Reverse Mortgage Borrowing and Financial Well-Being of Older Adults

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Acknowledgement

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The substance and findings of the work are dedicated to the public. The authors are solely responsible for the accuracy of the statements and interpretations contained in this research. Such interpretations do not necessarily reflect the view of the Government.

Motivation

Older adults carry more debt.

- Percentage of older adults holding mortgage debt has increased from 20 percent in 1992 to more than 40 percent in 2016 and credit card debt has doubled for older adults during this same period (2016 Survey of Consumer Finances).

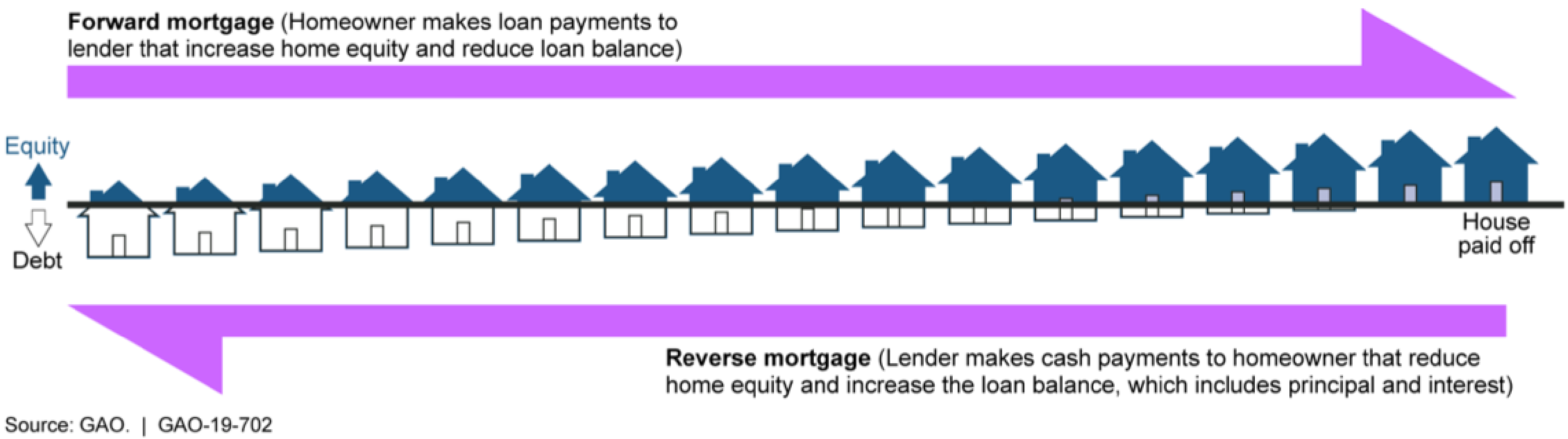
Home equity is a primary source of wealth for lower-income older adults.

- 69% of net wealth for older homeowners in the bottom 40 percent of the income distribution, compared to 24 percent of net wealth for those in the top 20 percent (2016 Survey of Consumer Finances).

Reverse mortgages provide access to home equity.

- Few studies on this population and lack of knowledge about their financial well-being (Loibl et al., 2019).
- Considerable heterogeneity in financial well-being among reverse mortgage borrowers in the Aging in Place Survey. Financial Well-Being scores range from 37 at the 10th percentile to 76 at the 90th percentile (Moulton et al., 2017).

Reverse Mortgages



Advantages:

- Access to home equity while aging in place
- No monthly mortgage payment

Concerns:

- Costs of borrowing, such as closing costs, interest
- High complexity of the financial product
- Reduce intergenerational bequests
- Create debt stress

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Research Questions

Research Question 1:
How does the financial well-being of reverse mortgage borrowers compare to the financial well-being of otherwise similar older adults without reverse mortgages?

Research Question 2:
What financial, housing, health, and socio-demographic characteristics at the time of reverse mortgage counseling are associated with higher and lower levels of financial well-being among reverse mortgage borrowers two to five years after originating the loan?

Research Question 3:
How is the initial withdrawal from the reverse mortgage related to subsequent financial well-being?

