost issue. A statement from the summary report on the focus groups distinguished between cost assessments made by borrowers versus non-borrowers:

> Among non-borrowers, upfront costs represent the primary barrier to taking out a reverse mortgage loan. While borrowers, too, find the costs substantial, they are generally able to justify them, rationalizing that the costs are paper-money and not out-of-pocket or that the equity in their home is just sitting there unused. However, non-borrowers are unable to do this, and dismiss the loan as exorbitantly costly relative to the amount of money they would get in return. (See Appendix C)

Another summary statement highlighted the special cost concerns of persons holding powers of attorneys (POAs) for homeowners:

> Among the POAs, there is also the concern about whether their elderly relative will live long enough to justify having paid the upfront cost of the reverse mortgage. For example, if the elderly homeowner were to live only a year or two, the upfront cost would seem very high in proportion to the benefit derived from the reverse mortgage. (See Appendix C)

4. Other Reasons for Not Applying

None of the other main reasons why counseling clients did not apply for a reverse mortgage were cited by more than 10 percent of the non-applicants (see Table 42). The second most frequently cited reason was that the client decided a reverse mortgage was not necessary, given the client's financial situation. While 14 percent of male counseling clients who did not apply for a reverse mortgage selected "not necessary given my financial situation" as their main reason for not applying, only 7 percent of female non-applicants did so. The greater a client's annual income, other financial assets, and education level, the more likely he or she was to select this main reason for not applying. Those with incomes of $20,000 or more, other assets of $25,000 or more, or a college degree were significantly more likely to choose this reason than those with lesser incomes, assets, and education levels.

Tied for third among the reasons for not applying were finding another way to meet financial needs, and deciding that a reverse mortgage would make more sense in the future than at present, both of which 9 percent of the non-applicants selected. Among non-applicants indicating that "found another solution" was their main reason for not applying, there were no statistically significant patterns within demographic categories. By contrast, clear patterns occurred within three categories of non-applicants choosing "would make more sense in the future" as the main reason for not applying. Thirteen percent of male non-applicants said this was their main reason for not applying versus 6 percent of female non-applicants, as did 14 percent of married non-applicants versus 5 percent of widowed, divorced or separated, and single non-applicants. While 14 percent of those with annual incomes of $30,000–$49,999 selected this main reason, only 4 percent of those with incomes of $20,000–$29,999 did so.

i. Postponing a Decision

Of non-applicants, 9 percent indicated that a reverse mortgage "would make more sense in the future" as their main reason for not applying. Reverse mortgage counselors have long been aware that some of their clients reach this conclusion. The AARP Survey did not ask why these clients decided to postpone a reverse mortgage, but anecdotal information from reverse mortgage counselors suggests a number of likely possibilities.

One of the first things homeowners learn about these loans is that the amount of money they can get is related to their ages and the value of their homes. The older they are and the greater their homes' values, the more money they can get from a reverse mortgage. In addition, if they own homes that are worth more than HUD's home value limits for their counties, they get less money per dollar of home value than if the HUD limits exceed their home values. But these limits are subject to change on a national basis every January and on a county-specific basis at any time. As result, some homeowners— to qualify for larger loans—may decide to wait until they are older, their homes are worth more, and HUD's home value limits for their counties have increased.

A second factor that may incline some homeowners to postpone applying for a reverse mortgage is to put off the date on which a) they will incur a substantial debt in upfront loan costs, and b) compound interest will begin generating the inexorable, exponential growth of that debt. If homeowners can deal with current needs in other ways, postponing this large and growing debt may make the most sense to them. If they qualify for other programs that can meet their needs without going into debt, if they can obtain another type of appropriate debt at a lower cost, or if they have other assets they could use without requiring debt of any kind, these homeowners may take what they view to be the more prudent current choice. They may, however, keep open the possibility of a reverse mortgage in the future when other options are no longer available or no longer sufficient to meet their needs.

A third reason why some counseling clients may put off a reverse mortgage is to preserve equity for a future time when they expect their needs may be greater. The more equity they use now, they realize, the less will be available to them in the future. Especially if their home is their largest or last remaining asset, these homeowners may decide to postpone spending down their home equity until their needs become more acute.

Recently, a fourth—and particularly powerful—reason for deferring a decision about reverse mortgages relates to the possibility that reverse mortgage products with better terms are more likely in the future. As Jane Bryant Quinn (2006) stated succinctly, "**Don't take a loan now** if you can possibly wait. In two or three years, you'll get better products, more options and lower fees." Fidelity Research Institute spelled out the reasons behind this advice (Harlow, 2007):

> the market for reverse mortgages is changing rapidly . . . As the volume of reverse mortgage origination grows, the same phenomenon of securitization that has developed with traditional mortgages should continue to evolve. This in turn will reduce costs, attract new players, encourage product innovation, and increase borrowers' awareness and comfort levels with these vehicles. This market may, in fact, be at the cusp of a positive cycle of falling costs and rising volume. If so, homeowners willing to consider reverse mortgages may now be in the position of consumers considering a flat screen TV purchase some years ago. They can, if they wish, wait a while before acting, with a reasonable expectation of securing a better product at a lower cost in the not-too-distant future.

Variations on Ms. Quinn's advice and the Fidelity Research Institute's analysis have appeared frequently in consumer finance articles and the financial media, respectively, giving homeowners a major new reason for postponing taking out a reverse mortgage.

ii. Revisiting a Decision

The prospect of lower costs and more suitable products suggests that a substantial portion of the surveyed counseling clients who decided not to apply may reconsider this decision and become reverse mortgage borrowers in the future. In addition to the 9 percent who said their main reason for not applying was that they decided a reverse mortgage would make more sense in the future, another 5 percent of the non-applicants said their main reason for not applying was that they were still considering this option. In addition, 10 percent said a reverse mortgage wasn't necessary given their financial situation, and 30 percent said the costs were too high. But financial situations can change, and reverse mortgage costs are likely to moderate in the future. So the main reasons of about one-half of the counseling clients for not applying suggest they might revisit their decision not to apply in the future if their circumstances change or if the loans become less costly.

By contrast, a smaller portion of the non-applicants cited main reasons for not applying that are likely to be enduring. The 6 percent who liked knowing their homes are completely free of debt and the 4 percent who wanted to preserve their homes for their heirs are probably less likely to become reverse mortgage borrowers in the future. The same might be said for the 3 percent of non-applicants who were concerned about having too much debt and the 4 percent who were put off by the length and complexity of the borrowing process.

The likelihood that non-applicants who cited other main reasons might reconsider reverse mortgages in the future is less clear. For example, the 9 percent who said they had found other ways to meet their financial needs may or may not have found lasting solutions. Those who did not may become candidates for reverse mortgages as their financial needs reemerge. Among all non-applicants who cited "found other ways" as a reason for not applying, 17 percent said they had taken out some other type of home loan, 12 percent said they reduced spending, 9 percent said they refinanced an existing mortgage, 6 percent said they decided to sell their homes, 6 percent used their own funds, 5 percent said they received help from family members, , 4 percent used income through working or went back to work, and 4 percent said they obtained a loan other than a home loan.

Likewise, some of the 5 percent who said they could not get enough money from a reverse mortgage at present may be able to do so when they are older, their homes are worth more, or HUD's home value limits have risen. But others, whose current debt on their home equals a high percentage of their equity, may never be able to get enough from a reverse mortgage to pay it off.

5. Becoming Future Borrowers

When asked directly how likely they thought they were to take out a reverse mortgage in the future, 12 percent of the non-applicants said they were "very likely" to do so, and another 27 percent said they were "somewhat likely" to become future borrowers (see Table 46). By contrast, 15 percent said they were "not too likely," and 42 percent said they were "not at all likely" to take out a reverse mortgage in the future.

Male non-applicants tended somewhat more than females to say they were likely to become reverse mortgage borrowers in the future. Non-applicants age 62–69 were significantly more likely than older non-applicants to rate this as a probable future occurrence, and those age 80–84 were significantly more likely to rate it as an unlikely future occurrence. Homeowners counseled within the past year rated the likelihood of becoming a reverse mortgage borrower some day more highly than those counseled before that. It was also rated more highly by clients with current mortgages on their homes than by those without such mortgages.

Table 46: Likelihood of non-applicants taking out a reverse mortgage in the future

		Likely			Not Likely			
	n =	**Very likely**	**Some-what likely**	**Total likely**	**Not too likely**	**Not at all likely**	**Total not likely**	**Don't know**
All Non-applicants	375	12%	27%	39%	15%	42%	56%	5%
Male	141	11%	33%*	43%	11%	39%	51%	5%
Female	233	13%	23%	36%	17%	43%	60%	4%
Age 62–69	94	14%	36%*	50%*	13%	36%	49%	1%
70–74	80	9%	24%	33%	19%	42%	61%	6%
75–79	97	11%	29%*	40%	14%	39%	53%	6%
80–84	59	17%	14%	30%	12%	54%*	66%*	4%
85+	36	4%	21%	25%	21%	46%	67%	8%
Counseled								
within past year	136	18%*	29%	47%*	10%	36%	46%	5%
a year or more ago	226	9%	24%	33%	18%*	45%	63%*	3%
Mortgage on home	163	16%*	23%	40%	14%	41%	55%	6%
No mortgage	208	9%	29%	38%	16%	42%	58%	4%
White	306	7%	28%	35%	16%	44%	60%*	4%
Other	61	30%*	18%	48%	14%	31%	45%	7%

*Statistically significant at the .05 level; see question 44 of the AARP Survey. Base: All non-applicants.

The most striking differences among non-applicants in assessing the likelihood of a reverse mortgage in the future were those based on ethnicity. Whereas only 7 percent of white non-Hispanic non-applicants said that a future reverse mortgage was "very likely" for them, 30 percent of the non-whites did so. Furthermore, 60 percent of the white non-applicants said a future reverse mortgage was unlikely, compared with 45 percent of the non-whites.

VII. Lenders, Counselors, and Information Sources

Federally insured reverse mortgages, known as Home Equity Conversion Mortgages (HECMs), are the dominant type of reverse mortgage in the United States, accounting for about 90 percent of the American market (Stucki, 2005). HECM lenders must obtain HUD approval and must follow rules established for the HECM program by federal law, federal regulations, HUD program handbooks, and HUD policy letters. In addition, many HECM lenders—including all of the largest ones—belong to the National Reverse Mortgage Lenders Association (NRMLA), which provides a code of conduct (www.nrmlaonline.org/nrmla/ethics/conduct.aspx) and a set of best practices (www.nrmlaonline.org/nrmla/ethics/practices.aspx) for its members.

Counseling by an independent entity (other than the lender) is a required condition of eligibility for HECM loans and is provided by HUD-approved nonprofit or public agencies. HECM counselors must follow rules established for the HECM counseling program by federal law, federal regulations, HUD program handbooks, and HUD policy letters. In addition, HUD has developed a national HECM counseling network of exam-qualified counselors (see www.hecmexam.org) and has developed a detailed HECM counseling protocol of best practices for these counselors.

Because the homeowners AARP surveyed had all completed counseling on reverse mortgages, and most of them (75 percent) had taken out a reverse mortgage, all of them had interacted with an independent reverse mortgage counselor, and most of them had dealt with a reverse mortgage lender. How did they rate their experiences with these lenders and counselors? More generally, who was helpful to them in providing information and advice on these loans?

A. Satisfaction with Lenders

Nine of ten homeowners (90 percent) said they were satisfied with their experience with reverse mortgage lenders (see Table 47); nearly three of four (73 percent) said they were "very" satisfied; and 17 percent said they "somewhat" satisfied. The ratings from those who became borrowers were slightly higher: 93 percent satisfied, 78 percent very satisfied, and 15 percent somewhat satisfied. Even homeowners who did not become borrowers gave lenders positive ratings: 75 percent were satisfied, of whom 47 percent were very satisfied, and 28 percent somewhat satisfied. On the other hand, non-borrowers were about four times more likely than borrowers to have had a lender experience that was not satisfying: 23 percent of non-borrowers were not satisfied with their lender experience versus only 6 percent of borrowers.

Health and ethnicity were the only respondent characteristics that showed a statistically significant pattern of responses relating to lender satisfaction. Homeowners who deemed their health to be good or excellent were somewhat more likely to be satisfied with their lender experience than those who said their health was poor or fair. White non-Hispanics were more likely to rate their lender experience highly than were homeowners of other, non-white ethnicities. Among non-borrowers, the ethnicity difference was more pronounced, with 43 percent of non-white non-borrowers saying they were not satisfied with their lender experiences: 31 percent were "not at all" satisfied, and 12 percent were "not too" satisfied.

Table 47: Satisfaction with reverse mortgage lenders

	n =	Satisfied			Not Satisfied			Don't know
		Very	Some-what	Total	Not too	Not at all	Total	
All	991	73%	17%	90%	4%	5%	9%	1%
Borrowers	712	78%*	15%	93%*	3%	3%	6%	1%
Non-borrowers	279	47%	28%*	75%	9%*	14%*	23%*	2%
Health Poor/Fair	287	68%	18%	86%	6%*	6%	12%*	2%
Health Good/Excellent	634	74%	17%	92%*	3%	5%	8%	1%
White	835	74%*	18%	92%	4%	4%	7%	1%
Other	139	64%	16%	80%	6%	13%*	19%*	1%
Non-borrowers								
White	217	50%	31%	81%*	8%	9%	17%	2%
Other	54	40%	17%	57%	12%	31%*	43%*	-

*Statistically significant at the .05 level; see question 20 of the AARP Survey.
Base: All respondents who had any contact with a lender.

B. Reasons for Dissatisfaction with Lenders

The 9 percent of counseling clients who were not satisfied with their lender experience were asked, "Why were you not satisfied with the lender?" The interviewers then noted and grouped their answers to this open-ended question. No single reason for dissatisfaction was dominant, and none of the specific reasons given by respondents was cited by more than 17 percent of them (see Table 48).

The top reasons for not being satisfied with lenders were "the loan cost too much" (cited by 17 percent), "gave me incorrect information" (16 percent), "the lending process took too long" (16 percent), "my loan application was not approved" (14 percent), "did not answer all my questions" (13 percent), "the amount of money I would have received was too small" (9 percent), and "did not treat me with respect" (8 percent).

Table 48: Reasons for dissatisfaction with lenders

	Total (n=105)	**Borrowers** (n=46)	**Non-borrowers** (n = 59)	**White** (n=70)	**Other** (n=32)
The loan cost too much	17%	21%	13%	19%	15%
Gave me incorrect information	16%	21%	10%	16%	19%
The lending process took too long	16%	21%	9%	15%	18%
My loan application was not approved	14%	8%	23%*	9%	27%*
Did not answer all my questions	13%	13%	14%	17%	5%
The appraisal/amount of money that I would have received was too small	9%	10%	7%	8%	11%
Did not treat me with respect	8%	11%	5%	10%	5%
They were not knowledgeable/ they did not understand the process/did not do it correctly	6%	9%	3%	9%	-
Lender was hard to understand	5%	8%	2%	3%	10%
Didn't thoroughly/proactively provide/explain all information	5%	5%	5%	6%	3%
Not helpful/didn't follow through/I did most of the work	5%	5%	5%	5%	5%
Pressured me to take a loan	4%	<0.5%	9%*	6%	-
Didn't think they were concerned about my best interest/cared only about making money	2%	-	3%	2%	-
Difficult to communicate with (didn't return phone calls, etc.)	1%	<0.5%	2%	1%	-
Other	14%	16%	12%	14%	13%
Don't know	1%	-	2%	-	3%

*Statistically significant at the .05 level; see question 21 of AARP Survey.
Base: Respondents who had any contact with a lender and were not satisfied.

The only two statistically significant differences between borrowers and non-borrowers involved reasons cited more frequently by non-borrowers than by borrowers. Nine percent of the non-borrowers cited "pressured me to take a loan" as a reason why they were dissatisfied, but less than 0.5% of the borrowers did so. Nearly one of four non-borrowers (23 percent) who were not satisfied with their lenders cited "my loan application was not approved" as a reason for their dissatisfaction. This was the highest-rated reason among non-borrowers for being dissatisfied with lenders.

"My loan application was not approved" was also the highest rated reason non-whites cited for being dissatisfied with lenders. It was cited by 27 percent of non-whites but by only 9 percent of whites. This was the only statistically significant difference between whites and non-whites regarding lender dissatisfaction.

Although dissatisfaction with lenders was generally greater among non-borrowers and non-whites, the most frequently cited reason for dissatisfaction among these groups was that their loan applications had been denied. Since lenders have no financial incentive to do so, rejecting applications may principally reflect enforcement of HUD eligibility criteria or misunderstanding those criteria. Nonetheless, further research should be conducted to determine why non-whites were denied loans more frequently than whites.

C. Lenders Recommending Other Financial Services Products

AARP's consumer guide to reverse mortgages (AARP, 2007) includes various cautions about the use of reverse mortgage loan proceeds:

> Investing the money you get from a reverse mortgage is not wise. It is extremely unlikely that you could safely earn more from an investment than the loan would cost. Besides, the funds you do not spend from a HECM creditline grow larger at a greater rate than you could safely earn.
>
> Be wary of anyone who wants to sell you something, and suggests a reverse mortgage as a way to pay for it. Be especially wary if you do not fully understand what they are selling, or you are not certain that you need what they are selling. Remember that the total cost to you equals the cost of what they are selling plus the cost of the reverse mortgage.
>
> If an insurance agent tries to sell you an annuity by way of reverse mortgage financing, be sure to check out all the information about these types of arrangements at www.aarp.org/revmort.

The 2006 AARP Survey asked reverse mortgage borrowers if lenders had recommended specific financial services products to them. It found that nearly one in 10 borrowers (9 percent) reported that their lenders had done so (see Table 49). When asked if they had used any of their loan proceeds to purchase the lender-recommended product, 19 percent said they had done so. These findings suggest that about 1.7 percent of reverse mortgage borrowers (19 percent × 9 percent = 1.7 percent) used proceeds from their loans to purchase financial services products recommended by their lenders.

Table 49: Percentage of borrowers reporting that their lender recommended financial services products*

Lender Recommendation	Percentage of borrowers (n = 946)
Annuity	4%
Certificate of deposit	3%
Long-term care insurance	2%
Stocks, bonds, or mutual funds	2%
Other investments or products	1%
At least one of the above	**9%**

*See question 22 of AARP Survey.

D. Satisfaction with Counselors

Nineteen of 20 counseling clients (95 percent) said they were satisfied with their experience with reverse mortgage counselors (see Table 50); more than four of five (82 percent) said they were "very" satisfied; and 12 percent said they were "somewhat" satisfied. Only 3 percent said they were not satisfied: 2 percent were "not too" satisfied, and 1 percent "not at all" satisfied.

Counselor ratings from homeowners who became borrowers were slightly higher than from those who did not become borrowers; 95 percent of the borrowers were satisfied with their counselors (84 percent very satisfied, and 12 percent somewhat satisfied) versus 92 percent of the non-borrowers (77 percent very, 15 percent somewhat). Only 2 percent of the borrowers were not satisfied, compared to 6 percent of the non-borrowers.

It should be noted, however, that the counseling provided to respondents in the 2006 AARP Survey was paid for by HUD grants and delivered by exam-qualified counselors who were obligated to follow a detailed counseling protocol. This counseling required 1.7 to 2.8 hours of counselor time per case. During 2007, by contrast, much of the counseling in the HECM program was paid for by lenders, and many of the counselors were neither exam-qualified nor obligated to follow HUD's HECM counseling protocol. Some of this counseling reportedly required as little as 30 minutes of counselor time per case. At present, HUD is preparing a regulation that is expected to require all HECM counselors to pass HUD's HECM counselor exam and follow its HECM counseling protocol. HUD also recently issued a policy that permits counseling agencies to charge clients up to $125 for HECM counseling.

Table 50: Satisfaction with reverse mortgage counselors

Category (n)	Satisfied			Not Satisfied			
	Very	Some-what	Total	Not too	Not at all	Total	Don't Know
All (1,509)	82%	12%	95%	2%	1%	3%	2%
Borrowers (946)	84%*	12%	95%*	2%	1%	2%	2%
Non-borrowers (563)	77%	15%	92%	3%*	3%*	6%*	2%
White (1,264)	83%*	12%	95%	2%	1%	3%	2%
Other (222)	77%	15%	92%	3%	3%	5%*	2%

*Statistically significant at the .05 level; see question 24 of AARP Survey.

Ethnicity was the only respondent characteristic that showed a statistically significant pattern of responses relating to counselor satisfaction. White non-Hispanics were more likely to say they were "very satisfied" (83 percent) with their counselors than were homeowners of other, non-white ethnicities (77 percent), and non-whites were more likely to say they were not satisfied (5 percent) than whites (3 percent). But the total satisfaction rating was similar: 95 percent for whites and 92 percent for non-whites.

E. Reasons for Dissatisfaction with Counselors

The 3 percent of survey respondents who were not satisfied with their counselors were asked, "Why were you not satisfied with the counselor?" The interviewers noted and grouped their answers to this open-ended question. "Did not answer all my questions" was the top reason for dissatisfaction, cited by 21 percent of those who were not satisfied with their counselors (see Table 51). No other reason was cited by more than 13 percent of those who were dissatisfied.

Table 51: Reasons for dissatisfaction with counselor*

	Total (n = 51)
Did not answer all my questions	21%
Counselor was hard to understand	13%
Did not spend enough time with me	12%
Not helpful/didn't follow through/I did most of the work	11%
Didn't thoroughly/proactively provide/explain all information	9%
Didn't like that it was over the phone	9%
Did not treat me with respect	8%
The loan cost too much	7%
Gave us a hard time/wouldn't work with us/wouldn't bend	4%
Gave me incorrect information	3%
My loan application was not approved	3%
The counseling process took too long	2%
Pressured me to take a loan	2%

*See question 25 of AARP Survey.
Base: Respondents who indicated that they were dissatisfied with their counselor.

The other leading reasons for dissatisfaction with counselors were "counselor was hard to understand" (cited by 13 percent), "did not spend enough time with me" (12 percent), "not helpful/didn't follow through/I did most of the work" (11 percent), "didn't thoroughly/proactively provide/explain all information" (9 percent), "didn't like that it was over the phone" (9 percent), "did not treat me with respect" (8 percent), and "the loan cost too much" (7 percent).

F. Counselors Providing Information on Other Options

Federal law requires HECM counselors to provide their clients with information on options other than reverse mortgages. The HECM statute says they must provide information on other housing, social service, health, and financial options, and other home equity conversion alternatives, including deferred payment loans for home repairs and improvements and state and local property tax deferral programs.

The 2006 AARP Survey asked HECM counseling clients if their counselors had given them information or ideas about how they might try to meet their financial needs without taking out a reverse mortgage. Fewer than one in three respondents (30 percent) reported that their counselors had done so (see Table 52). This finding conflicted with the results of a mail survey of HECM counseling clients conducted continuously by the AARP Foundation's Reverse Mortgage Education Project from 2001 to 2006. That survey, generally mailed within 60–90 days after the counseling sessions, provided clients a list of specific alternatives and asked them if their counselors had discussed these other options with them. This more contemporaneous and specific survey consistently found that about 60 percent of the clients recalled their counselors had discussed options other than reverse mortgages with them.

Both surveys probably reflected the reality that, for many counseling clients, the only realistic alternative is selling their home and moving—and the reason they are considering a reverse mortgage is that they do not want to sell and move. Many clients do not qualify for income-conditioned public benefit programs such as Supplemental Security Income (SSI) or Medicaid, and many other programs do not provide as much economic benefit as clients can derive from a reverse mortgage. Clients who investigate reverse mortgages because they want to pay off their existing mortgage, for example, generally find that no other option provides the financial resources for them to do that. As a result, some respondents in the 2006 AARP Survey may have concluded that they had not been given "information or ideas about meeting [their] financial needs without taking out a reverse mortgage" if those ideas or information had not been realistic possibilities for them.

In fact, 75 percent of the counseling clients surveyed did become reverse mortgage borrowers, and this substantial percentage may also reflect the absence of other realistic options for these clients. Moreover, only one in five (20 percent) clients who said their counselors provided information on financial alternatives actually used this information (see Table 53). This low utilization rate may also suggest that the alternatives were not sufficiently beneficial or the clients were not eligible for them.

Table 52: Percentages given information or ideas by counselor for meeting financial needs without a reverse mortgage

	n =	Yes	No	Don't know
All	1,509	30%	60%	10%
Borrowers	946	30%	61%	10%
Non-borrowers	563	30%	60%	10%
Income < $10,000	108	32%	61%	8%
$10,000–$19,999	384	33%	60%	7%
$20,000–$29,999	383	30%	58%	12%*
$30,000–$49,999	309	30%	63%	7%
$50,000+	89	32%	64%	5%
Age 62–69	319	41%*	52%	7%
70–74	330	30%	57%	14%*
75–79	368	24%	68%*	8%
80–84	242	27%	66%*	7%
85+	213	24%	60%	16%*
Married	567	32%*	58%	10%
Widowed	640	25%	66%*	10%
Divorced/Separated	196	36%*	54%	10%
Single	85	29%	61%	11%
Illness or Disability?				
Yes	296	36%*	55%	9%
No	1,206	29%	61%	10%
Power of Attorney?				
Yes	200	43%*	45%	13%
No	1,509	29%	61%*	10%

*Statistically significant at the .05 level: see question 26 of AARP Survey.

Nonetheless, differences in respondent characteristics on reverse mortgage counselors' reported provision of information on alternatives provide some cause for concern. One might expect that counseling clients who decided not to take out a reverse mortgage would be more likely to have received such information. But that was not the case (see Table 52). Since most of the public sector alternatives have income eligibility requirements, one might expect that the percentage of clients given information about alternatives would have been greater for lower-income households. But that was not the case, as there were no statistically significant differences among income categories. One might also expect that single homeowners and widows would be more likely to receive such information than married couples. But clients reported just the opposite. Finally, one might expect that counseling clients age 75 and over might have greater need for alternatives to reverse mortgages and be more likely to qualify for them. But clients under age 70 were significantly more likely than older clients to report having received such information by their counselors.

The only patterns that clearly met expectations were that homeowners looking for help in dealing with an illness or disability—or persons holding a POA for a homeowner—were more likely to have received information about alternatives to reverse mortgages.

Table 53: Percentages using information or ideas provided by counselor for meeting financial needs without a reverse mortgage

	n =	Yes	No	Don't know
All	470	20%	78%	1%
Borrowers	292	15%	84%*	1%
Non-borrowers	178	37%*	62%	1%
Health Poor/Fair	143	28%*	71%	1%
Health Good/Excellent	293	17%	82%*	1%
White	389	17%	81%*	1%
Other	74	38%*	61%	1%
Power of Attorney?				
Yes	85	32%*	67%	5%
No	385	20%	79%*	1%

*Statistically significant at the .05 level see question 27 of AARP Survey.
Base: Respondents who reported receiving information or ideas about other ways to meet financial needs from their counselor.

Although 30 percent of all counseling clients reported receiving information on alternatives to reverse mortgages, only 20 percent of these clients said they used this information (see Table 53). So only 6 percent of all clients reported receiving and using such information (20 percent of 30 percent = 6 percent). Non-borrowers were more than twice as likely as borrowers to have used the information. (Borrowers might have used the information, for example, by combining a reverse mortgage with a low-cost, public sector, deferred-payment loan to make property repairs.) Also more likely than other clients to have used the information were non-whites, clients in poor to fair health, and clients who held a POA for a homeowner.

G. Satisfaction with Lenders versus Counselors

Client satisfaction with reverse mortgage lenders and counselors was very high, with counselors earning slightly higher ratings overall. But within certain categories of respondents, the differential between lender and counselor ratings was more pronounced (see Table 54). Among non-borrowers, 92 percent said they were satisfied with their counselors and 77 percent were "very" satisfied with their counselors. In contrast, 75 percent of non-borrowers who had contact with lenders said they were satisfied with their lenders, and 47 percent were "very" satisfied with their lenders. Only 6 percent of the non-borrowers were dissatisfied with their counselors, compared to 23 percent of non-borrowers with lender contact who were dissatisfied with their lenders. Among non-whites, the differences were less pronounced, with 92 percent counselor satisfaction versus 80 percent lender satisfaction, and 5 percent counselor dissatisfaction versus 19 percent lender dissatisfaction.

