AN ANALYSIS OF REVERSE MORTGAGE CLIENTS AT THE UTAH STATE UNIVERSITY FAMILY LIFE CENTER HOUSING AND FINANCIAL COUNSELING SERVICES

by

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ABSTRACT

An Analysis of Reverse Mortgage Clients at the Utah State University

Family Life Center Housing and Financial Counseling Services

by

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The purposes of this study were to describe and categorize the types of clients seeking reverse mortgage counseling, and to document the growth in demand for reverse mortgage counseling from one counseling center: The USU Family Life Center – Housing and Financial Counseling Services (FLC HFC). A second purpose was to gain a better understanding of the reasons why more senior Americans are seeking reverse mortgages. A third purpose was to gain a better understanding of the retirement preparedness of current seniors seeking reverse mortgages, which could lead to improved counseling services, early retirement intervention awareness, and encourage increased pre-retirement preparation.

Information was collected from 361 inactive reverse mortgage counseling files at the FLC HFC. A subset of 117 more recent and complete files was used to describe, categorize, and gain greater understanding of the clients seeking reverse mortgage
counseling, their reasons for considering a reverse mortgage, and their retirement
preparation. Descriptive statistics, crosstabs, ANOVAs, and frequency tables were used.

Clientele were mostly Caucasian, married, and retired, and their mean age was 74
for males and 72 for females. Average annual income per client household was $29,483,
ranging from $7,860 to $92,400. Most clients were mortgagors compared to
homeowners with the most common reason for seeking a reverse mortgage to pay off an
existing mortgage followed by increasing income. Slightly more than half (51.4%) did
not obtain a reverse mortgage; of those who did, 85.7% received all or some of their
funds as a lump sum.

This study was unique in that it analyzed clients seeking counseling for a reverse
mortgage rather than just the borrowers who originated a reverse mortgage. It also
looked at their reasons for seeking the reverse mortgage. Younger clients were more
likely to desire to pay off an existing forward mortgage; older clients were more likely to
need increased income. The practical significance of the study’s findings can be used to
encourage the preparation of near-retirement adults and to encourage senior mortgagors
to carefully plan the use of funds received from a reverse mortgage leading to an increase
in the financial well-being of seniors.
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   Cindy Rohde Stokes
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CHAPTER I
INTRODUCTION

Living comfortably in retirement is a growing concern for most adults. Financial retirement concerns include funding an increased number of years in retirement, maintaining adequate health and healthcare, paying for home repairs, property taxes, and home improvements, as well as managing debts and home loans (DeVaney, 2008; Weber & Chang, 2006). A decline in traditional pensions, moderate to low 401(k) participation, and low savings rates coupled with the rising Social Security retirement age and discouraging predictions about the ability of Social Security to maintain current benefit levels have contributed to retirement funding risks (Eschtruth, Sun, & Webb, 2006). The reverse mortgage is one option to increase retirement income and/or decrease retirement debt (Opdyke, 2006). The following sections of this introduction will discuss the retirement concerns mentioned above and the basics of reverse mortgages.

Retirement Concerns

The average life expectancy has increased steadily over recent decades. According to the Administration on Aging (AOA; 2008), the average person reaching the age of 65 can expect to live an additional 19.0 years (17.4 years for males and 20.3 years for females). Preventative health care including immunizations, public and private health interventions, improved medical procedures, and new drugs are only a few of the explanations as to why older people can expect to live longer (Centers for Disease Control [CDC], 2005, 2009). Because of longer life spans, retirees must focus on financial security and stretching their retirement assets over a longer period.
Home maintenance and repairs can cost a homeowner anywhere from one to two percent annually; when homes or appliances are older, these costs are even higher (University of Illinois at Urbana-Champaign [UIUC], 2009). Older homes can require replacement of roofs, windows, furnaces, water heaters, and so forth. Older homeowners sometimes require additional expenditures for routine maintenance, snow removal, as well as lawn and garden care. Older homeowners in failing health may also need home improvements to add assistance items such as hand rails, support bars, or lifts and possibly remodeling needs for laundry, bathing, or wheelchair access.

Borrowers of all ages are carrying increasing amounts of mortgage debt, but according to Apgar and Di (2005), the increase for Americans aged 65 and older tripled between 1989 and 2001 (after adjusting for inflation) to a median of $44,000. Over the same time period, the percent of households aged 55 to 64 who had paid off their mortgages dropped from 54% to only 41% (Apgar & Di, 2005). Many retired people have unmanageable housing payments in addition to higher levels of non-housing debt. Regardless of the affordability pressures, many older Americans are unwilling or unable to downscale their housing (Apgar & Di, 2005).

