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21st Century Reverse Mortgages: Don't Ignore This Important Retirement-Planning Asset

By Shelley Giordano

INVESTMENTS & WEALTH INSTITUTE®

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Three decades ago, with the 1987 Housing and Community Development Act, Congress tasked the Federal Housing Authority (FHA) to design a reverse mortgage to provide seniors with safe access to their home equity. The resulting Home Equity Conversion Mortgage (HECM) ushered in a way to access home equity with delayed repayment, without requiring homeowners to give up ownership of their homes.

A decade ago, financial-planning literati began publishing studies demonstrating the benefits of including the housing asset in retirement. These benefits include improved cash flow, preservation of funds invested in volatile markets, the ability to buy a new house without the obligation of monthly payments, an income bridge for Social Security deferral, restoring equitable housing following silver divorce, and self-insuring for long-term care needs (Giordano 2019).

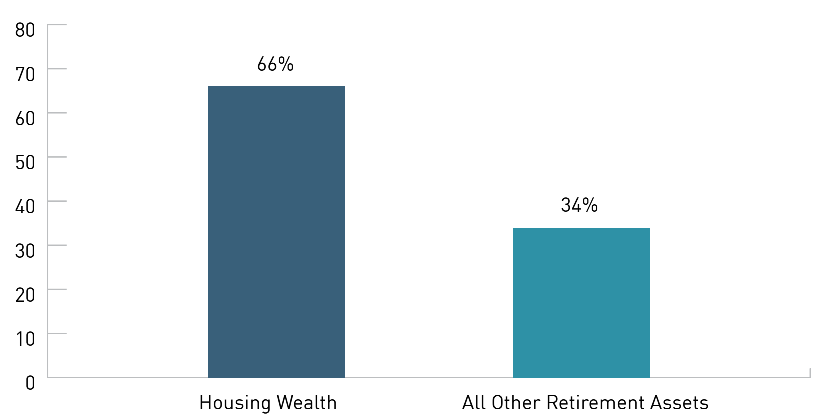
Over time, the applications for reverse mortgages have grown in sophistication and nuance, and so has the reverse mortgage itself. Yet, despite improvements in both the product and its demonstrated efficacy in retirement planning, advisors remain unfamiliar with these developments. Worse yet, many advisors who claim to provide "comprehensive financial planning" are prevented by their compliance regimes from even discussing the home as an asset.

Few retirees are so wealthy that preservation of assets in retirement is of no concern. Retirees face the triple threat of unknown longevity, inevitable market turbulence, and the specter of unexpected expenses ahead. But rather than considering clients' homes as assets that can be used to smooth out retirement challenges, advisors tend to steadfastly ignore this obvious opportunity. This is especially puzzling because the U.S. Census Bureau estimates that two-thirds of an average retiree's net worth is tied up in a home (see figure 1). In 2021, senior households are estimated to be sitting on $8 trillion in home equity.[1]

Why are advisors not responding to product changes and the innovative strategies documented and published by their own experts? Why do they seem to be insensitive to the fact that the prudent use of a reverse mortgage can provide retirement stability and preservation of assets under management (AUM)? Surely the goal of financial advice is—and should be—client-centric. But this wholesale neglect of home equity in retirement planning ignores potential positive benefits for clients as well as for advisors and their practices.

Figure 1

PERCENT OF AN AVERAGE RETIREE'S NET WORTH THAT IS TIED UP IN A HOME



Source: U.S. Census Bureau, Survey Income and Program Participation Wealth Tables 2011, Median Value for Household 2011

CURRENT USE OF HOME EQUITY IN RETIREMENT

The market penetration of reverse mortgages among eligible households is a mere 2.3 percent.[2] This tiny percentage signals that home equity is vastly underused as a retirement-planning tool.

Reverse mortgages, of course, are not the only way to use home equity in retirement.

Many retirees use their home equity to take out traditional mortgages, which come with monthly payments and a reduction in monthly cash flow. For example, the proportion of older adults entering retirement with mortgage debt has more than doubled from 20 percent in 1992 to more than 40 percent in 2016. But the number who apply for a traditional mortgage and are rejected but could qualify for a reverse mortgage is estimated to be 14 times the current total reverse mortgage market (Mayer and Moulton 2020).