Table 54: Differences between lender and counselor satisfaction ratings

Category (n)	Satisfied			Not Satisfied			
	Very	Some-what	Total	Not too	Not at all	Total	Don't Know
ALL							
Lenders (991)	73%	17%	90%	4%	5%	9%	1%
Counselors (1,509)	82%	12%	95%	2%	1%	3%	2%
BORROWERS							
Lenders (712)	78%*	15%	93%	3%	3%	6%	1%
Counselors (946)	84%*	12%	95%	2%	1%	2%	2%
NON-BORROWERS							
Lenders (279)	47%	28%*	75%	9%*	14%*	23%*	2%
Counselors (563)	77%	15%	92%	3%*	3%*	6%*	2%
WHITES							
Lenders (835)	74%*	18%	92%	4%	4%	7%	1%
Counselors (1,264)	83%*	12%	95%	2%	1%	3%	2%
NON-WHITES							
Lenders (139)	64%	16%	80%	6%	13%*	19%*	1%
Counselors (222)	77%	15%	92%	3%	3%	5%*	2%

*Statistically significant at the .05 level; see questions 20 and 24 of AARP Survey.
Base for Counselor Satisfaction: All survey respondents in each of the above groups. Base for Lender Satisfaction: Survey respondents within each group who reported they had had contact with a lender.

H. Sources of Helpful Information

After being asked about their experiences with reverse mortgage lenders and counselors, survey respondents were asked, "When you were looking for information or advice related to a reverse mortgage, which of the following sources of information were helpful to you?" The survey interviewers then named and asked individually about each of the eight sources listed in Table 55, and respondents indicated whether the named source had been helpful to them.

The only sources a majority of the respondents deemed helpful were the reverse mortgage counselors (70 percent) and information from AARP (52 percent). The sources next most frequently deemed helpful were lenders (30 percent), newspapers or magazines (27 percent), family members or relatives (26 percent), television (22 percent), and professional financial advisors (20 percent). In general, there were few notable differences between borrowers and non-borrowers with regard to which information sources they found to be helpful. Borrowers were more likely than non-borrowers to say that the counselor was helpful (72 percent vs. 66 percent). However, borrowers were substantially more likely to deem lenders helpful than were non-borrowers, with 33 percent of the borrowers, but only 20 percent of the non-borrowers, saying the lender was helpful to them. (This is probably because non-borrowers were less likely than borrowers to say they have had contact with a lender—49 percent of non-borrowers vs. 75 percent of borrowers said that they had contact with a lender.)

Table 55: Helpful sources of information

	All (n = 1,509)	Borrowers (n = 946)	Non-borrowers (n = 563)
Independent reverse mortgage counselor	70%	72%*	66%
Information from AARP	52%	53%	50%
A lender who worked for a bank or mortgage company	30%	33%*	20%
Newspaper or magazine	27%	29%	24%
A family member or relative	26%	26%	26%
Television	22%	22%	23%
A professional financial advisor	20%	20%	21%
A friend or neighbor	16%	17%	14%

*Statistically significant at the .05 level; see question 28 of AARP Survey.

Respondents were then asked to specify which one of the sources was the most helpful to them. As shown in Table 56, reverse mortgage counselors were the clear winners as the most helpful source of information. They earned top ranking from all respondents (33 percent), borrowers (31 percent), and non-borrowers (38 percent). The second most helpful source of information was AARP, selected as the most helpful source by 19 percent of all respondents, 20 percent of borrowers, and 17 percent of non-borrowers. Ranking third most helpful were family members and friends, who were deemed most helpful by 10 percent of all respondents, and by 11 percent of borrowers versus 9 percent of non-borrowers. The only other information sources deemed most helpful by at least 5 percent of the respondents were lenders (7 percent) and professional financial advisors (6 percent).

Table 56: The most helpful sources of information

Most helpful	All (n = 1,509)	Borrowers (n = 946)	Non-borrowers (n = 563)
Independent reverse mortgage counselor	33%	31%	38%*
Information from AARP	19%	20%	17%
A family member or relative	10%	11%	9%
A lender who worked for a bank or mortgage company	7%	8%	6%
A professional financial advisor	6%	6%	6%
Newspaper or magazine	4%	4%	3%
Television	4%	4%	3%
A friend or neighbor	3%	3%	4%
Internet (general)	2%	2%	1%

*Statistically significant at the .05 level; see question 29 of AARP Survey.

The high ratings counselors received were especially impressive in that the only respondent groups between which there were statistically significant differences were the borrower versus non-borrower difference cited above. In other words, counselors received broad, across-the-board high rankings from all respondent sub-groupings. The AARP ratings were also broadly consistent across respondent groups, but with slightly higher ratings given by single (compared to widowed) borrowers and those with at least some college education (as opposed to those with less education).

By contrast, the degree to which respondents cited a family member or relative as their most important information source varied across a variety of respondent groups. More likely among them to rate this group as the most important source were females, widows, and those age 80 and over, with lower incomes, lesser education, seeking necessities rather than extras, and not exercising a POA (see Table 57). The following individuals were more likely than their counterparts to select lenders as their most helpful source of information: those age 62–74 (vs. those age 75–79), those with incomes from $30,000–$49,999 (compared to those with incomes of less than $10,000), those exercising a POA (vs. those homeowners acting on their own behalf), and those citing illness as a reason for investigating reverse mortgages (vs. those not citing illness as a reason) (see Table 57).

Table 57: Counseling clients selecting a family member or relative and lender as their most helpful information source

	n=	Most Important Information Source	
		Family Member or Relative	Lender
Total	1,509	10%	7%
Gender			
Males	580	7%	6%
Females	925	12%*	8%
Marital Status			
Married	576	7%	7%
Widowed	640	15%*	7%
Divorced/Separated	196	6%	9%
Single	85	5%	3%
Age			
62–69	319	7%	10%*
70–74	330	9%	8%*
75–79	368	9%	4%
80–84	242	13%*	6%
85+	213	18%*	8%
Income			
< $10,000	132	14%*	3%
$10,000–$19,999	402	13%*	7%
$20,000–$29,999	361	11%*	7%
$30,000–$49,999	286	7%	11%*
$50,000+	85	3%	8%
Education			
High School	679	13%*	6%
Some College	494	9%	8%
College Graduate+	318	6%	8%
Looking for			
Extras	550	7%	7%
Necessities	744	13%*	8%
Homeowner or POA			
Homeowner	1309	11%*	7%
POA	200	3%	16%*
Illness a reason?			
Yes	296	7%	11%*
No	1206	11%	7%

*Statistically significant at the .05 level; see question 29 of AARP Survey.

VIII. Borrower Outcomes

Do reverse mortgages meet the financial needs of borrowers? What is the impact of these loans on borrowers' lives? Would they recommend reverse mortgages to others? The following sections examine how borrowers experienced the outcomes of their decisions to take out loans.

A. Meeting Borrower Needs

More than four of five borrowers (83 percent) said their loans had completely (58 percent) or mostly (25 percent) met their financial needs, as shown in Table 58. Only 12 percent said their loans had partly met their needs, and 2 percent said their loans had not at all met their financial needs. Another 2 percent said it was too soon to tell if they had done so.

Table 58: Meeting the financial needs of borrowers (n = 946)

Which best describes the degree to which the reverse mortgage has met your financial needs?	Percent
Completely	58%
Mostly	25%
Partly	12%
Not at all	2%
Too soon to tell	2%

See question 39 of AARP Survey.

The borrowers least likely to say their loans had met their needs completely were those who were divorced or separated (46 percent), age 69 or younger (47 percent), with annual income of less than $10,000 (50 percent), or with a prior mortgage on their homes (51 percent). All other things being equal, younger borrowers qualify for smaller loan amounts than older borrowers, and those with preexisting mortgages typically use some or all of their reverse mortgage loans to pay off these mortgages, leaving them with fewer loan proceeds to spend in other ways. The findings with respect to divorced and separated borrowers and those with lower incomes suggest that the loan amounts for which they qualified were relatively less in relation to their needs.

Borrowers whose reverse mortgages had not met their financial needs completely were asked why this was the case. The leading response was that their loans had not provided enough money to do so (see Table 59). Thirty-nine percent (39 percent) of these borrowers cited this reason, which far outpaced all other reasons given. The next most frequently cited reasons were unexpected or rising expenses (cited by 11 percent), not enough time to use the money as planned (8 percent), the loan cost too much (6 percent), and the borrower had not yet needed to use any or all of the loan proceeds (6 percent).

Insufficient loan funds not only were by far the most frequently cited reason why reverse mortgages did not completely meet borrower needs—they also were a broadly cited reason. The one significant difference: borrowers citing fair to poor health were more likely to cite this reason (48 percent) than those in good to excellent health (35 percent) (see health care discussion in Part V-C).

Table 59: Reasons why reverse mortgages did not completely meet borrowers' financial needs* (n = 347)

Why hasn't the reverse mortgage completely met your financial needs?	Percent
Couldn't get enough money from the reverse mortgage	39%
Unexpected or rising expenses	11%
Haven't had time to use the money the way I had planned	8%
The loan cost too much	6%
Have not needed to use all/any of it yet	6%

*See question 40 of AARP Survey.
Base: Borrowers who said the reverse mortgage had not met their needs completely.

B. Impact on Borrowers' Lives

From a public policy perspective, meeting financial needs is the intended purpose of a reverse mortgage. But what does achieving this goal mean to borrowers? What impact does it have on their lives? Reverse mortgage borrowers were asked, "Overall, would you say that the reverse mortgage has had mostly a positive impact on your life or mostly a negative impact?" Surveyed borrowers overwhelmingly said their loans had a mostly positive impact on their lives (93 percent of borrowers), as opposed to a mostly negative impact (3 percent). Those who felt the loan had a mostly positive impact were then asked this open-ended question: "In what ways has the reverse mortgage had a positive impact on your life?" The top, unprompted responses were that they gave borrowers peace of mind (42 percent), improved their quality of life (33 percent), and enabled them to stay in their homes (12 percent).

Every borrower was then asked about each of several specific positive impacts to see if the reverse mortgages had had these impacts on his or her life. The responses (see Table 60) showed that strong majorities agreed their loans had four positive impacts on their lives. Specifically, they said their reverse mortgages had

- given them peace of mind (94 percent);
- helped them have a more comfortable lifestyle (89 percent);
- improved their quality of life (87 percent); and
- helped them remain at home (79 percent).

Table 60: Impact of reverse mortgages on borrowers' lives (n = 946)

Your reverse mortgage has . . .	Agree			Disagree			Don't know
	Strongly agree	Agree	Total	Disagree	Strongly disagree	Total	
given you peace of mind	52%	41%	94%	4%	1%	5%	1%
helped you have a more comfortable lifestyle	43%	45%	89%	6%	2%	9%	2%
improved your quality of life	42%	46%	87%	8%	1%	9%	3%
helped you remain at home	41%	38%	79%	13%	5%	18%	3%

See question 42 of AARP Survey.

The responses varied little across most respondent categories with respect to three of these positive impacts. The only type of impact that elicited significantly different levels of agreement within categories of borrowers was the loan had helped the borrower remain in their own homes. As Table 61 demonstrates, the borrowers more likely than others to say their loans had helped them remain in their homes were females; older and widowed borrowers; borrowers with a high school or less education, lower income and assets, fair or poor health, or a preexisting mortgage; and borrowers who had investigated reverse mortgages primarily for necessities or to help someone with disabilities.

Table 61: Reverse mortgage helped borrower remain at home

	n =	Agree	Disagree	Don't know
All Borrowers	946	79%	18%	3%
Gender				
Male	365	73%	22%*	5%*
Female	578	82%*	15%	2%
Age				
<70	171	74%	24%*	2%
70–74	203	77%	19%*	4%
75–79	234	79%	18%*	3%
80–84	163	83%	13%	3%
85+	152	89%*	6%	5%
Marital Status				
Married	359	72%	22%*	6%*
Widowed	418	87%*	11%	1%
Div./Sep.	104	78%	21%*	1%
Single	57	74%	22%*	2%
Education				
High School	430	85%*	10%	5%*
Some College	308	75%	22%*	3%
College Grad +	195	73%	25%*	1%
Income				
< $10,000	82	91%*	7%	2%
$1,000–$19,999	265	86%*	11%	2%
$20,000–$29,999	233	80%*	15%	5%
$30,000–$49,999	179	71%	27%*	2%
$50,000+	45	62%	33%*	4%
Assets				
<$25,000	534	85%*	13%	2%
$25,000+	179	71%	26%*	2%
Health Status				
Fair/Poor	280	84%*	14%	2%
Good/Excellent	607	76%	19%*	3%
Mortgage?				
Mortgage	413	83%*	15%	2%
No Mortgage	525	76%	19%	4%
Looking for				
Extras	332	72%	24%*	3%
Necessities	503	86%*	12%	2%
Illness a reason?				
Yes	192	90%*	7%	2%
No	749	76%	19%*	3%

*Statistically significant at the .05 level; see question 42a of AARP Survey.

C. Recommending Reverse Mortgages

A common test of a consumer's evaluation of a product is whether he or she would recommend it to a friend. When reverse mortgage borrowers were asked this question, 63 percent said they would be very likely to recommend a reverse mortgage to a friend, and another 26 percent said they would be somewhat likely to do so. Taken together, these results indicate that nearly nine of 10 (89 percent) reverse mortgage borrowers would be likely to recommend such a loan to a friend. Only 8 percent said they would be unlikely to make such a recommendation, with 3 percent saying they would be "not too likely" and 5 percent saying they would be "not at all" likely to do so.

The only borrowers significantly more likely than others to recommend reverse mortgages to a friend were those with higher incomes and greater assets. The only borrowers significantly less likely to make such a recommendation were those age 85 and older.

D. Initial Versus Long-Term Satisfaction

Borrowers in this survey clearly expressed high levels of satisfaction that their loans had met at least most of their needs and that the impact on their lives had been positive. However, at least two limitations of this research warrant further research on the impact on borrowers over time. The first limitation relates to the fact that our sample was overwhelmingly drawn from borrowers who had participated in reverse mortgage counseling within the past three years (92 percent), which meant their loans were less than three years old. As a result, the answers they provided to evaluative questions about their reverse mortgages only reflected their short-term assessments of these loans.

Over time, as they review the substantial growth in their reverse mortgage debt, current borrowers may become more keenly aware of how much of their equity has been consumed by loan fees and interest. To the extent that they did not fully understand or appreciate how compound interest can swell a reverse mortgage loan balance (and shrink remaining home equity) over time, they may come to a different conclusion about what may have been the short-term benefits versus the long-term costs of their loans. This scenario could be especially likely if the recent trends of relatively low interest rates and high rates of home value appreciation should be reversed—leaving some borrowers with less equity to draw on or leave as an inheritance than they may have anticipated. Although recent borrowers can assess the performance of their loans to date, their assessment of their reverse mortgages can only be a current "snapshot" and may reflect a "honeymoon" perspective about a recently made, major decision. In fact, it will be many years before they can provide long-term evaluations of these loans.

A second, related limitation is that current borrowers' needs could change substantially as they age. Earlier sections of this report noted that older borrowers are more likely to report that their reasons for looking into a reverse mortgage were driven by needs and health-related expenditures. Younger borrowers appear to have looked into a reverse mortgage to retire a preexisting forward mortgage to have more discretionary income for extras. To the extent that borrowers have already expended their available loan funds by their later years, when they encounter health-related needs or financial needs associated with exhausting other resources, they may come to regret their earlier expenditures of home equity.

For example, some current borrowers may also find they have to move to a residential setting that better accommodates their evolving physical conditions. Only then may they realize how little remaining equity they have with which to pay for the housing solution their current condition requires. At that point, some borrowers may conclude they would have been better off if they had postponed taking out their reverse mortgages—or using most or all of their available loan funds—until that time.

We suggest these possibilities, not because we necessarily believe borrowers are likely to regret their decisions over time. Ten years from now, current borrowers may conclude that the timing and use of their reverse mortgages a decade earlier was a wise use of resources. Moreover, if their home values increase substantially, and interest rates remain relatively low over the next decade, they may be able to refinance their reverse mortgages and access additional equity later. Future research should explore how borrowers' needs change over time and how rising loan balances affect borrower's evaluations of their reverse mortgages.

Future research should also focus on the reasons why the average duration of HECM loans (6 years) is so short in relation to the median remaining life expectancy of the average HECM borrower assumed by HUD, which is 12 years (Szymanoski et al, 2007). Why are these loans being repaid so soon? How do these borrowers and their heirs assess their experiences with these loans? Since over 9 in 10 borrowers in our survey had obtained their loans within the past three years, these are key questions that our survey results cannot answer.

IX. Conclusions and Recommendations for Policy and Practice

This report has summarized trends in the reverse mortgage industry, explored the drivers of consumer interest, and provided the first data about the experiences of borrowers who take out such loans. The following sections draw conclusions from this information and offer recommendations to deal with emerging issues facing both older homeowners and the reverse mortgage industry.

A. Conclusions

Conclusion 1: FHA's Home Equity Conversion Mortgage insurance program has successfully created the foundation for the financial infrastructure of the reverse mortgage industry.

The Home Equity Conversion Mortgage program has been a public policy success story. In the 20 years since it was authorized, this federal insurance program has moved reverse mortgages from being a financial curiosity to a nascent market that may be poised for substantial growth. Among the important achievements of the HECM program are:

- an insurance model that pools the risks involved in open-ended loans that do not become due until the homeowner dies, sells the home, or moves permanently;
- flexible payment options that allow consumers to address a variety of needs through monthly payments for a specific term or for the borrower's tenure in the home, a lump sum, a line of credit, or combinations of these approaches;
- a line of credit payment option with a growing availability of loan funds over time that has become a model for the reverse mortgage industry;
- a total annual loan cost (TALC) disclosure that is more complete than the annual percentage rate (APR) disclosure required for other loans;
- mandatory counseling that educates consumers about reverse mortgages and alternative ways to address their needs; and
- the backing of the federal government, which has resulted in the secondary market funding of these loans, first from Fannie Mae and more recently from Wall Street investors, who are beginning to establish more competitive interest rates.

Cumulatively, these changes have laid the foundation for the recent growth in the volume of reverse mortgages and have spurred growth in non-FHA competitors. However, despite this growth, only 1 percent of older households have taken out a reverse mortgage, and only small percentages of older homeowners express interest in doing so.

Conclusion 2: Reverse mortgages have enabled older homeowners to address a range of needs and desires with a high level of initial satisfaction.

Reverse mortgages are still primarily a needs-driven product, though the data from AARP's survey found that older homeowners were able to address a wide range of needs and desires —paying for health- and disability-related needs, paying off mortgages and other debts, funding homeowner-related expenses, dealing with everyday expenses, and improving the quality of life. Though relatively small percentages of borrowers used their loans to make investments or purchase annuities and long-term care insurance products, these uses are rarely in the consumer's interest. The involvement of some lenders in marketing such financial products are issues that require greater consumer education and greater emphasis on ethical marketing practices.

AARP's survey also found high levels of initial borrower satisfaction with HECM loans, and high levels of overall consumer satisfaction with reverse mortgage lenders and counselors. Most borrowers were able to meet their financial needs with a reverse mortgage, at least to a considerable degree, and overwhelming majorities noted that their loans had enabled them to stay in their homes and enjoy peace of mind.

Conclusion 3: Loan costs are too high.

Consumer concerns about high costs, as reflected in the AARP Survey and other research, most likely represent the single greatest impediment to greater acceptance of reverse mortgages. When counseling clients who decided against taking out one of these loans were asked why, they cited high costs most frequently. When asked to identify the main reason they decided against a reverse mortgage, high costs were the leading reason by a 3-to-1 margin over the next most frequently cited main reason. Even two-thirds (69 percent) of borrowers deemed the costs high (see Part VI above).

Concerns about the high costs extend beyond the consumers who might be interested in reverse mortgages. Leading personal finance experts have described costs as being "huge" (Quinn, 2006) and "staggering" (Clements, 2007) and have cautioned against taking out such loans. Quinn noted that "financial planners hate reverse mortgages for new retirees," and Clements recommended that consumers should view them only as "a last resort." A common suggestion has been that consumers should wait if they can to see if better, lower-cost products emerge over the next couple of years (Harlow, 2007; Quinn, 2006).

Changing the negative views of consumers and financial advisors will require public policies and product developments that focus on reducing reverse mortgage costs. The recommendations in this section suggest a number of ways the HECM program and the lending industry can reduce costs and make reverse mortgages a more mainstream financial instrument for older homeowners.

Conclusion 4: Consumer knowledge about and confidence in reverse mortgages is low.

Consumer impressions of and attitudes toward reverse mortgages are still in the formative stages. AARP's research indicates that awareness of the existence of reverse mortgages is increasing, though interest in taking out a loan in the future has decreased. Most consumers admit that they do not know much about these loans, and misunderstandings about reverse mortgages are still common. Data from research cited above (see Part VI), indicate that many consumers are still wary of such loans.

A small market in its formative stages, like the reverse mortgage market, can be particularly susceptible to bad press and the resulting negative impact on consumer confidence. From a market growth standpoint, negative media coverage about high costs or unethical marketing practices could easily turn consumer wariness into public distrust of reverse mortgages. It is prudent to take steps now to build consumer confidence with steps that improve consumer information and prohibit unethical marketing practices.

Conclusion 5: More research is needed on how consumer uses of reverse mortgages change over the course of their loans as well as on the long-term impact of these loans on their financial well-being.

One major limitation of the 2006 AARP Survey was the large percentage of respondents who had taken out loans in recent years. Partly, this was due to the fact that two-thirds of all HECM loans have been made during the past three years, and partly it reflects the limitations of the database from which our sample was drawn. As a result, the sample had few respondents with loans more than three years in duration, and it included no homeowners or heirs who had gone through the process of paying off the loans after selling, moving, or inheriting the property after the death of the homeowner.

One consequence of the sampling limitations is that the results focus on the short-term experiences of HECM borrowers. Future research should focus on the longer-term effects of having a reverse mortgage. For example, the most commonly mentioned "main use" mentioned by borrowers was to retire an existing mortgage. But after retiring the mortgage, do borrowers continue to draw on their remaining equity for other purposes or do they reserve their creditlines for needs later in life? Health and disability needs were cited as the main use by only 5 percent of the borrowers, but do such needs become a more prominent use over time as borrowers encounter age-related disabilities later in life?

Another aspect of the long-term effects of reverse mortgages deserving of future research is the impact of such loans on asset divestiture and the ability to address needs in late life. Put directly, are some reverse mortgage borrowers trading their long-term savings in home equity for short-term consumption in ways that will jeopardize their future financial security? Some trends included in this report suggest that these concerns deserve further research. For example, the average age of HECM borrowers has declined by more than 3 years since the early years of the program—and by 2.5 years since 2000. Moreover, HUD data indicates that younger HECM borrowers are using their loans for relatively short periods of time, which is potentially a very expensive way to address short-term needs. Anecdotally, counselors are reporting that more reverse mortgage borrowers are dealing with financial distress—often from high cost home equity loans or credit card debt.

To the extent that borrowers are using their equity for current consumption or to deal with the consequences of poor financial decisions in the past, they may run out of equity long before they run out of years to live. This issue may be particularly important for those who have long-term care needs later in life that could be funded with home equity—either home care services that could be funded through a reverse mortgage or assisted living or other residential care for those who need to use the proceeds from selling their homes to pay for services. The high levels of initial satisfaction found in this report may dissolve later on as borrowers discover that they have little if any remaining equity or as they discover the high costs when paying off the loans. The unique qualities of reverse mortgages call for a unique kind of financial literacy as older homeowners explore the best ways to manage this asset in a way that will address their needs over the remainder of their lives.

B. Recommendations

The 2006 AARP Survey findings suggest that future growth in this market will depend on moving reverse mortgages from a high-cost, low-volume niche product to a more competitively priced, higher-volume range of products with greater flexibility to meet the needs of future generations of older Americans. Growth will also depend on building consumer confidence in the information consumers receive from counselors and lenders about both the short- and long-term consequences of taking out reverse mortgages and other available options. The following sections look at ways to reduce costs and build consumer confidence in reverse mortgages to lay the foundation for the future reverse mortgage market: 1) changes in the HECM program; 2) product and policy innovations to address a broader range of needs and preferences; 3) improvements to consumer counseling and disclosure; and 4) improvements to lender marketing practices.

1. Changes to the HECM Program to Reduce Costs and Build Consumer Confidence

The AARP Survey found that high loan costs are clearly leading some homeowners who might otherwise benefit from reverse mortgages to forgo these loans. Congress and HUD could take several steps to reduce the cost of the program and build consumer confidence in reverse mortgages.

a. Increasing Competitive Pressures to Reduce Costs

Recommendation 1: Remove the limit on the number of reverse mortgages that can be insured by FHA to promote higher volume and more competitive pricing.

The efficiencies from a growing reverse mortgage market should result in lower costs to consumers. Indeed, the first competition among investors lowered interest rates on many HECM loans by half a percent in the past year. In time, increased competition may also help moderate costs associated with origination and servicing fees. One constraint on market growth and competition has been a statutory limit on the number of HECMs HUD is authorized to insure, although legislation to remove the limit was pending at the time this report was written. Removing the limit on the number of loans is broadly supported by the reverse mortgage industry and consumer advocates as an important step in market development, as it would clear the way for lenders to pursue business plans and marketing strategies based on "higher-volume, lower-price" models.

b. Reducing Origination Fees and Establishing a Single National Home Value Limit

Recommendation 2: Establish a single national limit on home values in the HECM program **<u>only if</u>** ***the allowable cap on origination fees is reduced substantially.***

Since HUD changed the cap on origination fees allowed under the HECM program in 2000 from a flat dollar amount to 2 percent of the home's value (subject to county-based limits), the maximum cap on origination fees has increased by over 300 percent—from $1,800 to $7,256. Unless origination fee caps are reduced, the maximum cap would increase still further under proposals to establish a single national home value limit in the HECM program that is greater than any of its current county-specific limits. A single national limit would simplify the program and permit larger loan amounts in many cases. But since the maximum HECM origination fee cap is tied to these limits, the proposal would also increase those fees further. A compromise proposal by AARP and industry representatives would permit a single national home value limit only if HUD's current limit on origination fees is reduced by 25 percent. At the time of the writing of this report, Congress had not yet completed action on this proposal.

c. Addressing the Costs of Mortgage Insurance

Recommendation 3: Reduce the mortgage insurance premiums charged to consumers under the HECM program consistent with the actuarial soundness of the program.

Under the HECM program, consumers currently pay a substantial mortgage insurance premium of 2 percent of the home value (subject to county-based limits) in upfront fees, plus an additional one-half percent on the interest rate to pay for mortgage insurance premiums under the HECM program. HUD's most recent independent actuarial analysis of the HECM program (Rodda et al., 2003) found that the mortgage insurance charged was about $1,000 per loan more than was needed to cover the program's anticipated liabilities. Reducing those premiums is one way to reduce the costs of reverse mortgages to consumers. The HECM reform legislation pending at the time this report was written requires a study of the mortgage insurance premiums with the goal of reducing them, consistent with maintaining the actuarial soundness of the program. This study should take into account the fact that the average duration of a HECM loan to date (six years) has been much less than HUD expected (Szymanoski et al., 2007).

d. HECM Changes to Increase Consumer Confidence

Consumer confidence in reverse mortgages can be seriously undermined if initial satisfaction gives way to unpleasant surprises later on. Consumers believe that reverse mortgages protect their ability to live in their homes, and the mortgage insurance they purchase protects their heirs from any debt that exceeds the home's value. But these assumptions may not always be true.

Recommendation 4: Develop policies to avoid foreclosing on consumers who run out of funds to pay property taxes and homeowners insurance.