Because employer-sponsored pensions often make the difference between a retiree living comfortably compared to barely making ends meet, they are a vital source of retirement income. During the early 1980s, the majority of pension plans were traditional employer-sponsored defined benefit plans, which provide a benefit for life based on earnings and tenure (Munnell & Muldoon, 2008). Pension plans are shifting from defined benefit plans to 401(k) defined contribution plans, where retirement income
depends on contributions by individual workers as well as depending on unpredictable investment markets. As a result of this shift to defined contribution plans, more than 50% of households now own equities; meaning, these households directly feel the ups and downs of the stock market (Munnell & Muldoon, 2008). In any given year, only about half of workers are covered by pension plans; and about a third are not covered at any point over their working lifetime (Munnell & Perun, 2006). Most of the uncovered workers are employed by companies that do not sponsor any type of retirement plan; of the workers who have an option to participate with an employer’s defined contribution plan, many choose not to. Most participating workers have modest balances in their 401(k) accounts (Munnell & Perun, 2006), and many of those experienced the direct loss of a combined $2.0 trillion in 401(k) and Individual Retirement Accounts (IRA) between October 9, 2007 and October 9, 2008 (Munnell & Muldoon, 2008) suggesting future retirees may have to work longer to maintain their pre-retirement standard of living (Munnell & Perun, 2006) or find another way to finance their pre-retirement standard of living in retirement.

According to DeVaney (2008), Social Security is the primary source of income for over 80% of adults aged 65 and older in the lowest two income quintiles (AOA, 2008). Social Security’s limited income benefit was never meant to be sufficient to maintain a pre-retirement life style (Social Security Administration, 2010), and future Social Security income replacement rates may continue to decrease. Munnell and Perun (2006) identify three reasons for the decrease: (1) the scheduled rise in the normal full retirement age is equivalent to an across-the-board cut; (2) the rising premiums for
Medicare Part B, and (3) the increased taxation of benefits. “To have a comfortable retirement,” according to the Social Security Administration (2009, p.4), “Americans need much more than just Social Security.”

Lusardi and Mitchell (2007) have identified housing wealth as the key element of saving for many ready-to-retire Americans. They further found that most “older Americans do not plan to sell their homes to pay for additional retirement expenses” (Lusardi & Mitchell, 2007, p. 212). Of respondents aged 50 and over, 60% did not plan to sell, and almost 70% estimated a 10% or lower chance they would sell their homes to finance their retirement. Additionally, they found less than a third of respondents had ever tried to calculate how much they needed to save for retirement, let alone planned how they would pay for retirement. Based on the 2009 Retirement Confidence Survey (RCS), the Employee Benefit Research Institute (EBRI) found about one-third of workers, including those aged 55 and older, who have not saved for retirement still feel either somewhat or very confident they will be able to live comfortably in retirement (Helman, Copeland, & VanDerhei, 2009). But how well are American workers saving? More than half reported having $25,000 or less in total savings and investments including their defined contribution plans, but excluding their home equity and defined benefit plans (Helman et al., 2009).

With longer life spans, inadequate retirement savings, and increased debts, including mortgage and consumer debt, Moschis and Burkhalter (2007) identified “retirement income adequacy” as a major concern for current and future retirees.
Eschtruth and colleagues (2006, p.1) question, “Will reverse mortgages rescue the baby boomers?”

**Reverse Mortgage Basics**

For older Americans, home equity is a major part of their total wealth (U.S. Department of Housing and Urban Development [HUD], 2008a), but a home cannot be sold in increments as easily as stocks to meet cash needs. The reverse mortgage allows homeowners to tap into their housing equity, the largest non-pension asset for most U.S. households, to help finance their retirement (Eschtruth et al., 2006); it converts home equity into liquid assets (Szymanoski, Enriquez, & DiVenti, 2007). Housing equity can be accessed by selling the residence, but retirees still need a place to live. It can also be accessed through a home equity line of credit, but such lines usually require monthly repayments. Reverse mortgages are secured by the equity in the home, not by the borrower’s capacity to repay, and allows the homeowner to consume part of their home equity while still living in their home without the responsibility to make repayments (HUD, 2008a).

To qualify for a reverse mortgage, homeowners must be 62 years of age or older and must occupy the home as their primary residence. Their home must also be a single family dwelling or an owner occupied, two- to four-unit dwelling. Some programs also include manufactured homes, some condominiums, and planned unit developments (PUDs). Mobile homes usually do not qualify. The home must be in good repair and mortgage free or able to become mortgage free with the proceeds from the reverse
mortgage. The reverse mortgage must be the only debt against the home (AARP Foundation [AARP], 2008).

With a reverse mortgage, no repayment is required as long as at least one of the borrowers is living in the home. Typically borrowers must live in the home at least six months out of the year. The mortgage becomes due when the last borrower dies, sells the home, or permanently moves out. A permanent move is defined as 12 continuous months out of the home, such as the case if a homeowner needs to move into an assisted living arrangement or nursing home (AARP, 2008).