There are other ways to access home equity, too. One is to sell and buy a less expensive home or rent. Another is to set up a "Golden Girls" structure to share expenses with others. Homeowners can rent out spare bedrooms via short-term rentals such as Airbnb, a solution that's grown among those age 50 and older (Muthara 2018). Some seniors may move to communal care facilities.

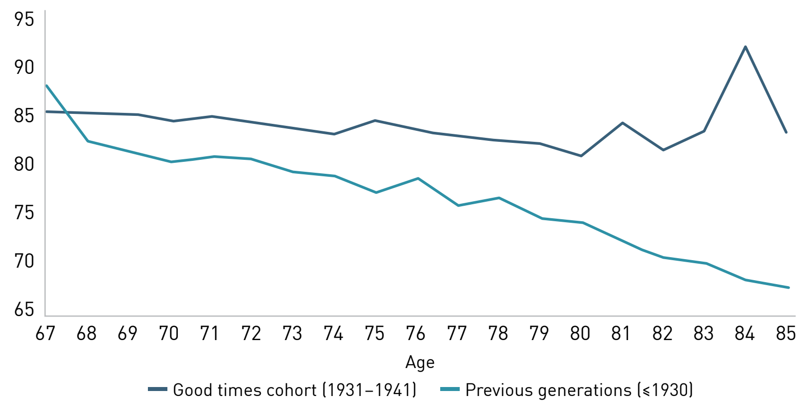
There are problems with many of these solutions, the most enduring of which is that seniors do not want to move.[3] Indeed, expecting seniors to leave their homes to make way for upcoming generations smacks of ageism.[4] Seniors, especially those born after 1931, when allowed to make their own decisions, are staying in their homes longer and aging in place. The result is higher homeownership rates for this group relative to previous generations (see figure 2).

In addition, the coronavirus pandemic may give pause to those considering a home share. There is growing evidence that the pandemic has increased the use of home-centered care in response to the risks of communal living. The strong preference for aging at home, however, predates the virus (see figure 3) (AARP 2018).

Finally, there is the traditional mortgage or home equity line of credit, both of which require monthly debt payments. And there is the rub: Without labor income, seniors still need cash flow. Mandatory monthly principal and interest payments erode cash flow, reduce the ability to withstand market fluctuations, endanger seniors with the possibility of foreclosure due to inability to make payments, decrease discretionary income, and generally reduce peace of mind in retirement.

Figure 2

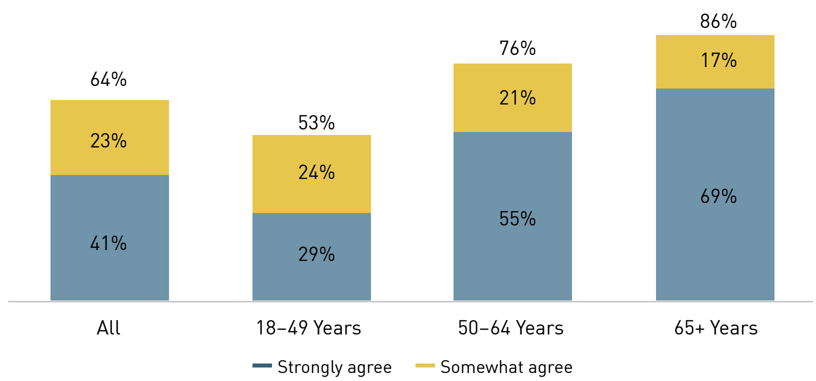
HOME OWNERSHIP FOR THOSE BORN AFTER 1931 COMPARED TO PREVIOUS GENERATIONS



Source: Health and Retirement Survey

Figure 3

'WHAT I'D REALLY LIKE TO DO IS STAY IN MY CURRENT RESIDENCE FOR AS LONG AS POSSIBLE'



Source: 2018 Home and Community Preferences Survey: A National Survey of Adults Age 18-Plus, "What I'd really like to do is stay in my current residence for as long as possible." AARP.ORG/RESEARCH l © 2018 AARP ALL RIGHTS RESERVED

THE RELUCTANCE TO TREATING HOMES AS RETIREMENT ASSETS

The stigma attached to reverse mortgages endures without factual justification. The reverse mortgage industry itself can be blamed, in part, for its marketing to the financially naïve. Even so, the meme that the reverse mortgage is a rip-off has become part of our culture. Blogs, podcasts, a popular Netflix series, and even media such as the *New York Times*, however, get it wrong (Hopkins 2017).