Counselors, lenders, and most consumer information about HECM loans emphasize the unfortunate consequences if borrowers fail to pay their property taxes or homeowners insurance premiums. Nonetheless, non-payment of property taxes and homeowners insurance has become a vexing issue for the HECM program. The timely payment of these charges is a borrower obligation on virtually all home loans, including reverse mortgages. Reverse mortgage borrowers who expend their available loan funds and then become delinquent on these obligations are in default and subject to foreclosure, which could result in their being evicted from their homes.

As the prime owners of HECM loans, Fannie Mae and HUD generally have not exercised their right to foreclose on tax-delinquent HECMs. But as the number of such delinquencies increases and other entities purchase HECM loans, the likelihood of foreclosures will increase. No clear policy guidelines have been developed for dealing with foreclosures. Ginnie Mae has indicated that it will purchase and securitize HECM loans, but it will require HECM originators to repurchase delinquent loans or foreclose on homes with delinquent loans (Ginnie Mae, 2007). The willingness of originators to sell their loans to Ginnie Mae on this basis is not yet clear.

Recommendation 5: Clarify that the HECM non-recourse limit means that borrowers or their estates will <u>never</u> owe more than the value of the home.

Some borrowers' heirs may be in for a rude surprise when they learn that HUD is administering a key provision of the HECM program in a way that differs from what loan officers or counselors may have told them. As stated on the first page of the HECM program handbook:

> The HECM is a "non-recourse" loan. This means that the HECM borrower (or his or her estate) will **never** [emphasis added] owe more than the loan balance or the value of the property, whichever is less; and no assets other than the home must be used to repay the debt.

As actually administered by HUD, however, the non-recourse provision only applies to the estate if it sells the home. If the estate does not do so, it must repay the full amount of the loan balance, even if it exceeds the value of the home. But HUD has never announced that its non-recourse practice differs from the policy in its HECM program handbook, or that new regulations or policy letters have altered the handbook's non-recourse policy. As a result, many consumers may have been misinformed about this key defining characteristic of the HECM loan. HUD should resolve the discrepancy between its stated non-recourse policy and its practice by conforming its practice to the definition in the HECM handbook.

2. Product Innovations to Reduce Costs and Meet the Growing Diversity of Consumer Needs

a. Public or Private Product Innovations

Recommendation 6: HUD and proprietary reverse mortgage programs should develop reverse mortgages with reduced costs for those who want to borrow small amounts.

Most prospective borrowers are interested in a line of credit, but some do not want or need the full creditlines for which they are eligible under the HECM program. They would prefer much smaller creditlines with lower costs, but they do not have that option. They must agree to the maximum available line of credit, even if they do not ever intend to withdraw anywhere near all of the funds available to them. Large creditlines make these mortgages riskier and translate directly into the substantial insurance premiums charged on these loans. Conversely, a reverse mortgage with much smaller loan limits would require much lower insurance charges, if any.

Such a product undoubtedly would be more attractive to many prospective borrowers who want to borrow relatively small amounts. Given the shorter-than-expected average duration of a HECM loan (Szymanoski et al., 2007), some consumers may even be willing to limit their creditline draw period to a fixed term of years, provided no repayment is required until the borrower's death, sale of the home, or permanent move from the home. As the market develops, these types of "lite" reverse mortgages are likely to appear, either within the HECM program or as private, proprietary products. Given their lower cost and greater flexibility, they may play a large role in shaping the future reverse mortgage market.

Recommendation 7: HUD and proprietary reverse mortgage programs should develop reverse mortgages that permit borrowers to increase their available loan funds in the future without all the costs of a formal refinance.

A variation on the "lite" or any other reverse mortgage would permit borrowers to increase their available loan funds at a future time without all the costs of a formal refinance. Some homeowners might be more interested in borrowing small amounts initially if they were assured that they could borrow more in the future without costly refinancing. Low-cost "rollovers" of this sort would depend on future home values, loan balances, and interest rates. In effect, by taking on more of the risk associated with these variables, borrowers would substantially reduce or eliminate the need for any reverse mortgage insurance premium or other risk-pooling costs.

Recommendation 8: HUD and proprietary reverse mortgage programs should develop "reversible mortgages" that can shift from forward to reverse mortgages as homeowners age and their ability to make mortgage payments decreases.

As this report notes, more homeowners are entering old age with substantial mortgage debts. Retiring such debts was the most frequently mentioned use of reverse mortgages among the borrowers in the AARP Survey. A product innovation that could lower the costs for those homeowners who want to retire their forward mortgages with a reverse mortgage would be a "reversible" mortgage. Marketed to middle-age homebuyers, it would initially finance the purchase of a home like any other "forward" mortgage. But it would also give borrowers the option to suspend making monthly payments to the lender (shifting the loan into "neutral") or to obtain reverse mortgage payouts from the lender when the ratio of the loan's balance to the home's value reaches a specified percentage. By combining the functions of a forward mortgage, home equity loan, and reverse mortgage into a single product, lenders could realize efficiencies, resulting in lower overall costs to borrowers.

b. Public Programs and Subsidies to Reduce Costs to Consumers with Special Needs

Recommendation 9: States and localities should initiate low-cost public reverse mortgages to defer payment of property taxes and finance home repairs and modifications for older homeowners.

When borrowers in the 2006 AARP Survey were asked the main use to which they put their reverse mortgages, home repairs and improvements was the second most frequently mentioned category at 18 percent. Another 5 percent mentioned property taxes and homeowners insurance. These needs were particularly common among widowed women and non-whites with low incomes and financial assets. Some states offer programs to defer property taxes or provide loans for home repairs and modifications with payments deferred until the owner dies or sells the home. These programs are effectively low-cost, public sector reverse mortgages that can be an important part of a strategy for addressing the needs of older homeowners while stabilizing and revitalizing neighborhoods and communities (AARP, 2007). In 2000, 24 states and the District of Columbia offered tax-deferral programs (Baer, 2003).

Such programs can also be a crucial complement to strategies to promote home- and community-based long-term care services for older persons with disabilities by providing low–cost, deferred-payment loans for home modifications. Of borrowers in the AARP Survey who identified home repairs or modifications as a reason for looking into a reverse mortgage, 25 percent of those in fair or poor health indicated that they wanted to use the reverse mortgage to "make it easier for someone with a disability or illness to live in the home." States could couple these deferred-payment loans with referral services to connect older homeowners with reputable home-modification companies that are knowledgeable about modifications that enhance independence. Such programs should include consumer protections to ensure borrowers receive accurate information and are referred to reputable home-modification companies.

Recommendation 10: HUD and HHS should create incentives for state-based demonstrations to lower the cost of reverse mortgages used to support the independence of older persons with disabilities or long-term care needs.

Some federal and state policymakers have expressed interest in promoting reverse mortgages as a solution to financing home- and community-based services from private sources rather than from the Medicaid program. But the high costs associated with HECMs and proprietary loans can drain substantial resources from care, especially from homeowners with modest amounts of equity, who are most likely to be eligible for Medicaid. Moreover, the average length of home care is about two years, and the high upfront fees associated with reverse mortgages mean that the effective costs over such short periods are very high. Low-cost loans for older homeowners needing long-term care services, such as the Connecticut program described in Appendix E, should be a model for federal and state programs seeking new ways to finance long-term care services, provided such programs are voluntary and have adequate consumer protections.

Given the need for such alternatives, and the fact that funding is the primary barrier to their development, government-sponsored entities (GSEs) such as Fannie Mae, Freddie Mac, and Ginnie Mae should consider creating a secondary market for long-term care reverse mortgages. By purchasing such loans, the GSEs would provide the funding needed to make these low-cost reverse mortgages available to homeowners with long-term care needs on a national basis.

HUD and the states should work together to reduce the costs of HECMs for homeowners with long-term care needs by forgiving the upfront mortgage insurance premiums and/or providing subsidies from other public or private sources, such as Medicaid or state–funded, long-term care programs. Reducing the costs of borrowing would make more equity available for crucial services, assistive devices and equipment, and home modifications to support the independence of older people with disabilities. State-based demonstrations with federal assistance could link low-cost, long-term care reverse mortgages with counseling and referral services to connect consumers with services they need, much like the state-based "cash and counseling" programs.

Recommendation 11: Congress should repeal provisions in the 2000 American Home Ownership and Economic Opportunity Act that authorize forgiving the upfront mortgage insurance premiums on HECM loans whose proceeds are used entirely to pay for long-term care insurance.

Providing incentives and subsidies to use home equity to promote the independence of older homeowners with disabilities makes sense, but subsidizing the purchase of long-term care insurance does not. Even with forgiveness of the upfront mortgage insurance, as authorized by the 2000 American Home Ownership and Economic Opportunity Act Housing Act, using a reverse mortgage to purchase long-term care insurance could double or triple the cost of the insurance over time. Homeowners who do not have sufficient income and financial assets to afford LTC insurance almost certainly are not good candidates for such insurance, and they risk exhausting their equity and their ability to pay insurance premiums when they are entering their high-risk later years. HUD should not implement these provisions, and Congress should repeal the provisions in the 2000 law and replace them with the kinds of incentives outlined in Recommendation 10.

3. Improvements to Consumer Counseling and Information

The AARP Survey found that significant percentages of females, widows, non-whites, respondents age 85 or over, and those in fair or poor health answered "don't know" when asked to assess reverse mortgage costs. These findings suggest that individuals and entities providing information to prospective borrowers and counseling clients should take more time and care to make certain that clients understand the costs. As the market and the products become more diverse, special efforts will be required to establish and enforce high standards for individual counselors and the information they give consumers.

Recommendation 12: HUD should improve the kinds of information it gives to consumers to enable them to understand potential alternatives to reverse mortgages.

HUD has taken some important steps recently to improve the counseling program. In January 2007, HUD (2007a) proposed a new regulation to establish testing, training, education, and technical assistance standards for all HECM counselors. When this report was written, HUD was also finalizing a detailed protocol of policies and best practices for HECM counselors. At the same time, under a grant from HUD, the AARP Foundation's Reverse Mortgage Education Project was finalizing a new online loan analysis and comparison tool that included individually customized client information on selling and moving as a major alternative to borrowing. The Project was also developing an individual counselor quality control program and was about to arrange access to an online screening tool for public benefit programs as alternatives to reverse mortgages. With such tools, counselors will be able to provide better information to consumers with income or long-term care needs and help consumers make educated and informed decisions about whether a reverse mortgage is right for them.

Based on findings from the AARP Survey with respect to counselor performance, HUD should consider requiring HECM counselors to:

- provide client-specific information on the economics of selling and moving as an alternative to HECM borrowing;
- use a public benefits screening tool to help clients identify alternatives more systematically; and
- ask if they have answered all of their clients' questions before ending their counseling sessions.

Recommendation 13: Sufficiently fund reverse mortgage counseling services.

Federal law requires HECM counseling as an absolute legal precondition for homeowners to obtain a HECM loan, and the HECM statute says an entity "other than the lender" must provide this counseling. But Congress has never provided HUD with sufficient funding to pay for the counseling, so it has been financed to a substantial degree by lenders. The rapid increase in the volume of loans made under the HECM program has not been matched by increased funds to pay for the counseling, which at times has created serious bottlenecks in processing loans and has led to increased reliance on lender funds. Lender financing does not necessarily mean that counseling will be substandard or skewed to lender interests. But until HUD implements the full range of counseling quality control mechanisms now in development, it permits lenders to be the de facto arbiters of counseling quality. It does so because it allows lenders to decide which counseling agencies to fund and to discontinue any agency's funding at any time and for any reason.

To promote the independence of HECM counseling, HUD should request and Congress should provide sufficient dedicated funding to pay for all of the HECM counseling mandated by statute. The cost of truly independent, high-quality counseling is only about $150–$200 per case, a tiny fraction of the fees typically charged on federally insured reverse mortgages. In the example used above, counseling fees would only be about half of 1 percent of the noninterest costs in the $30,000 range over the life of the loan. This small investment in independent counseling may be the most important protection that Congress could make for consumers and for the integrity of the HECM program.

Congress has only considered substantially increasing its funding for bankruptcy counseling and mortgage foreclosure counseling after a national crisis occurred. It would be much better for consumers, the HECM program, and the nascent reverse mortgage industry if Congress could head off potential crises with reverse mortgages by adequately funding reverse mortgage counseling.

Until Congress provides sufficient funding, HUD should promote high-quality counseling through alternative financing mechanisms. In implementing its new policy permitting counseling agencies to charge modest HECM counseling fees, HUD should:

- permit borrowers who close on loans to pay such fees with loan proceeds, just as it does for other third-party costs, and
- allocate more of the counseling funds it receives from Congress to pay for HECM counseling that does not result in a closed loan.

A counseling fee should not be implemented until HUD finalizes its new HECM counseling regulation, protocol, and quality-control program. Moreover, a fee charged to borrowers should only be permitted if lenders are prohibited from paying such fees on behalf of borrowers. Even with a fully developed counseling quality-control program in place, lenders should not be permitted to decide which agencies they will fund and which they will discontinue funding.

Recommendation 14: Provide more effective counseling on monthly loan costs, the "rising debt, falling equity" nature of reverse mortgages, and the cost impact of interest rate and home value changes.

HECM counselors are required to discuss all the costs of a reverse mortgage. While upfront costs are relatively easy for most consumers to see and understand, the total ongoing costs associated with a HECM's monthly servicing fee (up to $35 per month) and monthly mortgage insurance premium (0.5 percent of the current total amount owed each month) are more difficult to understand and evaluate because they are spread out over the life of the loan. To make certain that consumers understand these atypical costs, HUD should modify its HECM software to quantify—and require HECM counselors to discuss with their clients—the projected total dollar amount of these costs at their clients' median remaining life expectancy as defined by federal Truth-in-Lending law for Total Annual Loan Cost disclosures.

The amount owed on a reverse mortgage grows larger over time at a compounding rate, and borrowers' remaining equity in the home generally decreases. This "rising debt, falling equity" scenario makes these loans radically different from the "forward" mortgages and home equity loans with which most homeowners are most familiar. Showing prospective borrowers a projected schedule of their reverse mortgage loan balance increases and equity decreases over time, therefore, is an effective way to demonstrate the fundamental characteristics of these loans. In particular, it shows them how the amount of interest charged on loan advances and on non-interest costs that have been paid with loan proceeds grows larger over time.

Most HECM counseling currently occurs by telephone, and HUD permits clients to decide whether they will have such projections in hand during their counseling sessions, or if the projections will be sent to them only after the counseling has been completed. HUD should require that consumers have such information from counselors in hand before they receive counseling. To ensure that HECM counseling clients understand their future loan balance and remaining equity projections are based on assumptions that are subject to change, HUD should also require counselors to ask their clients if they would like to see these projections based on alternative assumptions about future interest rates and home values. Alternative scenarios are easy to generate and clearly demonstrate how much financial projections depend on the assumptions used to generate them.

4. Improvements in the Marketing Practices of Lenders

According to a recent newsletter from the National Reverse Mortgage Lenders Association (NRMLA), "As more companies enter the reverse mortgage business, the need for higher educational and ethical standards becomes critically important" (NRMLA, 2007). The last two recommendations are designed to elevate the marketing practices employed by companies and individuals who originate reverse mortgages.

Recommendation 15: Lenders should participate in education and accreditation programs that promote the ethical marketing of reverse mortgages.

Consumer confidence in reverse mortgages can be undermined if originators use unethical marketing practices, and borrowers are persuaded to use these loans for questionable purposes. The sale of investments, most annuities, and long-term care insurance via reverse mortgage financing can be particularly harmful to homeowners' interests. Nonetheless, 9 percent of the borrowers the AARP Survey indicated that their lenders had recommended such products, and 4 percent of borrowers indicated that they had used their reverse mortgages for such purposes.

In May 2007, NRMLA announced that its board had approved development of an accreditation program—including testing—for reverse mortgage professionals. NRMLA also provides a code of conduct and a detailed set of best practices for its members (www.nrmlaonline.org). The latter document includes guidelines to help lenders avoid misleading consumers about annuities and annuity providers. It also provides questions about annuities that it says lenders should ask of consumers who are considering them. NRMLA should consider developing similar guidelines for investments and long-term care insurance. It should also institute independent verification of member adherence to association standards similar to the systems developed by the Financial Industry Regulatory Authority (www.finra.org) for securities and the Insurance Marketplace Standards Association (www.imsaethics.org) for insurance.

Even seemingly sound uses of reverse mortgage proceeds can be inimical to borrower interests. For example, a homeowner facing foreclosure on a "forward" mortgage or home equity loan could use a reverse mortgage to pay off the delinquent debt and end up with no monthly payments to make. In fact, this type of reverse mortgage "rescue" has saved family homes from foreclosure when no other remedy was available. But anyone contemplating such a use should obtain legal counsel to ensure that all other remedies have been exhausted or none is available. Particularly if the delinquent debt has been the result of a predatory loan, paying off the predatory lender should be avoided if other legal remedies are available.

Recommendation 16: State and federal agencies should develop new cost disclosures and suitability standards for reverse mortgages that are used to purchase investments, annuities, and long-term care insurance.

Congress and HUD have been concerned about the potential for abusive marketing practices that induce HECM borrowers to use their loans to make investments or to purchase annuities or other products and services that may not be in their best interest. Since 1998, the federal Truth-in-Lending Act has required lenders to include the costs and benefits of an annuity purchased with reverse mortgage loan proceeds when disclosing the loan's Total Annual Loan Cost (TALC). Since 1999, HUD has required that if HECM borrowers request an initial disbursement that equals 25 percent or more of their available loan funds, lenders "must make sufficient inquiry at closing to confirm that the HECM proceeds will not be used for . . . payment of excessive fees for third party services that may have little or no value and are not necessary" to obtain a HECM.

State governments and the Insurance Marketplace Standards Association should amend their suitability standards and cost disclosures for long-term care insurance sales to cover situations in which consumers are considering using reverse mortgage proceeds to purchase it. Sales practices that attempt to convince consumers to use home equity to pay for such insurance should be defined as violations of suitability standards. Alternatively, states should require a statement of the combined average monthly cost of the insurance plus the reverse mortgage projected on an annual basis to beyond the consumer's life expectancy.

The Securities and Exchange Commission (SEC) should issue a consumer advisory about using reverse mortgages to purchase investments and annuities, including examples of the projected net impact of loan costs versus investment returns on an annual basis. The SEC and the Financial Industry Regulatory Authority should promulgate a protocol for disclosing this information on an individually customized basis for any investment marketed via reverse mortgage financing. HECM counselors should use any such advisory to inform consumers about the costs and risks associated with using reverse mortgages for investments. HUD should develop suitability standards for its HECM program that proscribe marketing these loans for investment purposes.

C. A Final Word

The reverse mortgage industry is at a critical juncture in its development. After many years of low volume, the number of HECM loans made in fiscal year 2007 exceeded 100,000 for the first time. The infrastructure of mortgage insurance, originators, servicers, and investors has been developed, and enough performance data have been collected to evaluate the risks associated with such loans over time. In addition, tools have been developed to counsel consumers about reverse mortgages and alternatives. The initial response from consumers who participated in this survey has largely been positive with respect to their experiences with the loan process and in meeting their needs.

However, as reverse mortgages move from a rather exotic niche of the mortgage market to a more mainstream financial option for greater numbers of older homeowners, government agencies, lenders, and consumer advocates must work together to lay the foundation of the next generation of reverse mortgage products, services, and regulations. Moving from a low-volume, high-cost market to one characterized by higher volume and more competitive pricing will require reducing costs and building consumer confidence. Recent industry and public policy developments create the conditions for addressing these problems, but the recent collapse of the subprime mortgage market provides some sobering lessons on problems that can occur if high fees and inappropriate marketing practices are allowed to continue.

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Appendix A: Description of Methodology for National Telephone Survey of Reverse Mortgage Counseling Recipients and Factor Analysis of Responses

The national telephone survey of reverse mortgage counseling recipients consisted of interviews with 1,509 individuals who completed the reverse mortgage counseling required in order to obtain a HECM reverse mortgage. Interviews were conducted by ICR, a research firm located in Media, Pennsylvania, between December 4, 2006 and December 30, 2006.

All survey respondents completed the counseling between 2001 and 2006. They included 1309 older homeowners, of which 807 ultimately decided to take out a reverse mortgage ("borrowers") and 502 who had not yet taken out a reverse mortgage at the time of the AARP Survey ("non-borrowers"). In addition, in order to focus on the needs of homeowners with high levels of disability, 200 interviews were conducted with representatives of older homeowners who had a power of attorney ("POA") enabling them to make legal/financial decisions on behalf of a homeowner.

For the purpose of this report, the terms "POAs" or "POA respondents" are used to refer to the 200 survey respondents (or any subset thereof) who underwent counseling as a representative of a homeowner for whom they had power of attorney. Alternatively, the terms "homeowners" or "homeowner respondents" are used to refer to the 1,309 homeowners (or any subset thereof) who represented themselves during the counseling and acted without a power of attorney.

The sample source for this survey was AARP's database of individuals who received and completed reverse mortgage counseling from 2001 to 2006. When designing the sample for the survey, quotas were set for three subgroups of respondents – homeowners who became borrowers, homeowners who became non-borrowers, and POAs – in order to ensure that an adequate number of interviews would be completed with respondents from each of these groups given our interest in each group's opinions and experiences. Within POAs, quotas for borrowers and non-borrowers were *not* set as the limited number of POA individuals in AARP's database (POAs represented only three percent of the records in the database) raised concerns that setting additional quotas within the POA group would be cost prohibitive and/or simply impossible to meet. Therefore, for POA respondents, a quota of 200 was set with no further restrictions regarding the number of POA borrowers and POA non-borrowers. For homeowner respondents, a quota for homeowners who became borrowers was set at 800, and a quota for homeowners who became non-borrowers was set at 500.

AARP's database of counseling recipients included the name of the "primary owner" of the home as well as the name of the "co-owner" in cases in which a co-owner existed. For homeowners that acted without a power of attorney, the phone interviewers were instructed to target the "primary owner" under the assumption that the primary owner would have played a larger role than the co-owner in the reverse mortgage decision-making process. For this reason, homeowner interviews were completed only with the "primary owners" except in cases in which the person identified as the primary owner in our database was reported to be deceased by the time of the survey. In those cases, the homeowner interviews were completed with the individual identified in our database as the "co-owner." The majority of married survey respondents are male (68 percent), which suggests that, among married couples who received reverse mortgage counseling, men were more likely than women to be listed as the "primary owner."

The AARP Survey results were weighted to be representative of the individuals that completed reverse mortgage counseling through AARP's network of counselors from 2001 to 2006 based on the incidence of homeowners and POAs (97 percent to 3 percent) in AARP's database. For this reason, although 200 of the 1,509 survey respondents were POAs, the POAs were weighted down in the overall results to represent only three percent of the total respondents. For the homeowner respondents, a second weight factor was applied to ensure that the ratio of borrowers to non-borrowers among the homeowner respondents reflected the ratio of borrowers to non-borrowers within AARP's database of counseling recipients (as determined through the screening interviews conducted during the screening for this survey).

The margin of error for total respondents is +/- 2.5 percentage points at the 95 percent confidence level. For homeowner respondents, it is +/-2.7 percentage points. For POA respondents, it is +/- 6.9 percentage points.

The overall response rate for this study was calculated to be 53.5 percent.

Description of the Factor Analysis

Factor analysis attempts to identify underlying variables, or factors, that explain the pattern of correlations within a set of observed variables. Factor analysis is often used in data reduction to identify a small number of factors that explain most of the variance observed in a much larger number of manifest variables. Factor analysis can also be used to generate hypotheses regarding causal mechanisms or to screen variables for subsequent analysis (for example, to identify collinearity prior to performing a linear regression analysis). Factor analysis allows investigation of the number of underlying factors and, in many cases, identification of what the factors represent conceptually.

The factor analysis that we performed on reasons for looking into reverse mortgages included only 10 of the 11 reasons that were examined in the AARP Survey (in survey questions 8 and 8a). The health and disability-related reason was excluded from the factor analysis and isolated for separate analyses because of the policy interest in this reason.

The factor analysis resulted in four factor structures that explain 57 percent of the total variance.[5] The factor structures identified were:

- Extra Expenses/ Everyday Non Health-Related Expenses
- Homeowner Related Expenses
- Debt
- Investments or Insurance/ Family Member Help

Reason Originally Decided to Look Into a Reverse Mortgage Factor Structure

	Factor Structure			
	Factor 1	Factor 2	Factor 3	Factor 4
Extra Expenses/ Everyday Non Health-Related				
q8l To improve the quality of life or to be able to afford some extras	**0.7953**	-0.0694	0.1451	0.0763
q8n To have more money available for emergencies or other unexpected needs	**0.7432**	0.1564	0.1881	0.0830
q8k To pay for everyday expenses other than healthcare-related expenses	**0.6128**	0.4114	-0.1765	-0.1116
Homeowner Related Expenses				
q8p To pay property taxes or homeowners insurance	0.2018	**0.6761**	0.0331	0.0760
q8c To make home repairs or home improvements	-0.1126	**0.6195**	0.1692	0.0200
q8g To pay for help with hh chores and maintenance such as cleaning or lawn care	0.3013	**0.5458**	-0.1408	0.1441
Debt				
q8a To pay off homeowners mortgage or other debt on the home	0.1483	-0.1444	**0.7784**	-0.0116
q8b To pay off other debt such as other loans or credit card debt	0.0413	0.2594	**0.7294**	0.0418
Insurance/ Family Members				
q8o To have the money to purchase an annuity or to purchase Long Term Care Insurance	0.1253	-0.0817	-0.0496	**0.8455**
q8i To provide financial help to children grandchildren or other family members	-0.0412	0.2868	0.0824	**0.5844**

Total Variance Explained =	56.546
Kaiser-Meyer-Olkin Measure of Sampling Adequacy =	0.691
Bartlett's Test of Sphericity =	1328.142

[5]Methodological Note: A principal components listwise factor analysis, with varimax rotation, was utilized as the method for this analysis. Principal Components Analysis factor extraction method was used to form uncorrelated linear combinations of the observed variables. The first component has maximum variance. Successive components explain progressively smaller portions of the variance and are all uncorrelated with each other. Principal components analysis is used to obtain the initial factor solution. It can be used when a correlation matrix is singular. Listwise excludes cases that have missing values for any of the variables used in any of the analyses. Varimax rotation is an orthogonal rotation method that minimizes the number of variables that have high loadings on each factor and simplifies the interpretation of the factors.

The Kaiser-Meyer-Olkin measure of sampling adequacy is adequate, at .69. This measure must be at least .50 for the entire set of base variables. The degree of common variance among the 10 variables is middling, and the factors extracted account for a fare amount of variance. The null hypothesis (which we want to reject) for Bartlett's Test of Sphericity is that the intercorrelation matrix comes from a population in which the variables are noncollinear (i.e. an identity matrix), and that the non-zero correlations in the sample matrix are due to sampling error. Due to the fact that this test was significant at $p<.05$, it was determined that the sample intercorrelation matrix did not come from a population in which the intercorrelation matrix is an identity matrix, and therefore the factor model is appropriate.

Appendix B: Reverse Mortgage Counseling Recipient Survey Annotated Questionnaire

The study was conducted for AARP via telephone by ICR, an independent research company. Interviews were conducted from December 4 – December 30, 2006 among a representative sample of 1509 respondents who received counseling by AARP's network of reverse mortgage counselors. Of those 1,509 respondents, 1,309 were homeowners and 200 were individuals who received counseling while acting as power of attorney (POA) for a homeowner. Results were weighted based on type of respondent (homeowner and POA status as well as borrower/non-borrower status) to be representative of the individuals who have received counseling through AARP's network. The margin of error for total respondents is +/-2.5% at the 95% confidence level. More information about ICR can be obtained by visiting www.icrsurvey.com.

For each question, this annotated questionnaire displays the percentage of respondents who provided each response. For all questions that were asked of a *subset* of respondents, the number of respondents is displayed next to each question. If the number of respondents is *not* displayed next to a particular question, the question was asked of all 1,509 respondents, including all 1,309 homeowners and all 200 POAs.

Throughout this annotated questionnaire, an asterisk (*) is used to note that less than one half of a percent (0.05%) of respondents provided a particular response. A dash (--) is used to note that no respondents provided a particular response.