The reverse mortgage borrower continues to own his or her home, and continues to be responsible for the upkeep and repairs, the property taxes, and hazard insurance. If a homeowner fails to keep up these responsibilities, the reverse mortgage can be called due and payable. Other reasons a reverse mortgage can be terminated include, but are not limited to, adding a new owner to the home’s title, taking out new debt against the home, filing for bankruptcy, or renting out part of the home (AARP, 2008).

Because no monthly payments are required, the loan balance continues to grow larger every month over the life of the loan. The younger a mortgagor, the longer the compound interest will grow, and the more a borrower will owe. As the loan balance (debt) grows, the home equity shrinks. The total debt is typically limited by the value of the home. At the end of the mortgage, the loan must be paid in full, including all loan advances, interest, fees, and other charges (AARP, 2008).

How much a homeowner can receive from a reverse mortgage is a critical question. This amount is based on the age of the youngest borrower, the location and
value of the home, and the current interest rate. The older the borrower(s), the higher the home value, and the lower the current interest rate, the more a homeowner can expect to receive. An estimate can be calculated at: http://rmc.ibisreverse.com//rmc_pages/rmc_aarp/aarp_index.aspx. A lender will never offer a homeowner the full amount of equity. A portion is kept in reserve to cover the fees and interest costs which are added to the rising loan balance each month (AARP, 2008).

About 90% of all reverse mortgages are federally insured Home Equity Conversion Mortgages (HECM; National Reverse Mortgage Lenders Association [NRMLA], 2009). These loans are insured by the Federal Housing Administration (FHA), which is part of the United States Department of Housing and Urban Development (HUD). HECM loans usually provide the greatest loan advance and have the most flexibility as to how the cash can be paid out to the mortgagor (AARP, 2008).

Homeowners can receive their loan proceeds as a cash advance of a single lump sum, as a line of credit, as a monthly cash advance for a specific term or for as long as they live in their home, or as a combination of these payments. If left unused, the line of credit will increase overtime; meaning the amount available to the homeowner increases. Homeowners can used these monies for any purpose (AARP, 2008).

Reverse mortgages are very expensive. The upfront costs for a reverse mortgage loan include an origination fee, third party closing costs, mortgage insurance premiums (MIP), and monthly servicing fees. A lender can charge an origination fee up to $2,500 for homes worth less than $125,000, or 2% of the value for the first $200,000 plus 1% of any amount above $200,000 up to an absolute limit of $6,000 (HUD, 2008a). The third
party closing costs include the costs of services such as an appraisal, title search, inspections, recording fees, credit checks, and so forth. The reverse mortgage MIP is charged in two parts: (1) an upfront fee of 2% of the home’s value, or 2% of HUD’s home value limit, currently $625,500 through December 31, 2010 (HUD, 2009b), whichever is less; and (2) 1/2% which is added to the annual interest rate charged on the rising loan balance. In addition to these costs, reverse mortgages also incur a monthly servicing fee of between $30 and $35. Almost all of the costs associated with a reverse mortgage can be covered by the proceeds of the mortgage; in other words, they can be financed as part of the mortgage. These mortgages can be especially costly if the homeowner decides to sell and move just a few years after obtaining a reverse mortgage (AARP, 2008).

Because of the complexities of reverse mortgages and to increase mortgagee understanding, discussing a reverse mortgage with a counselor is recommended for all reverse mortgage applicants and required for federally insured Home Equity Conversion Mortgages (HECM). HECM counseling increases the ability of elderly homeowners to make more informed decisions surrounding whether to pursue a reverse mortgage or pursue alternative options (Federal Register, 2009). HECM counseling certificates are issued by reverse mortgage counselors at the completion of counseling and are valid for six months following the issue date. A copy of the HECM Counseling Certificate is included in Appendix A. Reverse mortgage counselors from HUD-approved counseling agencies provide reverse mortgage education and help clients consider and evaluate
alternatives to obtaining a reverse mortgage. Counselors also discuss how the client’s home equity will be used and educate clients about fraud and scams (AARP, 2008).

**Need for Study**

DeVaney (2008) identified the need to research financing retirement considering that retirees could live an additional 30 or even 40 years in retirement. Mortgage debt, for Americans aged 65 and older, tripled between 1989 and 2001; over the same period, the percentage of households aged 55 to 64 who had paid off their mortgages dropped from 54 to 41% (Apgar & Di, 2005).