Reverse mortgages aren't scams. HECM loans, which account for most of the reverse-mortgage market, require FHA insurance that limits the total possible repayment to a maximum of the fair market value of the house. In other words, the modern reverse mortgage is a true non-recourse loan. Whatever the house value is at the end will satisfy the debt, even if the loan is under water. All equity beyond the loan balance belongs to homeowners or their estates; there is no equity-share.

People seem surprised to learn that a reverse mortgage involves interest, and they jump to the conclusion that the interest is part of a scam. Interest is acceptable in any other form of borrowing money, but somehow is a way to swindle seniors when it is part of a reverse mortgage?

In addition, the reverse mortgage has long been associated with those who "need" one—those who are at the end of their financial ropes. Advisors pride themselves on serving clients who do not "need" a reverse mortgage. Rarely does a senior brag that a financial advisor suggested a savvy asset-preserving, cash-flow optimizing retirement strategy that includes a reverse mortgage.

The Financial Industry Regulatory Authority has removed its recommendation to use a reverse mortgage solely as a last resort—after being persuaded that it had no mathematical basis for its original recommendation (Clow 2019). But broker–dealers have little interest in overseeing the proper use of home equity in financial planning. Because of mortgage regulations, firms cannot directly monetize mortgages, and there is no incentive to take on added risk that home equity will be used inappropriately if there is no revenue to justify it.

WHAT A REVERSE MORTGAGE IS AND IS NOT

A reverse mortgage is a loan that allows homeowners age 62 and older to borrow money using their homes as security. Like with a traditional mortgage, when a homeowner takes out a reverse mortgage, the title to the home remains in the homeowner's name.

However, unlike a traditional mortgage, reverse-mortgage loan borrowers don't make monthly mortgage payments. The loan is repaid when the borrower no longer lives in the home. Interest and fees are added to the loan balance each month and the balance grows. The amount the homeowner owes to the lender goes up—not down—over time. This is because interest and fees are added to the loan balance each month. As the loan balance increases, the home equity decreases.

So at its core, a reverse mortgage is a mortgage that allows the homeowner to borrow the financing. In other words, whatever interest is due on borrowed monies is not required to be paid in the following month. This is unlike almost every other form of consumer debt. If the monthly interest is not paid, and most homeowners elect not to pay it, it's tacked onto the loan balance. The following month there is a new loan balance that includes the previous interest not paid. This month's interest charge will be based on borrowed monies plus last month's interest. This is compound interest.

Financial experts agree that compound interest in investing is desirable. Compound interest in debt products is not.

Financial experts agree that compound interest in investing is desirable. Compound interest in debt products is not. By definition, a reverse mortgage is a negatively amortizing loan unless the homeowner elects to make voluntary payments on interest charges and monthly FHA mortgage insurance premiums. A negative amortization always will produce a growing loan balance.

HECM loans represent more than 90 percent of the reverse-mortgage market.[5] These are FHA-insured loans. Like all FHA loans, there is a mortgage insurance premium (MIP). This insurance guarantees that neither the homeowner nor the homeowner's estate can ever owe more than the fair market value of the home. No deficiency judgment may be taken against the borrower or the estate; the home is the sole collateral for the loan. The premiums include an initial amount, followed by monthly assessments that are added to the loan balance.[6]

Like the interest, the FHA insurance premiums usually are financed within the reverse mortgage. Homeowners always have the option to pay any amount they want toward the loan balance. Lenders are not permitted to impose penalties for any prepayment of the reverse mortgage. If the HECM is a variable rate mortgage, it is a revolving credit instrument. Any payments to reduce the loan balance are accessible again in a line of credit and can be used over and over, much like the revolving credit on a credit card.

Like any mortgage, the amount of available credit is based on appraised home value and prevailing interest rates. There are no expectations or restrictions on how the debt is repaid until the last homeowner or eligible non-borrowing spouse[7] dies, moves, or sells. The borrowed money, accumulated interest, and mortgage premiums are due at that time, and the homeowner or heirs are required to advise the loan servicer of the plan of action for the property.[8]

The title remains with the borrower or the borrower's estate. Heirs may wholly satisfy the debt by arranging their own financing and paying 95 percent of the home value or the full loan balance, whichever is less. The reverse mortgage debt is eliminated, and control of title remains with the heirs.