Data & Sample

Aging in Place Survey of the research team

- National survey of HECM reverse mortgage borrowers in 2017
- Adults who obtained a reverse mortgage 2 to 5 years prior to the survey and completed the Financial Well-Being scale items, n=380

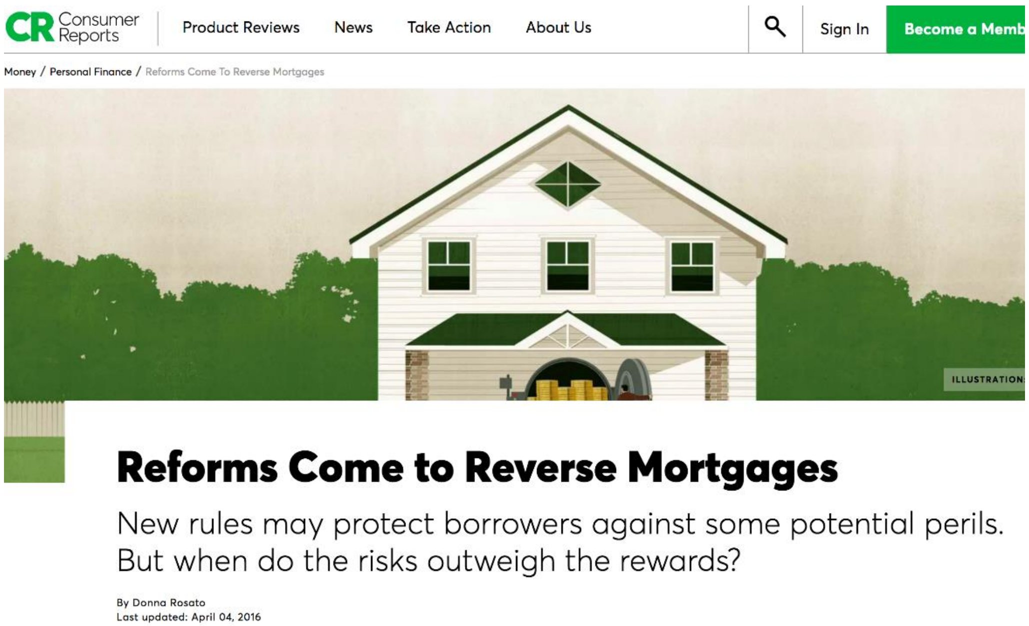
4 administrative, client-level data sets collected at loan origination

1. HUD's counseling data
2. Lenders' reverse mortgage borrower loan data
3. National Council on Aging's Financial Interview Tool
4. Credit score

CFPB's National Financial Well-Being Survey

- Respondents age 62 and older who own a home, n=1,909

Aging in Place Study



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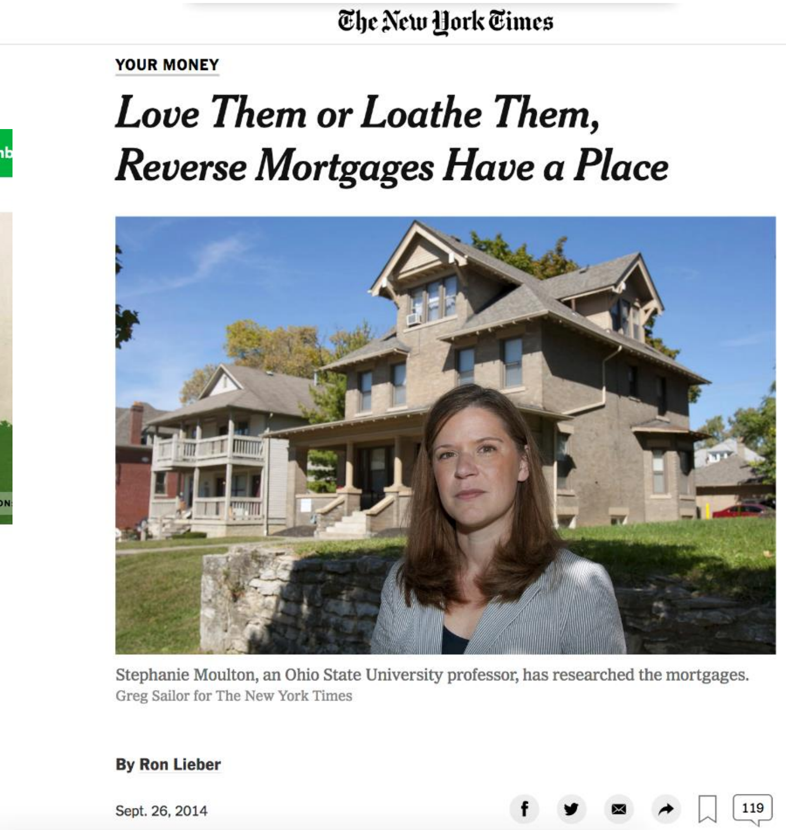
Money / Personal Finance / Reforms Come To Reverse Mortgages