The number of newly issued reverse mortgages increases annually. Records are kept by federal fiscal year (FY) October 1 through September 30. According to the National Reverse Mortgage Lenders Association (NRMLA, 2009), in FY 2000, the number of HECM reverse mortgages originated was 6,640 compared to 43,131 in FY 2005, with a 77% increase to 76,351 for FY 2006. Fiscal year 2009 set a new record total of 114,692 HECM loans; April 2009 claimed the record for monthly volume at 11,660. A total of 573,112 HECMs have been originated since the program inception in FY 1989-90 (NRMLA, 2009). Eschtruth and colleagues (2006), predict the number of reverse mortgages will continue to grow as more baby boomers enter retirement with insufficient wealth from other sources.

Szymanoski and colleagues (2007) found the median age of a HECM borrower in 2000 was 75; in 2006 this median age had decreased to 74. The sooner a senior begins to use their home equity, the less they will have later in retirement when they may need it
for health care, emergencies, or everyday living expenses (AARP, 2008). Tapping home equity early may be an even larger concern for women. Szymanski and colleagues (2007) also found that in the year 2006 single females represented the largest proportion of borrowers at 44% compared to 17% for single males and 39% for couples. Older women are more likely to be at an economic disadvantage than older men (DeVaney, 2008).

Retirees are spending more years in retirement (DeVaney, 2008) and entering retirement with higher levels of debt, including mortgage debt (Apgar & Di, 2005). Reverse mortgage originations are increasing steadily (NRMLA, 2009) by younger mortgagees (Szymanoski et al., 2007). These trends lead to questions of who, how many, why, and when?

**Purposes of the Study**

The purposes of this study were to describe and categorize the types of clients seeking reverse mortgage counseling, and to document the growth in demand for reverse mortgage counseling from one counseling center: The USU Family Life Center – Housing and Financial Counseling Services (FLC HFC), a HUD-approved counseling center. A second purpose was to gain a better understanding of the reasons why more senior Americans are seeking reverse mortgages in order to identify common trigger events leading to the use of reverse mortgages. A third purpose was to gain a better understanding of the retirement preparedness of current seniors seeking reverse
mortgages, which could lead to improved counseling services, early retirement intervention awareness, and encourage increased pre-retirement preparation.

**Objectives of the Study**

The objectives of this study were to describe the clientele who seek reverse mortgages at the FLC HFC. The following questions guided the study:

1. Was there an increase in the number of clients who sought reverse mortgage counseling at the FLC HFC from October 1, 1997 to September 30, 2009?

2. What were the demographic, debt, and mortgage profiles of clients who sought reverse mortgage counseling at the FLC HFC from October 1, 2005 to September 30, 2009?

3. What were the presenting reasons the clients stated for considering a reverse mortgage?

4. What percentage of clients followed through with reverse mortgage financing?

5. Were there differences in the reasons for considering a reverse mortgage between younger and older reverse mortgage counseling clients?

6. Were there differences in the reasons for considering a reverse mortgage between married households and single households (single, divorced, and widowed)?

**Benefits of the Study**

This study could specifically benefit future reverse mortgage clients of the FLC
HFC. Through the identification of the demographic characteristics of the clients, efforts to adequately assess the needs of this population could increase the knowledge of housing and financial counselors and thus provide improved reverse mortgage counseling services at the center.

Since reverse mortgage counseling for HECM mortgages is mandated by the Department of Housing and Urban Development, the findings of this research may also be useful to other counseling agencies with similar programs. This study may encourage those agencies to further define the characteristics of reverse mortgage borrowers and allow them to better serve this clientele.

This study may also better prepare housing counselors to serve a variety of housing clients. Identification of reverse mortgage triggers can suggest possible early retirement or pre-retirement preparation, strategies, or intervention.

The next chapter will present a review of relevant reverse mortgage literature and the theoretical framework that guided the study. A historical overview of reverse mortgage history will also be included, as well as the advantages and the disadvantages of a reverse mortgage.
CHAPTER II
LITERATURE REVIEW

This literature review analyses the reverse mortgages. The exploration includes: historical factors, drawbacks, growth, borrowers, and theoretical frameworks.

Reverse Mortgage Historical Factors

The reverse mortgage was designed to help “house-rich” and “cash-poor” senior citizens gain access to additional income to pay for home repairs and home improvements, existing debts, existing home loans, and to meet living expenses (AARP, 2008; Weber & Chang, 2006, p. 339). Authorized by the Housing and Community Development Act of 1987, the program for home equity conversion was developed by the United States Department of Housing and Urban Development (HUD), and originally limited to 2,500 loans; obviously that limit was soon raised. The first Home Equity Conversion Mortgage (HECM) loan was completed in September 1989. The HUD Appropriation Act of 1998 made the HECM program a permanent program of HUD and the Federal Housing Administration (FHA). The HECM loan claims about 90% of the reverse mortgage market, making it the key product in the U.S. market (Szymanoski et al., 2007).

