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National Council on Aging

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House Financial Services Subcommittee on Insurance, Housing and Community Opportunity

Hearing on Oversight of the Federal Housing Administration's

Reverse Mortgage Program for Seniors

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Chairwoman Biggert, Ranking Member Gutierrez, esteemed members of the Subcommittee, my fellow witnesses, and guests. On behalf of the National Council on Aging (NCOA), I appreciate the opportunity to testify today.

NCOA (www.ncoa.org) is a nonprofit service and advocacy organization headquartered in Washington, DC. NCOA's mission is to improve the health and economic security of millions of older adults, especially those who are vulnerable and disadvantaged. NCOA is a national voice for older Americans and the community organizations that serve them. Working with nonprofit organizations, businesses, and government, NCOA develops creative solutions to help seniors find jobs and benefits, improve their health, live independently, and remain active in their communities.

I am here to talk about the current FHA Home Equity Conversion (HECM) program and to share with you our recommendations for sustaining and improving this program. My remarks are grounded in research, including what NCOA has learned about the motivations and potential risks facing older homeowners who consider these loans. My comments also reflect our experience as a U.S. Department of Housing and Urban Development (HUD) HECM Counseling Intermediary over the past five years. In this capacity, our counselors have listened to the hopes and concerns of thousands of older homeowners nationwide, and have educated them about reverse mortgages.

My goal is to highlight the benefits and challenges of the ways in which older homeowners use these loans to cope with the shifting financial landscape. The aim is to provide a broad framework to appraise the current HECM program, and consider its potential for the future. Specifically, it will be important to consider the following:

- **Greater oversight and regulation of the HECM program should not come at the expense of seniors of modest means for whom the program was originally designed**. Reverse mortgages are not suitable for everyone. However, any new financial assessments at origination should not be so restrictive that they exclude lower-income older homeowners, most of whom are already underserved by the financial industry.
- **Increasing the strength and sustainability of the HECM program requires greater collaboration**. Limited budgets leave little room for "cash poor" reverse mortgage borrowers to cope when things do not go as planned. Financial advisors can make sure that these loans are part of retirement planning and not just a last resort for those in financial crisis. Social service agencies can help vulnerable borrowers consider their options and access public benefits to stretch their limited loan funds.
- **The HECM program can be a platform for innovation to help address the emerging financial challenges of our aging society**. Declines in loan endorsements indicate that HECMs must continue to evolve, both as a product and as a financing solution. Additional collaborative research and development can find affordable solutions for those with limited home equity, and help reduce default rates for reverse mortgages. Older homeowners with special needs, such as those with chronic health conditions, could also benefit from public-private partnerships that can leverage this resource.

Due to the widespread inadequacy of retirement savings, home equity is becoming an increasingly critical component of economic security in later life. As a result, the issue for many low-to-moderate income seniors today is not whether to tap this asset, but when and how. NCOA believes that the HECM program serves a unique and important role in meeting these emerging needs.

The HECM program is an important financing option for lower- to middle-income older homeowners.

As people live longer, they need to take on increasing responsibility to safeguard their health and financial security. At the same time, many older Americans have seen their hard-earned retirement savings and assets diminish, with no guarantees for the future. When their financial management strategies are limited, seniors' capacity to stay at home becomes fragile.

Older homeowners are looking for solutions to help manage their financial situation. If used wisely, a reverse mortgage can play an important role in helping them do so. These loans are especially important for lower- to middle-income families. Financial Interview Tool (FIT) data collected by HECM counselors[1] suggest that about 44% of reverse mortgage borrowers have incomes under 200% of the federal poverty level.[2] By increasing liquidity, these loan funds can fill unmet needs and buffer against cash flow shortages that may disrupt the family budget.

Reverse mortgage counseling session data also show that reverse mortgages are not a "one size fits all" solution. Instead, older homeowners consider these loans for a wide range of reasons, including:

- Additional income to support household consumption (33%)
- To plan ahead for emergencies (23%)
- To pay for home repairs or improvements (22%)

Reverse mortgage can also play an important role in strengthening the capacity for independent living. Among counseling clients:

- About 46% were widowed or divorced. Among those under age 70, 40% reported that they no longer have a spouse.
- 12% had a hospital or nursing home stay in the 6-month period before counseling.
- 9% were considering a reverse mortgage to deal with out-of-pocket health expenses. Among those aged 80 and older, 21% were considering a HECM for this purpose.

Small infusions of cash can help older homeowners remain flexible and adaptive, so they can respond to problems while these are still manageable. Increasing seniors' discretionary income may encourage them to maintain their home and participate in social activities and wellness programs that can lead to healthier lifestyle choices.