ILLUSTRATION

Reforms Come to Reverse Mortgages

New rules may protect borrowers against some potential perils. But when do the risks outweigh the rewards?

By Donna Rosato
Last updated: April 04, 2016



YOUR MONEY

The New York Times

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Love Them or Loathe Them, Reverse Mortgages Have a Place

Stephanie Moulton, an Ohio State University professor, has researched the mortgages.
Greg Sailor for The New York Times

By Ron Lieber

Sept. 26, 2014

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- Two survey waves (2014 & 2017)
- Reminder letters field experiment (2015-2017)

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RQ1: Reverse mortgage borrowers vs general population

Compared to the general population of older homeowners,
<u>reverse mortgage borrowers have lower</u>:

- Financial well-being score
- Incomes, retirement assets, other financial assets, life insurance coverage
- Financial knowledge score (perceived financial knowledge is higher)
- Satisfaction with life and rating of health
- Interactions with financial services professions
- Time horizons for saving and spending are shorter

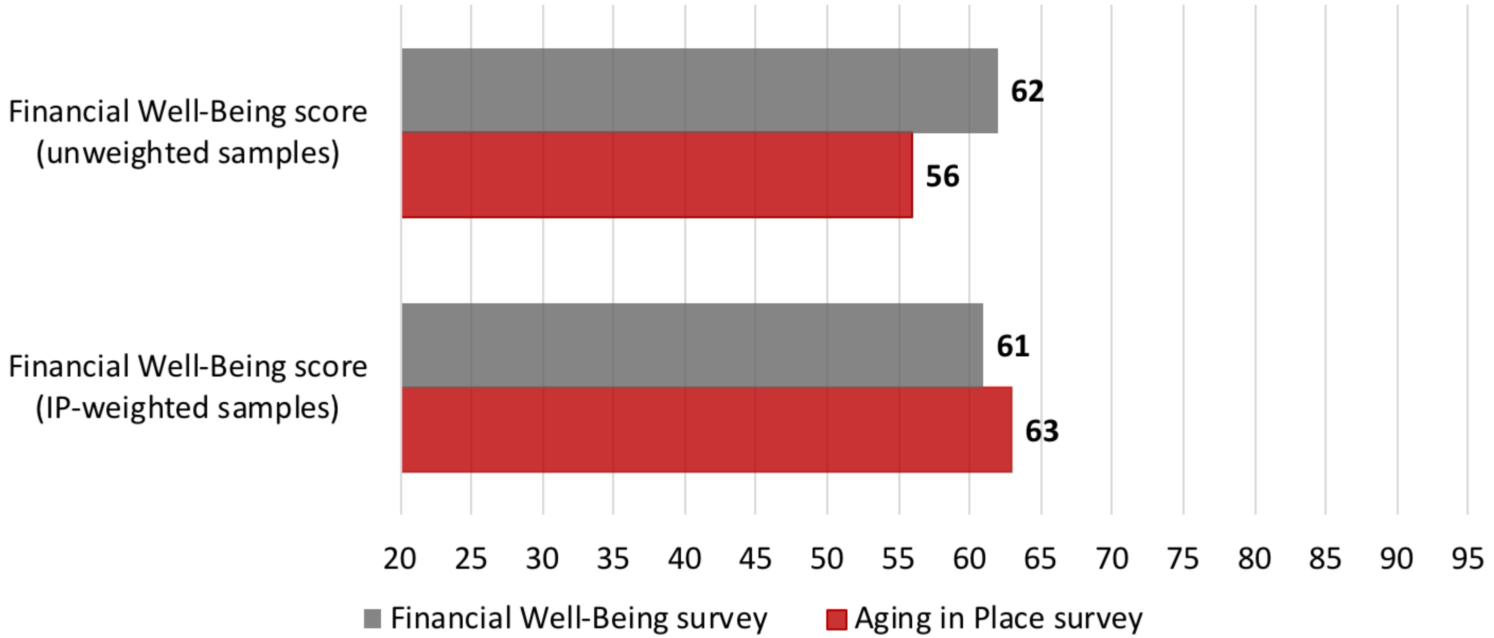
Compared to the general population of older homeowners,
<u>reverse mortgage borrowers have higher</u>:

