

In Brief:
REVERSE MORTGAGES: NICHE PRODUCT OR MAINSTREAM SOLUTION? REPORT ON THE 2006 AARP NATIONAL SURVEY OF REVERSE MORTGAGE SHOPPERS

This In Brief summarizes the AARP Public Policy Institute Research Report, “Reverse Mortgages: Niche Product or Mainstream Solution? Report on the 2006 AARP National Survey of Reverse Mortgage Shoppers” by Donald L. Redfoot, Ken Scholen, and S. Kathi Brown. This report presents the results of the first survey of reverse mortgage borrowers and homeowners who had considered these loans but decided against them.

Reverse mortgages provide a way to convert a lifetime of home equity savings into cash. Reverse mortgages are loans secured by a home that do not have to be repaid until the borrower dies, sells the home, or moves out of the home permanently. Typically, the older the borrower and the greater the home value, the more cash can be borrowed. The minimum age for almost all reverse mortgage programs is 62.

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

In the 20 years since the Home Equity Conversion Mortgage (HECM) insurance program was authorized by Congress, the program has created an insurance model to cover the risks of reverse mortgages, provided flexible payment options to consumers, established a consumer counseling program, and developed model consumer disclosures, and laid the foundation for funding the loans by investors.

Only in the past few years has the number of HECM loans grown substantially.

- 345,762 loans have been insured in the history of the program.
- Nearly one-third (107,367) of all loans so far were made in FY 2007.
- Only 1 percent of older households currently have a reverse mortgage.

Consumer awareness has increased but interest has decreased.

- The share of individuals ages 45 and older who had heard of reverse mortgages increased from 51 percent in 1999 to 70 percent in 2007.
- But the share of respondents who said they were willing to consider a reverse mortgage in the future declined from 19 percent to 14 percent.

Why Are Older Homeowners Interested in Reverse Mortgages?

The 2006 AARP Survey asked respondents why they looked into a reverse mortgage and asked borrowers what they had used the money for with the following results:

- Respondents were more likely to identify “necessities” than “extras” as a reason for looking into a reverse mortgage by a margin of 48 percent to 38 percent.
- Having money to deal with emergencies and to improve the quality of life were the most frequently mentioned reasons for looking into a reverse mortgage.
- When asked to name the “main reason” for looking into a reverse mortgage and the “main use” for the loan proceeds, borrowers most frequently mentioned paying off existing mortgages.
- One-quarter (26 percent) of respondents said that they looked into a reverse mortgage to help pay for expenses related to health care or disability needs, most frequently to deal with prescription drug costs.
- Over one-fourth (28 percent) of respondents identified retiring non-mortgage debts as a reason for looking into a reverse mortgage, most frequently for credit card debt.

Three reasons for looking into a reverse mortgage are related to supplementing income:

- paying for everyday expenses (47 percent of respondents);
- improving the quality of life or being able to afford some extras (71 percent); and
- having more money for emergencies or other unexpected expenses (75 percent).

Respondents to the AARP Survey who mentioned homeowner-related expenses were looking into a reverse mortgage to pay for:

- home repairs or improvements (46 percent);
- property taxes or homeowners insurance (27 percent); and
- household chores and maintenance (18 percent).

Despite the high costs involved, 14 percent of respondents indicated that they had looked into a reverse mortgage to make investments or purchase annuities or long-term care insurance. Nine percent of borrowers reported that their lenders had recommended specific financial services products, and 4 percent of borrowers said they had used their loans for such purposes.

Reasons for Not Taking Out a Loan

Among respondents who did not apply for a loan, high costs were cited three times more often than the next most important reason as the **main reason** for not applying. Over two-thirds (69 percent) of the borrowers AARP surveyed also said that the costs were high.

Consumer Satisfaction with Reverse Mortgages

Consumer evaluations were very positive:

- 58 percent of borrowers indicated that the loan had completely met their needs; 25 percent said their needs were mostly met, and 12 percent said their needs had been partly met.
- 93 percent of borrowers 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.
- 93 percent of borrowers and 75 percent of non-borrowers reported that they were satisfied with their experiences with lenders.
- 95 percent of borrowers and 92 percent of non-borrowers reported that they were satisfied with their experiences with counselors.

Conclusions and Recommendations for Practice and Policy

The report reaches five main conclusions:

- The HECM program has successfully created the foundation for the financial infrastructure of the reverse mortgage industry.
- Reverse mortgages have enabled older homeowners to address a range of needs and desires with a high level of initial satisfaction.
- Loan costs are too high.
- Consumer knowledge about and confidence in reverse mortgages is low.
- More research is needed on how consumer uses of reverse mortgages change over time as well as on the long-term impact of these loans on financial well-being.

The report concludes with 16 recommendations in four key areas to make reverse mortgages a more mainstream financial instrument for older homeowners:

- Changes to the HECM program to reduce costs and build consumer confidence;
- Product innovations to reduce costs and meet the diversity of consumer needs;
- Improvements to consumer counseling and information; and
- Improvements in the marketing practices of lenders.