# 2018 Housing Wealth in Retirement Symposium

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2018 HOUSING WEALTH IN RETIREMENT SYMPOSIUM

Agenda

8:00am - 8:40am .......... Breakfast and Registration

8:40am - 9:00am .......... Opening Remarks
  
Given by The American College of Financial Services and the Bipartisan Policy Center

9:00am - 9:20am .......... Opening Panel Discussion
  Setting the Stage on Housing and Retirement

9:25am - 10:10am .......... Panel Discussion
  Research Around Housing and Retirement Security: Evidence Based Policy

10:10am - 10:20am .......... Break

10:20am - 11:00am .......... Presentation
  What’s the Concern? Consumer Protection

11:00am - 11:10am .......... Break

11:10am - 11:50am .......... Panel Discussion
  What’s Working and What Isn’t Working from an Organizational and Policy Perspective

11:50am - 12:00pm .......... Get Lunch

12:00pm - 12:45pm .......... Working Lunch & Table Discussions

12:45pm - 1:00pm .......... Table Comments

1:00pm - 1:15pm .......... Closing Remarks
Laurie Goodman is the founder and co-director of the Housing Finance Policy Center at the Urban Institute. The center is dedicated to providing policymakers with data-driven analyses of housing finance policy issues that they can depend on for relevance, accuracy, and independence.

Before joining Urban Institute in 2013, Goodman spent 30 years as a research analyst and manager at a number of Wall Street firms, including Amherst Securities Group and UBS. Goodman was inducted into the Fixed Income Analysts Hall of Fame in 2009. Laurie currently serves on the board of directors of MFA Financial, as an advisor to Amherst Capital Management, and a member of the Federal Reserve Bank of New York’s Financial Advisory Roundtable. She has published more than 200 journal articles and has co-authored and co-edited five books. Goodman has a BA in mathematics from the University of Pennsylvania and an MA and PhD in economics from Stanford University.

Jamie Patrick Hopkins, JD, MBA, LLM, CLU®, ChFC®, CFP®, RICP®, is Associate Professor of Taxation at The American College of Financial Services in the Retirement Income Program and is Co-director of the New York Life Center for Retirement Income. He also holds the Larry R. Pike Chair in Insurance and Investments at The College. Teaching courses in retirement, estate planning, and life insurance, he has educated thousands of financial services professionals and continues to move the needle for retirement income planning.
Professor Hopkins is recognized as one of the leading retirement planning experts in the United States and, in 2015, was selected by InvestmentNews for its list of the top 40 financial services professionals under the age of 40. Professor Hopkins has also contributed numerous articles for periodicals including Villanova Law Review, Nebraska Law Review, and Hastings Science & Technology Law Journal, and has authored articles published by the American Bar Association and the Pennsylvania Bar Association.

Professor Hopkins received his Bachelor of Arts degree in political science at Davidson College. He then attended Villanova University School of Law, where he obtained his JD and graduated with honors. He later received his MBA from the Villanova University School of Business. Professor Hopkins also holds an LLM from Temple University and two financial planning designations from The American College: the Chartered Life Underwriter® (CLU®) and Retirement Certified Professional® (RICP®).

Cynthia Hutchins is the director of financial gerontology for Bank of America Merrill Lynch, and has more than 30 years of experience in the wealth management and retirement industry. In her role, Cynthia works closely with Merrill Lynch financial advisors to provide training, education, resources and one-on-one attention to engage clients on the topics of aging, longevity, retirement and later life planning.

Cynthia has been deeply involved in the development of a new approach to helping pre-retirees and retirees prepare for retirement across seven life priorities, including work, leisure, health, finance, family, giving and home. She was also central to the creation of the Merrill Lynch Longevity Training Program, developed in partnership with the USC Leonard Davis School of Gerontology to help Merrill Lynch financial advisors better understand and address the evolving needs of the nation’s aging population and their families. In 2015, a version of the training program for human resource (HR) and benefit plan professionals was launched to drive greater awareness of the needs the nation’s aging workforce.

Prior to her current role, Cynthia was the Merrill Lynch retirement specialist for the Mid-Atlantic Region, covering Washington, DC, Maryland and Northern Virginia. Prior to that role, Cynthia served as a Circle of Excellence financial advisor with Merrill Lynch for 20 years.

Cynthia currently serves on the board of directors of the American Society on Aging (ASA). In 2015, she participated in the White House Conference on Aging Elder Justice Forum, and was also named to the inaugural PBS Next Avenue Influencers in Aging list.
Cynthia earned a Bachelor of Science degree in Business and Finance from Towson University, and a Masters of Gerontology degree from the University of Southern California. She has also earned the Chartered Retirement Plan Consultant (CRPC) designation through the College for Financial Planning, and the Certified Investment Management Analyst (CIMA) designation through the Wharton School at the University of Pennsylvania and the Investment Management Consultant’s Association (IMCA). Cynthia holds the Series 7, 24, 63 and 65 securities licenses.

**MARK IWRY**
**NONRESIDENT SENIOR FELLOW**
**THE BROOKINGS INSTITUTION**

J. Mark Iwry (pronounced “Eevry”) is a Nonresident Senior Fellow at the Brookings Institution and Visiting Scholar at The Wharton School. He served from 2009 to January 2017 as Senior Advisor to the Secretary of the Treasury. He also served concurrently as the U.S. Treasury Department’s Deputy Assistant Secretary for Retirement and Health Policy. As policymaker and regulator, his portfolio included pension, retirement (including 401(k) plans and IRAs), savings, and health policy; related tax policy and tax and legal aspects; legislative and regulatory implementation of health care reform (ACA); other employee benefits and compensation, and related legislative, rulemaking, regulatory, and policymaking responsibilities.

In addition to his roles at Brookings and Wharton, he is Senior Policy Advisor to AARP and serves on boards of advisors for various organizations, including fintech startup enterprises and academic, research and other not-for-profit entities, such as the American Benefits Institute, Council of Scholar Advisors of the Georgetown University Center for Retirement Initiatives, Panel of Outside Scholars of the Boston College Center for Retirement Research, Board of Advisors of the Pension Research Council at The Wharton School, and other organizations.

In recent years he has been recognized as one of the world’s “30 top financial players” (Smart Money magazine), “Investment News 20” (20 individuals expected to have a major influence on the financial services industry), 100 most influential people in finance (Treasury and Risk), 50 most influential people in aging (Next Avenue), 40 most influential people in pensions (Institutional Investor), number 3 among the “100 most influential people in 401(k)” (401(k) Wire), etc.

A principal architect of the Saver’s Credit to expand 401(k) and IRA coverage of middle- and lower-income workers (claimed annually on some 8 million tax returns), the “myRA” (a simple, safe, affordable starter account for new savers), and the “SIMPLE” IRA plan (covering 3 to 4 million workers), he also co-authored President Obama’s legislative proposal to achieve a breakthrough in retirement savings coverage through automatic enrollment in IRAs, and played a central role in initiating and designing the nationwide state-based initiative to adopt the automatic IRA and to enact other retirement savings programs to facilitate private-sector saving at the state level.
He also has been centrally involved in developing or orchestrating other expansions, simplifications, and improvements of the nation’s pension, health care, and benefits systems, law, and regulatory framework, including the payroll deduction IRA, promoting lifetime income (including “QLAC” longevity annuities, target date fund annuities, and other partial and incremental annuities) in 401(k) and defined benefit plans and in IRAs, expanding saving through direct deposit of income tax refunds into IRAs and US saving bonds, the small business startup tax credit for new retirement plans, faster vesting in pension and 401(k) plans, promoting payroll deduction IRAs and earlier or immediate participation in 401(k) plans, and the rollback of the longstanding “use it or lose it” rule for health FSAs.

He graduated with honors from Harvard College (A.B. in History and Literature) and Harvard Law School (J.D.) and has a Master’s degree in Public Policy from Harvard’s Kennedy School. He was a Harvard National Scholar, has been listed in Best Lawyers in America, Washington DC Super Lawyers, Who’s Who, etc., is a Fellow of the American College of Employee Benefits Counsel, and is a member of the bar of the United States Supreme Court. On a lighter note, Mark’s observations on taxation are quoted more frequently than nearly any other individual in the anthology As Certain As Death: Quotations About Taxes (ed., J. Yablon, Tax Analysts 2015), where they appear along with (better) quotes from more eminent authorities including Adam Smith, Voltaire, Jefferson, Franklin, de Tocqueville, the Old Testament, and Dave Barry.
Lockhart co-founded and served as managing director of NetRisk, a risk management software and consulting firm serving major financial institutions, banks, insurance companies, and investment management firms worldwide.

Lockhart holds degrees from Yale University and Harvard Business School. He served as a Lieutenant (j.g.) in the U.S. Navy aboard a nuclear submarine.

DEBORAH J. LUCAS  
SLOAN PROFESSOR OF FINANCE  
MIT SLOAN SCHOOL OF MANAGEMENT

Deborah J. Lucas is the Sloan Professor of Finance at the MIT Sloan School of Management and the Director of the MIT Golub Center for Finance and Policy. Her recent research has focused on how to better measure and account for the costs and risks of government financial obligations. She also has published extensively in the areas of asset pricing and portfolio choice, dynamic models of corporate finance, and retirement and housing finance policy. Currently she is an associate editor for the American Economic Review-Policy and the Annual Review of Financial Economics, an NBER Research Associate, and serves on advisory boards for the New York Fed, the Urban Institute, and the Census Bureau. She is a member of the Shadow Open Market Committee and the Financial Economics Roundtable. Previous appointments include assistant and associate director at the Congressional Budget Office, professor at Northwestern University’s Kellogg School, chief economist at the Congressional Budget Office, and senior staff economist at the Council of Economic Advisers. She has been a director on several corporate and non-profit boards. She received her BA, MA, and a PhD in economics from the University of Chicago.