- Home values, “cash poor” but “house rich”
- Education, higher number of Bachelors degrees

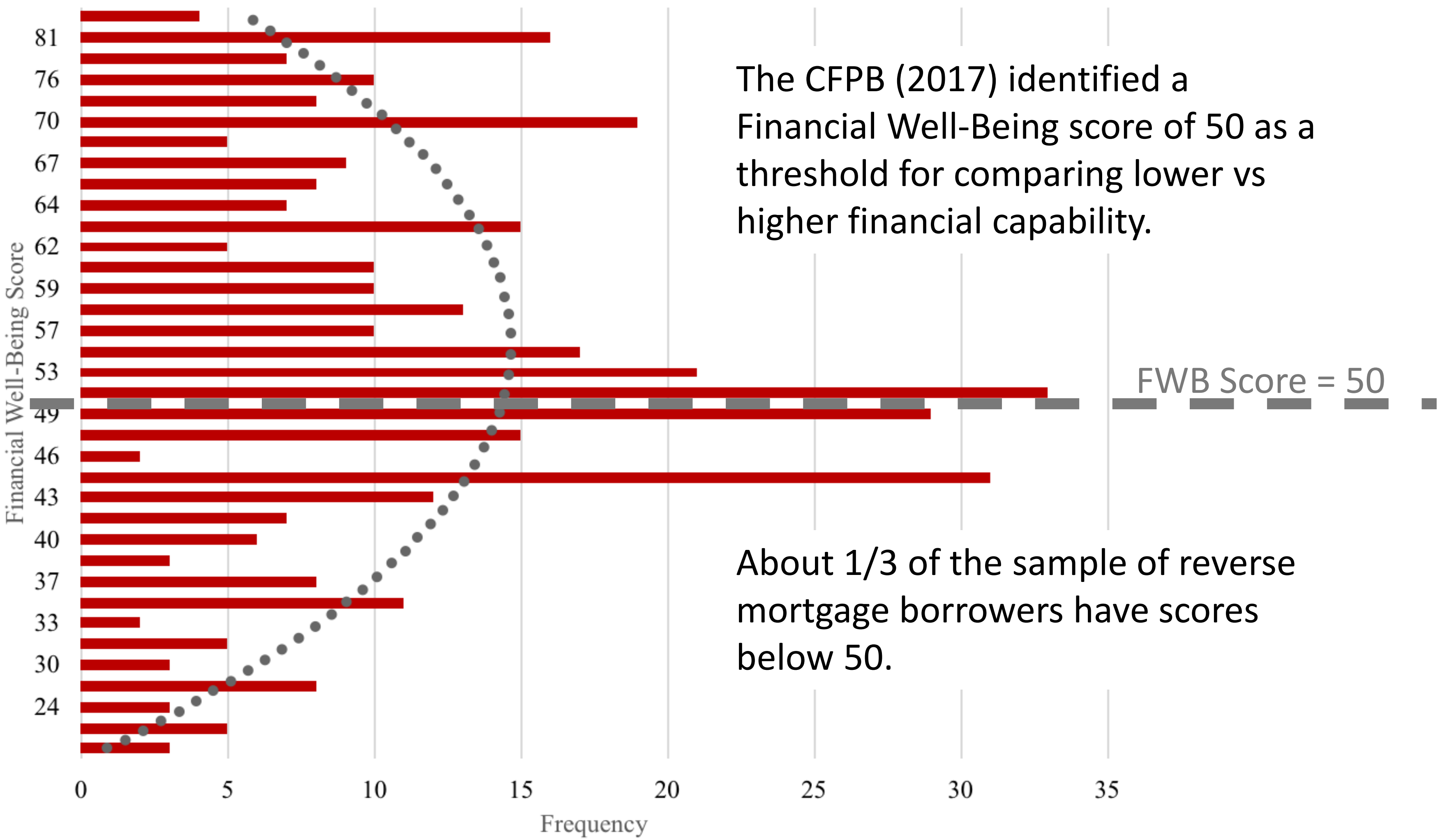
This analysis is based on a comparisons of means.