	Margin of Error
POA's	*+/-6.9%*
Homeowners	*+/-2.7%*
Total respondents	*+/- 2.5%*

(Asked of total homeowners from sample; n = 1307)

1. According to our information, the reverse mortgage counseling that you received was related to taking out a reverse mortgage on **<u>your own</u>** home. (IF NECESSARY: that is, the home that you owned at the time of the counseling.) Is that correct?

	Yes	**No**	**Don't know**	**Refused**
Homeowner	100	--	*	--

(Asked of total homeowners from sample and dk/ref to reverse mortgage counseling [q.1]; n = 3)

1a. According to our information, the reverse mortgage counseling that you received was related to taking out a reverse mortgage on **<u>your own</u>** home. (IF NECESSARY: that is, the home that you owned at the time of the counseling.) Is that correct?

	Yes	**No**	**Don't know**	**Refused**
Homeowner	100	--	--	--

(Asked of total homeowners from sample; n = 1307)
1/1a. Combo Table

	Yes	No	Don't know	Refused
Homeowner	100	--	--	--

(Asked of total homeowners who received reverse mortgage counseling but it wasn't on their own home; n = --)

2a. Was the reverse mortgage counseling that you received related to **someone else's** home – that is, a home that someone other than yourself owned at the time of the counseling?

	Yes	No	Don't know	Refused
POA	--	--	--	--

(Asked of total POAs from sample; n = 202)

2b. According to our records, the reverse mortgage counseling that you received was related to taking out a reverse mortgage on **someone else's** home. (IF NECESSARY: that is, a home that belonged to someone other than yourself at the time of the counseling.) Is that correct?

	Yes	No	Don't know	Refused
POA	97	3	--	--

(Asked of total POAs from sample and dk/ref to reverse mortgage counseling [q.2b]; n = --)

2ba. According to our records, the reverse mortgage counseling that you received was related to taking out a reverse mortgage on **someone else's** home. (IF NECESSARY: that is, a home that belonged to someone other than yourself at the time of the counseling.) Is that correct?

	Yes	No	Don't know	Refused
POA	--	--	--	--

(Asked of total POAs from sample; n = 200)
2b/2ba. Combo Table

	Yes	No	Don't know	Refused
POA	100	--	--	--

(Asked of total POAs who received reverse mortgage counseling but it wasn't on someone else's home; n = 2)

2bb. Was the reverse mortgage counseling that you received related to **your own** home – that is, the home that you owned at the time of the counseling?

	Yes	No	Don't know	Refused
POA	100	--	--	--

Quota Table

	Homeowners	POAs
Total	97	3
POA	--	100
Homeowner	100	--

(Asked of total POAs; n = 200)

3. When you received the reverse mortgage counseling, were you acting under a power of attorney or as a legal representative on behalf of the actual homeowner?

	Yes	No	Don't know	Refused
POA	100	--	--	--

5a/5b. Was the counseling about a first-time reverse mortgage, or was it about refinancing an existing reverse mortgage?

	First-time reverse mortgage	Refinancing an existing reverse mortgage	Don't know	Refused
Total	96	4	*	--
POA	97	3	--	--
Homeowner	96	4	*	--

(Asked of total POAs; n = 200)

4. What was your relationship to the homeowner? Was the homeowner your…?

	Family member or relative	Friend	Client (not a relative/ friend)	Don't know	Refused
POA	91	7	3	--	--

(Asked of total POAs; n = 200)

4a. Is (Are) the homeowner (s) still living?

	Yes	No	One is living, but one is deceased	Don't know	Refused
POA	61	37	--	1	2

(Asked of total POAs where the homeowner (s) is/are still living; n = 122)

4b. Is (Are) the homeowner(s) still living in the home?

	Yes, homeowner(s) is/are still living in the home	No, homeowner(s) is/are now living in another location	One homeowner remains in the home, the other homeowner is in another location	Don't know	Refused
POA	80	19	--	1	--

(Asked of total POAs where one homeowner is still living and one is deceased; n = --)

4c. Is the living homeowner still in the home?

	Yes	No	Don't know	Refused
POA	--	--	--	--

4a/b/c. Combo Table

(Total POAs; n = 200)

	Homeowner(s) still living/1 is living and 1 is deceased						
	NET	**Still living in the home**	**Now living in another location**	**One homeowner remains in the home, the other is in another location**	**Homeowner is not still living**	**Don't know**	**Refused**
POA	61	49	12	--	37	1	2

5. Did you receive the reverse mortgage counseling…?

	Within the past 12 months	**More than 1 year ago but less than 3 years ago**	**More than 3 years ago**	**Don't know**	**Refused**
Total	35	57	6	2	--
POA	13	79	9	1	--
Homeowner	36	56	6	2	--

6. At the time that you received the reverse mortgage counseling, was there still a mortgage or other debt, such as a home equity loan, on the home - or was the mortgage completely paid off?

	Still a mortgage or other debt on the home	**Mortgage or other debt on home was completely paid off**	**Don't know**	**Refused**
Total	47	53	*	*
POA	23	76	1	1
Homeowner	48	52	*	*

7. Did you actually **apply for** a reverse mortgage (on behalf of the homeowner)?

	Yes	**No**	**Still deciding whether to but have not applied**	**Acted as POA during counseling but homeowner applied without my involvement**	**Don't know if applied/ can't remember**	**Refused**
Total	83	17	*	*	--	--
POA	82	16	1	2	--	--
Homeowner	83	17	*	--	--	--

8. Please think back to why you **originally decided** to look into a reverse mortgage. As I read each of the following statements, please tell me if it was a major reason, a minor reason, or not a reason at all that you looked into a reverse mortgage.
The first reason is (INSERT). Was that a major reason, a minor reason, or not a reason at all that you originally looked into taking out a reverse mortgage?
Next is (INSERT NEXT ITEM).

a. To pay off (your/the homeowner's) mortgage or other debt on the home

	REASON			Not a reason at all	Don't know	Refused
	NET	Major	Minor			
Total	39	29	10	61	*	--
POA	21	15	6	79	1	--
Homeowner	40	30	10	60	*	--

b. To pay off other debt, such as other loans or credit card debt

	REASON			Not a reason at all	Don't know	Refused
	NET	Major	Minor			
Total	28	15	12	72	*	--
POA	18	10	8	82	--	--
Homeowner	28	16	13	72	*	--

c. To make home repairs or home improvements

	REASON			Not a reason at all	Don't know	Refused
	NET	Major	Minor			
Total	46	23	23	54	*	--
POA	39	18	21	62	--	--
Homeowner	46	23	23	54	*	--

g. To pay for help with household chores and maintenance such as cleaning or lawn care

	REASON			Not a reason at all	Don't know	Refused
	NET	Major	Minor			
Total	18	7	11	82	*	--
POA	35	15	21	65	--	--
Homeowner	18	7	11	82	*	--

i. To provide financial help to children, grandchildren, or other family members

	REASON			Not a reason at all	Don't know	Refused
	NET	Major	Minor			
Total	14	4	9	86	--	--
POA	9	6	3	91	--	--
Homeowner	14	4	10	86	--	--

j. To pay for expenses or purchases for healthcare, medical, or disability needs

	REASON			Not a reason at all	Don't know	Refused
	NET	Major	Minor			
Total	26	14	12	74	*	*
POA	75	59	16	26	--	--
Homeowner	24	13	12	76	*	*

k. To pay for everyday expenses other than healthcare-related expenses

	REASON			Not a reason at all	Don't know	Refused
	NET	Major	Minor			
Total	47	26	21	53	1	*
POA	64	33	31	36	1	--
Homeowner	46	26	20	53	1	*

l. To improve the quality of (your/the homeowner's) life or to be able to afford some extras

	REASON			Not a reason at all	Don't know	Refused
	NET	Major	Minor			
Total	71	43	28	29	*	--
POA	64	36	28	35	1	--
Homeowner	71	43	28	29	*	--

n. To have more money available for emergencies or other unexpected needs

	REASON			Not a reason at all	Don't know	Refused
	NET	Major	Minor			
Total	75	43	32	25	*	--
POA	64	33	31	36	--	--
Homeowner	75	44	32	24	*	--

o. To have money to invest, or to purchase an annuity, or to purchase long-term care insurance

	REASON			Not a reason at all	Don't know	Refused
	NET	Major	Minor			
Total	14	5	9	86	*	--
POA	10	4	6	90	--	--
Homeowner	14	5	9	86	*	--

p. To pay property taxes or homeowner's insurance

	REASON			Not a reason at all	Don't know	Refused
	NET	Major	Minor			
Total	27	13	14	73	*	--
POA	34	15	19	67	--	--
Homeowner	27	13	14	73	*	--

8a. Were there any other reasons that you originally looked into a reverse mortgage?

	Total	POA	Homeowner
Other reason (NET)	9	6	9
To pay off (your/the homeowner's) mortgage or other debt on the home	1	1	1
To pay off other debt, such as other loans or credit card debt	*	--	*
To make home repairs or home improvement	--	--	--
To pay for help with household chores and maintenance such as cleaning or lawn care	--	--	--
To provide financial help to children, grandchildren, or other family members	*	2	*
To pay for expenses or purchases for healthcare, medical, or disability needs	*	1	*
To pay for everyday expenses other than healthcare-related expenses	1	--	1
To improve the quality of (your/the homeowner's) life or to be able to afford some extras	1	--	1
To have more money available for emergencies or other unexpected	*	--	*

needs			
To have money to invest, or to purchase an annuity, or to purchase long-term care insurance	*	--	*
To pay property taxes or homeowner's insurance	*	--	*
To be able to keep/stay in our home	1	3	1
To purchase another/new home/condo	*	--	*
Inheritance issues (to avoid family fighting, lack of heirs to pass home onto, etc.)	1	1	1
Idea was recommended by someone else (family/friends, advisor, etc.)	1	--	1
Not working/lost my job	*	--	*
For more information/curious	1	--	1
Other	1	1	1
No other reasons	91	94	91
Don't know	*	--	*
Refused	*	--	*

9. Which of those reasons was the <u>main</u> reason that you originally looked into getting a reverse mortgage?

	Total	**POA**	**Homeowner**
To pay off (your/the homeowner's) mortgage or other debt on the home	19	7	19
To pay off other debt, such as other loans or credit card debt	6	6	6
To make home repairs or home improvements	13	8	14
To pay for help with household chores and maintenance such as cleaning or lawn care	1	5	1
To provide financial help to children, grandchildren, or other family members	2	3	2
To pay for expenses or purchases for healthcare, medical, or disability needs	6	41	5
To pay for everyday expenses other than healthcare-related expenses	9	12	9
To improve the quality of (your/the homeowner's) life or to be able to afford some extras	18	8	19
To have more money available for emergencies or other unexpected needs	12	3	13
To have money to invest, or to purchase an annuity, or to purchase long term care insurance	2	1	2
To pay property taxes or homeowner's insurance	4	1	4
To be able to keep/stay in our home	1	2	1
To purchase another/new home/condo	*	--	*
Inheritance issues (to avoid family fighting, lack of heirs to pass home onto, etc.)	1	1	1
Idea was recommended by someone else (family/friends, advisor, etc.)	*	--	*
Not working/lost my job	*	--	*
For more information/curious	1	--	1
Other	1	1	1
No reasons given	1	1	1
Don't know	2	4	2
Refused	*	--	*

10. Now, thinking about all of the reasons that you looked into a reverse mortgage, were any of those reasons related to a physical or mental illness or disability, either (your own/the homeowner's) illness or disability or a family member's illness or disability?

	Yes	No	Don't know	Refused
Total	15	85	*	--
POA	65	35	1	--
Homeowner	13	87	*	--

10a. Which of the following best describes the <u>main</u> reason that you originally looked into a reverse mortgage? Was it mostly…?

	A desire to improve (your/the homeowner's) quality of life, by having more money to spend on extras	A need for more money to pay for basic necessities and essential expenses	Don't know	Refused
Total	38	48	11	3
POA	18	72	9	1
Homeowner	39	47	11	3

11. You indicated that you did <u>not</u> apply for a reverse mortgage. I am going to read you a list of reasons why some homeowners <u>**do not**</u> apply for reverse mortgages. As I read each one, please tell me if it was a reason why you did not apply. How about (INSERT)? Was this a reason you did not apply for a reverse mortgage?

a. (You were/The homeowner was) not eligible **(Asked of total who have not applied/still deciding; n = 375; POA = 32; Homeowner = 343)**

	Yes	No	Don't know	Refused
Total	8	92	1	--
POA	6	91	3	--
Homeowner	8	92	1	--

b. The costs of the reverse mortgage were too high **(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)**

	Yes	No	Don't know	Refused
Total	63	34	4	--
POA	50	50	--	--
Homeowner	63	33	4	--

c. The amount of money that you would have received was too small **(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)**

	Yes	No	Don't know	Refused
Total	28	63	8	*
POA	33	63	3	--
Homeowner	28	63	9	*

d. (You want your children or other loved ones to inherit the home/You want the home to remain in the family when the homeowner dies") **(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)**

	Yes	**No**	**Don't know**	**Refused**
Total	40	58	2	*
POA	30	70	--	--
Homeowner	40	58	2	*

f. You like knowing that (you own your /the homeowner owns the) home completely, free of any mortgages **(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)**

	Yes	**No**	**Don't know**	**Refused**
Total	57	42	1	*
POA	33	67	--	--
Homeowner	58	41	1	*

h. You are still considering whether or not to apply for a reverse mortgage **(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)**

	Yes	**No**	**Don't know**	**Refused**
Total	31	67	2	*
POA	3	97	--	--
Homeowner	32	66	2	*

i. You are concerned that a reverse mortgage will put (you/the homeowner) in too much debt **(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)**

	Yes	**No**	**Don't know**	**Refused**
Total	31	68	2	--
POA	27	73	--	--
Homeowner	31	67	2	--

j. You decided that a reverse mortgage was not necessary given (your/the homeowner's) financial situation **(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)**

	Yes	**No**	**Don't know**	**Refused**
Total	54	44	2	*
POA	23	70	7	--
Homeowner	55	43	2	*

l. You found another way to meet (your/the homeowner's) financial needs **(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)**

	Yes	No	Don't know	Refused
Total	56	44	1	--
POA	70	30	--	--
Homeowner	55	44	1	--

m. You decided that a reverse mortgage would make more sense for you in the future than it would now **(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)**

	Yes	No	Don't know	Refused
Total	43	51	7	--
POA	10	87	3	--
Homeowner	44	50	7	--

n. The costs of the home repairs required to get the reverse mortgage were too expensive **(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)**

	Yes	No	Don't know	Refused
Total	13	83	4	*
POA	10	90	--	--
Homeowner	13	83	4	*

o. The process of taking out a reverse mortgage was too long or too complicated **(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)**

	Yes	No	Don't know	Refused
Total	20	77	3	--
POA	13	83	3	--
Homeowner	21	77	3	--

(Asked of total who have not applied/still deciding and it wasn't because they were not eligible; n = 346; POA = 30; Homeowner = 316)

11p. Are there other reasons why you did not apply for a reverse mortgage?

	Total	POA	Homeowner
Homeowner/person whom reverse mortgage funds were going to help died	1	17	1
Influence of others/others didn't want me to/didn't think I should	2	--	2
Dissatisfaction with reps/customer service	2	--	2
Decided to sell/considering selling the house instead	2	--	2
Didn't like the terms of the reverse mortgage (adjustable rate, etc.)	1	--	1
Other	4	10	3
No other reasons	88	73	89
Don't know	*	--	*
Refused	--	--	--

7/11. Combo Table

	Total	POA	Homeowner
Have not applied/still deciding (NET)	17	16	17
Because (you were/the homeowner was) not eligible	1	1	1
Because the costs of the reverse mortgage were too high	10	8	10
Because the amount of money that you would have received was too small	4	5	4
Because (you want your children or other loved ones to inherit the home/you want the home to remain in the family when the homeowner dies")	6	5	6
Because you like knowing that (you own your /the homeowner owns the) home completely, free of any mortgages	9	5	9
Because you are still considering whether or not to apply for a reverse mortgage	5	1	5
Because you are concerned that a reverse mortgage will put (you/the homeowner) in too much debt	5	4	5
Because you decided that a reverse mortgage was not necessary given (your/the homeowner's) financial situation	8	4	9
Because you found another way to meet (your/the homeowner's) financial needs	9	11	9
Because you decided that a reverse mortgage would make more sense for you in the future than it would now	7	2	7
Because the costs of the home repairs required to get the reverse mortgage were too expensive	2	2	2
Because the process of taking out a reverse mortgage was too long or too complicated	3	2	3
Because of other reasons (NET)	2	4	2
Homeowner/person whom reverse mortgage funds were going to help died	*	3	*
Influence of others/others didn't want me to/didn't think I should	*	--	*
Dissatisfaction with reps/customer service	*	--	*
Decided to sell/considering selling the house instead	*	--	*
Didn't like the terms of the reverse mortgage (adjustable rate, etc.)	*	--	*
Because of other reasons	1	2	1
Have actually applied	83	82	83
Don't know	--	--	--
Refused	--	--	--

(Asked of total who have not applied/still deciding; n = 375; POA = 32; Homeowner = 343)

12. Which of these reasons was the main reason why you did not apply for a reverse mortgage?

	Total	POA	Homeowner
The costs of the reverse mortgage were too high	27	28	27
The amount of money that you would have received was too small	5	3	5
You want your children or other loved ones to inherit the home/You want the home to remain in the family when the homeowner dies"	3	--	3
You like knowing that (you own your /the homeowner owns the) home completely, free of any mortgages	5	--	6
You are still considering whether or not to apply for a reverse mortgage	5	--	5
You are concerned that a reverse mortgage will put (you/the homeowner) in too much debt	3	--	3
You decided that a reverse mortgage was not necessary given (your/the homeowner's) financial situation	9	--	9
You found another way to meet (your/the homeowner's) financial needs	8	25	7
You decided that a reverse mortgage would make more sense for you in the future than it would now	8	--	8
The costs of the home repairs required to get the reverse mortgage were too expensive	1	3	1
The process of taking out a reverse mortgage was too long or too complicated	4	3	4
Homeowner/person whom reverse mortgage funds were going to help died	1	13	1
Influence of others/others didn't want me to/didn't think I should	1	--	1
Dissatisfaction with reps/customer service	2	--	2
Decided to sell/considering selling the house instead	1	--	1
Didn't like the terms of the reverse mortgage (adjustable rate, etc.)	*	--	*
(You were/The homeowner was) not eligible	8	6	8
Other	3	9	2
None of these	5	3	5
Don't know	1	6	1
Refused	*	--	*

(Asked of total who have not applied/still deciding because they found another way to meet their financial needs; n = 195; POA = 21; Homeowner = 174)

13. Instead of taking out a reverse mortgage, what is the one main thing that you did to meet (your/the homeowner's) financial needs?

	Total	POA	Homeowner
Received financial help from family members	5	10	5
Received help from a government program (e.g. Medicaid, SSI, etc.)	1	14	1
Decided to sell the home	6	14	5
Refinanced	9	--	9
Received another type of loan against the home (if needed: such as a home equity loan, etc.)	17	24	17
Negotiated a way to reduce or pay off debts (excluding debt on the home--i.e. credit card debt, debt from medical expenses, etc.)	2	--	2

Reduced spending / Cut back on expenses	12	--	12
Used credit card or built up credit card debt	1	--	1
Received another type of loan (not credit card; not loan against the home)	4	10	4
Worked/went back to work	4	--	5
Used own money/own funds (investments, etc.)	6	5	6
Sold another asset (another house, car, etc.)	2	--	2
Bought investments/insurance for future financial security	3	--	3
Other	3	10	2
Nothing/no additional action taken	18	10	18
Don't know	3	--	3
Refused	5	5	5

11/13. Combo Table

(Total who have not applied/still deciding; n = 375; POA = 32; Homeowner = 343)

	Total	POA	Homeowner
Found another way to meet their financial needs	51	66	51
Received financial help from family members	2	6	2
Received help from a government program (e.g. Medicaid, SSI, etc.)	1	9	*
Decided to sell the home	3	9	3
Refinanced	5	--	5
Received another type of loan against the home (if needed: such as a home equity loan, etc.)	9	16	8
Negotiated a way to reduce or pay off debts (excluding debt on the home--i.e. credit card debt, debt from medical expenses, etc.)	1	--	1
Reduced spending / Cut back on expenses	6	--	6
Used credit card or built up credit card debt	*	--	*
Received another type of loan (not credit card; not loan against the home)	2	6	2
Worked/went back to work	2	--	2
Used own money/own funds (investments, etc.)	3	3	3
Sold another asset (another house, car, etc.)	1	--	1
Bought investments/insurance for future financial security	2	--	2
Other	1	6	1
Nothing/no additional action taken	9	6	9
Did not find another way to meet their financial needs	41	28	41
(You were/The homeowner was) not eligible	8	6	8

(Asked of total who have applied for a reverse mortgage; n = 1134; POA = 168; Homeowner = 966)

15. Did you actually receive or take out a reverse mortgage (on behalf of the homeowner)?

	Yes	No	Still deciding where or not to take out a reverse mortgage but have not taken one out yet	Acted as POA during counseling but homeowner took out the reverse mortgage without my involvement	Don't know if I took out a reverse mortgage	Refused
Total	90	9	*	*	--	*
POA	80	17	--	3	--	--
Homeowner	91	9	*	--	--	*

7/15. Combo Table

	Applied for a reverse mortgage					Did not apply for a reverse mortgage	Still deciding whether to apply
	NET	Received/ took out reverse mortgage	No, did not receive/ take out reverse mortgage	Still deciding whether to take one out or not	Acted as POA during counseling, but homeowner took out the reverse mortgage without my involvement		
Total	83	75	8	*	*	17	*
POA	84	67	15	--	3	16	1
Homeowner	83	75	8	*	--	17	*

(Asked of total who did not take out or still deciding whether to take out a reverse mortgage/dk/ref; n = 188; POA = 29; Homeowner = 159)

14. Was your application for a reverse mortgage approved?

	Yes	No	Don't know	Refused
Total	45	41	11	3
POA	66	17	17	--
Homeowner	44	42	11	3

7/14/15. Combo Table

	Total	POA	Homeowner
Applied for a reverse mortgage	83	84	83
No, did not receive/still deciding/dk/ref	8	15	8
Application was approved	4	10	3
Application was not approved	3	3	3
Received/took out reverse mortgage	75	67	75
Acted as POA during counseling, but homeowner took out the reverse mortgage without my involvement	*	3	--
Did not apply for a reverse mortgage	17	16	17
Still deciding whether to apply	*	1	*

(Asked of total who did not apply because they were not eligible or who did not take out a reverse mortgage because their application was not approved; n = 101; POA = 7; Homeowner = 94)

13b. Instead of taking out a reverse mortgage, what, if anything, did you do to meet (your /the homeowner's) financial needs?

	Total	POA	Homeowner
Received financial help from family members	6	--	6
Received help from a government program (e.g. Medicaid, SSI, etc.)	1	14	1
Decided to sell the home	4	--	4
Refinanced	9	--	10
Received another type of loan against the home (if needed: such as a home equity loan, etc.)	12	14	12
Negotiated a way to reduce or pay off debts (excluding debt on the home--i.e. credit card debt, debt from medical expenses, etc.)	1	--	1
Reduced spending / Cut back on expenses	6	--	6
Used credit card or built up credit card debt	2	--	2
Received another type of loan (not credit card; not loan against the home)	3	--	3
Worked/went back to work	6	--	6
Used own money/own funds (investments, etc.)	--	--	--
Sold another asset (another house, car, etc.)	1	--	1
Bought investments/insurance for future financial security	1	--	1
Other	2	14	2
Nothing/no additional action taken	33	43	33
Don't know	6	--	6
Refused	5	14	4

(Total who did not apply because they were not eligible; n = 29; POA = 2; Homeowner = 27)

	Total	POA	Homeowner
Received financial help from family members	11	--	11
Received help from a government program (e.g. Medicaid, SSI, etc.)	4	--	4
Decided to sell the home	--	--	--
Refinanced	7	--	7
Received another type of loan against the home (if needed: such as a home equity loan, etc.)	11	--	11
Negotiated a way to reduce or pay off debts (excluding debt on the home--i.e. credit card debt, debt from medical expenses, etc.)	--	--	--
Reduced spending / Cut back on expenses	7	--	7
Used credit card or built up credit card debt	4	--	4
Received another type of loan (not credit card; not loan against the home)	4	--	4
Worked/went back to work	--	--	--
Used own money/own funds (investments, etc.)	--	--	--
Sold another asset (another house, car, etc.)	--	--	--
Bought investments/insurance for future financial security	4	--	4
Other	1	50	--
Nothing/no additional action taken	36	--	37
Don't know	4	--	4
Refused	9	50	7

(Total who did not take out a reverse mortgage because their application was not approved; n = 72; POA = 5; Homeowner = 67)

	Total	POA	Homeowner
Received financial help from family members	4	--	4
Received help from a government program (e.g. Medicaid, SSI, etc.)	1	20	--
Decided to sell the home	6	--	6
Refinanced	10	--	10
Received another type of loan against the home (if needed: such as a home equity loan, etc.)	12	20	12
Negotiated a way to reduce or pay off debts (excluding debt on the home--i.e. credit card debt, debt from medical expenses, etc.)	1	--	1
Reduced spending / Cut back on expenses	6	--	6
Used credit card or built up credit card debt	1	--	1
Received another type of loan (not credit card; not loan against the home)	3	--	3
Worked/went back to work	9	--	9
Used own money/own funds (investments, etc.)	--	--	--
Sold another asset (another house, car, etc.)	1	--	1
Bought investments/insurance for future financial security	--	--	--
Other	3	--	3
Nothing/no additional action taken	32	60	31
Don't know	7	--	7
Refused	3	--	3

(Asked of total who did not take out/still deciding to take out a reverse mortgage and whose application was approved/dk/ref; n = 114; POA = 24; Homeowner = 90)

16. I am going to read you a list of reasons why some homeowners do not take out reverse mortgages. As I read each, please tell me if it was a reason why you did not take out a reverse mortgage. How about (INSERT)? Was this a reason why you did not take out a reverse mortgage?

a. The costs of the reverse mortgage were too high

	Yes	No	Don't know	Refused
Total	48	46	6	--
POA	25	71	4	--
Homeowner	50	43	7	--

b. The amount of money that you would have received was too small

	Yes	No	Don't know	Refused
Total	40	58	2	*
POA	17	79	--	4
Homeowner	42	56	2	--

c. You want your children or other loved ones to inherit the home / You want the home to remain in the family when the homeowner dies

	Yes	No	Don't know	Refused
Total	40	60	--	--
POA	29	71	--	--
Homeowner	41	59	--	--

e. You like knowing that (you own your/the homeowner owns the) home completely, free of any mortgages

	Yes	No	Don't know	Refused
Total	60	40	--	--
POA	33	67	--	--
Homeowner	62	38	--	--

f. You are still considering whether or not to take out a reverse mortgage

	Yes	No	Don't know	Refused
Total	27	72	1	--
POA	8	92	--	--
Homeowner	29	70	1	--

g. You are concerned that a reverse mortgage will put (you /the homeowner) in too much debt

	Yes	No	Don't know	Refused
Total	25	72	3	--
POA	21	79	--	--
Homeowner	26	71	3	--

h. You decided that a reverse mortgage was not necessary given (your/the homeowner's) financial situation

	Yes	No	Don't know	Refused
Total	45	55	--	--
POA	25	75	--	--
Homeowner	47	53	--	--

i. The process of taking out a reverse mortgage was too long or too complicated

	Yes	No	Don't know	Refused
Total	23	75	2	--
POA	29	71	--	--
Homeowner	22	76	2	--

k. You found another way to meet (your / the homeowner's) financial needs

	Yes	No	Don't know	Refused
Total	52	48	--	--
POA	33	67	--	--
Homeowner	53	47	--	--

n. You decided that a reverse mortgage would make more sense for you in the future than it would now

	Yes	No	Don't know	Refused
Total	43	54	3	--
POA	25	71	4	--
Homeowner	44	52	3	--

o. The costs of the home repairs required to get the reverse mortgage were too expensive

	Yes	No	Don't know	Refused
Total	10	88	2	--
POA	13	88	--	--
Homeowner	10	88	2	--

(Asked of total who did not take out or still deciding whether to take out a reverse mortgage and whose application was approved/dk/ref; n = 114; POA = 24; Homeowner = 90)

16p. Are there other reasons why you did not take out a reverse mortgage?