BENJAMIN MANDEL  
EXECUTIVE DIRECTOR  
J.P. MORGAN ASSET MANAGEMENT

Benjamin R. Mandel, executive director, is an economist in Multi-Asset Solutions at J.P. Morgan Asset Management, based in New York. As a member of the Global Multi-Asset Strategy team, he formulates tactical asset allocation views based on analysis of the global economy. He is also currently an adjunct professor at Columbia University’s School of International and Public Affairs. Ben’s academic research has been published in leading scholarly journals, including: American Economic Review, American Economic Journal: Macroeconomics, American Economic Journal: Economic Policy, Quantitative Finance and the Journal of Economic Perspectives. Prior to joining J.P. Morgan, Ben was a member of the Global Economics team at Citi Research and, prior to that, an economist at the Federal Reserve. He holds a Ph.D. in Economics from the University of California, Davis, and a B.Sc. in Applied Economics from Cornell University.
Stephanie Moulton is an associate professor at The Ohio State University, visiting scholar at the Federal Reserve Board, and research affiliate at the University of Wisconsin’s Center for Financial Security. Her research focuses on the implementation and evaluation of housing and consumer finance policies and programs. She is the principal investigator on a multi-year analysis of reverse mortgage borrowers, funded by the MacArthur Foundation, the U.S. Department of Housing & Urban Development, and the U.S. Social Security Administration through the Michigan Retirement Research Center. She also conducts research on state administered homeownership programs and foreclosure intervention programs. She has also served as principal investigator for several field experiments estimating the impact of different financial interventions on household outcomes, including evaluations with the National League of Cities, the National Foundation for Credit Counseling, and the Ohio Housing Finance Agency. Moulton was a 2014 postdoctoral honoree with the Weimer School of Advanced Studies in Real Estate and Land Economics. Moulton received her PhD from Indiana University.

Christopher Mayer is the Paul Milstein Professor of Real Estate at Columbia Business School. His research explores a variety of topics in real estate and financial markets, including housing cycles, mortgage markets, debt securitization, and commercial real estate valuation. Dr. Mayer is also CEO of Longbridge Financial, an innovative reverse mortgage company focused on delivering responsible home equity products to older Americans to help finance retirement. Professor Mayer serves as a Research Associate at the National Bureau of Economic Research, a Director of the National Reverse Mortgage Lenders Association, and a member of the Academic Advisory Boards for Standard and Poor’s and the Housing Policy Center at the Urban Institute. His research has received funding from the National Science Foundation and the Pew Charitable Trusts.

Dr. Mayer is active in the media and advising policymakers, testifying six times before committees of the U.S. Senate and House of Representatives, writing a paper for the Financial Crisis Inquiry Commission, and authoring numerous op-ed articles in major publications. Dr. Mayer previously served as Senior Vice Dean at Columbia Business School and held positions at The Wharton School, the University of Michigan, Harvard Business School, and the Federal Reserve Bank of Boston. He earned a BS in Math and Economics from the University of Rochester with highest honors and a PhD in Economics from MIT.
Dr. Wade D. Pfau, CFA®, is a Professor of Retirement Income in the PhD in Financial and Retirement Planning program at The American College of Financial Services. He is also a contributor to the The College’s Retirement Income Certified Professional® (RICP®) designation program curriculum.

Dr. Pfau is a co-editor of the Journal of Personal Finance. He has spoken at the national conferences of organizations for financial professionals such as the CFA Institute, FPA, NAPFA, AICPA-PFP, and AFS. He also publishes frequently in a wide variety of academic and practitioner research journals. He hosts the Retirement Researcher blog, and is a monthly columnist for Advisor Perspectives, a RetireMentor for MarketWatch, a contributor to Forbes, and an Expert Panelist for The Wall Street Journal. His research has been discussed in outlets that include print editions of The Economist, The New York Times, The Wall Street Journal, and Money Magazine.

Dr. Pfau was a selectee for the InvestmentNews “Power 20” in 2013 and “40 Under 40” in 2014, the Investment Advisor 35 list for 2015, the IA 25 list for 2014, and Financial Planning magazine’s Influencer Awards. He is a two-time winner of the Journal of Financial Planning Montgomery-Warschauer Award, a two-time winner of the Academic Thought Leadership Award from the Retirement Income Industry Association, and a best paper award winner in the retirement category from the Academy of Financial Services.
Dr. Pfau holds a doctorate in economics and a master’s degree from Princeton University, and Bachelor of Arts and Bachelor of Science degrees from the University of Iowa. He is also a Chartered Financial Analyst® (CFA®).
LORI TRAWINSKI
DIRECTOR, BANKING AND FINANCE
AARP PUBLIC POLICY INSTITUTE

Lori Trawinski joined the AARP Public Policy Institute in 2010 and is responsible for research on policy issues relating to mortgage lending, foreclosures, reverse mortgages, consumer debt, and financial services. She led a multiyear initiative that examined issues related to employment challenges faced by older Americans. She frequently speaks to the press about reverse mortgages, financial management, age diversity in the workplace, and consumer debt issues.

Dr. Trawinski began her career as an economist at the U.S. Department of Commerce, Bureau of Economic Analysis, where she worked on estimation and analyses of international securities transactions in the balance of payments accounts. A bond market expert, Dr. Trawinski was vice president, director of research at The Bond Market Association and was director of debt market research at Freddie Mac. She also taught macroeconomics at Northern Virginia Community College.

Dr. Trawinski holds a Ph.D. in economics and finance, an M.A. in international economics, and a B.A. in financial management from The Catholic University of America in Washington, DC. In addition, Dr. Trawinski holds an executive certificate in financial planning from Georgetown University. In November 2017, she completed the Certificate Program in Diversity and Inclusion at the ILR School of Cornell University.

JOCELYN WRIGHT
ASSISTANT PROFESSOR OF WOMEN’S STUDIES
THE AMERICAN COLLEGE OF FINANCIAL SERVICES

Jocelyn D. Wright, MBA, CFP®, is the State Farm® Chair in Women and Financial Services and Assistant Professor of Women’s Studies at The American College of Financial Services. In these dual roles, she functions as director of The American College State Farm® Center for Women and Financial Services, serving as chief ambassador in leveraging research and education to create broad awareness of the challenges and opportunities that pertain to women and financial services. She is also responsible for the Marketing Financial Services to Women course and contributes material on women’s issues for other courses offered at The College.

Concurrent to her roles at The College, Professor Wright is the Founder and Managing Partner of The Ascension Group (“Ascension”). As an advisor, she partners with her clients to design a personalized holistic strategy to help them reach their financial goals. With nearly 20 years of financial services experience, Professor Wright has been working with individuals since 2002.
Leadership/Moderator Biographies

**SHAI AKABAS**  
DIRECTOR OF ECONOMIC POLICY  
BIPARTISAN POLICY CENTER

Shai Akabas is BPC’s director of economic policy. He has conducted research on a variety of economic policy issues, including the federal budget, retirement security, and the financing of higher education. Akabas joined BPC in 2010 and staffed the Domenici-Rivlin Debt Reduction Task Force that year. He also assisted Jerome H. Powell, now Chairman of the Federal Reserve, in his work on the federal debt limit. For the past several years, Akabas has steered BPC’s Commission on Retirement Security and Personal Savings, co-chaired by former Senator Kent Conrad and the Honorable James B. Lockhart III.


Prior to joining BPC, Akabas worked as a satellite office director on New York City Mayor Michael Bloomberg’s 2009 campaign for reelection. Born and raised in New York City, he received his B.A. in economics and history from Cornell University and an M.S. in applied economics from Georgetown University.

**SHELLEY GIORDANO**  
FOUNDER AND CHAIR  
FUNDING LONGEVITY TASK FORCE AT THE AMERICAN COLLEGE OF FINANCIAL SERVICES

Shelley has been a pioneer in reverse mortgage lending, having begun her career almost two decades ago. After years at home raising her children, she fell into the unlikely world of reverse mortgages. From her very first client she was hooked.

Prior to her current roles, Professor Wright was affiliated with several independent financial services firms in Houston and the Greater Philadelphia area. In addition, she was an Equity Research Analyst in the Global Asset Management Group at JPMorgan Chase and a research assistant at Nomura Securities, Inc. She created a financial education series, Debt Boot Camp, which she has presented to such organizations as Clarifi (formerly Consumer Credit Counseling Service of Delaware Valley) and Windsor Village United Methodist Church. She has written numerous financial assessment profiles for Black Enterprise magazine and hosted a weekly radio show, The Bottom Line, on 900AM-WURD.

Professor Wright received a Bachelor of Science in Business Administration (Finance) from the University of Delaware and earned an MBA in Finance at Howard University, graduating with Beta Gamma Sigma Sigma honors. She also holds the Certified Financial Planner® (CFP®) certification.
She, like other originators, witnessed palpable relief at reverse mortgage closings because the clients were able to improve their retirements without having to give up home.

In her career at Wells Fargo and MetLife, Shelley assumed many roles in sales and sales management but has been most steadfast in her commitment to education and ethical lending. She has pursued a long-standing interest in how to integrate housing wealth into the context of a holistic financial plan. Accordingly, she has spoken on reverse mortgage lending at retirement income planning conferences, and for organizations such as NRLMLA, ABA and NAHB. She speaks frequently on the radio and appeared live on CNNfinancial. She has been a regular participant at industry events and specializes in bringing together reverse mortgage lenders with other financial services experts.

Shelley developed a series of calculators that demonstrate the effect of using a reverse mortgage in retirement planning. She authored, through partnership with the American CE Institute, an advanced course, Housing Wealth in Retirement. Shelley authored “What’s the Deal with Reverse Mortgages” and is co-author of “What You Don’t Know About Retirement Income Can Hurt You.”