Originally, HECM Loans could only be obtained by homeowners 62 years of age and older with no mortgage obligations on the property. Later, homeowners were allowed to use the proceeds of the reverse mortgage to pay off the old mortgage debt. Qualifying homeowners can also use a HECM to prevent foreclosure (AARP, 2008).
of January 1, 2009, a HECM mortgagee, according to a recent HUD Mortgagee letter, may purchase a principal residence with loan proceeds (HUD, 2008c).

Loan limits have also increased greatly over the years. Earlier, the homes’ appraised values were subjected to limits that varied by county and were adjusted annually. The Housing and Economic Recovery Act of 2008 (HERA), set a nationwide reverse mortgage limit of $417,000, with special exceptions for high-cost areas, which took effect on November 6, 2008 (HUD, 2008d). On February 24, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) raised the national loan limit for the rest of 2009 to $625,500 (HUD, 2009a); this increase was extended through December 31, 2010 (HUD, 2009b).

**Benefits of a Reverse Mortgage**

The main benefit of a reverse mortgage is that it allows an elderly homeowner to convert home equity into liquid assets that can be used to meet needs (to consume the equity) without having to sell the home or make payments for as long as the borrower lives in the home (AARP, 2008; Eschtruth & Tran, 2001). The advantages of a reverse mortgage include access to home equity without selling and moving, no payments, and simple loan qualifications without income requirements. Additional advantages include guaranteed proceeds from the loan and flexibility in payments received; loan proceeds can be used to pay off an existing mortgage and to prevent a foreclosure, and proceeds from the loan are not taxable (HUD, 2008a).
Several loan provisions protect both the borrowers and the lender, making the HECM a protected type of loan. Three particular provisions protect the borrower: (1) the borrower cannot be foreclosed on (forced to sell the home to pay back the loan) as long as the loan terms are followed; (2) the borrower’s liability is limited to the value of the home, no matter how long the borrower lives in the home; and (3) if the lender fails, FHA insurance pays any remaining monthly payments or line of credit amounts. The lender is equally protected. The greatest risk to the lender is the possibility of the rising loan balance exceeding the value of the home. If the borrower chooses monthly payments for life and lives long enough, the loan payments could exceed the value of the home. With adjustable interest rates, a rise in rates could lead once again to a loan balance greater than the value of the home, and at the end of the loan the property value may be less than projected by the lender. Under these circumstances, the FHA mortgage insurance also covers the lender (AARP, 2008; Eschtruth & Tran, 2001; Szymanoski et al., 2007).

Life circumstances can change quickly for older Americans; illness and death are just two examples. The flexibility in setting up and changing HECM loan proceeds can be very important to older borrowers when needs and life circumstances change. The proceeds from a HECM can be obtained from lenders five different ways. Borrowers can access cash as: (1) a lump sum received when the loan is made; (2) tenure payments, which are monthly payments to the borrower for as long as one or more of the borrowers resides in the home; (3) term payments, which are higher monthly payments for a fixed period of time (after the term, borrowers may continue to live in the home and defer the repayment); (4) a line of credit, which allows the borrower to access cash advances up to
the credit line limit (unused credit line balances also increase by a set percentage allowing access to additional funds); and (5) any combination of the previous options. More than three-fourths of HECM borrowers choose the line of credit option; an additional 12% select a line of credit in combination with monthly payments (Eschtruth & Tran, 2001; HUD, 2008a). For a small administrative fee, borrowers can also switch options at any time as long as funds are available (AARP, 2008; HUD, 2008a).

A reverse mortgage is one way homeowners can avoid liquidating stock portfolios and other assets; it enables homeowners to consume home equity to pay for everyday living expenses, medical bills, home improvements, etc. (HUD, 2008a). With the $2.0 trillion loss suffered by 401(k)s and IRAs in 2008, many seniors are hesitant to sell off portions of their retirement savings, thus cementing their investment losses (Munnell & Muldoon, 2008). Financially savvy seniors can weigh the costs of a reverse mortgage compared to liquidating their devalued investments (HUD, 2008a; Munnell & Muldoon, 2008).

**Drawbacks of a Reverse Mortgage**

Several drawbacks discourage homeowners from obtaining reverse mortgages. These drawbacks include the high costs (both up-front and throughout the loan), the inability of set monthly amounts to keep up with inflation, the difficulty of stretching assets to the end of the lifespan if home equity is tapped too early, and the complicated nature of the product combined with the mental and physical challenges of aging. Even
though Social Security and Medicare are not affected, eligibility for Medicaid and other need-based government assistance programs can be affected (HUD, 2008a).