ACTUARIAL ASSUMPTIONS: BOTH A MORTGAGE AND AN INSURANCE PRODUCT

The homeowner's ability to repay the loan is irrelevant because the home itself pays the loan back.[9] As discussed above, a reverse mortgage is akin to any mortgage in that available credit is based on interest rates and home value.

But there is another layer to reverse mortgage lending: insurance. Because the home, not the homeowner, pays back the loan, the FHA insurance uses actuarial assessments. Assumptions about life expectancy help predict whether the loan balance will exceed the home value when the borrower exits the home. If the loan balance exceeds the home value, FHA is responsible for the gap. For this reason, the initial credit access is age dependent and based on the age of the youngest homeowner or spouse. It's presumed that younger people will live in the house for a longer period, and the longer the reverse mortgage is in place, the higher the loan balance will be.

So initially, older homeowners have access to more credit than younger homeowners, because they are anticipated to be in the house for a shorter period, thus accruing less interest. As clients age, their credit capacity grows at the monthly applicable interest rate plus monthly MIP (FHA insurance premiums).

WHY NOT WAIT TO SET UP REVERSE MORTGAGE UNTIL CLIENTS ARE OLDER?

Knowing the actuarial underpinnings of HECM lending may lull an advisor into waiting until a client is older to set up a reverse mortgage. An HECM reverse mortgage, however, provides increased credit capacity every month through an increasing loan balance, plus increased credit access if all available funds have not been disbursed. In HECM lending, this reserve is termed the HECM line of credit.[10] The HECM line of credit grows in borrowing capacity at exactly the same rate as the loan balance.

This design feature ensures that borrowers are not penalized for electing to use their reverse mortgages prudently. It ensures that a homeowner who does not draw from the line of credit for the first 10 years, for example, has the same credit potential as someone who drew all the funds at the loan's outset 10 years ago. The difference is that credit for the large early-draw borrower will be composed more of interest. In contrast the later-draw borrower will have access to more principal because of the compounding of the line of credit. This line of credit is not arbitrary, and FHA forbids lenders to cancel, freeze, or reduce it or any of its inherent growth.

So starting a reverse mortgage early in retirement allows the greatest growth potential for needs later in retirement. The line of credit will compound in borrowing power at the monthly applicable interest rate plus monthly FHA MIP.

Other reasons to establish a reverse mortgage early include the following:

- Costs of setting up a reverse mortgage early are less, based on current home value, not future appreciated value.
- Growth in the HECM line of credit grows independently of the home or neighborhood values.
- FHA does not allow the lender to cancel, freeze, or reduce the growing credit line.
- Waiting until clients are at the end of their financial ropes may prevent them from qualifying.
- Waiting prevents the client from benefitting from the compounding growth in credit access.

EVALUATING WHETHER BENEFIT EXCEEDS COST

According to a survey of financial advisors by the Academy for Home Equity in Financial Planning, advisors tend to object to reverse mortgages because of cost (Lemoine 2020). Most advisors do not have access to software that compares a financial plan employing a reverse mortgage to plans that do not incorporate a reverse mortgage. This makes it difficult to demonstrate to the skeptical client that originating a reverse mortgage early in retirement can help guard against the risks of longevity, market turbulence, and unexpected expenses. Software deficiencies make it difficult to illustrate the benefit-cost ratio of setting up a reverse mortgage, despite the fact that those costs are borne by the loan and are not an out-of-pocket expense.

Most of the expense of setting up an HECM involves the insurance premium that protects the homeowner and the homeowner's estate from responsibility for payment beyond the fair market value of the house when the last homeowner exits. Other third-party costs are similar to any mortgage origination. An origination fee may or may not be charged depending on the initial takedown of funds and the interest-rate margin chosen. Set-up fees can be negotiated; informed and experienced advisors are in the best position to navigate costs for their clients.