Her connections to the industry are especially deep. She mentors elite loan officers throughout the country who have participated in her comprehensive training program, and who have committed to strict ethical standards. Today, Shelley chairs the non-profit Funding Longevity Task Force. This team of researchers, gerontologists, financial planning practitioners, and lenders is devoted to helping Boomers understand how powerful their housing wealth could in planning for a more secure retirement.

Shelley earned a B.A. from the College of William and Mary and an M.A. from Old Dominion University. She lives in Washington, DC where she is a member of Women in Housing and Finance, NAIFA, and the FPA.

Christopher Seabrook has worked in the insurance and finance industry since 2011. He joined COUNTRY Financial as a financial representative in 2013 and won the Rookie of Year award soon after. Chris is passionate about offering personalized guidance to help each client achieve financial security and protect the things they love. His desire to meet the needs of customers earned him recognition as a COUNTRY Financial All Star in 2013 and 2014 as well as a spot on the distinguished COUNTRY Financial All American Team in 2014. Chris will also be joining the 2015 class in COUNTRY’s Leadership Academy Program.
Housing Wealth in Retirement Symposium

REMARKS BY JIM LOCKHART
MARCH 23, 2018
TOTAL HOME EQUITY RIVALS AMERICANS' RETIREMENT SAVINGS

Note: Retirement Savings includes total assets in Individual Retirement Arrangements (IRAs) and defined contribution (DC) plans.
Source: The U.S. Federal Reserve and the Investment Company Institute
REPORT OF THE COMMISSION ON RETIREMENT SECURITY AND PERSONAL SAVINGS

Securing Our Financial Future:

Report of the Commission on Retirement Security and Personal Savings

June 2016

Link: https://bipartisanpolicy.org/library/retirement-security/
Setting the Stage on Housing and Retirement

Laurie Goodman
Co-Director, Housing Finance Policy Center
Urban Institute

2018 Housing Wealth in Retirement Symposium
Washington, DC
March 23, 2018
Outline

- Seniors are more apt to have home equity than younger homeowners. Home equity represents a larger fraction of net worth to blacks and Hispanics than to non-Hispanic whites.
- While very few seniors have extracted home equity to date, the market is potentially very large.
- There is likely to be more extraction in the years ahead.
  - As the senior population expands
  - The proportion of those with mortgage is higher for younger seniors, they owe more
Seniors are more apt to have home equity than younger borrowers


Source: Survey of Consumer Finances and Urban Institute.
Home equity is comparatively more important to blacks and Hispanics than to whites

2016 Wealth Measures for Households Ages 65 and Older, by Race

Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances.
## Sizing the Senior Home Equity Lending Market (26 million senior homeowners)

### Number of households

<table>
<thead>
<tr>
<th>Income</th>
<th>Home Equity &gt; 100,000</th>
<th>Home Equity &gt; $50,000</th>
<th>Home Equity &gt; $25,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ $20,000</td>
<td>920,580</td>
<td>1,897,676</td>
<td>2,376,474</td>
</tr>
<tr>
<td>≤ $40,000</td>
<td>2,482,032</td>
<td>4,546,126</td>
<td>5,992,042</td>
</tr>
<tr>
<td>≤ $60,000</td>
<td>3,292,709</td>
<td>5,716,358</td>
<td>7,495,296</td>
</tr>
</tbody>
</table>

### Aggregate home equity in billions of dollars

<table>
<thead>
<tr>
<th>Income</th>
<th>Home Equity &gt; 100,000</th>
<th>Home Equity &gt; $50,000</th>
<th>Home Equity &gt; $25,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ $20,000</td>
<td>$208</td>
<td>$283</td>
<td>$303</td>
</tr>
<tr>
<td>≤ $40,000</td>
<td>$562</td>
<td>$724</td>
<td>$781</td>
</tr>
<tr>
<td>≤ $60,000</td>
<td>$773</td>
<td>$964</td>
<td>$1,034</td>
</tr>
</tbody>
</table>

Source: Urban Institute calculations based on the 2016 Survey of Consumer Finances.
Share of homeowners who extracted home equity by strategy

- Reverse mortgage: 0.9%
- Refinancing: 4.6%
- Home sale: 1.8%
- HELOC: 9.6%
- Second mortgage: 1.4%
- Home equity loan: 0.5%

Notes: HELOC = home equity line of credit. For home equity, HELOCs, and second mortgages, the above shares correspond to respondents reporting having one of these three products active at the time of the survey. For cash-out refinancing, home sales, and reverse mortgages, the period of coverage was the prior two years.
The US population is aging—share of US homeowners 65+ is expanding rapidly

The share of elderly homeowners with a mortgage has increased; Younger seniors more apt to have a mortgage than older seniors.

[Graph showing the share of elderly homeowners with a mortgage by age group from 1989 to 2016.]


Note: 2016 constant dollars.
The median mortgage amount for elderly homeowners with a mortgage has increased; younger seniors apt to owe more.


Note: 2016 constant dollars.
Integrating Home Equity and Retirement Savings Through The “Rule of 30”

Peter Neuwirth, FSA FCA
Barry H. Sacks, J.D., PhD
Stephen R. Sacks, PhD
Types of Retirees Considered

- 4 different “archetypical” retirees considered
- Chosen to represent a cross-section of a large percentage of the wealthiest 50% of retirees (50\textsuperscript{th}–90\textsuperscript{th} percentile by assets)
- Takes account of the variance in the proportion of assets that home equity represents for retirees in different geographical and socio-economic environments
Assumptions and Methodology

- Authors chose to use the same basic assumptions for this study as those used in Sacks 2012, but ran additional “sensitivity testing” on assumptions based on more conservative and “current” view of the economy.
- Decision to use “old” assumptions with sensitivity testing was based on the benefit of consistency with findings of prior studies (e.g. “4% rule”), and the value of measuring the robustness of results in differing economic environments.
Key Findings

**First Key Finding:** Strategy No. 1 improves over Strategy No. 2:

- Strategy No. 1 generally provides greater probability of cash flow survival than Strategy No. 2.

**Second Key Finding:** Results apply across a range of retirees:

- If a particular initial withdrawal amount (as a fraction of total assets (home plus portfolio value)) results in a 90% probability of 30-year cash flow survival, that same fraction will result in a 90% probability across a broad range of both levels of total assets and ratios of home value to portfolio value.
# Comparison of Key Findings

<table>
<thead>
<tr>
<th>Total Assets</th>
<th>Initial Distribution (1/30)</th>
<th>Home value</th>
<th>Portfolio value</th>
<th>Survival Probability</th>
</tr>
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<tbody>
<tr>
<td>$450,000</td>
<td>$15,000</td>
<td>$150,000</td>
<td>$300,000</td>
<td>90%</td>
</tr>
<tr>
<td>$450,000</td>
<td>$15,000</td>
<td>$300,000</td>
<td>$150,000</td>
<td>90%</td>
</tr>
<tr>
<td>$450,000</td>
<td>$15,000</td>
<td>$225,000</td>
<td>$225,000</td>
<td>90%</td>
</tr>
</tbody>
</table>

This would also be the case if total assets were $1.2 million and the withdrawal was $40,000 (i.e. 1/30 x $1.2 million)
This key finding is that the “safe” withdrawal amount can always be determined as a fraction of the total of home value plus portfolio value.

When the investment returns used in the Monte Carlo simulation are consistent with historical averages, the fraction is 1/30, hence the name “Rule of 30” given to this finding.

When currently projected investment return figures (more conservative than historical figures) and recently revised HECM parameters are used, the result is a “Rule of 38.”
Our most important finding is that retirees with only modest retirement savings who own a home (e.g. Retiree #4) can dramatically increase their retirement income without risking exhausting their resources by using the “Rule of 30” and Strategy 1 for managing the source of income.

For Retiree #4 this approach would produce more than twice the initial retirement income as using the “4% rule” and 29% more TOTAL cash flow over a 30 year period.
For Retiree #4 the approach would allow this income to be maintained with only a 10% probability of exhausting assets (after 30 years) compared to a 70% probability of running out of money if similar income was drawn using Strategy 2.

Results for Retirees #1–3 are similar but not as dramatic.
### Comparisons Rule of 30 v. 4%

<table>
<thead>
<tr>
<th>Retiree</th>
<th>Home Value/Portfolio/Total</th>
<th>Draw Using 4% Rule</th>
<th>Draw Using Rule of 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>$400/800/1200k</td>
<td>$32,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>#2</td>
<td>$800*/400/1200k</td>
<td>$16,000</td>
<td>$34,500</td>
</tr>
<tr>
<td>#3</td>
<td>$150/300/450k</td>
<td>$12,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>#4</td>
<td>$300/150/450k</td>
<td>$6,000</td>
<td>$15,000</td>
</tr>
</tbody>
</table>

*Use $636,150 HECM*
Part of the reason the “Rule of 30” is so effective is the impact of HUD/FHA guarantees that ensure retirement income continues even after HECM loan balance exceeds the value of the home.

The above phenomenon is most pronounced at long durations (25+ years) and for retirees with home equity below the FHA maximum and a high ratio of home equity/retirement savings (e.g. Retiree #4)

Combining “Rule of 30” with Strategy 1 provides significantly higher cash flow without risk of exhaustion than using Strategy 2 for all retirees, again due to both the mitigation of the risk of “adverse sequence of returns” AND the more pronounced impact of HUD/FHA guarantees
Implications of Recent Rule and Economic Changes on “Rule of 30”

- Effective October 2, 2017 HUD changed the parameters under which future HECM’s may be issued. Such changes included a new insurance premium structure somewhat lower plf’s.
- In addition, since the “Rule of 30” was developed, interest rates and general expectations of future investment returns have declined.
Implications of Recent Rule and Economic Changes on “Rule of 30”

- Reflecting the new HUD rules as well as lower interest rates overall future investment returns, the “Rule of 30” becomes a “Rule of 38” but the strategy of drawing retirement income under strategy 1 as a fixed fraction of TOTAL resources (retirement savings plus home equity) provides for 90% probability of 30 year inflation adjusted cashflow survival.