These mortgages can be helpful to seniors truly struggling to cover basic living expenses, but many seniors see a reverse mortgage as “free money” to be used to increase their standard of living; lenders advertise them as an easy way to pay for dream vacations or new cars (AARP, 2008; Voudrie, 2008). Certified Financial Planner and columnist Jeffrey Voudrie (2008) sees it as one of the “most expensive” home loans available (p. 1).

For mortgagees selecting a set tenure monthly payment, it is true they will not run out of money, but the set amount does not increase nor adjust for inflation. As prices increase, the set payment amount may not be enough to cover the mortgagees’ expenses. For mortgagees selecting a term monthly payment, there is always the possibility of outliving the projected term (AARP, 2008; Voudrie, 2008). AARP cautions seniors that if they spend their equity too soon, it may be difficult to remain in their home, especially if health issues require assisted living or other types of care during their older years.

Reverse mortgages are very complicated. Even with the intentions of the HUD requirement for mandatory counseling and the precautions built into the reverse mortgage counseling by AARP, a reverse mortgage is a “complex financial instrument poorly understood by those who embrace it” (AARP, 2008; Weber & Chang, 2006, p. 38). The elderly population tends to be trusting and vulnerable, and often have health concerns such as decreased vision and hearing, as well as memory and cognitive problems. In the history of reverse mortgages, there have been several lawsuits claiming lenders have
misrepresented loan details such as the finance charges, interest rates, loan terms, and conditions (Bowie State Alumni, 2008).

Older adults are less likely than younger people to realize when they are being victimized (Loonin & Renuart, 2006). Although a reverse mortgage is a legitimate financial product, some lenders market the product so aggressively that their tactics approach predatory lending and taking advantage of seniors (Twomey & Jurgens, 2009). Opdyke (2006) noted that “reverse mortgages put a bundle of cash into a consumer’s hands, making an enticing target for financial-product sellers to exploit” (p. 2). AARP (2008) warns borrowers to be wary of anyone recommending a reverse mortgage as a means of purchasing a product they are selling, such as an annuity. California, which at one time originated more reverse mortgages than any other state, has passed a law prohibiting mortgage lenders from trying to sell an annuity as part of the mortgage process; it does not make sense to expect investment returns on proceeds from a reverse mortgage to be greater than the costs of the loan (AARP, 2008; Opdyke, 2006; Twomey & Jurgens, 2009). In October 2008, the FHA made it illegal to combine an annuity or other financial or insurance product into the closing of a HECM loan (HUD, 2008b).

Reverse mortgages are one of the most popular financial products being marketed to seniors. Free seminars, free DVDs, mailers, newspaper ads, television and radio ads, and telemarketing phone calls are everywhere proclaiming the benefits of the reverse mortgage. Celebrities have been enlisted by sellers as spokespersons to reassure potential borrowers about these unfamiliar and complicated loans and the pleasures that can be obtained from the cashed out equity are emphasized (Twomey & Jurgens, 2009).
Reverse mortgages are advertized as a guaranteed income for life, a way to pay off a home’s mortgage, a way to use equity without having to sell, move, or make payments, a way to live better, go on a dream vacation or a shopping spree, or buy a new car, boat, or recreational vehicle (Twomey & Jurgens, 2009; Weber & Chang, 2006). Voudrie (2008) questions, “Are reverse mortgages the answer to seniors’ prayers, or are they too good to be true?” (p. 1). He is not the only one to wonder….

**HECM Growth**

The following figure illustrates the growth in the number of HECM loans over the past twenty years of the program.

![HECM Growth 1990-2008](image)

*Figure 1. HECM growth 1990-2008 (NRMLA, 2009).*
Since the creation of the HECM, the number of reverse mortgages has continued to increase. Over the first 15 years, FY 1990 to FY 2004, a total of 119,137 loans were processed; during the next two years, FY 2006 and FY 2007, 119,482 loans were originated; more than the previous 15 years combined. Fiscal year 2004 recorded a 109% increase over FY 2003, and FY 2006 had another notable increase of 77% over FY 2005. More recently, FY 2008 set a record total of 112,154 HECM loans; April 2009 claims the record for monthly volume at 11,660 topping March 2009’s previous record of 11,261; and FY 2009 set a new record of 114,692 for a grand HECM total of 573,112 (NRMLA, 2009).

According to the 2005 American Housing Survey, 17.8 million households are headed by persons 65 years of age and older; of these households, 14.8 are potential HECM borrowers: 12.1 million with no mortgage debt and 2.7 million with 60% or higher home equity (HUD, 2008a). Additionally, the Joint Center for Housing Studies of Harvard University projects, between the years 2005 and 2015, an increase of 53% in households with owners aged 62 to 69 (HUD, 2008a). Demand for reverse mortgage loans is increasing, and predictions indicate the number of reverse mortgages will continue to grow as more baby boomers enter retirement, many with insufficient wealth from other sources. An increased demand for long-term medical care will also affect demand (Eschtruth et al., 2006; HUD, 2008a; Szymanoski et al., 2007).