RQ1: Reverse mortgage borrowers vs general population

After applying weights, the Financial Well-Being score of reverse mortgage borrowers is not statistically different from that of older homeowners with similar characteristics who do not hold a reverse mortgage.



RQ2: Reverse mortgage borrowers with higher vs lower FWB scores



The CFPB (2017) identified a Financial Well-Being score of 50 as a threshold for comparing lower vs higher financial capability.

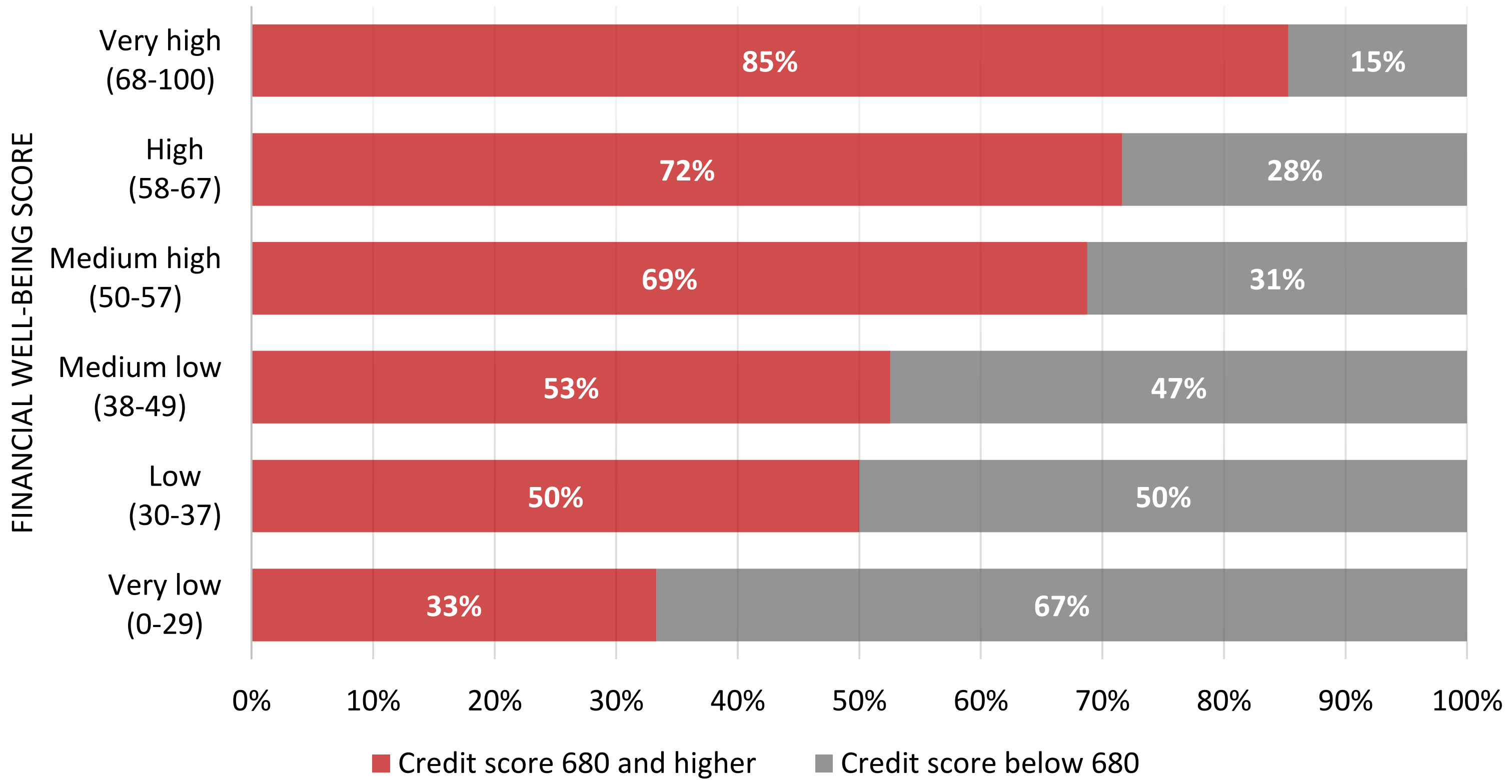
About 1/3 of the sample of reverse mortgage borrowers have scores below 50.