- Under the new HUD rules and lower interest rate/investment return assumptions it is also demonstrable that Strategy 1 is superior to other strategies like Strategy 2 or the 4% rule (which becomes a “3.2% rule” under lower investment return assumptions)
Some More Detailed Results (Rule of 30)

Probability as a function of Ratio of Home value to Portfolio

Probability of 30-Year (Inflation Adjusted) Cash Flow Survival
Some More Detailed Results (Rule of 38)

Probability as a function of **Ratio** of Home Value to Portfolio

Probability of 30-Year (Inflation-Adjusted) Cash Flow Survival

![Graph showing the probability of 30-year cash flow survival as a function of the ratio of initial home value to initial portfolio value, with two strategies compared: Strategy No. 1 (teal line) and Strategy No. 2 (red line).](image)
Another way to view the results shown on the previous slide:

Initial Withdrawal Rates Resulting in 90% Probability of 30-Year (Inflation-Adjusted) Cash Flow Survival Rule of 30 and Rule of 38
We believe that our research shows that vastly greater numbers of retirees can benefit from the use of HECM’s and a coordinated drawdown strategy (i.e. Strategy 1) than previously assumed.

While results are robust and consistent across different economic environments and for retirees with different ratios of home equity/retirement savings, the INITIAL rate of withdrawal is sensitive to economic assumptions.

In addition to Strategy 1, there are other recently developed strategies for the use of home equity in the context of retirement that are not addressed here.

- These include hybrids of Strategies 1 and 2, the reverse mortgage “tenure payment” approach, as well as the use of a reverse mortgage credit line as a form of long-term care insurance.
- These other strategies may merit further exploration for application to certain subsets of the retirees considered in this presentation.
Concluding Thoughts

- The role of HUD/FHA guarantees is critical and to date very little long term analysis of this aspect of HECM’s has been conducted.
- In addition to the economic environment, the use and effectiveness of HECM’s will also be impacted by HUD regulations and the evolution of the HECM market.
- In particular, the recent changes in HECM rules implemented by HUD may generate responses by the HECM lenders which will need to be tracked and taken into account in future research studies.
Reversing the conventional wisdom

A new strategy for using home equity to supplement retirement income
The retirees’ main objective:

*Maintain cash flow throughout retirement!*

In other words, “*Don’t run out of money!*”
In the first year of retirement, draw 4% of the portfolio value.

In each subsequent year of retirement, draw the same **dollar** amount, adjusted **only** for inflation. (Constant purchasing power)

In general, following this rule has a greater than 90% probability of enabling the portfolio to provide the cash flow for 30 years. (This is based on investment return projections consistent with historical averages. With more conservative projections, it becomes a 3.2% rule.)
Taking the unsafe approach

Drawing more than the “safemax” amount greatly increases the risk of running out of money.

For example, increasing the initial withdrawal rate from 4% to 5% increases the probability of cash flow exhaustion in less than 30 years, from 10% to 30%.

See the graph on the next slide.
Cash flow survival probability (withdrawals from account only)
The conventional wisdom for dealing with the risk of cash flow exhaustion

The conventional wisdom:

A **passive** strategy—use home equity, a reverse mortgage, as a **last resort**—if and when the portfolio is exhausted, a **“wait and see”** approach.
To develop a better strategy to reduce the risk of account exhaustion, find the most frequent **cause** of account exhaustion.

### Non-volatile Portfolio: no draws

<table>
<thead>
<tr>
<th>Value (Beginning of Year)</th>
<th>Earnings Rate</th>
<th>Earnings (during year)</th>
<th>Value (End of Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000,000</td>
<td>5.0%</td>
<td>$50,000</td>
<td>$1,050,000</td>
</tr>
<tr>
<td>$1,050,000</td>
<td>5.0%</td>
<td>$52,500</td>
<td>$1,102,500</td>
</tr>
<tr>
<td>$1,102,500</td>
<td>5.0%</td>
<td>$55,125</td>
<td>$1,157,625</td>
</tr>
</tbody>
</table>

### Volatile Portfolio: no draws

<table>
<thead>
<tr>
<th>Value (Beginning of Year)</th>
<th>Earnings Rate</th>
<th>Earnings (during year)</th>
<th>Value (End of Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000,000</td>
<td>-15.0%</td>
<td>-150,000</td>
<td>$850,000</td>
</tr>
<tr>
<td>$850,000</td>
<td>-3.0%</td>
<td>-25,500</td>
<td>$824,500</td>
</tr>
<tr>
<td>$824,500</td>
<td>40.4%</td>
<td>333,125</td>
<td>$1,157,625</td>
</tr>
</tbody>
</table>
A major cause of exhaustion is **negative or weak investment performance in the early years of retirement withdrawals**.

| Non-volatile Portfolio: $50,000 | | Non-volatile Portfolio: $50,000 | | Non-volatile Portfolio: $50,000 | | Non-volatile Portfolio: $50,000 |
|---|---|---|---|---|---|
| **draw** | **Value: beginning of year** | **Earnings rate** | **Draw: end of year** | **Value after draw** | **Value: end of year** |
| Non-volatile Portfolio: $50,000 | $1,000,000 | 5.00% | $50,000 | $1,000,000 | $1,000,000 |
| Non-volatile Portfolio: $50,000 | $1,000,000 | 5.00% | $50,000 | $1,000,000 | $800,000 |
| Non-volatile Portfolio: $50,000 | $1,000,000 | 5.00% | $50,000 | $1,000,000 | $969,328 |

| Volatile Portfolio: $50,000 | | Volatile Portfolio: $50,000 | | Volatile Portfolio: $50,000 | | Volatile Portfolio: $50,000 |
|---|---|---|---|---|---|
| **draw** | **Value: beginning of year** | **Earnings rate** | **Draw: end of year** | **Value: end of year** |
| Volatile Portfolio: $50,000 | $1,000,000 | -15.00% | $50,000 | $800,000 |
| Volatile Portfolio: $50,000 | $800,000 | -3.00% | $50,000 | $726,000 |
| Volatile Portfolio: $50,000 | $726,000 | 40.40% | $50,000 | $969,328 |
A major cause of exhaustion is **negative or weak investment performance in the early years** of retirement withdrawals

<table>
<thead>
<tr>
<th>Non-volatile Portfolio: $50,000</th>
<th>Volatile Portfolio: $50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>draws</strong></td>
<td><strong>draws</strong></td>
</tr>
<tr>
<td>Value: beginning of year</td>
<td>Value: beginning of year</td>
</tr>
<tr>
<td><strong>Earnings rate</strong></td>
<td><strong>Earnings rate</strong></td>
</tr>
<tr>
<td><strong>Draw: end of year</strong></td>
<td><strong>Draw: end of year</strong></td>
</tr>
<tr>
<td><strong>Value after draw</strong></td>
<td><strong>Value: end of year</strong></td>
</tr>
<tr>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>5.00% $50,000</td>
<td>40.00% $50,000</td>
</tr>
<tr>
<td>$1,000,000</td>
<td>$1,350,000</td>
</tr>
<tr>
<td>5.00% $50,000</td>
<td>- $50,000</td>
</tr>
<tr>
<td>$1,097,500</td>
<td>$1,014,575</td>
</tr>
<tr>
<td>5.00% $50,000</td>
<td>-3.00% $50,000</td>
</tr>
</tbody>
</table>

**Non-volatile Portfolio:** Initial investment $1,000,000 with a 5.00% earnings rate, $50,000 drawn at the end of the year, resulting in a value of $1,000,000 at the beginning of the following year.

**Volatile Portfolio:** Initial investment $1,000,000 with a 5.00% earnings rate, $50,000 drawn at the end of the year, resulting in a value of $1,350,000 at the beginning of the following year.
A better strategy is an active strategy that enables the retiree to avoid drawing on the portfolio when it has negative or weak investment performance in the early years of retirement.

One way to accomplish that result is to draw, instead, on a reverse mortgage credit line, whenever the portfolio’s investment performance was negative or weak.
**Question:** How do we know if the new strategy really works? And if it does work, how well does it work?

**Answer:** Test it!

**Question:** How do you test it?

**Answer:** Using a Monte Carlo technique to simulate the portfolio’s investment performance, and inflation, over a 30-year period, we run two spreadsheet sheets simultaneously. They are identical in every respect except:
One spreadsheet reflects the new strategy (in which we draw on the reverse mortgage credit line to avoid drawing on the portfolio when it has had negative or weak investment performance.

Another spreadsheet reflects the conventional strategy (in which we draw on the reverse mortgage credit line as a last resort, after the portfolio is exhausted).
We Need a Representative Retiree for Whom to Run the Test

We rather arbitrarily choose a classic “mass affluent” retiree:

Home Value: $400,000
Initial Portfolio Value: $800,000

Notice the Ratio of Home Value to Initial Portfolio Value: .5 to 1 (i.e., 1:2)
Portfolio Composition: 60% Equities – 40% Fixed Income

(With remarkable consistency, subsequent researchers, including Pfau, Salter & Evensky, and Wagner, used the same ratio of Home Value to Initial Portfolio Value.)
Some results of the test...