One alternative to obtaining a reverse mortgage to access home equity funds is moving to alternative housing. Selling and either downsizing or renting are feasible options especially for wealthier seniors; but most older Americans prefer aging in place
over selling and moving (HUD, 2008a). Lower income seniors with a modestly valued home paid off, or nearly paid off, may be particularly hesitant to move especially if they have lived a long time in their home (AARP, 2008; HUD, 2008a). Additional potential borrowers and the desire to age in place as well as aggressive marketing may be explanations for the increase in reverse mortgage numbers, but are there other presenting reasons for the increase?

Reverse Mortgage Borrowers

Reverse mortgage borrowers’ demographics have changed over the past twenty years of the HECM program. Figure 2 illustrates selected profiles of reverse mortgage borrowers. In 2000, the median value of a HECM property was $107,000 compared to the median value of $87,000 for the property of a homeowner age 62 and older in the general population (Szymanoski et al., 2007). HECM property values have increased over the past two decades, peaking during FY 2006 at $289,000 (HUD, 2008a; Szymanoski et al., 2007). In November 2008, HUD established a national mortgage limit for all HECMs and officially raised the loan limit to $471,000 for all HECM loans originating on or after that date (HUD, 2008d). On February 24, 2009, the national loan limit was again raised to $625,500 for all HECM loans (HUD, 2009a); and on November 25, 2009, the $625,500 loan limit was extended through the end of 2010 (HUD, 2009b). With these increased HECM loan limits, average HECM property values are predicted to jump (HUD, 2008a).
The borrowers’ age (based on the age of the youngest co-borrower) remained fairly constant through the 1990s ranging from 75.3 to 76.7 (Szymanoski et al., 2007). In 2000, the median age of a HECM borrower was 75 compared to a median age of all elderly persons of 72; in 2006 it fell to 74 (Szymanoski et al., 2007). During the 2000s the borrowers’ age steadily dropped to a low of 73.1 (HUD, 2008a). Once again, as increased numbers of baby boomers reach the HECM qualification age of 62, the HECM
borrowers’ age is predicted to continue its downward trend (HUD, 2008a). This decreasing age trend suggests concerns over younger borrowers being able to stretch their retirement assets to the end of their lifespan.

Over the past twenty years, the percent of single female HECM borrowers has decreased from a high of 57.7 in FY 1992 to the latest low of 44.8; couple borrowers have increased from a low of 26.1% to 36.8; and single male borrowers have varied between 12.5 and a most recent high of 18.4% (HUD, 2008a). Most of these changes have occurred since 2000, when 56% of HECM borrowers were single females, compared to 28% of senior homeowners; 30% of HECM borrowers were couples, compared to 65% of senior homeowners; 14% were single males, compared to 8% of seniors (Szymanoski et al., 2007). One can deduce that, as the number of couples increases, the number of widowed single females already having a reverse mortgage will decrease the overall single female percentage. Once again, with more baby boomers turning 62 and qualifying for reverse mortgages, the percent of HECM couple borrowers is predicted to increase (HUD, 2008a). With an increasing number of couples beginning to tap into their home equity at earlier ages, the question is raised: will older retirees, especially older widowed women, find themselves house poor and cash poor?

**Theoretical Framework**

When discussing older adults and their related financial concerns, two theories are particularly helpful: the life-cycle hypothesis of savings and precautionary savings.
These theories provide insight into how income and consumption vary over the life cycle, and will provide the theoretical framework of this study.

The life-cycle hypothesis proposes that people attempt to maintain a reasonably stable level of consumption over their lifetime (Ando & Modigliani, 1963). Generally this means that younger people borrow to meet their consumption needs, middle-aged adults pay down debt and save a significant part of their earnings, and older adults spend down their assets as their income drops in retirement to maintain their consumption level. Life-cycle hypothesis purists believe that individuals will spend all of their assets by the end of their life. In reality, it does not always happen; but a reverse mortgage in one way to accomplish a stable level of consumption in retirement.

The goal of precautionary saving is to protect against future drops in income. This hypothesis assumes older adults will be cautious about spending down their assets. Uncertainty about their life expectancy, health and health care costs, and the possibility of a lower standard of living increase the hesitation to spend down their assets (Carroll, 1997; Deaton, 1992).
CHAPTER III
METHODS

The study sought to document changes in the demand for reverse mortgage counseling and to evaluate the reverse mortgage clients counseled at the USU Family Life Center – Housing and Financial Counseling Services (FLC HFC). This study examined all inactive reverse mortgage files of the clientele at the FLC HFC for the twelve year period beginning October 1, 1997 through September 30, 2009 to assess a change in demand. Client files from the four year time period of October 1, 2005 to September 30, 2009 were used for research questions 2 through 6 because more complete client information existed in those files.