RQ2: Reverse mortgage borrowers with higher vs lower FWB scores

Variables	Higher FWB score (50 and above)	Lower FWB score (below 50)	N
	Mean (SD)	*Mean (SD)*	
Credit score (range: 434-817)	726 (85)	677*** (101)	330
Financial Interview Tool score (range: 2-5)	3.73 (0.52)	3.65 (0.54)	302

*+ p<0.1, * p<0.05, ** p<0.01, *** p<0.001, n=380*
Findings are confirmed in regression analysis.

RQ2: Reverse mortgage borrowers with higher vs lower FWB scores



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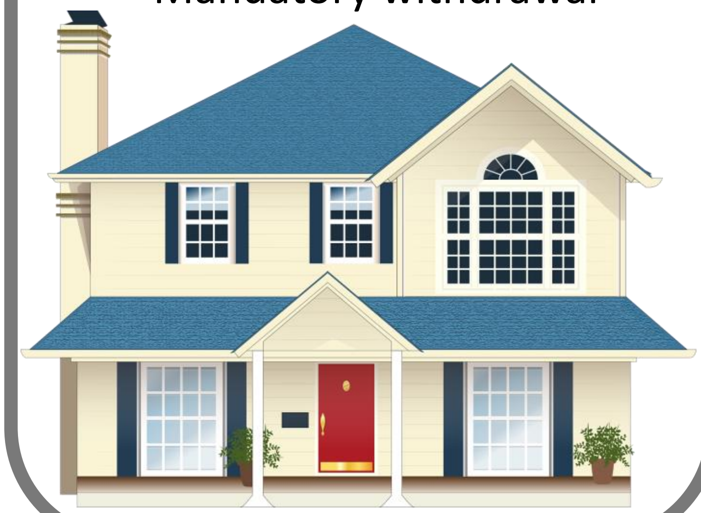
RQ3: Reverse mortgage withdrawal and later financial well-being

Two types of withdrawal at reverse mortgage origination:

Repay mortgage debt
= Mandatory withdrawal



Lump sum, line of credit, annuity
= Discretionary withdrawal

Higher discretionary withdrawal has been associated with an increased risk of default on property taxes and homeowners insurance (IFE, 2014; Moulton et al., 2015).

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RQ3: Reverse mortgage withdrawal and later financial well-being

Variables	**Stage 2: FWB Score**	**Stage 1: Initial discretionary withdrawal**
	Coef. b	*Coef. b*
Initial % discretionary withdrawal	5.707	
Initial % mandatory withdrawal	7.582	-0.556***
Initial principal limit (in $10,000)	0.223+	0.001
Mortgage debt at origination (in $10,000)	-0.271*	-0.002
Home value at origination (in $10,000)	-0.025	-0.001
Instrument 1: Initial policy change date		-0.070+
Instrument 2: Final policy change date		-0.153***

Included are socio-demographic, financial controls, FICO and FIT score, 9 Census regions
*+ p<0.1, * p<0.05, ** p<0.01, *** p<0.001, n=380*

Conclusions

- Financial Well-Being score of reverse mortgage borrowers is about six points lower than the score of older homeowners of the general population.
- Holding constant financial and socio-demographic characteristics, Financial Well-Being scores of reverse mortgage borrowers do not differ.

- Credit score at the time of counseling predicts higher Financial Well-Being scores two to five years later.
- Financial Interview Tool score and loan metrics are not significantly associated with higher Financial Well-Being scores in later years.

- Withdrawals of reverse mortgage loan proceeds at loan origination do not predict Financial Well-Being scores two to five years later.

Implications for Research

- Improved understanding of the longer-term financial wellbeing outcomes of reverse mortgage borrowers

Implications for Practice

- Credit scores can be a meaningful tool to predict reverse mortgage borrowers' financial well-being in future years
- Lower credit score borrowers can benefit from additional resources and support at closing
- Support could be provided by counseling agencies, lenders, or the Federal Housing Administration

Thank you!