Probability of Cash Flow Survival (5% Initial Distribution Rate)
Some results of the tests...(cont’d)

Probability of Cash Flow Survival (6.5% Initial Distribution)
Another way to look at the results of the test... (and this is where Pete Neuwirth had the insight that led to the next phase)

**Probability** of 30-year Cash Flow Survival as a function of ratio of home value to account value (6.5% initial distribution rate)
Performance of HECM Reverse Mortgages

Christopher Mayer, PhD
Columbia Business School and National Bureau of Economic Research
CEO, Longbridge Financial
Disclaimer

- Some of the research presented here was conducted with Professor Min Hwang (George Washington University)

- The work that provided the basis for this publication was supported by funding under a Grant with the U.S. Department of Housing and Urban Development, Office of Policy Development and Research. The substance and findings of the work are dedicated to the public. The author and publisher are solely responsible for the accuracy of the statements and interpretations contained in this publication. Such interpretations do not necessarily reflect the views of the Government.
Key points

- Strong need to use home equity in retirement

- Can HECM reverse mortgage program address financial needs of elderly in a way that protects borrowers & taxpayers?
  - Financial Assessment and Draw Limits have cut serious T&I default rates
  - HECM properties depreciate at a faster rate than other homes (10% over 10 years, then leveling off)
  - Program changes have substantially improved collateral performance
Aggregate debt is rising for older Americans

Total Debt Balance by Age of Borrower

- 2003
- 2015

Billions of dollars

Age of borrower

Majority of increased debt due to more borrowing

Percentage Change in Aggregate Debt

HECM rule changes from 2013-15 and earlier

- FHA made two consequential HECM program changes:
  - 60% up front draw limit on available proceeds unless borrowers have debt to pay off (Oct 2013)
  - Borrowers must pass Financial Assessment (FA), or have LESA proceeds reserved to pay T&I (April 2015)

- Appraisal reforms in late 2000s impacted current collateral relative to historical properties

- Protections for Non Borrowing Spouse (NBS)
HECM rule changes cut T&I defaults 62-74%

- Sharp increase in use of ARMs with lower upfront draws (with line of credit available)
- LESA proceeds reserved for T&I
- New View Advisors analyzed pre/post FA data on T&I defaults for 27 months (Jan ‘13- Mar ‘15 vs. after July ’15)
  - Overall T&I defaults fell 74% (from 2.3% to 0.6%)
  - Serious T&I defaults fell 62% (from 3.1% to 1.2%)
  - Higher loan balances of 12% & higher home values
HUD-Funded study on sale prices of HECM homes

- Compare to other homes in same Zip code
- Match to property records from CoreLogic for sales through 2017
- Look at homes that were sold up to 14 years after the HECM was originated
- Consider homes that were sold either arms-length (by HECM borrower or estate) or with a foreclosure or deed-in-lieu
- Matched 69,618 records, of which 24,475 (35%) were foreclosures
HECM Recoveries level off at 10% discount

Home Price Change by Years after HECM Orig
(Non-foreclosure sales)
Foreclosures sell around 37% discount at 11 yrs

Home Price Change by Years after HECM Orig
(Foreclosure sales)
Recent HECM changes should substantially improve recoveries

- Originations after 2010 perform 5-12% better than earlier originations

- Avoiding constrained borrowers and lending to high priced homes leads to better collateral performance
  - Originations after 2010 perform 5-12% better than earlier originations

- Homes < $150,000 have 19% lower appreciation than comparable properties

- Homes with ARMs appreciate at 7% higher rate

- Lower draws and higher FICOs lead to higher appreciation
Conclusion

- HECM program has improved substantially in its core goal of preserving home ownership
- Losses appear concentrated in lowest priced homes & worst credit borrowers
- FNMA study shows 620 FICO cutoff would have reduced adverse terminations and losses by 31-32%
- Actuarial report and budget does not appear to account for these substantial program changes
- Additional improvements possible to efficiently manage FHA servicing & foreclosure process (Urban Institute ‘18)
Traditional Mortgage

Reverse Mortgage

By: Dr. Wade Pfau
Example for Carrying Mortgage into Retirement

• 65-year old couple enters retirement
• Twenty years ago, purchased a $300,000 home with a 20% down payment, using a 7.5% fixed 30-year mortgage for the rest
• Five years ago, refinanced into a 3.5% fixed 15-year mortgage
• Annual mortgage payments = $15,574
• 10 years left on mortgage; Remaining mortgage balance = $129,526.
• Home value grew at 3% for past 20 years. It is worth $541,833 today.
• The principal limit is 45.9% of $541,833, or $248,701
• Upfront costs: $6,000 + $10,837 + $2,500 = $19,337 financed in loan
Probability of Success for a 4% Post-Tax & Mortgage Initial Withdrawal Rate
$1 million portfolio, $541,833 home value, 25% Marginal Tax Rate
Probability of Success for a 4% Post-Tax Initial Withdrawal Rate

$1 million portfolio, $541,833 home value, 25% Marginal Tax Rate
Median Legacy Wealth for a 4% Post-Tax Initial Withdrawal Rate
$1 million portfolio, $541,833 home value, 25% Marginal Tax Rate
Shifting from Traditional Mortgage to Reverse Mortgage:

• Reduced withdrawal rate -> reduced sequence risk -> increased probability of success

• Mortgage leverages the portfolio – legacy will be larger if portfolio growth rate exceeds loan growth rate

• High initial HECM borrowing reduces the overall percentage of the initial home value that can be accessed through reverse mortgage (voluntary repayment helps against this advantage for Line of Credit uses)
Rebooting the HECM Program

Deborah Lucas
Sloan Distinguished Professor of Finance and
Director MIT Golub Center for Finance and Policy
A “Reverse Mortgage Puzzle”

• Why is a subsidized financial product that can solve the problem of liquefying home equity for older households so unpopular?

• My analysis suggests that:
  – HECMs are a very expensive financial product for borrowers. Also costly to gov’t.
  – Structural reforms to the program could significantly reduce costs, and provide a more transparent and attractive product
  – See also “Hacking Reverse Mortgages” (MIT working paper, D. Lucas)
Who wins, who loses

- HECMs are **very costly for borrowers**
  - Average fair value NPV of -$27,000 per loan (-18.6% of LOC)
  - Exception is “ruthless” strategy that earns $53,000
- HECMs are **moderately costly for the government**
  - Average fair value cost of $4,000 per loan (-2.8% of LOC)
  - Ruthless strategy costs $55,000
  - Model shows recent program rule changes lowered cost by about $600 per loan
- HECMs are **profitable for private lenders**
  - Average fair value NPV of $31,000 per loan (21.4% of LOC)
- Qualitative conclusions robust to changes in house price vol., moving frequency, age at origination, etc.
Why doesn’t competition improve outcomes?

• **No a priori reason to presume a gov’t designed credit market will be competitive or low cost**

• Impediments to competition in HECM market:
  – Opaque prices, (too) many options
  – Older households may be reluctant to shop, or lack the know-how to compare offers

• Costs may be (unnecessarily) high
  – High marketing and selling costs could dissipate rents
  – Complexity and design choices complicate pricing and reduce liquidity (e.g., caps on floating rates; fixed rates)
  – GNMA securities are probably an inefficient funding mechanism
The finding that a federally guaranteed loan program provides greater benefits to guaranteed lenders than to borrowers is not unique to HECMs.

Related analyses reach similar conclusions:

- Now-discontinued Guaranteed Student Loan program (Lucas and Moore, 2010)
- Small Business Administration’s 7a program (de Andrade and Lucas, 2013)
Lessons for/from government credit programs

- Fundamental choice: guaranteed or direct loans
  - Guaranteed uses private funding, and usually less gov’t involvement
  - Theoretically both should have similar all-in cost b/c both require origination, funding, servicing, risk-bearing, collection
  - U.S. gov’t uses both extensively
    - Outstanding direct loans of $1.1 trillion in 2015
    - Outstanding guaranteed loans of $2.3 trillion in 2015 (excludes Fannie and Freddie)
Lessons for/from government credit programs

• **When is a guaranteed or direct loan more efficient?**
  – It depends…
  – Guarantees efficient when monitoring and screening is important, and if lenders are required to have skin-in-the-game
  – Guarantees can be costly to the gov’t and/or borrowers when fees are set by regulation rather than by market forces
    • Benefits of guarantee may be captured by lenders if the market structure is insufficiently competitive
  – Possibly better risk-sharing with direct loans, esp. of tail risk
Lessons for/from government credit programs

• Application to HECMs
  – Poster child for bad program design; structured to have downside of guarantees with little of the upside
  – No screening of borrowers for credit risk; minimal monitoring
  – No risk-bearing so no skin-in-the-game
  – Discretion in setting prices, but little price competition between lenders

• Time to rethink program design?
Policy options

• Gov’t risk exposure could be reduced by:
  – Curtail ruthless strategy by limiting PL growth to only cover incurred expenses
  – Curtail adverse selection (lenders keeping best loans) by requiring transfer to gov’t at fixed threshold (e.g., a multiple of MCA).

• Competition could be increased by:
  – Mandated disclosure of offer terms
  – Lending Tree-like venue to facilitate shopping
  – Reduce options to facilitate comparisons (e.g., floating rates w/o caps)
• Convert to direct loan program
  – Gov’t continues to bear longevity and house price risk
  – Gov’t assumes full responsibility for product offerings, pricing, funding via Treasury
    • Servicing, etc., could still be contracted out to private entities

• Benefits would include
  – Pricing transparency
  – Simplified product offerings
  – Treasury funding less expensive than GNMA funding
  – Subsidies conferred to borrowers not intermediaries

• Gov’t market could be more narrowly targeted, allowing regulated private market to develop and evolve
What’s Working and What Isn’t Working: Insights from Research

Stephanie Moulton, John Glenn College of Public Affairs, The Ohio State University
Disclaimer:
The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Retirement Research Consortium through the University of Michigan Retirement Research Center Award RRC08098401, the MacArthur Foundation as part of the “How Housing Matters” Research Competition and The U.S. Department of Housing & Urban Development’s Office of Policy Development and Research (PD&R). The opinions and conclusions expressed are solely those of the author(s) and do not represent the opinions or policy of SSA, HUD or any agency of the Federal Government.