	Total	POA	Homeowner
Other reason (NET)	23	42	21
Homeowner/person whom reverse mortgage funds were to help became too sick/died	3	38	--
You/the homeowner was not eligible	6	--	7
Gives them too much control (can dictate repairs, etc.)	2	--	2
Dissatisfaction with reps/customer service	3	--	3
Other	8	4	9
No other reasons	77	54	79
Don't know	--	--	--
Refused	*	4	--

(Asked of total who did not take out or still deciding whether to take out a reverse mortgage and whose application was approved/dk/ref; n = 114; POA = 24; Homeowner = 90)

17. Which of these reasons was the <u>main</u> reason why you did not take out a reverse mortgage?

	Total	POA	Homeowner
The costs of the reverse mortgage were too high	23	17	23
The amount of money that you would have received was too small	13	--	14
You want your children or other loved ones to inherit the home / You want the home to remain in the family when the homeowner dies	5	8	4
You like knowing that (you own your/the homeowner owns the) home completely, free of any mortgages	8	8	8
You are still considering whether or not to take out a reverse mortgage	2	--	2
You are concerned that a reverse mortgage will put (you /the homeowner) in too much debt	3	--	3
You decided that a reverse mortgage was not necessary given (your/the homeowner's) financial situation	4	--	4
The process of taking out a reverse mortgage was too long or too complicated	3	8	2

You found another way to meet (your / the homeowner's) financial needs	9	13	9
You decided that a reverse mortgage would make more sense for you in the future than it would now	5	--	6
The costs of the home repairs required to get the reverse mortgage were too expensive	--	--	--
Homeowner/person whom reverse mortgage funds were to help became too sick/died	3	38	--
You/the homeowner was not eligible	6	--	7
Gives them too much control (can dictate repairs, etc.)	1	--	1
Dissatisfaction with reps/customer service	3	--	3
Other	7	4	8
None of these	4	4	4
Don't know	--	--	--
Refused	--	--	--

(Asked of total who did not take out/ still deciding to take out a reverse mortgage and whose application was approved/dk/ref and they found another way to meet the needs; n = 56; POA = 8; Homeowner = 48)

18. Instead of taking out a reverse mortgage, what is the <u>one main</u> thing that you did to meet (your/the homeowner's) financial needs?

	Total	POA	Homeowner
Received financial help from family members	11	50	8
Received help from a government program (e.g. Medicaid, SSI, etc.)	--	--	--
Decided to sell the home	5	13	4
Refinanced	14	13	15
Received another type of loan against the home (if needed: such as a home equity loan, etc.)	20	--	21
Negotiated a way to reduce or pay off debts (excluding debt on the home--i.e. credit card debt, debt from medical expenses, etc.)	--	--	--
Reduced spending / Cut back on expenses	13	13	13
Used credit card or built up credit card debt	--	--	--
Received another type of loan (not credit card; not loan against the home)	5	13	4
Worked/went back to work	2	--	2
Used own money/own funds (investments, etc.)	2	--	2
Sold another asset (another house, car, etc.)	--	--	--
Bought investments/insurance for future financial security	--	--	--
Other	4	--	4
Nothing/no additional action taken	18	--	19
Don't know	2	--	2
Refused	6	--	6

16k/18. Combo Table

(Total who did not take out/ still deciding to take out a reverse mortgage and whose application was approved/dk/ref; n = 114; POA = 24; Homeowner = 90)

	Total	POA	Homeowner
Found another way to meet their financial needs	52	33	53
Received financial help from family members	6	17	4
Received help from a government program (e.g. Medicaid, SSI, etc.)	--	--	--
Decided to sell the home	2	4	2
Refinanced	7	4	8
Received another type of loan against the home (if needed: such as a home equity loan, etc.)	10	--	11
Negotiated a way to reduce or pay off debts (excluding debt on the home--i.e. credit card debt, debt from medical expenses, etc.)	--	--	--
Reduced spending / Cut back on expenses	6	4	7
Used credit card or built up credit card debt	--	--	--
Received another type of loan (not credit card; not loan against the home)	2	4	2
Worked/went back to work	1	--	1
Used own money/own funds (investments, etc.)	1	--	1
Sold another asset (another house, car, etc.)	--	--	--
Bought investments/insurance for future financial security	--	--	--
Other	2	--	2
Nothing/no additional action taken	9	--	10
Did not find another way to meet their financial needs	48	67	47

19. Did you have any contact with a reverse mortgage <u>lender</u> when looking into a reverse mortgage?

	Yes	No	Don’t know	Refused
Total	69	27	4	*
POA	72	24	5	--
Homeowner	68	27	4	*

(Asked of total who had any contact with a lender; n = 991; POA = 144; Homeowner = 847)

19a. Did you have contact with more than one lender?

	Yes	No	Don’t know	Refused
Total	20	79	1	--
POA	20	79	1	--
Homeowner	20	79	1	--

19/19a. Combo Table

	Had contact with a reverse mortgage lender			Did not have contact with a reverse mortgage lender	Don't know	Refused
	NET	Had contact with more than one lender	Did not have contact with more than one lender			
Total	69	14	54	27	4	*
POA	72	15	57	24	5	--
Homeowner	68	14	54	27	4	*

(Asked of total who had any contact with a lender; n = 991; POA = 144; Homeowner = 847)

20. How satisfied were you with your experience with the lender (you used when applying for the reverse mortgage / that you had contact with most recently)? Would you say…?

	SATISFIED			NOT SATISFIED			Don't know	Refused
	NET	Very	Somewhat	NET	Not too	Not at all		
Total	90	73	17	9	4	5	1	--
POA	91	72	19	8	2	6	1	--
Homeowner	90	73	17	9	4	5	1	--

19/20. Combo Table

	Total	POA	Homeowner
Have had contact with a reverse mortgage lender	69	72	68
Satisfied	62	66	61
Very	50	52	50
Somewhat	12	14	12
Not satisfied	6	6	6
Not too	3	2	3
Not at all	4	4	4
Have not had contact with a reverse mortgage lender	27	24	27
Don't know	4	5	4
Refused	*	--	*

(Asked of total who had any contact with a lender and they were not satisfied with the experience; n = 105; POA = 11; Homeowner = 94)

21. Why were you not satisfied with the lender?

	Total	POA	Homeowner
The lending process took too long	16	55	14
The loan cost too much	17	18	17
Did not answer all my questions	13	--	14
Did not treat me with respect	8	9	8
My loan application was not approved	14	--	15
Lender was hard to understand	5	--	5
Gave me incorrect information	16	9	17
Pressured me to take a loan	4	9	4

The appraisal/amount of money that I would have received was too small	9	--	9
Didn't thoroughly/proactively provide/explain all information	5	--	5
They were not knowledgeable/they did not understand the process/ did not do it correctly	6	18	6
Not helpful/didn't follow-through/I did most of the work	5	--	5
Difficult to communicate with (doesn't return phone calls, etc.)	1	9	1
Didn't think they were concerned about my best interest/care only about making money	2	--	2
Other	14	--	14
Don’t know	1	--	1
Refused	1	--	1

19/20/21. Combo Table

	Total	POA	Homeowner
Had contact with a reverse mortgage lender	69	72	68
Not satisfied	6	6	6
The lending process took too long	1	3	1
The loan cost too much	1	1	1
Did not answer all my questions	1	--	1
Did not treat me with respect	1	1	1
My loan application was not approved	1	--	1
Lender was hard to understand	*	--	*
Gave me incorrect information	1	1	1
Pressured me to take a loan	*	1	*
The appraisal/amount of money that I would have received was too small	1	--	1
Didn't thoroughly/proactively provide/explain all information	*	--	*
They were not knowledgeable/they did not understand the process/did not do it correctly	*	1	*
Not helpful/didn't follow-through/I did most of the work	*	--	*
Difficult to communicate with (doesn't return phone calls, etc.)	*	1	*
Didn't think they were concerned about my best interest/care only about making money	*	--	*
Other	1	--	1
Satisfied	62	66	61
Did not have contact with a reverse mortgage lender	27	24	27
Don’t know	4	5	4
Refused	*	--	*

(Asked of total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

22. Did the lender ever recommend any of the following investments or products when you were taking out a reverse mortgage? How about (INSERT)?

a. An annuity

	Yes	No	Don't know	Refused
Total	4	93	3	--
POA	1	96	2	--
Homeowner	4	93	3	--

b. A certificate of deposit (CD)

	Yes	No	Don't know	Refused
Total	3	95	2	--
POA	2	96	2	--
Homeowner	3	95	2	--

c. Long-term care insurance

	Yes	No	Don't know	Refused
Total	2	95	3	--
POA	3	92	5	--
Homeowner	2	95	3	--

d. Stocks, bonds, or mutual funds

	Yes	No	Don't know	Refused
Total	2	96	2	--
POA	1	97	1	--
Homeowner	2	96	2	--

e. Home repair services

	Yes	No	Don't know	Refused
Total	11	87	2	--
POA	6	92	2	--
Homeowner	12	86	2	--

(Asked of total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

22f. What other investments or products, if any, did the lender recommend?

	Total	POA	Homeowner
Other investments/products	1	--	1
No other investments/products	96	100	96
Don't know	3	--	3
Refused	--	--	--

15/22. Combo Table

(Total who have applied for a reverse mortgage; n = 1134; POA = 168; Homeowner = 966)

	Total	POA	Homeowner
Received/took out a reverse mortgage	90	83	91
Lender recommended an annuity	4	1	4
Lender recommended a certificate of deposit (CD)	2	2	2
Lender recommended long-term care insurance	2	2	2
Lender recommended stocks, bonds, or mutual funds	2	1	2
Lender recommended home repair services	10	5	11
Lender recommended other investments or products	1	--	1
Did not receive/take out a reverse mortgage	9	17	9
Still deciding	*	--	*
Don't know	--	--	--
Refused	*	--	*

(Asked of total who received/took out a reverse mortgage and lender recommended any investments or products; n = 162; POA = 14; Homeowner = 148)

23. Did you use the money you received from the reverse mortgage to make investments or purchases recommended by the lender?

	Yes	No	Don't know	Refused
Total	22	78	1	--
POA	21	79	--	--
Homeowner	22	78	1	--

15/22/23. Combo Table

(Total who have applied for a reverse mortgage; n = 1134; POA = 168; Homeowner = 966)

	Total	POA	Homeowner
Received/took out a reverse mortgage	90	83	91
Lender recommended any investments or products	16	8	17
Used the money to make recommended investments/ purchases	4	2	4
Did not use the money to make recommended investments/ purchases	13	7	13
Lender did not recommend any investments or products	74	74	74
Did not receive/take out a reverse mortgage	9	17	9
Still deciding	*	--	*
Don't know	--	--	--
Refused	*	--	*

24. How satisfied were you with your experience with the independent counselor? Would you say…?

	SATISFIED			NOT SATISFIED			Don't know	Refused
	NET	Very	Somewhat	NET	Not too	Not at all		
Total	95	82	12	3	2	1	2	*
POA	99	86	13	2	1	1	--	--
Homeowner	94	82	12	3	2	1	2	*

(Asked of total who were not satisfied with the independent counselor; n = 51; POA = 3; Homeowner = 48)

25. Why were you not satisfied with the counselor?

	Total	POA	Homeowner
The counseling process took too long	2	--	2
Did not spend enough time with me	12	--	12
Did not answer all my questions	21	33	21
Did not treat me with respect	8	33	7
My loan application was not approved	3	--	3
Counselor was hard to understand	13	--	13
Gave me incorrect information	3	--	3
Pressured me to take a loan	2	--	2
Don't like that it was done over the phone (instead of in person)	9	33	9
The costs of the reverse mortgage were too high*	7	--	7
Not helpful/didn't follow-through/I did most of the work	11	--	12
Didn't thoroughly/proactively provide/explain all information	9	--	9
Gave us a hard time/wouldn't work with us/wouldn't bend	4	--	4
Other*	10	--	11
Don't know	4	--	4
Refused	--	--	--

**Yellow-highlighted numbers indicate changes to this 3/30/07 version of annotated questionnaire.*

24/25. Combo Table

	Total	POA	Homeowner
Not satisfied with independent counselor	3	2	3
The counseling process took too long	*	--	*
Did not spend enough time with me	*	--	*
Did not answer all my questions	1	1	1
Did not treat me with respect	*	1	*
My loan application was not approved	*	--	*
Counselor was hard to understand	*	--	*
Gave me incorrect information	*	--	*
Pressured me to take a loan	*	--	*
Don't like that it was done over the phone (instead of in person)	*	1	*
The costs of the reverse mortgage were too high	*	--	*
Not helpful/didn't follow-through/I did most of the work	*	--	*

Didn't thoroughly/proactively provide/explain all information	*	--	*
Gave us a hard time/wouldn't work with us/wouldn't bend	*	--	*
Other	*	--	*
Satisfied with independent counselor	95	99	94
Don’t know	2	--	2
Refused	*	--	*

26. Did the reverse mortgage counselor give you information or ideas about how you might try to meet {your/the homeowner’s} financial needs without taking out a reverse mortgage?

	Yes	No	Don’t know	Refused
Total	30	60	10	*
POA	43	45	13	--
Homeowner	29	61	10	*

(Asked of total who got information/ideas from the counselor about how to meet financial needs without taking out a reverse mortgage; n = 470; POA = 85; Homeowner = 385)

27. Did you use any of the information or ideas received from the counselor to try to meet (your/the homeowner’s) financial needs without taking out a reverse mortgage?

	Yes	No	Don’t know	Refused
Total	20	78	1	--
POA	32	67	1	--
Homeowner	20	79	1	--

26/27. Combo Table

	Got information/ideas from the counselor about how to meet financial needs without taking out a reverse mortgage			Did not get information/ ideas from the reverse mortgage counselor about how to meet financial needs without taking out a reverse mortgage	Don’t know	Refused
	NET	Used the information/ideas	Did not use the information/ideas			
Total	30	6	23	60	10	*
POA	43	14	29	45	13	--
Homeowner	29	6	23	61	10	*

28. When you were looking for information or advice related to a reverse mortgage, which of the following sources of information were helpful to you? How about (INSERT)?

a. A family member or relative

	Yes	No	Don’t know	Refused
Total	26	73	*	--
POA	18	82	1	--
Homeowner	26	73	*	--

b. The independent reverse mortgage counselor

	Yes	No	Don’t know	Refused
Total	70	27	3	*

POA	75	23	2	--
Homeowner	70	27	3	*

c. A lender who worked for a bank or mortgage company

	Yes	No	Don't know	Refused	Not asked
Total	30	37	2	--	31
POA	40	32	1	--	28
Homeowner	29	37	2	--	32

d. A professional financial advisor (IF NECESSARY: someone <u>other than</u> the independent reverse mortgage counselor or the lender)

	Yes	No	Don't know	Refused
Total	20	78	1	--
POA	23	77	1	--
Homeowner	20	78	2	--

e. A friend or neighbor

	Yes	No	Don't know	Refused
Total	16	83	*	--
POA	11	89	--	--
Homeowner	17	83	*	--

f. Newspaper or magazine

	Yes	No	Don't know	Refused
Total	27	71	2	--
POA	25	75	1	--
Homeowner	27	71	2	--

g. Television

	Yes	No	Don't know	Refused
Total	22	77	*	--
POA	14	86	--	--
Homeowner	22	77	*	--

h. Information from AARP

	Yes	No	Don't know	Refused
Total	52	44	4	--
POA	60	36	5	--
Homeowner	52	44	4	--

28i. Were any other sources of information helpful to you?

	Total	POA	Homeowner
Other sources of information (NET)	13	29	12
Attorney/legal aide	1	5	1
Realtor/real estate agent	*	1	*
My church/pastor	*	1	*
Internet (general)	6	20	5
General bank information/resources (newsletters, seminars, etc.)	*	--	*
Information/videos from financial freedom	*	--	*
Information/videos received in the mail/direct mailings (unspecified source)	1	--	1
Informational tapes/videos/DVDs (general, unspecified)	1	--	1
Miscellaneous senior resources (council on aging, etc.)	*	1	*
General word of mouth (unspecified)	*	1	*
Books	*	1	*
Radio	*	--	*
No where in particular/my own knowledge/experiences/research (general, unspecified)	1	1	1
Other	2	1	2
No others	86	71	87
Don't know	1	1	1
Refused	--	--	--

29. Of all of the sources of information or advice that were helpful to you when you were looking into a reverse mortgage, which one would you say was <u>most helpful</u> to you?

	Total	POA	Homeowner
A family member or relative	10	3	11
The independent reverse mortgage counselor	33	35	33
A lender who worked for a bank or mortgage company	7	16	7
A professional financial advisor	6	7	6
A friend or neighbor	3	2	3
Newspaper or magazine	4	2	4
Television	4	1	4
Information from AARP	19	21	19
Attorney/legal aide	*	3	*
Realtor/real estate agent	*	1	*
My church/pastor	*	1	*
Internet (general)	2	6	2
General bank information/resources (newsletters, seminars, etc.)	*	--	*
Information/videos from financial freedom	*	--	*
Information/videos received in the mail/direct mailings (unspecified source)	*	--	*
Informational tapes/videos/DVDs (general, unspecified)	*	--	*
Miscellaneous senior resources (council on aging, etc.)	*	1	*
General word of mouth (unspecified)	*	--	*
Books	*	--	*

Radio	*	--	*
No where in particular/my own knowledge/experiences/research (general, unspecified)	1	1	1
Other	1	--	1
None of these	6	4	6
Don't know	3	1	3
Refused	--	--	--

30. Earlier in this survey, you told me the reasons why you originally looked into a reverse mortgage. I'm going to read those reasons back to you now. As I read each reason, please tell me if you have actually used the money from the reverse mortgage in that way. (Please include the money you received from the original reverse mortgage and any money you received from refinancing the original reverse mortgage.) Let's begin. Have you used the reverse mortgage (INSERT)?

a. To pay off (your/the homeowner's) mortgage or other debt on the home **(Asked of total who received/took out a reverse mortgage and … was an original reason why; n = 346; POA = 28; Homeowner = 318)**

	Yes	No	Don't know	Refused
Total	81	18	1	*
POA	82	14	--	4
Homeowner	81	18	1	*

b. To pay off other debt, such as other loans or credit card debt **(Asked of total who received/took out a reverse mortgage and … was an original reason why; n = 255; POA = 25; Homeowner = 230)**

	Yes	No	Don't know	Refused
Total	80	18	*	2
POA	92	8	--	--
Homeowner	80	18	*	2

c. To make home repairs or home improvements **(Asked of total who received/took out a reverse mortgage and … was an original reason why; n = 434; POA = 54; Homeowner = 380)**

	Yes	No	Don't know	Refused
Total	86	13	*	1
POA	91	7	--	2
Homeowner	86	13	*	1

g. To pay for help with household chores and maintenance such as cleaning or lawn care **(Asked of total who received/took out a reverse mortgage and … was an original reason why; n = 187; POA = 46; Homeowner = 141)**

	Yes	No	Don't know	Refused
Total	49	49	1	1
POA	78	22	--	--
Homeowner	48	50	1	1

i. To provide financial help to children, grandchildren, or other family members **(Asked of total who received/took out a reverse mortgage and … was an original reason why; n = 125; POA = 8; Homeowner = 117)**

	Yes	No	Don't know	Refused
Total	47	51	--	3
POA	38	63	--	--
Homeowner	47	50	--	3

j. To pay for expenses or purchases for healthcare, medical, or disability needs **(Asked of total who received/took out a reverse mortgage and … was an original reason why; n = 317; POA = 107; Homeowner = 210)**

	Yes	No	Don't know	Refused
Total	55	42	1	1
POA	83	16	--	1
Homeowner	53	45	1	1

k. To pay for everyday expenses other than healthcare-related expenses **(Asked of total who received/took out a reverse mortgage and … was an original reason why; n = 483; POA = 94; Homeowner = 389)**

	Yes	No	Don't know	Refused
Total	70	28	1	1
POA	76	23	1	--
Homeowner	70	28	1	1

l. To improve the quality of (your/the homeowner's) life or to be able to afford some extras **(Asked of total who received/took out a reverse mortgage and … was an original reason why; n = 669; POA = 86; Homeowner = 583)**

	Yes	No	Don't know	Refused
Total	81	18	1	1
POA	83	17	--	--
Homeowner	81	18	1	1

n. To have more money available for emergencies or other unexpected needs **(Asked of total who received/took out a reverse mortgage and … was an original reason why; n = 724; POA = 89; Homeowner = 635)**

	Yes	No	Don't know	Refused
Total	77	22	1	1
POA	85	15	--	--
Homeowner	77	22	1	1

o. To have money to invest, or to purchase an annuity, or to purchase long-term care insurance **(Asked of total who received/took out a reverse mortgage and … was an original reason why; n = 116; POA = 13; Homeowner = 103)**

	Yes	No	Don't know	Refused
Total	30	69	--	1
POA	8	85	--	8
Homeowner	30	69	--	1

p. To pay property taxes or homeowner's insurance **(Asked of total who received/took out a reverse mortgage and … was an original reason why; n = 282; POA = 50; Homeowner = 232)**

	Yes	No	Don't know	Refused
Total	70	28	*	1
POA	84	14	2	--
Homeowner	70	28	*	1

(Asked of total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

30q. Have you used the money from the reverse mortgage in any other ways?

	Yes	No	Don't know	Refused
Total	13	86	1	1
POA	6	93	1	--
Homeowner	13	86	1	1

31. Have you used it in any of the following ways? How about (INSERT)? (READ IF NECESSARY: Please include the money you received from the original reverse mortgage and any money you received from refinancing the original reverse mortgage.)

a. To pay off (your/the homeowner's) mortgage or other debt on the home **(Asked of total who received/took out a reverse mortgage and have not used it to …; n = 82; POA = 6; Homeowner = 76)**

	Yes	No	Don't know	Refused
Total	9	90	1	--
POA	--	100	--	--
Homeowner	9	89	1	--

b. To pay off other debt, such as other loans or credit card debt **(Asked of total who received/took out a reverse mortgage and have not used it to …; n = 89; POA = 7; Homeowner = 82)**

	Yes	No	Don't know	Refused
Total	22	78	--	--
POA	14	86	--	--
Homeowner	22	78	--	--

c. To make home repairs or home improvements **(Asked of total who received/took out a reverse mortgage and have not used it to …; n = 61; POA = 3; Homeowner = 58)**

	Yes	No	Don't know	Refused
Total	36	64	--	--
POA	33	67	--	--
Homeowner	36	64	--	--

g. To pay for help with household chores and maintenance such as cleaning or lawn care **(Asked of total who received/took out a reverse mortgage and have not used it to …; n = 99; POA = 6; Homeowner = 93)**

	Yes	No	Don't know	Refused
Total	6	94	*	--
POA	17	67	17	--
Homeowner	5	95	--	--

i. To provide financial help to children, grandchildren, or other family members **(Asked of total who received/took out a reverse mortgage and have not used it to …; n = 102; POA = 7; Homeowner = 95)**

	Yes	No	Don't know	Refused
Total	22	78	*	--
POA	14	71	14	--
Homeowner	22	78	--	--

j. To pay for expenses or purchases for healthcare, medical, or disability needs **(Asked of total who received/took out a reverse mortgage and have not used it to …; n = 91; POA = 3; Homeowner = 88)**

	Yes	No	Don't know	Refused
Total	5	95	--	--
POA	--	100	--	--
Homeowner	5	95	--	--

k. To pay for everyday expenses other than healthcare-related expenses **(Asked of total who received/took out a reverse mortgage and have not used it to …; n = 62; POA = 3; Homeowner = 59)**

	Yes	No	Don't know	Refused
Total	20	80	--	--
POA	33	67	--	--
Homeowner	20	80	--	--

l. To improve the quality of (your/the homeowner's) life or to be able to afford some extras **(Asked of total who received/took out a reverse mortgage and have not used it to …; n = 38; POA = 4; Homeowner = 34)**

	Yes	No	Don't know	Refused
Total	44	53	3	--
POA	50	50	--	--
Homeowner	44	53	3	--

n. To have more money available for emergencies or other unexpected needs **(Asked of total who received/took out a reverse mortgage and have not used it to …; n = 32; POA = 4; Homeowner = 28)**

	Yes	No	Don't know	Refused
Total	36	64	--	--
POA	50	50	--	--
Homeowner	36	64	--	--

o. To have money to invest, or to purchase an annuity, or to purchase long-term care insurance **(Asked of total who received/took out a reverse mortgage and have not used it to …; n = 106; POA = 7; Homeowner = 99)**

	Yes	No	Don't know	Refused
Total	6	94	--	--
POA	14	86	--	--
Homeowner	6	94	--	--

p. To pay property taxes or homeowner's insurance **(Asked of total who received/took out a reverse mortgage and have not used it to …; n = 81; POA = 5; Homeowner = 76)**

	Yes	No	Don't know	Refused
Total	21	77	1	--
POA	40	60	--	--
Homeowner	21	78	1	--

(Asked of total who received/took out a reverse mortgage and used the money in ways not specified; n = 114; POA = 8; Homeowner = 106)

31q. For what other purposes, if any, have you used the money?

	Total	POA	Homeowner
Other purposes (NET)	43	50	42
To pay off (your/the homeowner's) mortgage or other debt on the home	1	--	1
To pay off other debt, such as other loans or credit card debt	2	--	2
To make home repairs or home improvement	4	--	4
To pay for help with household chores and maintenance such as cleaning or lawn care	--	--	--
To provide financial help to children, grandchildren, or other family members	2	--	2
To pay for expenses or purchases for healthcare, medical, or disability needs	1	25	1
To pay for everyday expenses other than healthcare-related expenses	5	--	5
To improve the quality of (your/the homeowner's) life or to be able to afford some extras	18	13	18
To have more money available for emergencies or other unexpected needs	5	--	5
To have money to invest, or to purchase an annuity, or to purchase long-term care insurance	--	--	--
To pay property taxes or homeowner's insurance	2	--	2
To be able to keep/stay in our home	--	--	--
To purchase another/new home/condo	1	--	1
Inheritance issues (to avoid family fighting, lack of heirs to pass home onto, etc.)	--	--	--
Idea was recommended by someone else (family/friends, advisor, etc.)	--	--	--
Not working/lost my job	--	--	--
For more information/curious	--	--	--
Other	3	13	3
No other purposes	54	50	54

Don't know	3	--	3
Refused	1	--	1

(Asked of total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

31r. Which of those was the main way in which you have used the reverse mortgage?