Quantifying the utility of an intentional reverse mortgage strategy emerged in 2012 when Sacks and Sacks (2012), Salter et al. (2012), and Pfeiffer et al. 2013) each published independently about the effectiveness of reverse mortgages at diminishing the risk of cash-flow exhaustion. All concluded that having a reverse mortgage line of credit in place for temporary cash flow should the market tumble provided significant portfolio protection. Later, Pfau (2018) calculated the same results.

SEQUENCE OF RETURNS RISK AND REVERSE DOLLAR COST AVERAGING

Advisors are acquainted with comparing portfolio values using insurance products to substitute for cash flow in bear markets, but they fail to grasp that a reverse mortgage provides the same protections (see figure 4). Preservation of cash flow is accomplished by substituting draws from the reverse mortgage following years when portfolio returns are negative.

COORDINATED STRATEGY VERSUS LAST RESORT

Both Sacks et al. (2021) and Pfau (2019a) agree that skipping portfolio distributions in down markets preserves portfolio values. Pfau refers to the reverse

Figure 4

PROTECT AGAINST SEQUENCE OF RETURNS AND REVERSE DOLLAR COST AVERAGING

	Conventional Thinking: Last Resort Draw from Portfolio until Gone					New Wisdom: Coordinate with Investments Draw from Line of Credit after Down Market				
Year	Portfolio at start of year	Investment performance	Draw from portfolio	Draw from line of credit	Portfolio at end of year	Portfolio at start of year	Investment performance	Draw from portfolio	Draw from line of credit	Portfolio at end of year
1973	500,000	−9.3%	27,500		428,652	500,000	−9.3%	27,500		428,652
1974	428,652	−15.5%	28,463		338,120	428,652	−15.5%		28,463	362,168
1975	338,120	22.3%	29,459		377,493	362,168	22.3%		29,459	442,932
1976	377,493	17.9%	30,490		409,013	442,932	17.9%	30,490		486,145
1977	409,013	−4.1%	31,557		361,905	486,145	−4.1%	31,557		435,859
1978	361,905	2.2%	32,661		336,552	435,859	2.2%		32,661	445,535
1979	336,552	8.0%	33,805		326,998	445,535	8.0%	33,805		444,710
1980	326,998	15.4%	34,988		337,009	444,710	15.4%	34,988		472,861
1981	337,009	−1.4%	36,212		296,706	472,861	−1.4%	36,212		430,710
1982	296,706	25.2%	37,480		324,655	430,710	25.2%		37,480	539,422
1983	324,655	13.3%	38,791		323,941	539,422	13.3%	38,791		567,314
1984	323,941	8.9%	40,149		308,935	567,314	8.9%	40,149		573,872
1985	308,935	25.2%	41,554		334,734	573,872	25.2%	41,554		666,408
1986	334,734	15.2%	43,009		336,068	666,408	15.2%	43,009		718,156
1987	336,068	3.4%	44,514		301,496	718,156	3.4%	44,514		696,613
1988	301,496	10.3%	46,072		281,809	696,613	10.3%	46,072		717,742
1989	281,809	20.9%	47,685		283,150	717,742	20.9%	47,685		810,367
1990	283,150	1.0%	49,354		236,087	810,367	1.0%	49,354		768,472
1991	236,087	21.4%	51,081		224,524	768,472	21.4%	51,081		870,625
1992	224,524	5.6%	52,869		181,268	870,625	5.6%	52,869		863,551
1993	181,268	7.9%	54,719		136,559	863,551	7.9%	54,719		872,810
1994	136,559	−2.8%	56,634		77,718	872,810	−2.8%	56,634		793,650
1995	77,718	25.7%	58,617		24,007	793,650	25.7%		58,617	997,459
1996	24,007	11.1%	24,007	36,661	0	997,459	11.1%	60,668		1,040,493
1997	0	19.3%	0	62,791	0	1,040,493	19.3%	62,792		1,165,909
1998	0	17.0%	0	64,989	0	1,165,909	17.0%	64,989		1,287,967
1999	0	7.8%	0	67,264	0	1,287,967	7.8%	67,264		1,315,795
2000	0	−0.9%	0	69,618	0	1,315,795	−0.9%	69,618		1,234,712
2001	0	−3.7%	0	72,055	0	1,234,712	−3.7%		72,055	1,189,275
2002	0	−8.6%	0	74,576	0	1,189,275	−8.6%		74,577	1,086,997
			End balances:	**$538,773**	**$0**			**End balances:**	**$692,007**	**$1,086,997**