The views expressed in this paper are those of the authors and do not necessarily represent the views of the Federal Reserve Board, the Federal Reserve System, or their staffs.

The work that provided the basis for this publication was supported by funding under a grant with the U.S. Department of Housing and Urban Development. The substance and findings of the work are dedicated to the public. The author and publisher are solely responsible for the accuracy of the statements and interpretations contained in this publication. Such interpretations do not necessarily reflect the view of the Government.
Research Program (2012-2018)

1. Empirical Modeling of Reverse Mortgage Borrower Behavior
   • Use of HECMs and other equity extraction products among seniors
   • HECM technical default (property tax and insurance default)
   • HECM loan terms, withdrawal behaviors and termination outcomes

2. Survey of Counseled Seniors
   • Longer term well-being of HECM borrowers
   • May 2014-July 2015, about 2,000 respondents: (1) current HECM borrowers, (2) terminated HECM borrowers, and (3) seniors who sought counseling but did not get a reverse mortgage.

3. Post Origination Monitoring Pilot
   • RCT design; financial planning and reminders after closing
   • Launched January, 2015
   • 2017 survey, credit report and loan data, tracking outcomes
Home Equity Borrowing by Seniors (62+): Number of New Loans Originated

Source: Author’s calculations from HUD HECM data and the Federal Reserve Bank of New York/Equifax Consumer Credit Panel (CCP)
Home Equity Borrowing by Seniors (62+): New Loans as a % of Senior Population

Source: Author’s calculations from HUD HECM data and the Federal Reserve Bank of New York/Equifax Consumer Credit Panel (CCP)
Loan Originations by Consumer Credit Conditions

Source: Author’s calculations from HUD HECM data and the Federal Reserve Bank of New York/Equifax Consumer Credit Panel (CCP)

**Low credit areas are those in the top quartile for %seniors with Equifax Risk Scores under 720; high credit areas are those in the bottom quartile for %seniors with Equifax Risk Scores under 720.**
Geographic Variation: Chicago MSA, HELOCs

Mean HELOC Origination Rate as a Proportion of the Population 62 and older, 2004-2012

*Low credit areas are those in the top quartile for %seniors with credit scores under 720; high credit areas are those in the bottom quartile for %seniors with credit scores under 720.

Source: Author’s calculations from HUD HECM data and the Federal Reserve Bank of New York/Equifax Consumer Credit Panel (CCP)
Geographic Variation: Chicago MSA, Cash Out Refinancing

Mean Cash-Out Refinancing Origination Rate as a Proportion of the Population 62 and older, 2004-2012

*Low credit areas are those in the top quartile for %seniors with credit scores under 720; high credit areas are those in the bottom quartile for %seniors with credit scores under 720.

Source: Author’s calculations from HUD HECM data and the Federal Reserve Bank of New York/Equifax Consumer Credit Panel (CCP)
Geographic Variation, Chicago MSA, HECMs

Mean HECM Origination Rate as a Proportion of the Population 62 and older, 2004-2012

*Low credit areas are those in the top quartile for %seniors with credit scores under 720; high credit areas are those in the bottom quartile for %seniors with credit scores under 720.

Source: Author’s calculations from HUD HECM data and the Federal Reserve Bank of New York/Equifax Consumer Credit Panel (CCP)
Descriptive Credit Trends: Unmatched Sample

Equifax Risk Score

Past Due any Tradelines

Source: Author’s calculations from HUD HECM data and the Federal Reserve Bank of New York/Equifax Consumer Credit Panel (CCP)
Descriptive Credit Trends: Unmatched Sample

Credit Card Balances

% with Bankruptcy

Source: Author’s calculations from HUD HECM data and the Federal Reserve Bank of New York/Equifax Consumer Credit Panel (CCP)
Results: Highlights

• HECM borrowers experience a shock prior to loan origination
  ✓ 30 percent have a drop in their credit of **25 points or more** two years prior to origination, compared to 15 percent of seniors in the general population

• The HECM is associated with short-term improvement in credit outcomes
  ✓ About $1,000 reduction in credit card debt one year post, similar to HELOC
  ✓ Reduction in bankruptcy, being past due on payments, and foreclosure one year post, this being relatively unique to HECMs

• The longer term impact of HECMs on credit outcomes is less clear
  ✓ Reductions in bankruptcy and foreclosure persist three years post
  ✓ However, some indication of worsening credit behaviors by three years post:
    • credit score for HECM borrowers lower than otherwise similar seniors;
    • credit card debt not significantly lower than otherwise similar seniors;
    • ambiguous impact on being past due on debts
Analysis of Default in HECM Program: Data

1. Counseling data
   - 2006 - 2011, including more than 30,000 seniors
   - NCOA's Financial Interview Tool (FIT) data after October 2010

2. Credit report data (for all counselees)
   - collected at the time of counseling

3. Economic indicators
   - state level house price data, time varying

4. HUD HECM loan data (matched to counseling data)
   - includes T&I defaults; defined as “ever default” and “severe default”
   - severe default: owe $2,000+ in taxes and/or insurance as of 6/30/14

<table>
<thead>
<tr>
<th></th>
<th>Counseled (N=27,894)</th>
<th>HECM (N=16,247)</th>
<th>Ever Default (N=2,537)</th>
<th>Severe Default (N=1,047)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>58.2%</td>
<td>15.6%</td>
<td>6.4%</td>
<td></td>
</tr>
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</table>

### Policy Simulations: Ever Default, Credit Risk Indicators

<table>
<thead>
<tr>
<th>Policy Simulations</th>
<th>%Δ in Predicted HECM volume</th>
<th>Δ in T&amp;I Default Rate</th>
<th>% Δ in T&amp;I Default Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Initial Withdrawal Limit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial withdrawal limit</td>
<td>-7.6%</td>
<td>-3.0</td>
<td>-17.8%</td>
</tr>
<tr>
<td><strong>Credit Score Thresholds</strong></td>
<td></td>
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</tr>
<tr>
<td>Hard limit: credit score &gt;= 500</td>
<td>-3.2%</td>
<td>-1.6</td>
<td>-9.8%</td>
</tr>
<tr>
<td>Hard limit: credit score &gt;= 580</td>
<td>-12.0%</td>
<td>-4.9</td>
<td>-29.8%</td>
</tr>
<tr>
<td>Set-aside for credit score less than 500</td>
<td>-1.3%</td>
<td>-2.0</td>
<td>-12.0%</td>
</tr>
<tr>
<td>Set-aside for credit score less than 580</td>
<td>-4.2%</td>
<td>-6.0</td>
<td>-37.0%</td>
</tr>
<tr>
<td>Set-aside for credit score less than 500 + initial draw limit</td>
<td>-8.9%</td>
<td>-4.7</td>
<td>-28.5%</td>
</tr>
<tr>
<td>Set-aside for credit score less than 580 + initial draw limit</td>
<td>-11.7%</td>
<td>-8.2</td>
<td>-49.9%</td>
</tr>
<tr>
<td><strong>Credit Risk Thresholds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hard limit: drop observations with bad credit</td>
<td>-17.3%</td>
<td>-4.8</td>
<td>-29.5%</td>
</tr>
<tr>
<td>Set-aside for bad credit</td>
<td>-5.7%</td>
<td>-6.5</td>
<td>-39.8%</td>
</tr>
<tr>
<td>Set-aside for bad credit + initial draw limit</td>
<td>-13.2%</td>
<td>-8.5</td>
<td>-52.0%</td>
</tr>
</tbody>
</table>

### Table 1. Survey Respondent Status

<table>
<thead>
<tr>
<th>Status of Reverse Mortgage</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtained, retained</td>
<td>1,192</td>
<td>68%</td>
</tr>
<tr>
<td>Obtained, terminated</td>
<td>102</td>
<td>6%</td>
</tr>
<tr>
<td>Did not obtain</td>
<td>467</td>
<td>27%</td>
</tr>
<tr>
<td><strong>Number of respondents</strong></td>
<td><strong>1,761</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Table 4. Primary Reasons for Considering a Reverse Mortgage

<table>
<thead>
<tr>
<th>(Select all that apply)</th>
<th>Did not obtain RM</th>
<th>Obtained and retained RM</th>
<th>Obtained then terminated RM</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Everyday expenses</td>
<td>41%</td>
<td>42%</td>
<td>38%</td>
<td>42%</td>
</tr>
<tr>
<td>Pay off mortgage</td>
<td>44%</td>
<td>39%</td>
<td>24%</td>
<td>39%</td>
</tr>
<tr>
<td>Home improvements</td>
<td>28%</td>
<td>22%</td>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>Pay off non-mortgage debt</td>
<td>23%</td>
<td>27%</td>
<td>22%</td>
<td>26%</td>
</tr>
<tr>
<td>Financial help to family</td>
<td>19%</td>
<td>19%</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Postpone other retirement income</td>
<td>18%</td>
<td>15%</td>
<td>10%</td>
<td>16%</td>
</tr>
<tr>
<td>Health or disability expenses</td>
<td>13%</td>
<td>14%</td>
<td>23%</td>
<td>14%</td>
</tr>
<tr>
<td>Lock-in home equity</td>
<td>13%</td>
<td>9%</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>Big purchase</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Purchase new property</td>
<td>5%</td>
<td>3%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
<td>16%</td>
<td>18%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Number of respondents</strong></td>
<td><strong>448</strong></td>
<td><strong>1,174</strong></td>
<td><strong>98</strong></td>
<td><strong>1,720</strong></td>
</tr>
</tbody>
</table>

Source: Aging in Place survey, 2015. 41 responses for don’t know or refused excluded