	Total	POA	Homeowner
To pay off (your/the homeowner's) mortgage or other debt on the home	19	9	20
To pay off other debt, such as other loans or credit card debt	7	8	7
To make home repairs or home improvements	18	8	18
To pay for help with household chores and maintenance such as cleaning, minor home repairs, or lawn care	1	4	1
To provide financial help to children, grandchildren, or other family members	2	--	2
To pay for expenses or purchases for healthcare, medical, or disability needs	5	42	4
To pay for everyday expenses other than healthcare-related expenses	10	9	10
To improve the quality of (your/the homeowner's) life or to be able to afford some extras	14	12	14
To have more money available for emergencies or other unexpected needs	9	2	9
To have money to invest, or to purchase an annuity, or to purchase long term care insurance	1	1	1
To pay property taxes or homeowner's insurance	5	2	5
To be able to keep/stay in our home	--	--	--
To purchase another/new home/condo	*	--	*
Inheritance issues (to avoid family fighting, lack of heirs to pass home onto, etc.)	--	--	--
Idea was recommended by someone else (family/friends, advisor, etc.)	--	--	--
Not working/lost my job	--	--	--
For more information/curious	--	--	--
Other	*	--	*
None of these	5	1	5
Don't know	2	2	2
Refused	1	--	1

30/31. Combination Table – Yes Summary

(Total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

	Total	POA	Homeowner
To pay off (your/the homeowner's) mortgage or other debt on the home	32	17	33
To pay off other debt, such as other loans or credit card debt	25	17	25
To make home repairs or home improvements	43	36	43
To pay for help with household chores and maintenance such as cleaning, minor home repairs, or lawn care	9	27	9
To provide financial help to children, grandchildren, or other family members	9	3	9

To pay for expenses or purchases for healthcare, medical, or disability needs	16	65	14
To pay for everyday expenses other than healthcare-related expenses	36	52	36
To improve the quality of (your/the homeowner's) life or to be able to afford some extras	60	53	60
To have more money available for emergencies or other unexpected needs	62	56	62
To have money to invest, or to purchase an annuity, or to purchase long term care insurance	4	1	5
To pay property taxes or homeowner's insurance	22	32	22
To be able to keep/stay in our home	--	--	--
To purchase another/new home/condo	*	--	*
Inheritance issues (to avoid family fighting, lack of heirs to pass home onto, etc.)	--	--	--
Idea was recommended by someone else (family/friends, advisor, etc.)	--	--	--
Not working/lost my job	--	--	--
For more information/curious	--	--	--
Other	*	1	*
None of these	--	--	--
Don't know	--	--	--
Refused	--	--	--

**Yellow-highlighted numbers indicate changes to this 3/30/07 version of annotated questionnaire.*

(Asked of total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

32. So far, have you used the money from the reverse mortgage in the ways that you had planned to?

	Yes	No	Don't know	Refused
Total	92	7	*	*
POA	95	4	1	--
Homeowner	92	8	*	*

(Asked of total who received/took out a reverse mortgage but not used the money as they had planned; n = 66; POA = 5; Homeowner = 61)

32a. Why have you not used the money from the reverse mortgage as you had planned to?

	Total	POA	Homeowner
Haven't had time to use the money the way I had planned	28	20	28
Illness or disability of homeowner / self	2	--	2
Caregiving responsibilities for someone with an illness or disability	--	--	--
Medical bills - for self or someone else	2	--	2
Unexpected expenses / Rising expenses (general or not related to medical)	10	20	10
Changed my mind about what I wanted to do with the money	5	--	5
Too small of an amount of money	7	20	7
Haven't needed to use it yet	15	--	15
Homeowner/person whom reverse mortgage funds were going to help died	2	20	2
Using it to earn interest	3	--	3

Have not received money yet	10	--	10
Didn't get any money from the loan	6	--	7
Other	8	20	8
Don’t know	3	--	3
Refused	5	--	5

32/32a. Combo Table

(Total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

	Total	POA	Homeowner
Have not used money as planned	7	4	8
Because I haven’t had time to use the money the way I had planned	2	1	2
Because of illness or disability of homeowner / self	*	--	*
Because of caregiving responsibilities for someone with an illness or disability	--	--	--
Because of medical bills - for self or someone else	*	--	*
Because of unexpected expenses / Rising expenses (general or not related to medical)	1	1	1
Because I changed my mind about what I wanted to do with the money	*	--	*
Because it’s too small of an amount of money	1	1	*
Because I haven't needed to use it yet	1	--	1
Because homeowner/person whom reverse mortgage funds were going to help died	*	1	*
Because I’m using it to earn interest	*	--	*
Because I have not received money yet	1	--	1
Because I didn't get any money from the loan	*	--	*
Because of other reasons	1	1	1
Have used the money as planned	92	95	92
Don’t know	*	1	*
Refused	*	--	*

(Asked of total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

33. Now, thinking about all of the ways in which you have used the reverse mortgage, were any of those uses related to a physical or mental illness or disability, either (your own/the homeowner’s) illness or disability or a <u>family member’s</u> illness or disability?

	Yes	No	Don’t know	Refused
Total	13	86	*	*
POA	59	41	--	--
Homeowner	12	88	*	*

(Asked of total who considered using/have used the reverse mortgage to pay of other debt, such as other loans or credit card debt; n = 422; POA = 37; Homeowner = 385)

34. You indicated that you (considered using a / have used the) reverse mortgage to help pay off debt or loans other than a mortgage. Was the debt or loans related to (INSERT)?

a. A car loan

	Yes	No	Don't know	Refused
Total	18	81	*	*
POA	11	89	--	--
Homeowner	18	81	*	*

b. Educational expenses

	Yes	No	Don't know	Refused
Total	3	97	--	*
POA	5	95	--	--
Homeowner	3	97	--	*

c. Health care or prescription drug expenses

	Yes	No	Don't know	Refused
Total	19	80	*	*
POA	41	59	--	--
Homeowner	19	81	*	*

d. A home equity loan.

	Yes	No	Don't know	Refused
Total	26	72	2	1
POA	19	81	--	--
Homeowner	26	72	2	1

e. Property taxes or other taxes

	Yes	No	Don't know	Refused
Total	23	75	1	1
POA	46	51	3	--
Homeowner	23	75	1	1

f. Credit card debt

	Yes	No	Don't know	Refused
Total	70	29	*	1
POA	86	14	--	--
Homeowner	69	30	*	1

(Asked of total who considered using/have used the reverse mortgage to pay of other debt, such as other loans or credit card debt; n = 422; POA = 37; Homeowner = 385)

34h. (Did you consider using a / Have you used the) reverse mortgage to help pay off any other debt or loans?

	Total	POA	Homeowner
Bank loan (unspecified)	1	3	*
Loans from family members	*	5	--
Finance company loans	*	--	*
To pay for loan on another house	*	--	*
To pay everyday expenses	*	8	*
Other	1	--	1
No others	96	78	96
Don't know	1	3	1
Refused	*	3	*

(Asked of total who considered using/have used the reverse mortgage to pay for expenses or purchases for healthcare, medical, or disability needs; n = 564; POA = 163; Homeowner = 401)

35. You indicated that you (considered using a/ have used the) reverse mortgage for health care-related needs, such as medical needs, or disability needs or due to an illness. (Did you consider using a / Have you used the) reverse mortgage to help pay for any of the following expenses? How about (INSERT)?

a. A major hospital stay

	Yes	No	Don't know	Refused
Total	14	86	*	*
POA	13	85	2	1
Homeowner	14	86	--	*

b. Prescription drug bills

	Yes	No	Don't know	Refused
Total	36	63	1	*
POA	51	48	1	1
Homeowner	34	65	1	*

c. Nursing home bills

	Yes	No	Don't know	Refused
Total	6	93	*	1
POA	18	80	1	1
Homeowner	5	94	--	1

d. Paid help at home to deal with an illness or disability

	Yes	No	Don't know	Refused
Total	21	78	*	1
POA	75	24	--	1
Homeowner	16	83	*	1

f. To purchase equipment or devices for disability needs, such as a wheelchair, specialized van, or hearing aid

	Yes	No	Don't know	Refused
Total	14	86	*	*
POA	26	72	1	1
Homeowner	13	87	--	*

(Asked of total who considered using/have used the reverse mortgage to pay for expenses or purchases for healthcare, medical, or disability needs; n = 564; POA = 163; Homeowner = 401)

35e. (Did you consider using a / Have you used the) reverse mortgage to help pay for any other health care-related expenses?

	Total	POA	Homeowner
Health insurance premiums	3	--	3
Doctor bills/doctor visits	2	1	2
Dental care	2	--	2
Medical treatments/therapy (chemo treatments, physical therapy, etc.)	1	--	1
Medical tests	1	--	1
To have in case needed for future healthcare-related expenses	1	1	1
Other	4	2	4
No others	86	93	85
Don't know	1	2	1
Refused	*	1	*

(Asked of total who considered using/have used the reverse mortgage to make home repairs or home improvements; n = 697; POA = 78; Homeowner = 619)

36. You indicated that you (considered using a /have used the) reverse mortgage to pay for home repairs or improvements. As I read each of the following, please tell me whether it is a reason why you (considered making / made) these home repairs or improvements. How about (INSERT). Was this a reason you (considered making/made) this home repair or improvement?

a. You needed to fix major problems, such as replacing or repairing the roof, replacing or repairing a furnace, or fixing air conditioning, plumbing, or electrical problems

	Yes, reason	No, not a reason	Don't know	Refused
Total	56	43	*	*
POA	69	31	--	--
Homeowner	56	44	*	*

b. You needed to make it easier for someone with a disability or illness to live in the home

	Yes, reason	No, not a reason	Don't know	Refused
Total	12	87	1	*
POA	38	60	1	--
Homeowner	12	88	*	*

c. You wanted to add a room or to remodel parts of the home to make the home more enjoyable or comfortable

	Yes, reason	No, not a reason	Don't know	Refused
Total	34	65	*	*
POA	22	78	--	--
Homeowner	34	65	*	*

d. You were required to make repairs or improvements to get the reverse mortgage

	Yes, reason	No, not a reason	Don't know	Refused
Total	28	70	2	*
POA	44	54	3	--
Homeowner	27	71	2	*

(Asked of total who considered using/have used the reverse mortgage to make home repairs or home improvements; n = 697; POA = 78; Homeowner = 619)

36e. (Were there any other/What were the) reasons for these home repairs or improvements?

	Total	POA	Homeowner
General maintenance/non-major repairs/ upkeep/ updating	9	5	9
Cosmetic work/to improve aesthetics	4	3	4
Investment to increase value/resale value/trying to make house more sellable	1	3	1
To have on hand if needed/for unexpected repairs	1	--	1
Other	4	3	4
No others	82	88	82
Don't know	1	--	1
Refused	*	--	*

(Asked of total who considered using/have used the reverse mortgage to make home repairs or home improvements because they were required to do so to get the mortgage; n = 196; POA = 34; Homeowner = 162)

37.ASK ONE HALF OF RESPONDENTS: Did you (expect to) make more repairs and improvements than what was required to get the reverse mortgage or did you (expect to) make only the repairs and improvements that were required?
ASK OF OTHER HALF OF RESPONDENTS: Did you (expect to) make only the repairs and improvements that were required to get the reverse mortgage or did you (expect to) make more repairs and improvements than what was required?

	(Expect to) make more than what was required	Only (expect to) make the repairs that were required	Don't know	Refused
Total	52	47	1	1
POA	41	56	3	--
Homeowner	52	46	1	1

36d/37. Combo Table

(Total who considered using/have used the reverse mortgage to make home repairs or home improvements; n = 697; POA = 78; Homeowner = 619)

	Required to make home repairs/improvements to get the reverse mortgage			Not required to make home repairs /improvements to get the reverse mortgage	Don't know	Refused
	NET	Make more repairs/ improvements than what was required	Only make the repairs/ improvements that were required			
Total	28	14	13	70	2	*
POA	44	18	24	54	3	--
Homeowner	27	14	13	71	2	*

(Asked of total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

39. Which of the following best describes the degree to which the reverse mortgage has met (your / the homeowner's) financial needs? Have (your / the homeowner's) financial needs been…?

	Completely met	Mostly met	Partly met	Not at all met by the reverse mortgage	Too soon to tell	Don't know	Refused
Total	58	25	12	2	2	1	*
POA	76	17	4	2	1	1	--
Homeowner	57	26	12	2	2	1	*

(Asked of total who received/took out a reverse mortgage and it has not completely met their financial need

40. Why hasn't the reverse mortgage completely met (your / the homeowner's) financial needs?

	Total	POA	Homeowner
Couldn't get enough money from the reverse mortgage	39	50	39
Haven't had time to use the money the way I had planned	8	6	8
Illness or disability of self or someone else	1	6	1
Medical bills – for self or someone else	3	--	3
Unexpected expenses / Rising expenses (general or not related to medical)	11	--	11
Changed my mind about what I wanted to do with the money	1	--	1
Is for unexpected expenses/emergencies/haven't needed to use for an emergency	2	--	2
Is for health needs/haven't needed to use for health needs	1	--	1
Have not needed to use all/any of it yet (unspecified)	6	--	6
Have other sources of money/income	2	13	2
Cost too much money (high fees, interest, etc.)	6	9	6
Concerns about the future/afraid to use it in case need it in the future/don't know what future will bring	2	3	2
Lack of information on process/how it works/how to use it	1	--	1
Didn't spend the money wisely enough	1	--	1
Haven't used it much/at all (general)	3	--	3
Haven't received it yet	2	--	2
Other	7	6	7
Don't know	11	6	11
Refused	1	--	1

39/40. Combo Table

(Total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

	Total	POA	Homeowner
Did not completely meet financial needs	39	23	39
Because you couldn't get enough money from the reverse mortgage	15	12	15
Because I haven't had time to use the money the way I had planned	3	1	3
Because of illness or disability of self or someone else	1	1	*
Because of medical bills – for self or someone else	1	--	1
Because of unexpected expenses / Rising expenses (general or not related to medical)	4	--	4
Because changed my mind about what I wanted to do with the money	*	--	*
Is for unexpected expenses/emergencies/haven't needed to use for an emergency	1	--	1
Is for health needs/haven't needed to use for health needs	*	--	*
Have not needed to use all/any of it yet (unspecified)	2	--	2
Have other sources of money/income	1	3	1
Cost too much money (high fees, interest, etc.)	2	2	2
Concerns about the future/afraid to use it in case need it in the future/don't know what future will bring	1	1	1
Lack of information on process/how it works/how to use it	*	--	*
Didn't spend the money wisely enough	*	--	*

Haven't used it much/at all (general)	1	--	1
Haven't received it yet	1	--	1
Because of other reasons	3	1	3
Completely met financial needs	58	76	57
Too soon to tell	2	1	2
Don’t know	1	1	1
Refused	*	--	*

(Asked of total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

41. Overall, would you say that the reverse mortgage has had mostly a (positive) impact on (your / the homeowner’s) life or mostly a (negative) impact?

	Mostly a positive impact	Mostly a negative impact	Both	Don’t know	Refused
Total	93	3	2	2	*
POA	97	2	--	1	--
Homeowner	93	3	2	2	*

(Asked of total who received/took out a reverse mortgage and it’s had mostly a positive or both a positive and negative impact; n = 898; POA = 135; Homeowner = 763)

41a. In what ways has the reverse mortgage had a positive impact on (your/ the homeowner’s) life?

	Total	POA	Homeowner
Peace of mind	42	27	42
Improved quality of life	33	25	33
Enabled me to stay in my home	12	32	11
Enabled a person with a disability or illness to remain in this home	3	22	2
Paid off debts (credit cards, etc.)	4	1	4
Paid off mortgage/eliminated mortgage payment	5	--	5
Helps pay for regular/monthly living expenses/(non-medical) bills	5	4	5
Helps pay for health care needs/costs	2	4	2
Able to improve home/do home repairs/buy things for home	6	2	6
Able to help family members	1	--	1
Have backup in case of unexpected/extra expenses/in case need it/financial security blanket	3	1	3
Have more money/extra money/enough money	8	1	8
Other	2	1	2
Don’t know	2	1	2
Refused	*	--	*

41/41a. Combo Table

(Total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

	Total	POA	Homeowner
Had mostly a positive or both a positive and negative impact	95	97	95
Peace of mind	39	26	40
Improved quality of life	31	24	31
Enabled me to stay in my home	11	31	11
Enabled a person with a disability or illness to remain in this home	3	22	2
Paid off debts (credit cards, etc.)	3	1	3
Paid off mortgage/eliminated mortgage payment	5	--	5
Helps pay for regular/monthly living expenses/(non-medical) bills	5	4	5
Helps pay for health care needs/costs	2	4	1
Able to improve home/do home repairs/buy things for home	6	2	6
Able to help family members	1	--	1
Have backup in case of unexpected/extra expenses/in case need it/financial security blanket	2	1	2
Have more money/extra money/enough money	8	1	8
Other reasons	1	1	1
Had mostly a negative impact	3	2	3
Don’t know	2	1	2
Refused	*	--	*

(Asked of total who received/took out a reverse mortgage and it’s had mostly a negative or both a negative and positive impact; n = 42; POA = 3; Homeowner = 39)

41b. In what ways has the reverse mortgage had a negative impact on (your/ the homeowner’s) life?

	Total	POA	Homeowner
Costs were higher than expected	39	100	38
No longer own my home / Bank owns my home	10	--	10
Can’t leave my home to my children / homeowner can’t leave the home to his/her children	10	--	10
Couldn’t get enough money from the reverse mortgage	23	--	23
Haven’t had time to use the money	3	--	3
Having a reverse mortgage is confusing	8	33	8
Taking out a reverse mortgage is a lot of work/ a hassle	9	67	8
Didn't end up needing it/was a mistake	6	33	5
Other	15	--	15
Don’t know	3	--	3
Refused	--	--	--

41/41b. Combo Table

(Total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

	Total	POA	Homeowner
Had a mostly negative or both negative and positive impact	5	2	5
Costs were higher than expected	2	2	2
No longer own my home / Bank owns my home	*	--	*
Can't leave my home to my children / homeowner can't leave the home to his/her children	*	--	*
Couldn't get enough money from the reverse mortgage	1	--	1
Haven't had time to use the money	*	--	*
Having a reverse mortgage is confusing	*	1	*
Taking out a reverse mortgage is a lot of work/ a hassle	*	1	*
Didn't end up needing it/was a mistake	*	1	*
Other reasons	1	--	1
Had a mostly positive impact	93	97	93
Don't know	2	1	2
Refused	*	--	*

(Asked of total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

42. Please rate the extent to which you agree or disagree with each of the following statements about (your/the) reverse mortgage. For each, please say "strongly agree," "agree," "disagree," or "strongly disagree." Let's begin with (INSERT). Do you strongly agree, agree, disagree, or strongly disagree?

a. (Your/The) reverse mortgage has helped (you / the homeowner) remain at home

	AGREE			DISAGREE			Don't know	Refused
	NET	Strongly	Agree	NET	Disagree	Strongly		
Total	79	41	38	18	13	5	3	1
POA	91	75	17	8	3	5	--	1
Homeowner	78	40	38	18	13	5	3	1

b. (Your/The) reverse mortgage has helped someone with a disability or illness to remain in the home

	AGREE			DISAGREE			Don't know	Refused
	NET	Strongly	Agree	NET	Disagree	Strongly		
Total	22	11	12	71	42	29	5	2
POA	74	59	15	22	10	12	3	1
Homeowner	21	9	12	73	43	30	5	2

c. Having a reverse mortgage has improved the quality of (your / the homeowner's) life

	AGREE			DISAGREE			Don't know	Refused
	NET	Strongly	Agree	NET	Disagree	Strongly		
Total	87	42	46	9	8	1	3	*
POA	91	67	24	8	7	1	1	--
Homeowner	87	41	46	10	8	1	3	*

d. Having a reverse mortgage has helped (you / the homeowner) have a more comfortable lifestyle

	AGREE			DISAGREE			Don't know	Refused
	NET	Strongly	Agree	NET	Disagree	Strongly		
Total	89	43	45	9	6	2	2	1
POA	94	62	32	4	4	1	2	--
Homeowner	88	43	46	9	6	2	2	1

e. Having a reverse mortgage has given (you/the homeowner) peace of mind

	AGREE			DISAGREE			Don't know	Refused
	NET	Strongly	Agree	NET	Disagree	Strongly		
Total	94	52	41	5	4	1	1	1
POA	90	64	26	3	3	--	6	1
Homeowner	94	52	42	5	4	1	1	*

(Asked of total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

43. In your opinion, would you say that the costs or fees of the reverse mortgage are…?

	Total	POA	Homeowner
High (NET)	69	70	69
Very	31	34	31
Somewhat	38	36	38
Neither high nor low	16	22	16
Low (NET)	8	8	8
Somewhat	5	4	5
Very	3	4	3
Don't know	7	1	7
Refused	1	--	1

(Asked of total who did not take out a reverse mortgage or who did not apply for one; n = 563; POA = 61; Homeowner = 502)

44. How likely are you to take out a reverse mortgage in the future? Would you say you are…?

	LIKELY			NOT LIKELY			Don't know	Refused
	NET	Very	Somewhat	NET	Not too	Not at all		
Total	39	15	24	56	14	42	4	*
POA	31	11	20	66	13	52	3	--
Homeowner	40	15	25	56	15	41	4	*

(Total who applied for but did not take out a reverse mortgage; n = 188; POA = 29; Homeowner = 159)

	LIKELY			NOT LIKELY			Don't know	Refused
	NET	Very	Somewhat	NET	Not too	Not at all		
Total	41	21	20	55	14	41	4	--
POA	34	14	21	59	10	48	7	--
Homeowner	42	21	20	55	14	41	4	--

(Total who did not apply for a reverse mortgage; n = 375; POA = 32; Homeowner = 343)

	LIKELY			NOT LIKELY			Don't know	Refused
	NET	Very	Somewhat	NET	Not too	Not at all		
Total	39	12	27	56	15	42	5	*
POA	28	9	19	72	16	56	--	--
Homeowner	39	12	27	56	15	41	5	*

(Asked of total who received/took out a reverse mortgage; n = 946; POA = 139; Homeowner = 807)

45. How likely would you be to recommend a reverse mortgage to a friend? Would you be…?

	LIKELY			NOT LIKELY			Don't know	Refused
	NET	Very	Somewhat	NET	Not too	Not at all		
Total	89	63	26	8	3	5	3	*
POA	90	61	29	8	4	4	2	--
Homeowner	89	63	26	8	2	5	3	*

46. In what year (were you/was the homeowner) born?

	Total	POA	Homeowner
<65 (1942 or after	5	2	5
65-69 (1937-1941)	17	1	18
70-74 (1932-1936)	24	3	25
75-79 (1927-1931)	26	12	27
80-84 (1922-1926)	17	15	17
85-89 (1917-1921)	6	27	6
90+ (1916 or before)	2	39	1
Don't know	--	--	--
Refused	2	3	2

47. What was (your/the homeowner's) marital status at the time you received counseling? (Were you/Was the homeowner)…?

	Married	Widowed	Separated	Divorced	Living with a partner	Single	Refused
Total	44	36	1	12	1	6	1
POA	16	72	1	7	--	6	--
Homeowner	45	35	1	12	1	6	1

48. Has (your/the homeowner's) marital status changed since you received counseling?

	Yes	No	Refused	Homeowner has passed away
Total	6	93	1	1
POA	5	59	--	37
Homeowner	6	94	1	--

(Asked of total whose marital status has changed since receiving counseling; n = 85; POA = 9; Homeowner = 76)

48a. (Are you/Is the homeowner) now…?

	Separated	Divorced	Widowed	Married	Living with a partner	Refused
Total	3	4	61	27	3	2
POA	11	11	78	--	--	--
Homeowner	3	4	61	27	3	2

48/48a. Combo Table

	Total	POA	Homeowner
Marital status has changed (NET)	6	5	6
Now separated	*	1	*
Now divorced	*	1	*
Now widowed	3	4	3
Now married	1	--	2
Now living with a partner	*	--	*
Marital status has not changed	93	59	94
Don't know	--	--	--
Refused	1	--	1
Homeowner has passed away	1	37	--

49. What is the highest level of education (you/the homeowner) completed?

	Total	POA	Homeowner
High school or less (NET)	42	70	41
Less than high school	8	24	8
High school graduate	34	47	34
Some college/tech (NET)	35	15	36
Some vocational/technical training after high school	6	5	6
Some college (or 2 year degree)	29	10	30
College + (NET)	22	13	22
College graduate	14	9	15
Post-graduate education	8	5	8
Refused	1	3	1

50. (Are you/Is the homeowner) of Hispanic or Latino origin, such as Latin American, Mexican, Puerto Rican, Cuban, or Spanish?

	Yes	No	Don't know	Refused
Total	2	97	*	1
POA	3	97	1	--
Homeowner	2	97	*	1

51. Would you describe (yourself/the homeowner) as…?

	White	Black or African American	American Indian or Alaskan Native	Asian	Hispanic/ Latino / Spanish	Other	Don't know	Refused
Total	86	10	1	*	1	1	*	1
POA	86	9	1	1	2	1	1	1
Homeowner	86	10	1	*	*	1	*	1

Race Summary

	Total	POA	Homeowner
White (non-Hispanic)	85	85	84
Black or African American (non-Hispanic)	10	9	10
American Indian or Alaskan Native (non-Hispanic)	1	1	1
Asian (non-Hispanic)	*	1	*
Other (non-Hispanic)	1	1	1
Hispanic (NET)	2	3	2
White Hispanic	1	1	1
Black Hispanic	*	--	*
Unspecified	1	2	1
Don't know	*	1	*
Refused	1	1	1

52. How would you describe (your/the homeowner's) current health? Would you say…?

	Total	POA	Homeowner
Excellent/Very good/Good (NET)	76	21	77
Excellent	15	2	15
Very good	32	5	33
Good	29	14	30
Fair/Poor (NET)	22	42	21
Fair	15	17	15
Poor	7	25	6
Don't know	*	1	*
Refused	1	--	1
Homeowner has passed away	1	37	--

(Asked of total who are married; n = 558; POA = 18; Homeowner = 540)

53. How would you describe (your/the homeowner's) spouse's health?

	Total	POA	Homeowner
Excellent/Very good/Good (NET)	73	28	73
Excellent	11	--	11
Very good	30	11	30
Good	33	17	33
Fair/Poor (NET)	26	61	26
Fair	14	28	14
Poor	12	33	12
Don't know	*	11	*
Refused	1	--	1

47/48/48a/53. Combo Table

	MARRIED			Not married	Homeowner has passed away
	NET	Spouse's health is excellent/very good/ good	Spouse's health is fair/poor		
Total	40	30	10	58	1
POA	9	3	6	54	37
Homeowner	41	30	11	59	--

54. Which of the following categories best describes the total 2005 income of (your/the homeowner's) household, before taxes, including wages or salary, Social Security, pensions, and interest or dividends on savings and investments? Would you say it was…?

	Total	POA	Homeowner
Less than $30K (NET)	61	83	60
Less than $10K	7	22	7
$10K up to $19K	25	41	25
$20K up to $29K	25	14	26
Less than $30K unspecified	3	6	3
$30K or more (NET)	27	8	28
$30K to $49K	20	7	21
$50K to $74K	5	1	5
$75K or more	1	--	1
$30K or more unspecified	1	1	1
Don't know	3	9	3
Refused	9	2	9

55. At the time that you received reverse mortgage counseling, about how much money did (you / the homeowner) have in savings and investments, not including the value of the home? Please include savings, certificates of deposits, stocks, bonds, mutual funds, workplace retirement savings plans such as 401(k)s, and other investments, but do not include the value of (your/the homeowner's) pension if (you are/the homeowner is) eligible for an employer pension plan.

	Less than $25K	$25K up to $49K	$50K up to $74K	$75K up to $99K	$100K up to $149K	More than $150K	Don't know	Refused
Total	52	7	4	2	4	4	10	18
POA	71	8	3	--	2	1	10	7
Homeowner	51	7	5	2	4	4	10	19

57. Respondent Gender.

	Male	Female
Total	40	60
POA	41	60
Homeowner	40	60

(Asked of total POAs; n = 200)
57b. And, is the homeowner…?

	Male	Female	Refused
POA	26	72	2

(Asked of total POAs; n = 200)
57c. In what year were you born?

	1942 or before	1943-1957	1958 or after	Refused
POA	27	59	11	4

(Asked of total POAs; n = 200)
57d. What is the highest level of education you completed?

	POA
High school or less (NET)	23
Less than high school	2
High school graduate	21
Some college/tech (NET)	28
Some vocational/technical training after high school	4
Some college (or 2 year degree)	24
College + (NET)	48
College graduate	24
Post-graduate education	24
Refused	2

(Asked of total POAs; n = 200)
57e. Which of the following categories best describes the total 2005 income of your household, before taxes, including wages or salary, Social Security, pensions, and interest or dividends on savings and investments? Would you say it was…?

	Less than $50K	$50K or more	Don't know	Refused
POA	34	48	1	18

58. Would you be willing to speak with AARP to discuss in more detail some of the things we have been asking you about today?

