

Researchers Say Reverse Mortgages Deserve A Second Look



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What's the deal with reverse mortgages? This question was addressed in a recent [Housing Wealth in Retirement Symposium](#) held on March 23, 2018, in Washington, DC. The event was co-hosted by [The American College of Financial Services](#) and the [Bipartisan Policy Center](#). While the symposium took a broader look at housing wealth and retirement security, a constant theme was the role of reverse mortgages under the Home Equity Conversion Mortgage (HECM) program sponsored by the federal government. A key takeaway from the researchers and policymaker presentations at the event was that reverse mortgages are underutilized by seniors today and can help provide added retirement funding security to Americans when used appropriately.

So how can reverse mortgages be used appropriately? According to research presented at the symposium by Dr. Wade Pfau and Dr. Barry Sacks, reverse mortgages can be used in a number of ways to support a more secure retirement by allowing the homeowner to age in place. Dr. Pfau presented research showing the benefits of refinancing a traditional mortgage into a reverse mortgage. He explained that a reverse mortgage can extend the longevity of a retirement portfolio when utilized to pay off a traditional mortgage. By doing this, the homeowner gets the flexibility to make mortgage payments when their cash flow and portfolio supports the payment throughout retirement, as opposed to a traditional mortgage which requires monthly payments or else the homeowner risks default.



Dr. Sacks further echoed of these sentiments, demonstrating in his research the benefits of



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using a reverse mortgage to supplement a retiree's income. The added cash flow helped reduce the percentage that an individual needed to take from their investments during down market years, allowing the portfolio to last longer in retirement. These both appear to be valuable options with many retirees voicing concern that longevity might cause them to outlive their money in retirement.

Other researchers at the event called for more regulations and private market product developments. For instance, Lori Trawinski, PhD, CFP®, Director of Banking and Finance at AARP Public Policy Institute, noted the need to ensure consumer protections exist to help borrowers throughout the life of the reverse mortgage loan. Director of the MIT Golub Center for Finance and Policy, Dr. Deborah J. Lucas, also presented research showing the potential benefits of a simplified program for both homeowners and the government.

Perhaps the most interesting takeaway from the event was how little coordination is occurring between home equity and retirement security from current retirees. Laurie Goodman, PhD, Founder and Co-Director of the Housing Finance Policy Center at The Urban Institute presented a study showing that less than one percent of eligible homeowners utilize a reverse mortgage today. This weak uptake is despite research demonstrating that the number of people that would benefit from the product could be ten times higher. Chris Mayer, Professor of Real Estate at Columbia Business School and CEO of Longbridge Financial, spoke about how recent changes to the HECM program added additional consumer protections aimed at keeping homeowners in the home for their life. And notably, changes in the HECM fee structure have been made to improve the sustainability of the program.

So what's the bottom line? Reverse mortgages are a form of borrowing, so there is a cost. But, some of this cost comes with a benefit, which is an insurance component that helps the government provide a non-recourse guarantee, meaning that the homeowner is not on the hook for a HECM debt that exceeds their home value at the end of the loan. Even though this is a government regulated and backed product, homeowners still need to shop around and get advice when

considering using the product. While reverse mortgages have been subject to misuse and misconceptions, far too many people today turn a blind eye towards the product. The program that exists today is less expensive and offers more consumer protections than it did in the past. Reverse mortgages deserve a second look because, when used appropriately, a reverse mortgage can help support a more financially secure retirement.

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