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U.S. Senate Subcommittee on Housing, Transportation,

and Community Development

Hearing on the Long-Term Sustainability for Reverse Mortgages:

HECM's Impact on the Mutual Mortgage Insurance Fund

June 18, 2013

Chairman Menendez, Ranking Member Moran, 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 would like to take this opportunity to talk about the current Federal Housing Administration (FHA) Home Equity Conversion Mortgage (HECM) program and to share with you our recommendations for sustaining and improving this program, with particular emphasis on the vital role of HECM counseling. 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 & Urban Development (HUD) HECM counseling intermediary over the past six years. In this capacity, our counselors have listened to the hopes and concerns of thousands of older homeowners nationwide, as we have educated them about the potential reverse mortgages may offer for their retirement plans.

NCOA recognizes the need for the FHA to shore up HECM by making changes to the product that will, in turn, strengthen the Mutual Mortgage Insurance Fund. The changes proposed could have a stabilizing effect on the program, assuring its existence for years to come. NCOA's primary concern is ensuring that vulnerable older adults have access to appropriate resources to help them age in place with dignity, coupled with strong protections against financial abuse and exploitation.

As the only national aging organization acting as a HUD-approved HECM counseling intermediary, I'd like to highlight the positive impact that unbiased third-party education has on this complex product. Going forward, it will be important to consider the following:

- **Changes to the HECM program should not come at the expense of seniors of modest means for whom the program was originally designed**.

  A financial assessment, tax and insurance set-asides, or limiting the amount of cash available up front can be useful tools in assuring that a borrower can sustain the financial obligations associated with obtaining a HECM. It is an expensive product and is therefore best suited for those wishing to age in place for years to come. The product also can work well for those who plan for unexpected future expenses and use the HECM accordingly. A financial assessment that considers residual cash flow and future financial obligations could protect borrowers from obtaining a loan that is not a good financial fit for them. Flexibility to adjust for an individual's circumstance is essential. NCOA has tools that allow seniors to visualize potential future health and financial expenses, such as the NCOA BenefitsCheckUp®, which is a required component of the HECM counseling session. This NCOA tool is online and free to the borrower and counselor. It assists a potential borrower in identifying public and private community resources that can help them pay for daily expenses. For those who have difficulties paying property taxes or insurance, the tool can identify if the borrower qualifies for any tax relief or hazard insurance assistance. Currently, the tool screens borrowers for 160 tax relief programs and 31 insurance programs. NCOA's BenefitsCheckUp® also screens eligibility for up to 2,000 other community resources, including prescription drug, utility, food, and transportation assistance, as well as programs that help with Medicare premiums and copays. The average potential borrower screened during a counseling session often identifies over $5,500 in annual reoccurring public and private benefits.

- **HECM counseling is critical to the product's long-term viability and wise decision-making**

  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. Access to unbiased counseling ensures that consumers are protected. NCOA has been a HUD-approved HECM counseling intermediary for six years, and we view our role in consumer education to be of utmost importance.

- **Increasing the strength and sustainability of the HECM program requires greater collaboration and consideration for counselor training.**

  While counselors do not determine eligibility, they must be informed and knowledgeable about eligibility considerations in the marketplace. It is essential that resources be made available for the ongoing training of HECM counselors. If training is not taken into consideration, the industry risks gaps in information between originators/underwriters and what is discussed in the counseling session.

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

As people live longer, there is an increased responsibility to adequately plan for future financial security. At the same time, many older Americans have seen their hard-earned retirement savings and assets diminish, with an unclear future ahead. When their financial management strategies are limited, seniors' capacity to stay at home becomes uncertain.

Older homeowners are looking for solutions to help manage their financial situation. If used wisely, a reverse mortgage can help. These loans are especially important for lower- to middle-income families. Data collected by HECM counselors[1] using the Financial Interview Tool (FIT)—developed by NCOA and now required by HUD for all intermediaries—suggest that about 44% of reverse mortgage borrowers have incomes under 200% of the federal poverty level ($22,980 for a single person).[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:

- To support household consumption (33%)

[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 August 2010 through April 2013. 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 2013, gross incomes at 200% of the federal poverty level are $22,980 for single households and $31,020 for couples. NCOA calculations are based on the 2013 HHS Poverty Guidelines, available at: http://aspe.hhs.gov/poverty/13poverty.cfm l.

- To plan ahead for emergencies (26%)
- To pay for home repairs or improvements (20%)

Reverse mortgages also can play an important role in helping older adults stay independent longer. Among counseling clients:

- About 44% were widowed or divorced. Among those under age 70, 37% reported that they no longer have a spouse.
- 12% had a hospital or nursing home stay in the 6-month period before counseling.
- 8% were considering a reverse mortgage to deal with out-of-pocket health expenses. Among those aged 80 and older, 18% 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 they are still manageable. Increasing seniors' discretionary income may encourage them to maintain their home and participate in social activities and programs that can lead to healthier lifestyle choices.

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. **Assure that any HECM policy changes allow seniors of modest means to continue to access a portion of their equity.** For instance, the HECM product may be a good, economical fit for a modest-income individual if access to public and private benefits programs and services, including local property tax relief programs, are factored into the suitability determination.

3. **Support ongoing consumer research to enhance the 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 institutionalization 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] Today, people who consider these loans are more concerned about urgent financial needs, including lowering debt. Among HECM counseling clients from August 2010 through April 2013, most of these homeowners (70%) wanted to lower household debt. Only 28% 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 in 1990 to 72.0 years in 2012.[4] Among homeowners who went through HECM counseling between August 2010 and April 2013, one in five (20%) were Baby Boomers aged 60 to 64.

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 increase financial risks if borrowers do not manage their spending or if they rapidly draw down their home equity.

[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.

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 already are 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 they make about this valuable asset will have long-term ramifications for the well-being of themselves and 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. An HECM at the right time, for the right person, with the right supports can serve as an important public-private solution to ensure older adults have the financial resources needed to meet their own health needs.

[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 program changes, such as the proposed financial assessments or tax and insurance set-asides, do not become overly restrictive so that the HECM program remains a viable option for moderate-income seniors.** Reverse mortgages can bring new risks to people who may have limited experience dealing with large sums of money. As the Consumer Financial Protection Bureau indicated in its *Reverse Mortgages: Report to Congress* in June 2012, 70% of the HECM marketplace was fixed rate-full draw loans.[6] HUD issued a moratorium on the HECM Standard Fixed Rate product as of April 1, 2013. This is a step in the right direction.

2. **Support and strengthen consumer education to ensure that older homeowners make informed decisions about the most appropriate use 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

[6] "Reverse Mortgages: Report to Congress." Consumer Financial Protection Bureau. June 28, 2012, pg. 8. Available at http://files.consumerfinance.gov/a/assets/documents/201206_cfpb_Reverse_Mortgage_Report.pdf .

increasingly relying on home equity to increase 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 often are advised that home equity should be used only 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 industry 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 is 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 (AAAs) and Aging and Disability Resource Centers (ADRCs) can help older homeowners access community programs. These agencies also can facilitate the transition from the home to other living arrangements, should these borrowers need to move.

For many homeowners living on a fixed income, combining a reverse mortgage with public benefits also could 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 an NCOA BenefitsCheckUp® screening as part of HECM counseling for clients with incomes under 200% of poverty. Since the implementation of this mandate, reverse mortgage counselors have used this web-based service to screen eligibility for public and private benefits for almost 103,000 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.[7]

[7] 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.

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 older homeowners 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 we 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.