	Yes	No	Don't know	Refused
Total	39	59	1	1
POA	41	59	1	1
Homeowner	39	59	1	1

(Asked of total who are willing to speak with AARP; n = 577; POA = 81; Homeowner = 496)

59. Do you give us permission to share with AARP what you said during today's interview so that they have some understanding of your reverse mortgage experiences in case they call you?

	Yes	No	Don't know	Refused
Total	99	1	*	--
POA	100	--	--	--
Homeowner	99	1	*	--

58/59. Combo Table

	Willing to speak to AARP			Not wiling to speak to AARP	Don't know	Refused
	NET	Permission to share interview	No permission to share interview			
Total	39	39	*	59	1	1
POA	41	41	--	59	1	1
Homeowner	39	38	*	59	1	1

Region

	Northeast	North Central	South	West
Total	19	22	31	28
POA	26	30	29	16
Homeowner	19	22	31	29

Home Value

	Less than $150K	$150K to less than $300K	$300K or more	Undetermined
Total	31	31	22	15
POA	45	33	22	--
Homeowner	31	31	22	16

Appendix C: Description of Focus Groups and In-Depth Interviews Conducted in Preparation for the 2006 AARP Survey and Summary of Findings

TURTLE BAY INSTITUTE, INC.
195 Nassau Street
Princeton, NJ 08542

STATEMENT OF LIMITATIONS

- The findings of this research are based on the attitudes and opinions of 34 respondents, and are qualitative in nature. They should neither be regarded as a definitive assessment of the topics discussed, nor as statistically projectable to the market as a whole.

OBJECTIVES

- The objectives of this research were to:

  All respondents:
  - Identify reasons for considering a reverse mortgage.
  - Assess satisfaction with information received during counseling and overall counseling experience, and whether counseling met expectations.

  Borrowers
  - Assess satisfaction with the process of taking out a reverse mortgage and whether reverse mortgage met expectations.
  - Explore impact of the counselor and of the lender on the decision to take out a reverse mortgage.
  - Assess impact of the reverse mortgage on the borrower's life.

  Non-Borrowers
  - Explore reasons for deciding against taking out a reverse mortgage and the likelihood of taking one out in the future.
  - Explore impact of the counselor and impact of the lender on the decision not to take out a reverse mortgage.
  - Assess which alternatives non-borrowers pursued instead of a reverse mortgage (e.g., other types of loans or funding sources, other programs or services, etc.).

SAMPLE COMPOSITION

- Sixteen males and eighteen females participated in this research. Participants in the discussion groups were 62-85 years of age. Participants in the POA telephone interviews were 50-63 years of age. The individuals for whom these individuals held POA ranged from 74-95 years of age.

- No respondent or their immediate family was employed in any of the following occupations or for the following types of companies: marketing research firms, finance institutions, banking, mortgage brokers, or credit lenders. Additionally, none of the respondents or their immediately families were employed by or volunteered for AARP.

- The following was true of the Sample:

    - Recruited from the list of individuals who received reverse mortgage counseling provided by AARP within the last five years, i.e., since July, 2001.

    - Are the individual in their household responsible for financial decisions, equally share that responsibility with another member of their household, or have durable power of attorney[6] for family member.

- The following segments were represented in the Sample:

    - **Cell A: Reverse Mortgage Borrowers.** All have applied for and received a reverse mortgage within the past five years.

    - **Cell B: Reverse Mortgage Non-Borrowers.** All considered taking out a reverse mortgage in the past five years, but either decided not to apply for the reverse mortgage, or applied for the reverse mortgage and subsequently decided not to take it out. None had applied for a reverse mortgage and been turned down.

    - **Cell C: Powers of Attorney Borrowers.** All are power of attorney for a family member, friend, or relative who is the actual homeowner. All have taken out a reverse mortgage for their family member, friend, or relative in the past five years.

    - **Cell D: Power of Attorney Non-Borrowers.** All are power of attorney for a family member, friend, or relative who is the actual homeowner. All have considered taking out a reverse mortgage for this individual within the last five years, but have either decided not to apply for the reverse mortgage, or applied and subsequently decided not to take out the reverse mortgage. None had applied for the reverse mortgage and been turned down.

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[6] One POA from Delaware was uncertain of the extent of her power of attorney.

METHODOLOGY

- Four two-hour Discussion Groups and six 30-minute phone interviews were conducted.

  - Two groups took place in Philadelphia, PA, on September 12, and the remaining two groups were in Costa Mesa, CA, on September 14, 2006. At each location, one group was conducted with cell A, and one with cell B.

  - Five phone interviews took place on September 19; one was conducted on September 20, 2006. Half of the phone interviews were with cell C respondents; the remaining half were with respondents from cell D.

    The participants in the telephone interviews were geographically dispersed, that is, they lived in Delaware, Illinois, Louisiana, Minnesota, North Carolina, Ohio, and Texas.

CONCLUSIONS

- Based on these qualitative research findings, individuals who have received reverse mortgage counseling have a fairly solid understanding of this type of loan. Granted, there are certain aspects of reverse mortgages that remain misunderstood or unclear to some participants[7], e.g., residency requirements, refinancing, and impact on Medicaid eligibility. However, both borrower and non-borrowers, for the most part, have a firm grasp of reverse mortgages.

- Certainly, reverse mortgage counseling contributes to participants' understanding of reverse mortgages. However, lenders also get much of the credit; many individuals consult lenders prior to receiving counseling, and thus begin the counseling session armed with a fair amount of information. Moreover, participants glean information from various other sources, such as newspaper/magazine articles and, notably, AARP materials and publications. In a minority of cases, financial advisors and/or attorneys are also consulted.

- In the vast majority of cases, reverse mortgage counseling met participants' expectations. Most view the counseling experience in a favorable light, having found the counselor thorough, professional and objective, and diligent about outlining both the pros and cons of the loan. However, for a small number of individuals, the counseling session fell somewhat short of their expectations.

[7] To simplify reporting, focus group participants are referred to herein as "seniors" and phone interviewees as "POAs." "Participants" is used to refer to all individuals, regardless of their segment.

- Some participants profess to be neither displeased nor impressed with the counseling session. In their opinion, the counselor was knowledgeable and objective, yet perfunctory. They found the information generic, claiming it did little more than reiterate what was already outlined in AARP literature (which they had already read) and/or what they already knew. Some individuals recounting such an experience expected or wanted information that was more specific or tailored to their own financial situation. And while many participants note and appreciate the counselors' objectivity, some wanted the counselor to play more of an advisory role, again taking into account their personal financial situation.

- A small number of participants are overtly critical of their counseling experience. While the exact nature of their complaints varies, criticism is typically directed at the counselors' questionable knowledge or failure to provide certain information.

• While participants do not express this as a criticism, the majority have no recollection of the counselor offering any alternatives to reverse mortgages other than perhaps selling the home, refinancing, and home equity loans.

• The impact of counseling on participants' ultimate decision regarding reverse mortgage varied. Some claim it had little impact, largely because they were fairly knowledgeable about reverse mortgages prior to counseling, and in some cases, had already decided to take one out. For others, however, counseling had a fairly significant impact on their decision. In these cases, one or more of the following are generally operative: 1) the participant found the counselor more thorough and knowledgeable than did other participants; 2) they entered counseling with less knowledge about reverse mortgages in comparison with other participants; and/or 3) the counselor purportedly advised them against taking out a reverse mortgage.

• Most participants report favorable experiences with the lenders they contacted regarding reverse mortgages. Borrowers and non-borrowers alike generally found the lenders helpful and knowledgeable during their investigation of reverse mortgages. It bears noting that participants seeking reverse mortgages are disinclined to shop around for lenders. Most borrowers ultimately secured the loan from the lending institution they initially contacted (or who contacted them). That said, Costa Mesa participants were more likely than Philadelphia participants to contact and compare two or three different financial institutions.

• While there are occasionally complaints about the massive paperwork during closing and/or the time it took to process the loan, most borrowers express satisfaction with the application process and with their dealings with the financial institution.

• Participants' interest in reverse mortgages is largely attributed to the delayed repayment feature, i.e., participants like the idea that they do not have to repay the loan until they (or in the case of POAs, their elderly relative) move from their home or die. Correspondingly, the fact that there are no monthly payments to contend with represents a major draw.

- Among seniors acting on their own behalf, expectations regarding use of the funds vary. However, the most common anticipated uses include: eliminating/ reducing monthly mortgage payments; making home repairs/improvements; paying off credit card debts; providing financial assistance to grown children or grandchildren; maintaining or improving current lifestyle or quality of life (providing money for "extras" such as travel, dining out, etc.); and/or helping to pay for everyday expenses, e.g., food, utilities, etc. Some participants do not initially earmark the funds for any particular expenditure; rather, they envision the funds as a "nest egg" that they can access later if a need or emergency arises.

- Notably, the seniors participating in this study, i.e., the focus group attendees, rarely cite in-home care or medical-related expenses as potential uses of the funds. While a few indicate that the funds might eventually be used for such purposes, most seniors have more immediate financial needs or priorities that a reverse mortgage is expected to address.

- In contrast, health-related needs and/or expenses factor heavily into POAs' reasons for investigating reverse mortgages. Underlying POAs' interest in reverse mortgages is the desire to keep elderly relatives in their homes as long as possible and, correspondingly, to avoid or delay a move to a nursing home or assisted living. To this end, POAs typically anticipate using the funds to help defray the cost of in-home care and other health-related expenses, notably prescription drugs, and also in making repairs/renovations to the home so that it is an acceptable or comfortable place for the elderly relative to live.

- Borrowers and non-borrowers alike perceive reverse mortgages as having a potentially positive impact on their life. They expect reverse mortgages to help them (or their elderly relative) to maintain a certain quality of life and, in some cases, to improve it. Also, when articulating their reasons for considering a reverse mortgage, participants frequently cite peace of mind as an anticipated psychological benefit.

- For the most part, borrowers express satisfaction with their reverse mortgage. Most indicate that the loan has met their expectations, and that they used the funds much as they had initially envisioned. Similarly, most borrowers feel that the reverse mortgage brought some peace of mind and had a positive impact on their (or their elderly relative's) quality of life, as initially hoped.

  That said, a few borrowers express some disappointment or discontent, typically stemming from the cost and/or size of the loan. A few indicate that the fees/costs were higher than they had anticipated. They typically fault the lender and not the reverse mortgage counselor for this unpleasant surprise. Some are disappointed that they did not receive more money. In these cases, borrowers often have to scale back their original plans on how they would use the funds. However, even in these situations, borrowers generally feel the loan was helpful and harbor no regrets about taking one out.

- Among non-borrowers, upfront costs represent the primary barrier to taking out a reverse mortgage loan. While borrowers, too, find the costs substantial, they are generally able to justify them, rationalizing that the costs are paper-money and not out-of-pocket or that the equity in their home is just sitting there unused. However, non-borrowers are unable to do this, and dismiss the loan as exorbitantly costly relative to the amount of money they would get in return.

  In addition, some non-borrowers (particularly in Costa Mesa, where home values are typically higher) are disappointed in the size of the loan they would have received. Given the equity they had in their home, they expected a much larger amount.

- Concerns about leaving an inheritance for their heirs occasionally factor into seniors' resistance to reverse mortgages. Some are afraid that once the home is sold and the loan is paid off, there will be nothing (or very little) left for their heirs, or worse, that the equity and proceeds from the sale will not cover the loan balance. Non-borrowers often do not understand that the amount of loan they are allowed represents a relatively small portion of the equity they have in the home. Some also may not understand that the amount owed on the loan can never exceed the value of the home.

HIGHLIGHTS OF FINDINGS

EXPLANATION REGARDING SEGMENTS

- The findings summarized in this report are based on both the focus groups with seniors and the phone interviews with family members who have power of attorney for an elderly relative. Differences between the two segments are noted when appropriate. To simplify reporting, focus group participants are referred to herein as "seniors" and phone interviewees as "POAs".

- All POAs participating in this study are self-identified as having durable power of attorney for an elderly relative which, in most cases, is their parent. Half of the POAs indicate that their elderly relative participated in the reverse mortgage counseling and in the decision as to whether or not to take out a reverse mortgage.

SOURCES OF AWARENESS OF REVERSE MORTGAGES

- Participants first learned about reverse mortgages from a variety of sources, the most common being some form of advertisement from lenders, i.e., TV commercials, print ads in local newspapers, and/or direct mail. In addition, some participants attribute their initial exposure to reverse mortgages to articles in newspapers and magazines.

- Some participants credit their initial awareness of reverse mortgages to AARP, recalling seeing information on this subject in the organization's literature or magazine. However, most are more inclined to cite AARP as a source of information they turn to *after* having first learned of reverse mortgages through some other means.

- Although less common than the aforementioned sources, friends or relatives are occasionally credited with participants' initial awareness of reverse mortgages. In rare instances, participants first learn about this type of loan via senior centers or their financial advisor/accountant.

SOURCES OF INFORMATION AND ADVICE REGARDING REVERSE MORTGAGES

- Generally speaking, participants in this study have a fairly solid understanding of reverse mortgages. Borrowers typically have a more accurate grasp of this topic than non-borrowers; the fact that they completed the application process and actually secured the reverse mortgage undoubtedly augmented their understanding of the loan. However, most non-borrowers had contact with lenders either before or after counseling, and these exchanges served to bolster their understanding of reverse mortgages; thus, some in this segment have a level of knowledge that is on par with that of borrowers.

- In addition, most borrowers and non-borrowers alike made a concerted effort to research reverse mortgages prior to making a decision on whether or not to take out this type of loan. That is, in addition to the information they gleaned from reverse mortgage counseling and lenders, they often turned to other sources for information and advice.

- Notably, many of the participants mention AARP as a key source of information on this subject. Some participants took the initiative and, early in their investigation, contacted AARP and/or visited their website for information on reverse mortgages. Others recall receiving AARP literature as part of their reverse mortgage counseling. Generally speaking, participants found the AARP information (in particular, the booklet they received in conjunction with counseling) to be very helpful.

- In investigating reverse mortgages, a few participants consulted their financial advisor or attorney. A minority discussed the subject with a friend or relative whom they perceived as being financially savvy, or in a few cases, had taken out a reverse mortgage. However, most are disinclined to discuss reverse mortgages with peers or friends, largely because they are presumed to be unknowledgeable about this topic.

Also, some participants (typically Costa Mesa borrowers) were reluctant to broach the subject with friends or relatives because of the negative reaction it was likely to evoke, namely, dire warnings about losing their home. Such feedback is not only counter-productive to prospective borrowers who considered these cautionary tales groundless, this well-meaning advice is seen as a criticism, i.e., borrowers fear that others will perceive them as being foolish or financially naive in even considering such a loan. Borrowers often believe that many people do not understand reverse mortgages and that their negative impressions are ill-founded, given the way the loans are currently structured.

- Some seniors report discussing reverse mortgages with their grown children. However, in the majority of such cases, adult children appear to have little or no influence in the ultimate decision. Seniors typically report that their children were either indifferent to, or, in the case of borrowers, supportive of their decision. There was only one reported case among seniors of a grown son dissuading a parent from getting a reverse mortgage; an equity loan was subsequently secured.

  Among the POA segment, some of the participants discussed the reverse mortgage with other relatives (siblings, cousins, etc.) who were also participating in the care of the elderly individual for whom the reverse mortgage was being sought.

- As to the most influential of the various sources of information or advice used, opinions vary. Those consulting with a financial advisor or attorney are inclined to name these individuals as having the most influence on their decision. However, others cite (with roughly equal frequency) the lender, AARP literature, reverse mortgage counseling, and articles in newspapers/magazine as being the most influential.

- Generally speaking, Costa Mesa seniors evince a somewhat higher level of knowledge about reverse mortgages than do their Philadelphia peers. This difference is more evident among non-borrowers.

  - In general, Costa Mesa participants (as a group) appear to be overall more financially savvy than Philadelphia participants. This may be attributed in part to the socioeconomic differences between these two markets.

  - While non-borrowers in both markets have a fairly high level of understanding of reverse mortgages, the incidence of misinformation about this type of loan is slightly higher among Philadelphia non-borrowers.

- POAs also varied in their level of knowledge about reverse mortgages, with some appearing to be more experienced in financial matters than others.

<u>EXPERIENCES WITH REVERSE MORTGAGE COUNSELING</u>

- The vast majority of participants express satisfaction with the reverse mortgage counseling they received. Moreover, many indicate a high level of satisfaction, reporting that they were "extremely" or "very" satisfied with the counseling. Generally speaking, satisfaction levels are similar between borrowers and non-borrowers, between the two markets used for the discussion groups, and among the seniors vs. POAs.

- In the majority of cases, participants received reverse mortgage counseling after having contacted a lender. (In a few instances, a lender contacted the participant first.) In fact, many began their counseling session with a fair amount of knowledge about reverse mortgages, having already discussed it with a lender. Also, by the time many of the participants received counseling, they had researched reverse mortgages via the Internet and newspaper or magazine articles, and/or read the AARP materials sent to them.

  Generally speaking, Costa Mesa participants were more informed going into the counseling session than their Philadelphia peers. On a similar note, participants' recollection of and reported use of AARP materials sent prior to counseling is higher in Costa Mesa. The level of knowledge among POAs varied on an individual basis, seemingly as a result of the individual's financial expertise and the extent to which they are inclined to invest time and energy into investigating a new topic.

- Participants generally learned about reverse mortgage counseling from a lender, who subsequently referred them to an agency or individual for counseling. A few participants were told by the lender to contact AARP for counseling and/or counselor referrals.

- A minority received counseling *before* having any contact with a lender. These individuals typically learned about counseling via the AARP website or literature, and subsequently contacted the organization for counselors.

- While most participants view the counseling experience in a positive light, some found the experience more helpful or satisfying than others.

  - Those who express the highest level of satisfaction found the counselor to be very thorough, objective, and professional. The counselor outlined the pros and cons of reverse mortgages and asked relevant questions about their personal situation and finances. Generally speaking, the small number of participants who met with the counselor in person (as opposed to having the session conducted over the phone) are more uniformly pleased with the counseling experience, finding the session to be particularly thorough and personal in that the information was more customized to their personal situation and needs. However, some participants who talked with counselors via the phone evince a similar high level of satisfaction.

- Those who found the experience satisfactory yet not necessarily worthy of praise considered the counselor knowledgeable and objective, yet somewhat mechanical. In their view, the information was fairly generic and did little more than reiterate what was outlined in the AARP literature (which they read prior to the session) and/or what they already knew. Participants describing their counseling experience as such divide into two camps, as follows:

    - Some would have liked and expected to obtain information that was more specific or customized to their personal financial situation. Moreover, while many noted and appreciated the counselors' objectivity, some wanted the counselor to play more of an advisory role, again taking into account their particular financial situation.

    - Those falling into the second camp had different expectations regarding counseling and indicated that these expectations were met. They did not necessarily expect to get specific figures or more personalized information, as this was something lenders were expected to provide. Moreover, a few (perceiving the counselors as somehow connected to AARP) felt it was antithetical to AARP's mission to offer personalized advice or counseling, as doing so would undermine their objectivity. Therefore, even if the counselor basically reiterated what they already knew, some found the process worthwhile, if only because it validated their understanding of reverse mortgages.

• Only a small minority are overtly critical of their counseling experience. While the exact nature of their complaints varies, criticism is typically directed at the counselor's questionable knowledge or failure to provide certain information.

- A few participants report that the counselor failed to answer questions posed to them, and instead merely directed them to a page in the AARP book (which they had already read). This was somewhat frustrating, as it left them unsure about certain aspects of the loan and raised doubts about the counselor's qualifications or expertise.

- In a few instances, the counselor's explanation of reverse mortgages was, at best, cursory. For example, one individual felt it was up to him to ask questions and yet he was unsure what questions to ask. In a similar case, the gist of the counseling boiled down to the counselor asking the participant if they understood what the lender told them. Another individual felt the counselor played the role of therapist, spending too much time asking about his life goals and very little time explaining reverse mortgages. In one situation, the participant felt rushed or pushed into making a decision; the counselor talked too fast and seemed to skim over key points of the loan, such as costs.

• Having completed the counseling, most felt they had a fairly solid understanding of reverse mortgages, including the associated costs. (It bears reiterating that, for many participants, much of their learning was done prior to the session, as they had already consulted other information sources, e.g., lenders, AARP materials, etc.) Nonetheless, some individuals – typically those who were critical of the counseling experience – felt certain aspects of reverse mortgages had not been adequately explained, most notably the costs associated with this type of loan. Other aspects of reverse mortgages that a few felt, in hindsight, should have been more clearly explained include whether refinancing or repaying the loan were options.

• According to most participants' recollection, counselors did not offer any alternatives to a reverse mortgage. That said, some were informed that selling their home, refinancing, and/or taking out a home equity loan were possible options. The majority have no recollection of counselors having discussed other programs or services that might be available to them, e.g., energy/weatherization programs, prescription drug programs, etc. Even aided with the names of these types of programs or services, participants generally did not recognize them as something they had heard of in their counseling experience.

• Participants generally found counselors to be objective, in that they did not attempt to sway their decision. However, a small number of non-borrowers report that the counselor effectively advised them not to take out a reverse mortgage. One individual was advised to wait until she was older. In a few cases, counselors cautioned participants about the high cost of a reverse mortgage and steered them toward an equity loan. One individual, who admitted to living beyond his means, was told to curb expenses and/or get a job rather than taking out a reverse mortgage.

- Opinions vary regarding the relative impact counseling had on participants' ultimate decision to take out or not take out a reverse mortgage. Some indicate that counseling had a fairly significant impact on their decision. In such cases, one or more of the following were typically true: 1) they found the counselor more thorough and knowledgeable than did other participants; 2) prior to the counseling session, they did not research reverse mortgages as extensively as other participants did (thus, most of their learning is credited to the counselor); and/or 3) the counselor supposedly advised them against taking out a reverse mortgage.

  Those who maintain that counseling had little or no impact on their decision typically cite their prior knowledge of reverse mortgages as a reason. That is, they already knew most (or all) of the information provided by the counselor because they had previously consulted lenders and other information sources. In fact, some borrowers had already decided to take out a reverse mortgage, and went through counseling merely because it was required. Additionally, the few participants who had negative counseling experiences, e.g., they felt the counselor was not sufficiently knowledgeable, indicate that counseling had little impact on their decision. These participants turned to other sources (typically lenders) for information, and these sources (not the counseling) impacted their decision.

EXPERIENCES WITH LENDERS

- Most participants seeking to take out a reverse mortgage did not shop around, that is, the lending institution they initially contacted (or who contacted them) was typically the one from whom they ultimately secured the loan. That said, Costa Mesa participants were more likely (than Philadelphia participants) to contact and compare two or three different financial institutions before selecting one. Only a few of the POAs shopped around, that is, they went forward with the lender who they had been in contact with from the start.

  Advertising, i.e., commercials and direct mail, appears to play a key role in participants' selection of lending institutions. Participants' perceptions or experiences are such that very few organizations are thought to offer reverse mortgages, or at least, this was thought to be the case two or three years ago when they sought one.

- For the most part, participants' experiences with lenders with respect to reverse mortgages were favorable. Most – borrowers and non-borrowers alike – found the lenders they contacted helpful and knowledgeable. Likewise, those who ultimately applied for a reverse mortgage are rarely critical of the process and/or the lending institution.

- That said, a few borrowers criticize the lender for not fully explaining or disclosing the associated costs of the loan. Borrowers – including those voicing the aforementioned complaint – typically concur that their lender discussed the costs/fees; likewise, borrowers generally felt that they understood the costs prior to closing. Nonetheless, some borrowers were subsequently surprised at the full extent of the costs after they received the loan. A few concede that they themselves are partly to blame, i.e., perhaps the lender did disclose these costs and they simply failed to comprehend them. However, others place the blame on lenders for not making these costs clearer to them prior to signing.

- In addition, some participants voice mild criticism about the "massive" paperwork involved, particularly at the closing. While most borrowers claim that they understood the terms and costs of the loan, some were slightly unnerved by the number of documents they were required to sign at closing; some perceived it to be difficult to read and decipher each and every one.

- Additionally, a few participants express dissatisfaction with how long the entire process took. Experiences varied widely: some participants received the funds within four to six weeks after applying for the loan; some waited upwards of six or seven months. The length of time that it took to get through the process was cited by one POA as the reason for not going forward with the reverse mortgage.

- On a related note, a few participants encountered problems with the various home inspections required. They experienced delays in getting the appropriate people to come to the home, and/or questioned the qualifications or integrity of the people sent by the lending institution.

- Despite the aforementioned complaints, most borrowers indicate that the application process – and their dealings with the lending institution – was what they expected. That is, despite the paperwork and time involved to process/approve the loan, they did not consider it unduly onerous or time-consuming.

FACTORS CONTRIBUTING TO PARTICIPANTS' INTEREST IN REVERSE MORTGAGES

Loan Features

- The prospect of receiving financing without having to repay the loan until after they – or, in the case of POAs, their elderly relative – move from their home or die is pivotal to participants' initial interest in reverse mortgages. They are drawn to the idea that, unlike other financing options, a reverse mortgage does not require monthly payments.

- Additionally, some participants like the idea that when the home is ultimately sold, they (or their heirs) can use the residual equity in their home to pay off the reverse mortgage. This particular aspect is typically more obvious and salient to borrowers than non-borrowers.

Anticipated Use of Funds

- With regard to the anticipated use of the funds, POAs have somewhat different expectations or motivations than do seniors seeking reverse mortgages on their own behalf. The key point of difference pertains to health-related expenses. For POAs, the option of using the funds for this purpose is pivotal to their interest in reverse mortgages. However, among the seniors participating in the focus groups, using the funds to defray health-related expenses rarely emerges as motivation for investigating reverse mortgages. It bears noting, however, that the focus group participants were generally younger and/or in better health than the elderly individuals under the care of POAs.

Seniors

- When investigating reverse mortgages, many seniors anticipated using the funds for a specific purpose(s), the most common being:

    - Eliminating or reducing monthly mortgage payments.
    - Making home repairs/improvements.
    - Paying off credit card debts.
    - Providing financial assistance to children and/or grandchildren, e.g., helping pay off student loans, setting up trusts for grandchildren, etc.
    - Maintaining or improving current lifestyle or quality of life (providing money for "extras" such as travel, dining out, etc.)
    - Helping pay for everyday expenses, e.g., utilities, food, etc.

- Some seniors did not earmark the funds for any particular expense or purchase; rather, they envisioned using the funds as a financial cushion, a nest egg of sorts that they could access later if a need or emergency arose.

- A very small minority of seniors (typically Costa Mesa borrowers) cite in-home care or assistance as a potential use of the funds at some point in the future. However, this is usually secondary to other reasons for considering a reverse mortgage.

- Regardless of how they initially envisioned using the funds, seniors see reverse mortgages as potentially serving a broader purpose. That is, seniors often seek reverse mortgages believing that they might have a positive impact on their lives by helping them achieve the following goals:

    - Maintaining a certain quality of life. Once retiring from the workforce, seniors often find it hard to maintain the quality of life they have grown accustomed to. For many, a reverse mortgage represents a means by which they can continue to enjoy the small and not-so-small luxuries, e.g., going out dinner, traveling, etc. Similarly, seniors who need home repairs see the funds as a way of maintaining their home in the manner they are accustomed to, and this, also, speaks to quality of life.

- Remaining in their home. Some seniors believe that a reverse mortgage will allow them to stay in their home longer than they might otherwise. In some cases, seniors are not necessarily concerned that health issues will force them to leave their home, but rather financial restraints due to their diminished income. Seniors who are relatively young and healthy are often loath to move from their present home, yet recognize that downsizing, i.e., moving to a home of less value, might ultimately be necessary. They see a reverse mortgage as a means of circumventing this. The fact that a reverse mortgage would allow them to stay in their home also speaks to the quality of life issue, as they assume moving would entail a step down.

- Having peace of mind. When articulating their reasons for considering a reverse mortgage, seniors frequently cite peace of mind as an anticipated benefit. Knowing that they would have funds to pay their bills, afford an occasional splurge, e.g., going clothes shopping or on a vacation, and/or have a "nest egg" they could tap in the case of emergency constitutes an important emotional benefit associated with reverse mortgages. In a similar vein, participants often view a reverse mortgage as giving them more freedom, i.e., it would allow them to do and/or buy things they might not otherwise be able to.