There are other potential benefits of these loans. By refinancing with a reverse mortgage, borrowers can defer making principal and interest payments on their existing home mortgage until they move out of the home. In some situations, a reverse mortgage may stabilize a difficult financial situation, such as forestall a foreclosure, and allow time for the homeowners to find more effective solutions to their cash flow problems.

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[1] Demographic and other counseling client information presented here are based on NCOA calculations using data from Financial Interview Tool (FIT) reviews that were conducted by HECM counselors from September to November 2010. All responses reflect self-reported data. HUD requires all reverse mortgage counselors to collect systematic data on the risks and financial shortfalls facing their HECM counseling clients during the counseling session, using the Financial Interview Tool.

[2] In 2012, gross incomes at 200% of the federal poverty level are $22,340 for single households and $30,260 for couples. NCOA calculations based on the 2012 HHS Poverty Guidelines (http://aspe.hhs.gov/poverty/12poverty.shtml)

Recommendations to support older homeowners of modest means:

1. **Adequately fund HECM counseling, so seniors can understand their options and the financial implications of these loans.** It is a hardship for many lower-income homeowners to pay for counseling upfront. Charging fees for this counseling also discourages seniors from getting unbiased information from a HUD-approved counselor before they talk to a lender.

2. **Support ongoing consumer research to enhance the safety and soundness of the HECM program.** FIT data collected through the counseling process can be used to:

    a. Rapidly assess the changing needs and vulnerabilities of seniors who are considering a reverse mortgage.

    b. Enhance consumer protections for different sub-groups of borrowers and identify factors that could reduce the risk of loan default.

    c. Explore ways to appropriately use HECMs to help borrowers with chronic conditions stay at home and avoid impoverishment that can lead to reliance on Medicaid.

Reverse mortgage borrowers are at the leading edge of a new trend to use home equity to deal with cash shortfalls.

The reverse mortgage marketplace is very dynamic and must be understood within the broader perspective of our nation's current housing and economic situation. Several years ago, many older homeowners took out this loan as a way to improve their quality of life (73%).[3] But now, people who consider these loans are more concerned about urgent financial needs, including lowering debt. Among HECM counseling clients in 2010, most of these homeowners (67%) wanted to lower household debt. Only 27% were considering a reverse mortgage to enhance their lifestyle.

The aging of the Baby Boomer generation is another important demographic trend, which is already reflected in the declining age of reverse mortgage borrowers and counseling clients. Despite lower available loan limits at younger ages, the average age of all HECM borrowers has continued to decline, from 76.7 years old in 1990 to 72.0 years old in 2012.[4] Among homeowners who went through HECM counseling between September and November 2010, one in five (21%) were Baby Boomers aged 62 to 64.

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[3] Redfoot, D.L., Sholen, K., and Brown, S.K. (2007). *Reverse Mortgages: Niche Product or Mainstream Solution?* Washington, DC: AARP.

[4] HUD Office of Evaluation. *Home Equity Conversion Mortgage Characteristics— March 2012*. Available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/hecm/hecmmenu.

The consequences of these market shifts are still unclear. On one hand, as the Baby Boomer generation ages, reverse mortgages may be part of a growing trend to include home equity as part of retirement planning. For some older homeowners, orderly liquidation of home equity could be a better option to sustain community living than preserving this asset for financial emergencies. On the other hand, using a reverse mortgage to address income shortfalls can also increase financial risks if borrowers do not manage their spending or if they rapidly draw down their home equity.

Based on FIT data, about two-thirds (67%) of counseling clients in 2010 had a conventional mortgage that would need to be repaid if they decided to take out a reverse mortgage.[5] For about one-third (32%) of these counseling clients, their existing mortgage exceeded 50% of the value of their home. About one in four (27%) reported having both housing and non-housing debt. Borrowers with sizable existing debt may rapidly deplete home equity by taking out a HECM loan to repay debt. The challenges of meeting borrower obligations on a limited income are already reflected in the numbers of reverse mortgage borrowers in default.

Growing numbers of older homeowners will benefit from additional support and guidance, since the decisions that they make about this valuable asset will have long-term ramifications for the well-being of older Americans and for our nation. Policymakers are concerned that older adults who tap their home equity to pay for everyday expenses early in their retirement years will have fewer resources to deal with declining health in later life. Many states already struggle to pay for public programs, such as Medicaid, that assist older adults with low incomes and those who are impoverished by health expenses. Financial shortfalls among middle-income older adults that accelerate the need for public assistance could make these fiscal pressures even greater.

HUD does not have specific income requirements for HECM reverse mortgage borrowers. However, HUD now allows HECM lenders to conduct a financial assessment of the applicant as part of the process of qualifying them for these loans. This assessment could include a review of their credit history, income, debts, and cash flow situation. Applicants who do not meet the lender's requirements may have their loan application denied by the lender. This assessment can vary among lenders, depending on the different reverse mortgage products that they offer.