### Table 2.2 Well Informed About the Following at the time of Counseling

<table>
<thead>
<tr>
<th></th>
<th>Did not obtain RM</th>
<th>Obtained and retained RM</th>
<th>Obtained then terminated RM</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Different ways to receive money</td>
<td>86%</td>
<td>92%</td>
<td>91%</td>
<td>90%</td>
</tr>
<tr>
<td>(e.g. credit line, lump sum, monthly payment)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsibility to pay property taxes and homeowner's insurance</td>
<td>90%</td>
<td>99%</td>
<td>100%</td>
<td>97%</td>
</tr>
<tr>
<td>Increasing loan balance due to accumulating interest and mortgage insurance premiums</td>
<td>54%</td>
<td>71%</td>
<td>66%</td>
<td>66%</td>
</tr>
<tr>
<td>(If married at time of counseling):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implications of removing or not having spouse on deed</td>
<td>42%</td>
<td>47%</td>
<td>59%</td>
<td>46%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reason</th>
<th>Did not obtain RM</th>
<th>Obtained and retained RM</th>
<th>Obtained then terminated RM</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get rid of mortgage payments</td>
<td>67%</td>
<td>69%</td>
<td>41%</td>
<td>67%</td>
</tr>
<tr>
<td>Unable to afford mortgage payments</td>
<td>25%</td>
<td>40%</td>
<td>28%</td>
<td>36%</td>
</tr>
<tr>
<td>Payoff home equity loan</td>
<td>29%</td>
<td>20%</td>
<td>28%</td>
<td>22%</td>
</tr>
<tr>
<td>High interest rate</td>
<td>27%</td>
<td>18%</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>Behind on mortgage payments</td>
<td>19%</td>
<td>10%</td>
<td>24%</td>
<td>13%</td>
</tr>
<tr>
<td>Facing foreclosure</td>
<td>13%</td>
<td>8%</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>Adjustable Interest Rate</td>
<td>14%</td>
<td>6%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>20%</td>
<td>12%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>N (Respondents)</td>
<td>147</td>
<td>505</td>
<td>29</td>
<td>681</td>
</tr>
<tr>
<td>N (DK/Refuse/Missing)</td>
<td>50</td>
<td>18</td>
<td>1</td>
<td>69</td>
</tr>
</tbody>
</table>

Analysis of HUD/FHA Guarantees for HECM Credit Lines

Ongoing Research Project at University of California at Santa Barbara

Janet Duncan FCAS FSA
Ian Duncan FSA FIA FCIA FCA CSPA MAAA
Pete Neuwirth FSA FCA
Barry Sacks JD, Ph.D

(Assisted by Stephanie Lee, Conor Shannon and Yifei Fan)
HUD/FHA Guarantees and the MMI Fund

- HUD/FHA guarantees are critical to the long term viability of the HECM market as well as the effectiveness of retirement income strategies employed by “house rich” retirees utilizing HECM’s.
- FHA guarantees are funded via up front and ongoing “Mortgage Insurance Premiums” (MIP’s) set by HUD.
- MIP’s historically set at 0.5% (of home value) up front and 1.25% (of outstanding loan balance) ongoing, but effective 10/2/17, MIP rates changed to 2.0% up front and 0.5% ongoing.
- MIP’s held in MMI Fund whose solvency has recently become a concern.
- 2016 valuation (performed by IFE) showed a long term $7.8 billion deficit, while 2017 valuation, (performed by Pinnacle Associates) showed a deficit of $14.2 billion.
The Pinnacle Valuation of MMI Fund solvency

- Major focus of Pinnacle analysis was on evaluating short term risks and funding shortfall associated with current portfolio.
- Closed group valuation focuses on status of existing HECM’s and incorporates pre 2017 MIP structure.
- Includes detailed review of home price volatility, borrower “default” experience (e.g. via failure to pay property tax) and the transaction costs associated with a forced sale.
- Current borrower profile and behavioral assumptions (e.g. HECM drawdown timing and likelihood of property tax/insurance default) seem inconsistent with likely market/demographic trends.
Outline of Current Research Project

- Built new model to test adequacy of the current MIP structure to fund the promised HUD/FHA guarantees and potentially eliminate existing MMI Fund deficit.
- Utilizes long term (retirement) actuarial principles and is designed to perform an Open Group valuation.
- Can highlight impact of new MIP rates, possible changes in borrower profile and broader use of alternative LOC drawdown strategies (e.g. the “coordinated strategy”).
- Basic model has been constructed and tested on publicly available data on HECM’s initiated 1989-2011.
- Preliminary findings indicate reasons to be optimistic about the future solvency of the MMI Fund.
Preliminary Findings

- Analysis of 158,000 HECM’s that terminated between 2005 and 2011 indicate that such terminations would have produced a net gain for MMI Fund had new MIP rates been in effect when HECM’s initiated.
- Significant differences in potential claims found by size of HECM (higher HECM values produced lower claims).
- Potentially longer duration of HECM and lower property tax/insurance default rates (if borrower profile changes as expected) suggest future HECM’s will produce a surplus for the MMI Fund.
- If future HECM’s produce surplus and HECM volume grows significantly then projected deficit of MMI Fund will potentially disappear.
Home Equity and Retirement Income Planning Survey

Professor Jamie Hopkins
Co-Director of the American College New York Life Center for Retirement Income
Mission:
• Elevate the retirement-income planning knowledge of financial services professionals in order to improve retirement security for all Americans

Priorities & Initiatives:
• Research - RICP® Retirement Income Literacy Index
• Education - Retirement Income Certified Professional® (RICP®)
• Video Library - retirement.theamericancollege.edu
• Thought Leadership and Visibility

Leadership

Jamie Hopkins, Esq, LLM, RICP®
Co-Director,
Professor of Taxation

Dave Littell, JD, ChFC®, CFP®
Co-Director,
Professor of Taxation
Retirement Income Certified Professional® (RICP®)

Purpose

1. Gauge the knowledge levels of those nearing or in retirement with regards to reverse mortgages.
2. Understand attitudes about the importance of housing decisions for those nearing or in retirement.
3. Find ways to improve the knowledge base of those nearing or in retirement with regards to home equity reverse mortgages.
Data & Research Methods

- A total of 1,003 people completed the survey, 537 Males and 466 Females between the ages of 55 and 75, with at least $100,000 in investable assets and $100,000 in home equity.

- The Survey’s knowledge questions were created by College professors and reviewed by industry experts to ensure accuracy.

- This study consisted of an online survey that was conducted by Greenwald & Associates through the Research Now only survey panel. The panel members are recruited through a controlled mix of both online and offline methods, by using “By-Invitation-Only” acquisition to avoid attracting professional survey takers. Research Now does operate a pay all incentive model where members are paid if they complete the survey.
Topline Results – Knowledge Levels

• Roughly 70% of respondents failed the Knowledge Quiz

• The knowledge of consumers was tested through 10 T/F questions relating to reverse mortgages, 70% being a passing score
  o Only 296/1,003 (30%) were able to get a 70% on the quiz
  o 398/1,003 (40%) answered 4-6 correct
  o 309/1,003 (30%) answers 3 or less correct
Topline Demographics – Who Responded?

• 44% had a comprehensive written retirement plan
• 14% had considered a reverse mortgage
• 60% had a financial advisor
• 60% were over the age of 62
• 53% were male and 47% were female
• 19% had home equity of $500,000 or more
• 30% had between $100-200,000 in home equity
Topline Results – Literacy

• Average (mean) correct was 4.8/10
• Men scored an average of 5.4 compared to 4.1 for women
• Individuals age 62-74 performed better than those age 55-61
• With or without an advisor had no impact!!!
• Considered a reverse mortgage had biggest impact with an average score of 6/10 compared to 4.6/10
• Comprehensive plan 5/10 compared to no plan 4.6/10
• As both investable assets and home equity went up so did knowledge
• Roughly 10% of respondents scored a 0 correct!
Topline Results – Literacy Misconceptions

• Two Biggest Misconceptions:
  • When you should use home equity in retirement (27% correct)
  • Do heirs have to repay the debt above and beyond the house value (25% correct)

• What people understood:
  • Knew that a lump sum wasn’t the only form of payment for a reverse mortgage (71%)
  • Knew that you could enter into a reverse mortgage before the house was fully paid off (69%)
Professor Hopkins Remarks

• Retirement income planning is extraordinarily challenging. Retirement income professionals are expected to manage a variety of client risks, legal changes, and ethical issues when developing a comprehensive plan. The survey responses show that many people moving into retirement with some home equity do not fully understand reverse mortgages, including those individuals that have reviewed reverse mortgages as a potential income source.

• While a reverse mortgage is not the right solution for every retiree, it can be a helpful retirement income tool. A reverse mortgage can diversify your home equity, build in a non-market correlated source of income to help offset market and sequence of returns risk, can be used to improve cash flow by turning off payments to a traditional mortgage, and be used for tax efficiency purposes during retirement.

• Financial advisers and retirees need to at least consider home equity as part of a retirement income plan and consumers need to better understand the features and uses of reverse mortgages.
Survey Data and Results

(Take the Quiz)
1) The earliest age at which a person who is the sole owner of a home can enter into a reverse mortgage is age 62.

2) If the value of your home has grown since you bought it, entering into a reverse mortgage would result in a taxable gain to the homeowner.

3) Under a reverse mortgage the homeowner generally is not required to repay the loan until he/she stops using the home as the principal residence.

4) You cannot enter into a reverse mortgage unless your home is completely paid off and there is no outstanding mortgage balance.

5) One downside with a reverse mortgage is that if the home goes under water (the home is worth less than the amount owed to the lender), the homeowner, estate, or heirs need to pay off the additional debt.

6) The only currently available form of payment from a reverse mortgage is a single lump sum distribution.

7) The amount of money that you can borrow as a reverse mortgage depends on the age of the youngest borrower or eligible non-borrowing spouse, the current interest rate, and the value of the home.