−$538,773 Net

+$394,991 Net

$933,764 Estate Differential

The numbers assume the following for both portfolios: $500,000 initial investment prior to withdrawals invested 50 percent in the S&P 500 and 50 percent in the Barclays U.S. Aggregate Bond Index; with income taken each year, adjusted for a fixed, hypothetical 3.5-percent inflation and hypothetical 2-percent investment fee. Note: The bond portion of the portfolio from 1973 through 1975 is represented by: 25-percent Citigroup Long-term High Grade Corporate Bond Index and 25-percent U.S. Government Bond File since the Barclays Aggregate Bond Index did not start until 1976. It is not possible to invest directly in an index. Standard & Poor's 500 Index (S&P 500) is comprised of 500 stocks representing major U.S. industrial sectors. Performance figures are inclusive of dividends reinvested. S&P 500 is a registered service mark of the McGraw-Hill Companies, Inc. Barclays Aggregate Bond Index is a market value-weighted index of investment-grade fixed-rate debt issues, including government, corporate, asset-backed and mortgage securities, with maturities of one year or more.

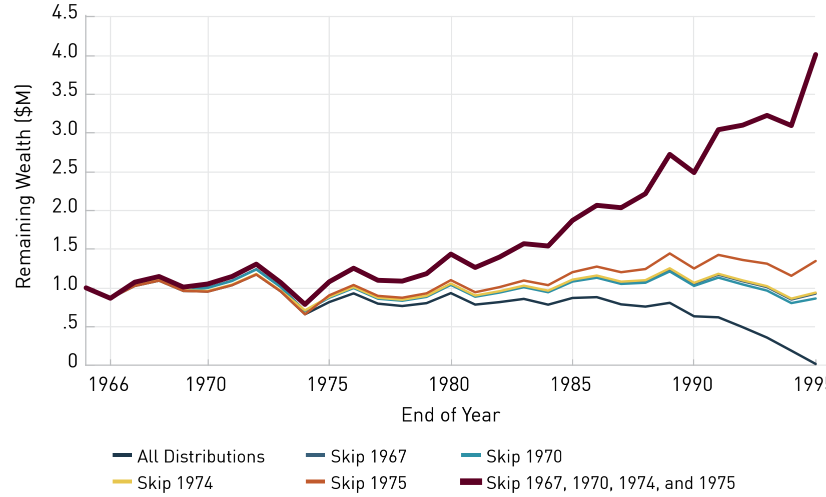
Source: Barry Sacks and Mary Jo Lafaye, "Increase Retirement Spending by Coordinating Investment Portfolios and Reverse Mortgages: Case Study (August 20, 2016), https://toolsforretirementplanning.com/2016/08/20/sacks-and-lafaye-case-study/

mortgage line of credit as a "buffer asset" that is not correlated to the market, is liquid, and can be paid back when the portfolio recovers, if desired (see figure 5). This strategy coordinates the spending of the housing asset with the portfolio. When the portfolio is robust, take distributions from it. If the portfolio is under stress, substitute draws from the reverse mortgage. This strategy is distinct from the conventional "last resort" strategy of waiting for the portfolio to collapse before setting up the reverse mortgage.

Pfau (2019a) explains that efficient retirement seeks enough secure income to cover mandatory monthly obligations. This allows the retiree to enjoy an "equity premium" by allowing for more assets to be invested in stocks. Mandatory, traditional mortgage debt payments reduce discretionary income, and discretionary income invested in equities can better keep up with inflation and help cover other needs in retirement. Draws from a reverse mortgage merely use a different asset to protect the securities from inopportune mandatory distributions thus contributing to the advantages of being invested in equities.