It is important that borrowers have the ability to meet the obligations of HECM loans, including paying ongoing property taxes and homeowner's insurance. However, we are concerned that that these financial assessments may become overly restrictive. This could reduce access to HECMs among "cash poor" seniors who may have few other options to tap the equity in their home.

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[5] Stucki, B. *Changing Attitudes, Changing Motives. The MetLife Study of How Aging Homeowners Use Reverse Mortgages*. Westport, CT: MetLife Mature Market Institute, 2012.

Recommendations to ensure wise decision-making:

1. **Ensure that HUD regulations, such as the financial assessments lenders may conduct at origination, are not allowed to become overly restrictive to ensure that the HECM program remains a viable option for "cash poor" seniors.** Reverse mortgages can bring new risks to people who may have limited experience dealing with large sums of money. However, seniors with modest incomes who do not qualify for conventional home loans may have few alternatives besides a HECM to tap home equity.
2. **Support and strengthen consumer education to ensure that older homeowners make informed decisions about the most appropriate use of their "nest egg" of home equity.** Younger borrowers would especially benefit from working more closely with financial advisors, senior advocates, housing specialists, and other experts.

The HECM program is a platform for innovation.

Over the past 10 years, reverse mortgages have evolved both as a product and as a solution for many financial security concerns. We can expect that both the reverse mortgage industry and the marketplace will continue to change as the Baby Boomers represent a growing portion of the pool of potential borrowers. With older Americans increasingly relying on home equity to manage cash flow, our strategies for using HECMs will need to shift from product-focused solutions to comprehensive financial plans that include reverse mortgages as an integral part of retirement security.

Older homeowners are often advised that home equity should only be used as a "last resort." However, our counseling experiences suggest that cash-poor seniors who take out a reverse mortgage when they face serious financial difficulties are at higher risk of defaulting on these loans. Therefore, we believe that the long-term sustainability of the HECM program rests on increasing the use of home equity as more than a tool for crisis management.

Older homeowners also need multiple, affordable HECM products that can meet both their long- and short-term financial goals. For example, the HECM Saver loan, with its lower upfront costs, could be an option for those who cannot stay in their home for many years. This approach may be helpful for seniors with chronic conditions, so they can pay out-of-pocket health expenses without disrupting their budget.

Meeting these challenges opens the door to a wide array of opportunities for collaboration. For example, financial services professionals could work with consumer advocates to find ways to assist lower- and middle-income families who have not traditionally used financial planning services. New tools and supports will be essential to address the problems these older homeowners face as they shift from a financial planning strategy that aims to preserve housing wealth to one that uses this asset as a retirement resource.

Reverse mortgage counseling also offers a new pathway to reach seniors who need help to live independently. Integrating this counseling with assistance from social service agencies will be important for older homeowners who are unlikely to tap home equity without guidance on how to use this asset for community living. As trusted local resources, Area Agencies on Aging and Aging and Disability Resource Centers can help older homeowners access community programs. These agencies can also facilitate the transition from the home to other living arrangements, should these borrowers need to move.

For many "cash poor" homeowners, combining a reverse mortgage with public benefits could also improve their chances of keeping up with their borrower obligations and staying at home. In August 2010, HUD began requiring that all reverse mortgage counselors conduct a BenefitsCheckUp® screening as a part of HECM counseling for clients with incomes under 200% of poverty. Since the implementation of the mandate, reverse mortgage counselors have used this web-based service to screen eligibility for public and private benefits for over 71,000 clients. We estimate that these screenings could help these older homeowners find over $378 million worth of annual benefits in total, which could serve as a supplement or alternative to a reverse mortgage.[6]

Recommendations to promote innovation:

1. **Encourage HUD to continue using the HECM program as a platform to foster innovation through collaborative efforts with the mortgage industry, housing programs, and aging services community.** There is an urgent need to break down service silos and address problems holistically to promote consumer confidence in these loans and sustain them in their homes.
2. **Enhance the long-term viability of the HECM program through a balanced approach that ensures strong oversight to promote responsible lending, but also supports continued collaborative research and development of this emerging financial solution.** We need strong consumer protections to reduce fraud and mitigate risk, but also want to give older homeowners the flexibility to meet their evolving financial needs.

Thank you again for this opportunity to share NCOA's research and insights into the HECM program and older homeowners who consider these loans. For more information on our work in this area, please visit www.ncoa.org/HomeEquity. I welcome the opportunity to answer any questions you may have.

[6] NCOA data from the Reverse Mortgage Counseling Toolkit website for HUD-approved HECM counselors. To view the consumer version of BenefitsCheckUp®, visit: www.benefitscheckup.org.