8) A reverse mortgage is different from a traditional mortgage in that the homeowner is not responsible for any property taxes or insurance payments.

9) Generally using a reverse mortgage early in retirement to support a retirement plan is better than as a last resort towards the end of retirement.

10) Because of concerns about poor money management and financial elder abuse, the Government has restricted the use of reverse mortgage proceeds to health care expenditures, long-term care costs, home improvements, and tax payments.
Reverse Mortgage – Age Question

Question 1: The earliest age at which a person who is the sole owner of a home can enter into a reverse mortgage is age 62. [TRUE]

- 38% of the respondents knew the answer.
- 59% of those who had considered a reverse mortgage knew the answer compared to 35% who had not.
- 41% of those with a written plan knew the answer as compared to 36% without a written plan.
- 39% with an advisor knew the answer and 37% without an advisor knew the answer.
Question 2: If the value of your home has grown since you bought it, entering into a reverse mortgage would result in a taxable gain to the homeowner. [FALSE]

- 42% of the respondents knew the answer.
- 54% of those who had considered a reverse mortgage knew the answer compared to 40% who had not
- 47% of those with a written plan knew the answer as compared to 48% without a written plan
- 42% with an advisor knew the answer and 42% without an advisor knew the answer
Reverse Mortgage – Loan Repayment

Question 3: Under a reverse mortgage the homeowner generally is not required to repay the loan until he/she stops using the home as the principal residence. [TRUE]

- 59% of the respondents knew the answer.
- 75% of those who had considered a reverse mortgage knew the answer compared to 56% who had not.
- 59% of those with a written plan knew the answer as compared to 59% without a written plan.
- 57% with an advisor knew the answer and 62% without an advisor knew the answer.
Reverse Mortgage – Outstanding Mortgage

Question 4: You cannot enter into a reverse mortgage unless your home is completely paid off and there is no outstanding mortgage balance. [FALSE]

- 69% of the respondents knew the answer.
- 81% of those who had considered a reverse mortgage knew the answer compared to 67% who had not.
- 73% of those with a written plan knew the answer as compared to 67% without a written plan.
- 71% with an advisor knew the answer and 67% without an advisor knew the answer.
Reverse Mortgage – Windfall

Question 5: One downside with a reverse mortgage is that if the home goes under water (the home is worth less than the amount owed to the lender), the homeowner, estate, or heirs need to pay off the additional debt. [FALSE]

• 25% of the respondents knew the answer.
• 33% of those who had considered a reverse mortgage knew the answer compared to 24% who had not
• 27% of those with a written plan knew the answer as compared to 24% without a written plan
• 24% with an advisor knew the answer and 27% without an advisor knew the answer
Question 6: The only currently available form of payment from a reverse mortgage is a single lump sum distribution. [FALSE]

- 71% of the respondents knew the answer.
- 83% of those who had considered a reverse mortgage knew the answer compared to 69% who did not.
- 74% of those with a written plan knew the answer as compared to 69% without a written plan.
- 73% with an advisor knew the answer and 69% without an advisor knew the answer.
Question 7: The amount of money that you can borrow as a reverse mortgage depends on the age of the youngest borrower or eligible non-borrowing spouse, the current interest rate, and the value of the home. [TRUE]

- 39% of the respondents knew the answer.
- 47% of those who had considered a reverse mortgage knew the answer compared to 38% who did not
- 39% of those with a written plan knew the answer as compared to 40% without a written plan
- 38% with an advisor knew the answer and 41% without an advisor knew the answer
Question 8: A reverse mortgage is different from a traditional mortgage in that the homeowner is not responsible for any property taxes or insurance payments. [FALSE]

- 64% of the respondents knew the answer.
- 74% of those who had considered a reverse mortgage knew the answer compared to 62% who did not.
- 66% of those with a written plan knew the answer as compared to 61% without a written plan.
- 64% with an advisor knew the answer and 63% without an advisor knew the answer.
Question 9: Generally using a reverse mortgage early in retirement to support a retirement plan is better than as a last resort towards the end of retirement. [TRUE]

- 27% of the respondents knew the answer.
- 31% of those who had considered a reverse mortgage knew the answer as compared to 26% who did not.
- 28% of those with a written plan knew the answer as compared to 26% without a written plan.
- 29% with an advisor knew the answer and 24% without an advisor knew the answer.
Reverse Mortgage – Age Question

Question 10: Because of concerns about poor money management and financial elder abuse, the Government has restricted the use of reverse mortgage proceeds to health care expenditures, long-term care costs, home improvements, and tax payments. [FALSE]

- 46% of the respondents knew the answer
- 61% of those who had considered a reverse mortgage knew the answer as compared to 44% who had not
- 47% of those with a written plan knew the answer as compared to 46% without a written plan
- 43% with an advisor knew the answer and 51% without an advisor knew the answer
Respondent Concerns and Perceptions
Where will you live?

Have you thought about where you will live in retirement?

- 88% had thought about it
- 91% w/ advisor v. 84% without
- 90% w/ written plan v. 86% without
- People who considered where they will live performed better on quiz
Age in Place?

I plan to remain in my current home as long as I possibly can.

• 83% agreed with this statement
• Only 17% disagreed or had no feeling towards the statement
• Desire to live in place increased significantly as people aged
  • 67% of those age 62-74 strongly agreed compared to only 48% of those age 55-61
Years remaining in home?

I plan to remain in my current home as long as I possibly can.

• 21% expected to spend 20+ years in home (was slightly higher for those age 62-74 as compared to those 55-61)
• 42% expected to stay in house less than 10 years
• 58% expected to stay in house more than 10 years
House as a legacy asset?

How important is it for you to leave your home as a legacy to your children or other heirs?

- 19% listed this as extremely important
- 45% listed it is as not important
- Was less important for those who had considered a reverse mortgage and more important for those who had not
Where will you move?

If you leave your current home, where will you be most likely to move

- 44% stated a more livable home
- 35% stated a smaller home
- 15% stated a less expensive home
- 14% will never leave their home
- 10% stated a home that is closer to their networks
- 7% stated a nursing home
Rent or Buy?

When you leave your current home, will you buy or rent your new home?

• 64% said they would buy
• 5% said they would rent
• 31% said they were not sure
• Only demographics that had a major impact were assets – people with more assets were more sure that they would buy
• Only 1% of those with 1 million or more plan on renting
Home Equity and Retirement?

Have you considered how you will use your home equity in retirement?

- 44% said they have considered home equity
- 56% said they have not considered home equity

- A written comprehensive plan had a big impact on considering home equity – 52% with a plan considered it, while only 38% without a plan considered home equity
Comfort with spending home equity?

Do you feel comfortable spending down your home equity by using it as an income source in retirement?

- Only 25% felt comfortable spending home equity in retirement
- 63% of those that considered a reverse mortgage felt comfortable with spending home equity
- Existence of an advisor or written plan had no impact
- Men felt slightly more comfortable – 28% compared to 21% of women
- Those with $500,000 in home equity felt slightly more comfortable with 28%
Consider Reverse Mortgage?

Have you considered using a reverse mortgage as part of your retirement plan?

- 14% of respondents have considered a reverse mortgage
- 17% of men as compared to 12% of women
- Higher percentage under age 62 had considered than those above
- Existence of advisor, written plan, assets, and home equity value had no real impact
- Only one person in the survey had entered into a reverse mortgage – they performed extremely well on the exam (they did pass!)
Why didn’t you get a Reverse Mortgage?

Why did you decide not to enter into a reverse mortgage?

• Main reason was they didn’t “need it” because of sufficient income (44%)
• Age restriction (too young) was second response with 18%
• 10% said they were just not ready
• 9% found it too risky or not beneficial
• 6% considering other options
• 3% planning on moving
• 3% because they are not retired yet
Benefits of Reverse Mortgage?

I view reverse mortgages as a positive tool that can improve my retirement security.

- Average response was a 3/7 (disagree)
- Only 10% of respondents strongly agreed with the statement
- 35% strongly disagreed

- The general view was that reverse mortgages are not a good tool for their retirement security (existence of a plan or advisor did not seem to matter)
Perceived Reverse Mortgage Knowledge

How knowledgeable do you believe you are with regards to reverse mortgages?

- Average response was a 4.1/7 (moderately knowledgeable)
- 20% stated they were very knowledgeable (55% passed the quiz)
- Only 14% stated they had very little knowledge and only 5% stated that they were not knowledgeable at all
Concluding Thoughts & Takeaways
Conclusion

• The respondents on average did not know a lot about home equity with the average correct response being 4.8/10

• Most respondents had not considered home equity as an income source and were not comfortable with spending down their equity as a retirement income source

• However, for most respondents, keeping the home as a legacy goal was not a major issue

• Having an written financial plan helped improve knowledge of respondents, but it did not increase their ability to consider reverse mortgages – in fact neither did the existence of an advisor.
Conclusion

• Financial advisors need to do a better job educating and talking to their clients about home equity

• Only about half of the group that is okay with using home equity as a retirement income source have considered a reverse mortgage – showing a big opportunity out there

• Legacy goals do not look to be a major roadblock for most people with regards to their housing decisions – but for some people it will likely be a deal breaker as they want to live in place forever and leave the home to their children

• Confidence about reverse mortgage knowledge was a lot higher than their actual knowledge levels were
Additional Information

- The American College New York Life Center for Retirement Income
  - http://retirement.theamericancollege.edu

- The American College Cary M. Maguire Center for Ethics in Financial Services
  - http://ethics.theamericancollege.edu

- Retirement Income Certified Professional® (RICP®) designation
  - https://ricp.theamericancollege.edu

- Jamie Hopkins, Forbes contributor – Twitter – @jamiehopkins521
Retirement Risks: How To Plan Around Uncertainty For A Successful Retirement
Retirement Success In 10 Steps: How To Stretch Your Dollar To Last Through Your Golden Years
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