<u>POAs</u>

- The underlying motivation for POAs' interest in reverse mortgages is the desire to keep elderly relatives in their homes as long as possible and, correspondingly, to avoid or delay a move to a nursing home or assisted living. To this end, POAs typically anticipate using the funds to defray the costs of in-home care and other health-related expenses, notably prescription drugs.

- Home repairs also factor into POAs' interest in reverse mortgages and dovetail with their underlying desire to keep their elderly relative at home and, accordingly, in a comfortable environment. POAs often envision using the funds for much-needed repairs such as replacing a roof or trimming overgrown trees. In a few instances where the POA moves in with the elderly relative, the funds are occasionally slated for renovations designed to accommodate the additional household members, e.g., waterproofing the basement in order to expand living space.

In addition, some POAs envision using the funds to defray everyday living expenses, such as groceries, utilities, etc. In a few instances, POAs had given up their job in order to care for their elderly relative or they themselves were retired, and finances were very constrained.

- With regard to the potential impact of a reverse mortgage, POAs see it as helping elderly relatives improve their quality of life or simply maintain a quality of life that is certainly better than they would have in a nursing home. In instances where the POA doubles as caregiver, a reverse mortgage is also seen as a means of improving the POA's quality of life, e.g., funds could be used to hire additional in-home care, thus freeing up time for the POA.

BARRIERS TO TAKING OUT A REVERSE MORTGAGE

- The costs associated with reverse mortgages represent the primary barrier to taking out this type of loan. Non-borrowers often report being surprised and discouraged when learning the upfront costs and fees; they considered the collective sum to be exorbitantly costly relative to the amount of money they would get in return.

  Concerns about the loan's attendant cost are sometimes fueled by the fact that the interest rate is variable rather than fixed. While most non-borrowers were aware of the limitations placed on how much the interest rate can fluctuate, some were not and/or did not understand the implications of these restrictions. Therefore, there is an underlying fear that the loan would end up costing them even more in the future.

  Among the POAs, there is also the concern about whether their elderly relative will live long enough to justify having paid the upfront cost of the reverse mortgage. For example, if the elderly homeowner were to live only a year or two, the upfront cost would seem very high in proportion to the benefit derived from the reverse mortgage.

- In addition, some non-borrowers (particularly in Costa Mesa, where home values are typically higher) were disappointed in the size of the loan. Given the amount of equity they had in their home, they expected a much larger amount. Once they factored in the associated costs/fees, the loan size was too small to be enticing.

- A minority of non-borrowers were posed to proceed with the loan application (and, in a few cases, had already been approved), and then abandoned their plans on the advice of their attorney or financial planner. In these instances, some seniors were warned of the loan's high costs and advised to consider reverse mortgages as a last resort, i.e., when other assets had been tapped. Similarly, they were advised to postpone taking out a reverse mortgage until they were older (and the cost of the loan diminished) and/or to consider an equity loan or refinancing instead.

As mentioned earlier, a few non-borrowers claim to have received similar advice from their reverse mortgage counselor, which weighed heavily in their decision not to get the loan.

- Bequest considerations also occasionally factor into seniors' resistance to reverse mortgages. Some seniors want to preserve the equity in their home so that they can leave an inheritance to their children. They are afraid that once the home is sold and the reverse mortgage is paid off, there will be "nothing left" for the children. A few non-borrowers are concerned that their heirs will end up incurring costs, that is, that the equity left in the home after selling it will not cover the total amount owed on the loan. (Non-borrowers often do not understand that the amount of the loan they are allowed represents a relatively small portion of the equity they have in their home. Some also may not understand that the amount owed on the loan can never exceed the value of the home.)

  Additionally, a few seniors want to keep the house in the family, i.e., have heirs live there – an option that might be financially impossible if their heirs have to repay the loan.

- In some cases, a general unease about accumulating debt also discourages seniors from taking out a reverse mortgage. A few seniors point to their Depression-era mentality and their generation's anti-debt indoctrination as psychological barriers to reverse mortgages. This is often more evident among seniors who have paid off their home, as a reverse mortgage seems counterintuitive to their efforts over the years to have their home free and clear of debt.

- Other deterrents to reverse mortgages that receive isolated mention include the following:

  - Concern that the lending institution could recall the loan for any reason (a fear planted by the loan's terms stating something to the effect that the lender can call in the loan if they are delinquent in paying taxes or making home repairs).

  - Concern that a reverse mortgage would complicate the trust bequeathed to their heirs.

  - Confusion or misperceptions regarding refinancing. Participants often assume that they can not take out a second reverse mortgage at a later time if they need more money and/or if the value of their home (and thus, equity) increases. It bears noting that this issue is also unclear to some borrowers.

  - Fear of losing Medicaid benefits.

NON-BORROWERS' POST-COUNSELING BEHAVIORS

- Having decided against a reverse mortgage, a small minority of non-borrowers subsequently refinanced or took out a home equity loan or line of credit. One POA reported selling her elderly mother's home and moving her into a townhouse, believing this was a less costly alternative to a reverse mortgage. However, the majority of non-borrowers represented in this study have not pursued other alternative or taken other steps in lieu of a reverse mortgage.

- Anticipated future behaviors regarding reverse mortgages vary among non-borrowers. A small minority states a high or moderate likelihood of obtaining a reverse mortgage in the future; these individuals recognize the merit in waiting until they are older so that the upfront costs are lower. Also, a few non-borrowers indicate they would consider a reverse mortgage further down the road, seeing it as a last resort after all their other assets have been tapped.

- Most non-borrowers, however, indicate that they are unlikely to take out a reverse mortgage, citing the high upfront costs as a key deterrent. Also, a few non-borrowers (typically in Costa Mesa) indicate that the amount of money they could receive would have to increase significantly before they would seriously reconsider a reverse mortgage.

BORROWERS' SATISFACTION WITH REVERSE MORTGAGES

- The majority of borrowers express satisfaction with their reverse mortgage and, in hindsight, harbor no regrets regarding their decision to secure this type of loan. Borrowers typically indicate that the loan met their expectations and that, for the most part, they used the funds much as they had initially envisioned using them (as discussed earlier in this report). Likewise, participants' expectations of the loan's potential impact were generally met. Most borrowers concur that securing a reverse mortgage has brought them (or their elderly relative) some peace of mind, and/or allowed them (or their elderly relative) to maintain or, in a few cases, improve their quality of life.

- While most borrowers feel they made the right decisions in getting a reverse mortgage, a minority expresses some disappointment or discontent, typically stemming from the attendant costs and/or the amount of money they were ultimately able to secure.

    - A few borrowers indicated that the costs/fees were higher than they had expected or were led to believe when they closed on the loan. It bears noting that, in such cases, participants generally fault the lender and not the reverse mortgage counselor.

- Some borrowers are disappointed that they were not able to receive more money from the reverse mortgage. In these instances, borrowers often had to scale back their original plans on how they would use the funds, for example, doing only some of the home repairs they hoped to do. However, even in these situations, borrowers are generally glad they took out a reverse mortgage, as the funds still proved helpful

- A few borrowers wish, in hindsight, that they had waited to get a reverse mortgage, thinking that with home values increasing, they would have been able to get a larger loan.

• While borrowers have a fairly solid understanding of reverse mortgages, certain aspects of the loan are confusing or unclear to some (even after having secured the loan), notably:

  - Residency requirements. At least one borrower was under the impression he could rent out his home.

  - Refinancing. A few participants express interest in possibly refinancing, yet assume this is not an option and/or are unclear on what is involved.

• It bears noting that a few borrowers took a lump sum and reinvested at least some of it with a financial advisor or credit union. This behavior (although isolated) also points to a misperception regarding reverse mortgages.

Appendix D: Description of 2007 AARP Survey Regarding Familiarity with and Interest in Reverse Mortgages

Reverse Mortgage Omni Survey (rev. 6/28/07)

*This study was conducted for AARP via telephone by **ICR**, an independent research company. Interviews were conducted from May 31 – June 7, 2007 among a nationally representative sample of 1003 respondents age 45 and older who are not living in an assisted living facility.*

Corresponding findings from the AARP Fixing to Stay Survey conducted in 1999 are included below. The 1999 Fixing to Stay Survey was a telephone survey of 2,000 individuals ages 45+ weighted to be nationally representative of individuals ages 45+ based on age and gender. The interviews for the Fixing to Stay Survey were fielded in November and December 1999 and were published in 2000. The 2007 survey has been weighted in the same manner. Unless otherwise noted, the percentages shown below for the 2007 results are calculated from a base of all 1,003 respondents who qualified for the 2007 survey and the percentages shown for the 1999 results are calculated from a base of all 2,000 respondents who qualified for the 1999 survey. All bases shown are unweighted; percentages are weighted.

RM-1 Do you (and your spouse/and your partner) rent or own your major place of residence? (n=1,003)

	Owned	Rented	Don't know	Refused
2007 (n=1,003)	85	14	1	1
1999 (n=2,000)	85	14	*	*

(In the 1999 survey, another 1 percent of respondents provided an "other" response, including owning a mobile home/renting space/or other responses.)

RM-2 Do you live in an assisted living facility? (n=1,003)

	Yes	No	Don't know	Refused
2007 (n=1,003)	--	100	--	--
1999 (n=2,000)	--	100	--	--

(Asked of total respondents who are married/live with a partner; n = 614)

RM-3 How old is your spouse (partner)?

	<45	45-61	62-69	70+	Refused
2007 (n=614)	9	56	16	17	3
1999 (n=1,231)	9	51	18	21	2

RM-4 I'd like to ask you a few questions about "reverse" mortgages. A reverse mortgage is a loan against your home that does not have to be paid back for as long as you live there. No repayment is due until you die, sell your home, or permanently move out. Have you heard of this type of loan before? (n=1,003)

	Yes	No	Don't know	Refused
2007 (n=1,003)	70	28	1	1
1999 (n=2,000)	51	48	1	*

(Asked of total respondents who own their home and are 62+ or who are not 62+ but married/live with partner who is 62+ and have heard of reverse mortgages; n = 336)

RM-5 Do (you yourself/you and your spouse/partner) have a reverse mortgage?

	Yes	No	Don't know	Refused
2007 (n=336)	1	99	--	--
1999 (n=486)	1	99	1	--

(Asked of total respondents who have heard of reverse mortgages; n = 769)

RM-6 Do you personally know anyone who has a reverse mortgage (other than you)?**

	Yes	No	Don't know	Refused
2007 (n=769)	10	90	1	--
1999 (n=1,022)	6	94	*	*

**The words "other than you" were added in the 2007 survey only for respondents who reported that they had a reverse mortgage. These words were not included in 1999. However, because the percentage of respondents with a reverse mortgage was so low (only 1%) in each year, this wording change affected only a very small number of respondents and should not have impacted the overall results.

RM-4/6. Combo Table
Base = total qualified respondents

	Have heard of reverse mortgages			Have not heard of reverse mortgages	Don't know	Refused
	NET	Personally know someone who has a reverse mortgage	Do not personally know anyone who has a reverse mortgage			
2007 (n=1,003)	70	7	63	28	1	1
1999 (n=2,000)	51	3	48	48	1	*

(Asked of total respondents excluding those who don't have a reverse mortgage themselves; n = 1000)
RM-7 Do you think a reverse mortgage is an idea that you might consider in the future?

	Yes	No	Don't know	Refused
2007 (n=1,000)	14	78	7	1
1999 (n=1,995)	19	68	13	*

(Asked of total respondents age 50+; n = 868)
AM-1 Are you (or your spouse/partner) a member of AARP?

	Yes	No	Don't know	Refused
2007 (n=868)	48	52	*	--
1999 (n=1,622)	59	39	1	*

Appendix E: Description of Research on Connecticut Reverse Mortgage Program for Older Homeowners at Risk of Needing Long-Term Care Services

As noted in Section V.C. of the report above, the potential of using reverse mortgages to address long-term care needs has received increasing attention from policymakers at all levels of government in recent years. The Connecticut Housing Finance Agency (CFHA) was a pioneer in this effort, initiating a state reverse mortgage program before the HECM program was even created and targeting it in subsequent years to address long-term care needs. In order to understand this program and its effectiveness, AARP contracted with Dr. Maurice Weinrobe of Clark University in 2005 to: a) describe details of the CHFA program and how it has evolved over time and b) interview a limited number of borrowers in the program to get their perspective on how well the program had worked to address their needs. The following reports the previously unpublished results of that research.

The Connecticut RAM Program

by

Maurice Weinrobe, Ph.D.
Clark University

Background

The Reverse Annuity Mortgage (RAM) Program of the Connecticut Housing Finance Agency (CHFA) has existed since 1984. In the first years of the program, RAMs were made available to Connecticut homeowners aged 68 years or older. The initial RAM was a fixed rate instrument that provided ten years of fixed monthly payments to borrowers. Each year, the monthly payment were increased by three percent. No repayment of the loan was due until the last surviving borrower died, sold the home, or permanently moved out of the home. In 1988, the program was adjusted to allow different payment options for those with long-term care (LTC) needs.

Between 1991 and 1994, new loans were suspended due to a State budget crisis. The program was restarted in 1994 with an exclusive focus on older homeowners with LTC needs. Funding for the new program was initially from private lenders, but in 1996 CHFA renewed the funding of the RAM loans. Since 1997, there has been little marketing or outreach associated with the program. From discussions with program staff it is clear that this is a major reason for the low program participation.

In the late 1980s, program volume exceeded 150 loans per year. In contrast, the total number of loans originated between the 1994 restart and June 2005 was 135. Between 1999 and mid-2005 only 37 loans were originated, and since mid-2005 originations have averaged about ten per year. The total value of loans originated (i.e., the loan commitments) between 1995 and 2005 was $15,285,400 or approximately $113,000 per loan.

The Connecticut RAM Program is a relatively simple program. Loans are for state residents with LTC needs and limited incomes. Borrowers (and any co-borrowers) must be 70 years of age or older and household income may not exceed $81,000 per year (the 2007 limit, based on statewide median income). At least one borrower must have LTC needs. The determination of LTC need is done on a case by case basis and it has been generous. Consumers inquiring about the program are directed to file a pre-application with the State Department of Elderly Services, which pre-screens the application for eligibility and may also recommend other State services.

The loan amount is capped at 70 percent of appraised value, not to exceed the single-family conforming loan limit that applies to forward mortgage loans purchased by Fannie Mae or Freddie Mac ($417,000 for 2007). Homes must have no current mortgage or other lien at the time of loan closing. Closing fees on a CHFA RAM are extremely modest when compared with other reverse mortgage loans. The program charges a $1,500 comprehensive origination fee (including appraisal fee, recording costs, etc) and the only other upfront fees are attorney's fees.

Loans are made for disbursement terms of five or ten years and monthly disbursements are scheduled to increase by three percent per year. The interest rate is fixed for the life of the loan at seven percent. A borrower may choose to receive a lump sum disbursement at loan origination, but only at origination. This lump sum is limited to $5,000 for any general purpose, but it may be as large as $25,000 for medical or supportive services. In practice, the determination of what qualifies as supportive services tends to be liberal.

While loan disbursements are for 5 or 10 years, the CHFA RAM loans provide for life tenancy; that it, the loan is due to be repaid at death or move-out. If the ultimate loan balance exceeds the property value, CHFA may look to other assets of the borrower for repayment but the liability does not extend to heirs.

Loan applications and borrowers: 1994 – 2005

Data have been collected on loan applications and on borrowers from the beginning of 1994 through mid-2005. Many borrower and loan characteristics are consistent with the LTC emphasis of the program. The average age of both applicants and borrowers is considerably older than for other reverse mortgage borrowers in the U.S. The average age for CHFA applicants was 89, and for borrowers it was 90. Twenty-four percent of borrowers were at least 95 years of age. In comparison, the median age for federally insured reverse mortgage borrowers living in Connecticut was 76. Twenty-one percent of closed loans were to two-borrower households compared to 37 percent in the HECM program in 2007.

The CHFA Program is targeted towards middle- and lower-income homeowners as borne out by data on originations. Household income of borrowers was no higher than $50,000, and the median family income was in the $15,000 to $20,000 range. Only 20 percent of borrowers had household income greater than $25,000.

Loans can be written with either five- or ten-year disbursement periods. About 90 percent of the loans were for five-year terms. In the earlier period of the CHFA RAM Program, the emphasis was on the ten-year terms—only 17 percent of loans were for five years. However, three-fourths of the five-year loans went to borrowers with LTC needs.

Nearly all borrowers take advantage of the initial lump sum disbursements—of 135 loans from 1994 to mid-2005, only six were without a lump sum disbursement. Of the loans with initial disbursements, 47 percent had a $5,000 disbursement and an equal fraction had a $25,000 disbursement.[8] Under the program, the maximum loan-to-value (LTV) ratio is 70 percent. The vast majority of loans (four-fifths) had a 70 percent LTV ratio, and most of the rest had smaller LTV ratios due to property values that exceeded the conforming loan limit. Property values of mortgaged properties ranged from $50,000 to $750,000, with a mean property value of $171,000.[9]

The magnitude of monthly payments differs considerably for the two loan periods. Because the ultimate loan balance (at maturity) is a combination of disbursements plus interest, doubling the term reduces the monthly payment by more than one-half. (This difference is accentuated with an initial lump sum.) For example, consider a loan with an ultimate loan balance of $140,000 and no initial lump sum. A five year payment period would have a first-year monthly payment of $1,821. A ten-year payment period would have a first-year monthly payment of $702, or 38.6 percent of the five-year figure.

Interviews

A small, qualitative interview project was conducted with CHFA RAM Program borrowers. An invitation to participate was sent to all current RAM borrowers in Sept. 2005. At the time, there were 29 current borrowers, and eight positive replies were received. The median age of the interviewees was 82 years old, and the range was from 71 to 94 years old. Of the eight, two were cognitively impaired and interviews relating to those two borrowers were conducted with relatives who were primarily responsible for their affairs. Six interviews were conducted in-home and two (with the caregivers) were conducted by telephone.

Three participants were married, and five were widowed. Interviews with the three married borrowers included both husband and wife. Seven of the eight participant households had children, and all of those with children had at least one living in the general area. All participants had lived in their communities for a substantial amount of time. The least amount of time anyone had lived in their current residence was one couple who had lived

[8] Loans with disbursements of greater than $5,000 were associated with earlier pay-off. A review of loans that were repaid reveals that almost three-quarters of lump sums of $25,000 were associated with actual maturities of 30 months or less but only half of loans with smaller (or no) lump sums had maturities of 30 months or less.

[9] It is not required that the loans be at the maximum amount. If a borrower elects a loan amount below the maximum, they are not permitted to subsequently increase the loan amount.

in their home ten years. Excluding this couple, the mean time in current residence was forty years.

The program participants reported mixed health. Each of the nine borrowers interviewed had some health concern, though most reported that they were in good health. As noted, two of the loans were to cognitively impaired individuals. Of the other six, the health of the three single borrowers was either "very good" (two) or "slightly impaired" (one). The health of the couples was slightly less good with only one person self-classified as "very good" and the other two "slightly impaired." The health of the two cognitively impaired individuals was less good; both were receiving some assistance with ADLs, and one had a live-in home health aide. None of the other respondents required home health assistance, and no one required regular assistance with ADLs.

All participants reported that they were fully informed about the RAM loans as well as about social and related services that could help them. All felt that by the time they closed on the RAM loan they understood all pertinent aspects of the loan, including the importance of end of term issues.[10] As part of the loan application process, applicants are visited by a representative of Connecticut Social Services and the representative explains long term care and related services that are available. Applicants uniformly praised these visits and the information conveyed in them. The RAM borrowers were also asked in the interview about the administration of the program subsequent to closing. Again, there was general agreement that the program was working without any problems. In a few cases, there was a slight problem with the first disbursement but after that things went smoothly. One participant was receiving Medicaid services, which caused some initial problems with accumulated funds that were resolved fairly quickly.

Six of the loans were for five-year terms and the other two for ten. Six had disbursements of $5,000, and two were for $25,000. Initial disbursements were important to the respondents. When they were asked how they had used the initial disbursements, only one respondent explicitly reported using the funds to retrofit a house for a disability—construction of a ramp from a driveway to an entry door. In one other case, a previous home equity loan had been used for an internal chair lift. The RAM might have been used in part to repay that loan. In other cases, the disbursed funds were used to pay off (in whole or in part) existing debt and to perform needed home repairs. Property taxes were the most commonly cited use for initial disbursements. These taxes were in some instances outstanding debt; in others, the tax debt was pending. A second common use of initial funds was to perform deferred home maintenance (unrelated to LTC needs).

Regular monthly disbursements were being used for general living expenses, including taxes. Loans that had been originated more than six months earlier (five) seemed to have settled into a regular use of funds. For these "seasoned" loans, health-related expenses had accelerated from the level at loan origination. This was undoubtedly associated with aging and not with the RAM loan, but it was a consistent pattern.

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[10] A few participants voluntarily mentioned that this was strongly emphasized by the RAM Program representative.

Interviewees were asked specific questions dealing with their satisfaction with the RAM instrument and general questions about a fixed-term instrument. A number expressed dissatisfaction with the limited sized of the initial disbursement and the inability to receive a subsequent lump sum (for unexpected expenses). A few volunteered that they would have much preferred an instrument without a term of monthly payments. Respondents were aware of other reverse mortgages without such terms but, when asked why they chose the fixed-term instrument, they mentioned the large up-front fees associated with other reverse mortgages.

The respondents had clearly given some thought to what would happen at the end of the term of monthly disbursements, and had discussed these issues with Program staff before they took out the loan. Still, about half were uncertain as to what they would do at the end of disbursements. Some expressed fears about what would happen when the monthly disbursements stopped. A couple of participants indicated that, while they were concerned with the end of term, they were more concerned with having funds now. Those with greater clarity about the future were not particularly happy with the prospect. One couple anticipated a move-in with children. One person saw the next move as to a nursing home and described the prospect as “fatal.” However, virtually all of those interviewed said that they would not have been able to remain in their home without the RAM loan.

Borrowers were asked about the attitudes of their families concerning their decisions to apply and about the depletion of their home equity. In most cases, at least one family member was involved in the application decision. The range of involvement was wide, from children having “talked them into it” to non-supportive children. The matters of residual equity or interest of children in preserving the residence for themselves were unimportant from the perspective of these borrowers.

Finally, did the participants believe that their RAM decision was wise? The universal answer was yes. They believed they made the right decision, they would do it again, and they would recommend it to friends. In the context of answering the question, the participants also mentioned that they really did not have a choice. They had a pressing need for financial assistance, and the RAM was an appropriate way to deal with it.

This set of interviews was small, but it revealed some consistent behavior. The most interesting thing was that although the Connecticut Program is specifically aimed at homeowners with LTC needs that was not at all obvious from those who were borrowers. In almost half of the cases, they reported that their physical condition was very good despite their advanced ages. Two respondents had used their loans for home modifications related to disabilities, and the two cognitively impaired homeowners had used their funds to pay for LTC-related services. One caveat – the people interviewed for this study were the youngsters in the program – having a median age of ***only*** 82, while program participants as a whole had a median age of 90. It is quite possible that only the healthiest participants were willing and able to do the interviews.

Conclusions

The CHFA RAM Program is unusual in a number of respects. The program offers low-cost, public-sector funded reverse mortgages that enable older homeowners to deal with LTC needs. Second, the program was created by the Connecticut Housing Finance Agency without specific legislative authority and has operated largely using Agency funds. And finally, the program has a number of unique loan features. These unique characteristics of the program have limited the risks of the program and lowered the costs to borrowers. But they have also limited participation and constrained its usefulness of the instrument.

When the Connecticut program began, reverse mortgages were non-existent in the state, and the CHFA RAM Program was an important innovation. The loan's low upfront costs derive from its unique structure and its public purpose. The CHFA program was developed by a state housing finance authority with a public purpose that over time has become limited to addressing LTC needs. It was created by CHFA staff and did not require outside consultants or substantial development costs. It has also been operated by CHFA staff, which limits origination fees and eliminates servicing fees.

The Connecticut RAM program is the only reverse mortgage with a "split-term" structure. Its disbursement term of monthly loan advances is fixed and ends on a specific date, but the term to maturity (when the loan must be repaid) is open-ended. The loan is due when the borrower dies, sells the home, or permanently moves out of the home. Combined with much smaller loan amounts than are generally available via private sector reverse mortgages, this structure reduces risk for the lender. There is no explicit insurance and no expensive mortgage insurance premium fees for borrowers.

States or other entities wanting to promote a reverse mortgage program to address LTC needs may glean several lessons from Connecticut's experience. The very factors that have limited the costs to consumers have also limited its ability to expand or to serve diverse consumer needs. For example, the program's origin as a creation of the CHFA has meant that it has been subject to the commitments of resources, interest, and energy of the Agency. State housing finance agencies have multiple agendas in promoting affordable housing and are likely to encounter problems sustaining the level of commitment of resources required to make a significant difference on LTC. As those commitments have waned, so has the number of loans done by the CFHA program. For example, the Agency has effectively limited the size of the program and its operational costs by not publicizing the program's availability. To be effective in addressing LTC needs, public reverse mortgage programs must make a sustained commitment of resources and make efforts to publicize the program. Although the marketing of other programs may be stimulating interest in the CHFA program, this spillover effect is slight.

An important lesson from the CHFA program is that money is fungible and assistance with LTC needs is not easily divorced from other basic needs. This works in both directions—money aimed at LTC needs may wind up being used in other ways and vice versa. Alleviation of existing debt (e.g. mortgage or property tax related) can provide the where-withal to afford LTC-related expenses. Enforcing use restrictions on reverse mortgages targeted to paying for LTC services will be imprecise at best; it is difficult to say what expenses are justifiable if a homeowner has been appropriately identified as needing LTC. The critical step is in fairly assessing need and targeting any subsidized reverse mortgages to those with genuine LTC needs. Needs assessment was very liberal with the Connecticut program. Many of the participants were in good health, though their advanced ages put them at some risk of having needs for supportive services to remain independent. Other programs may want to target such programs more carefully to those currently in need of LTC services.

The Connecticut research reveals that the principal deterrents to using other reverse mortgages to fund LTC expenditures for older homeowners are the upfront and ongoing costs of private sector reverse mortgages. The CHFA program has sharply limited those costs, but it has done so via a loan structure that has presented other obstacles for consumers in the form of inflexible loan payouts; that is, it permits only small initial disbursements followed by fixed monthly loan advances that cannot be changed over time as needs change. Future reverse mortgage programs targeted to older homeowners with LTC needs may want to add more flexibility while keeping some of the risk reduction and cost reduction attributes of the CHFA program. As one example, a split-term structure could be based on a line of credit that permits borrowers to take larger initial disbursements and episodic disbursements at times and in amounts that they choose—while keeping lower limits on loan amounts. Such a program would keep lender risks low while providing greater payout flexibility for the borrower.

A program with a shorter term of payouts and for limited amounts of money may be appropriate for many older homeowners with LTC needs. Older homeowners with disabilities typically use supportive services to remain in their homes for about two years, much shorter than the life expectancy assumptions built into reverse mortgage products available today. Moreover, they often need amounts of money than are substantially less than the maximum loan limits included in existing reverse mortgage products. The federal Department of Housing and Urban Development has indicated that it was working on a “mini-HECM” product with lower loan limits and lower costs that could be used in this manner.

Rather than creating their own reverse mortgage programs, states interested in promoting reverse mortgages to pay for LTC needs could consider subsidizing the initial fees or the interest rates of federally insured HECM loans for older homeowners with specific and documented LTC needs. This approach would take advantage of established programs and streams of loan funding without having to completely invent a new program and related financial instruments. Building on existing programs may be most attractive to state LTC agencies that have no experience in developing or running mortgage programs. In exchange for the subsidies, borrowers could be obligated to have a plan that addresses their LTC needs.

The CHFA Program broke new ground with a reverse mortgage program that preceded the HECM program. The Agency truly innovated by refocusing the program on serving the LTC needs of older homeowners. Further development to serve these goals is overdue