Figure 5

BUFFER ASSETS



Sequence Risk and the Portfolio Impact of Skipping a year of DistributionsUsing SBBI Data, 1966–1995, S&P 500

Source: Pfau (2019b)

Figure 6

SECURITIES PORTFOLIOS USED FOR RETIREMENT INCOME

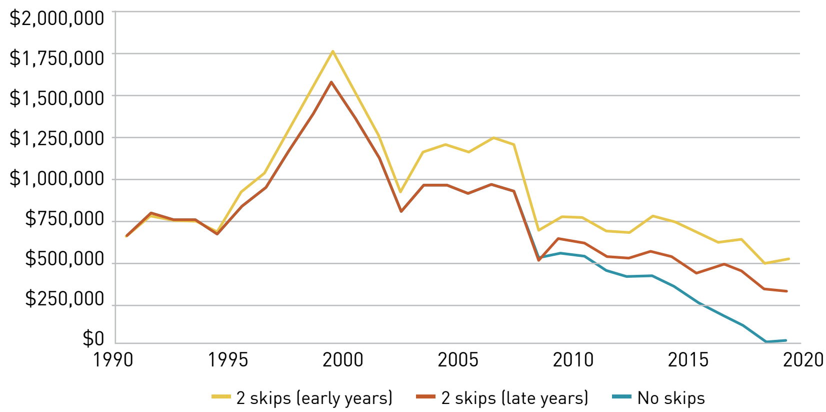


Figure 6 shows the values of a portfolio made up entirely of S&P 500 stocks, from which draws are taken every year (bottom line), or two skips (early years top line; late years bottom line). The increase in end value is much greater than the amounts of the skipped draws.

Source: Pfau (2019b)

SPENDING HOME EQUITY AND PRESERVING SECURITIES CAN BE EFFECTIVE

Skipping distributions in bear markets is highly effective for preserving a securities portfolio. Why does this coordination of the portfolio with a reverse mortgage work? Sacks et al. (2021) conclude in a working paper that skipping a draw, especially early in retirement, allows undisturbed securities to grow at the long-term compounding rate (see figure 6).

RATIO OF HOME EQUITY TO SECURITIES

Sacks et al. (2021) tested ratios of home value to securities (1:1, 1:2, 2:1) deploying the coordinated strategy. Across this broad range of beginning points, the coordinated strategy improves the retirement prospects of the retiree and the ability of the retiree's financial planner to manage the retiree's retirement. Preserving the portfolio over time by using the reverse mortgage in down markets contributes to the continuing, compounding growth of the portfolio. The coordinated strategy involves spending home equity but conserves the securities portfolio at the same time. Even as the home equity diminishes, maintaining more securities in overall net worth is desirable for both sustained cash flow, flexibility, and legacy:

A portfolio of securities is much more flexible and manageable, financially, than a home. Therefore, if the financial climate changes, or if the retiree's personal circumstances change, the financial advisor can recommend, and implement, adjustments in the retiree's securities portfolio, to accommodate to such changes. So, more value in the securities portfolio than in the home equity makes for better, nimbler, management.

CONCLUSION: BROKER-DEALERS CANNOT PROVIDE BEST-INTEREST ADVICE AND IGNORE THE HOME ASSET

Advisors are the front-line resource for retirees who are homeowners and owners of securities portfolios. Overwhelmingly, these clients want to age at home. They come to advisors for help in making sure that their money lasts as long as they do. Many clients are just as interested in leaving a significant legacy. Despite the outsized value of the home in overall net worth, advisors continue to underestimate or ignore how a home can serve as a powerful buffer asset. Broker-dealer compliance regulations discourage discussion of the housing asset and do not provide adequate planning software to evaluate how a reverse mortgage can contribute to a safer retirement. Assets other than the home can be managed more nimbly by the advisor, who stands to gain fee revenue and, more importantly, provide a safer retirement for clients.

To address this omission, the Academy for Home Equity in Financial Planning at the University of Illinois has published model language for the broker-dealer compliance community to adopt:

> *The average pre-retiree and retiree in the U.S. today have under-saved and risk running out of money in retirement. According to the Census Bureau, home equity represents roughly two-thirds of the net worth of the average American age 65 and over. A reverse mortgage could be an appropriate solution for those who want to stay in their homes and would prefer more cash flow to pay bills or unexpected expenses. Using housing wealth during market downturns can also improve financial outcomes in retirement by protecting investment portfolios from sequence of returns risk. Prudent use of home equity in a holistic retirement plan—where all the client's assets as considered for their retirement security—helps advisors serve their client's best interests and the client's need for retirement savings to last a lifetime.*[11]

Finally, it is advisors who can best help clients find a reverse mortgage at the best price, as well as guide clients on when it makes sense to make voluntary payments on the interest and/or principal. Hopkins (2021) stated:

> *For many Americans, their home is their largest asset and liability. If you can't plan around it or incorporate it into the planning process, how can you say you work in the best interest of the client?*[12]

Shelley Giordano is founder of the Academy for Home Equity in Financial Planning at the University of Illinois, Urbana-Champaign. She serves as director of enterprise integration at Mutual of Omaha Mortgage. She earned a BA from the College of William and Mary and an MA from Old Dominion University. Contact her at shelley.giordano@gmail.com.

ENDNOTES

1. See "Senior Housing Wealth Exceeds Record $8.05 Trillion," NRMLA Press Release (April 2, 2021), https://www.nrmlaonline.org/about/press-releases/senior-housing-wealth-exceeds-record-8-05-trillion.
2. See "A Closer Look at Marketing Data," *Reverse Mortgage Magazine* (March/April 2021): p. 36, https://www.nrmlaonline.org/publications/reverse-mortgage-magazine/march-april-2021.
3. See "While Seniors Age in Place, Millennials Wait Longer and May Pay More for their First Homes," FreddieMac (February 6, 2019), http://www.freddiemac.com/research/insight/20190206_seniors_age_millennials_wait.page.
4. The author recommends the 1937 film by Leo McCarey, "Make Way for Tomorrow," as a starting point for understanding how seniors can be marginalized by the next generation and defies you not to sob.
5. Proprietary (non-FHA) reverse mortgages do exist. Sometimes known as "jumbo reverse mortgages," proprietary products are developing a market to cover properties and homeowners that FHA does not serve or serve well.
6. The initial MIP is 2 percent of the maximum claim amount (MCA) or the appraised value, whichever is less. The monthly premium is based on the current loan amount and is assessed at 0.5-percent annual rate. The MCA is the FHA appraised value up to the current FHA HECM lending limit of $822,375. More-expensive home values are allowed, but for purposes of assessing mortgage insurance premiums, the fee is limited to the MCA. Proprietary reverse mortgages (jumbos) are available as well and have the same safeguards as the FHA-insured HECM but without MIP. Generally, interest charges are higher with non-FHA reverse mortgages.
7. The eligible non-borrowing spouse (NBS) is a new protection that refers to spouses who are under the required age of 62. They are protected from early displacement from the home should the primary borrower die or move to a long-term care facility. The NBS will not have access to disbursements from the reverse mortgage, but the reverse mortgage will continue to finance interest and MIP.
8. An advisor well acquainted with the 2017 Tax Cut and Jobs Act can guide the client who inherits the house on how to treat the accumulated interest for reverse mortgages that were used to purchase, build, or substantially improve the home. See Giordano (2020).
9. Unlike decades past when borrowers only needed to demonstrate age eligibility, the modern reverse mortgage is underwritten to the extent that the homeowner must be able and willing to meet homeowner obligations for tax, insurance, and homeowners association fees. The intent is that the reverse mortgage should improve the owner's situation and be a sustainable remedy. Many reverse-mortgage clients in the past were harmed by using the reverse mortgage as a last resort. When they could not keep up their homeowner obligations, and had exhausted available equity from the reverse mortgage, lenders were required to foreclose. This created negative media attention for the reverse mortgage and contributed to the idea that reverse mortgages are associated with house rich, cash poor retirees. Also, the Mutual Mortgage Insurance fund (MMI) was negatively impacted when there was not enough equity to cover loan balances and the insurance fund had to be tapped. Underwriting reform has created a healthier MMI. See Clow (2021).
10. The line of credit is not available in fixed-rate HECM reverse mortgages.
11. See Jamie Hopkins, Craig Lemoine, Shelley Giordano, Betty Meredith, Cloke Curtis, and Marguerita Cheng, "The Academy of Home Equity In Financial Planning Releases Home Equity Model Language and Guidance for Financial Services Firms," Academy of Home Equity In Financial Planning (February 10, 2021), https://www.prnewswire.com/news-releases/the-academy-of-home-equity-in-financial-planning-releases-home-equity-model-language-and-guidance-for-financial-services-firms-301226106.html.
12. Jamie Hopkins, "Want to be a Fiduciary Financial Planner?" *InvestmentNews* (June 28, 2021), https://www.investmentnews.com/want-to-be-a-fiduciary-financial-planner-208158.

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