Measures

The purpose of examining the reverse mortgage client files at the FLC HFC was (a) to document possible growth in the numbers seeking reverse mortgages; (b) to describe and categorize the types of clients seeking reverse mortgages; (c) to gain a better understanding of why seniors seek reverse mortgages; and (d) to document the percent of counseled seniors who go on to obtain a reverse mortgage and how they chose to receive the funds. Below is a description of the population, variables, data collection, research questions, and the data analysis proposed.

Population

The population for this study came from the reverse mortgage clientele at the FLC
HFC, and consisted of 361 reverse mortgage clients (with a subset of 117) who are no longer actively being counseled. Files eligible for this study included clients who decided to obtain a reverse mortgage and those who did not obtain a reverse mortgage. The date on which counseling was sought was used to examine the possible increase in reverse mortgage clients. Important demographics gathered at the time of intake and during the initial counseling session, such as age, race, marital status, employment status, income, amount in savings, mortgage statuses, and debt level, were examined to profile the clients seeking reverse mortgage counseling from the FLC HFC. The study used data from the FLC HFC because it is the only housing counseling agency in Northern Utah.

**Variables**

Fourteen variables were extracted from the FLC HFC reverse mortgage client files. The first variable, collected upon intake, was used to identify if an increase in the number of clients seeking a reverse mortgage has taken place over the past 12 years. This intake date variable represents the date on which the client sought counseling. These client intake dates were grouped as per HUD fiscal year which runs from October 1 through September 30. The next ten variables, collected upon intake and during the first counseling session, described individual client characteristics. The variables were: (1) marital status, (2) age, (3) race, (4) employment status, (5) annual income, (6) amount in savings, (7) amount of non-housing consumer debt (including medical debt), (8) amount of mortgage debt, (9) mortgage status, and (10) property value. Marital status was categorized as: married, single, divorced, or widowed. Age was measured in years as per individual and as per the age of the youngest borrower at intake. Younger seniors
were defined as 74 and younger; older seniors as 75 and older (Trussell, 2007; Turcotte & Schellenberg, 2006). Race was divided into three categories: Caucasian, Hispanic, or other. Employment status was categorized as full-time, part-time, seasonal, self-employed, or retired. Income was recorded as declared by the client, and may be net or gross. Amount of savings, non-housing debt, and mortgage debt were also as stated by the client; savings included amount in checking, savings, and non-housing investments. Mortgage status was homeowner, mortgagor, or reverse mortgagor; and property value was recorded as declared by the client.

The twelfth variable, collected during the initial counseling session, was used to evaluate the presenting reasons for clients to consider the use of a reverse mortgage. The presenting reasons for considering a reverse mortgage variable were divided into nine categories: (1) to pay off current forward mortgage, (2) to increase monthly income, (3) to pay off existing consumer debt, (4) to pay off medical debt, (5) to pay for home improvements, (6) to have access to additional income (for security or emergency reasons), (7) to purchase a new car, (8) to refinance an existing reverse mortgage, and (9) other. Clients frequently offered more than one presenting reason for seeking a reverse mortgage.

The two remaining variables, collected during a follow-up to the counseling session, were used to evaluate whether or not the clients obtained a reverse mortgage and if obtained, how the proceeds from the reverse mortgage were paid out. The outcome variable was dichotomous and coded as 1 = yes, obtained a reverse mortgage, or 0 = no, did not obtain a reverse mortgage prior to the reverse mortgage counseling certificate’s
expiration (six months from the issue date of certificate). For those clients obtaining a reverse mortgage, a variable named proceeds, was created to identify how the reverse mortgage funds were paid out. The proceeds variable was divided into four categories: (1) a one lump sum, (2) a line of credit, (3) a tenure or term monthly amount, and (4) a combination of previous three.

**Procedures**

For this study, the reverse mortgage client files at the FLC HFC were used. In order to receive counseling at the center, each client must sign a consent form prior to the counseling. This consent form stated not only that the information they provided will be kept confidential, but that it may be used for research purposes. A copy of the consent form is included in Appendix B.

**Data Collection**

This proposal was approved by the Utah State University Institutional Review Board (IRB). It posed little, if any, risk to participants. The information gathered in the client files was not used to identify individual persons, and only inactive files were used. The FLC HFC confidentiality standards were also followed. As a counselor at the center, the researcher is bound by both the IRB and the FLC HFC standards. A copy of the data collection form is included in Appendix C.

**Research Questions**

The following questions were considered:

1. Was there an increase in the number of clients who sought reverse mortgage
counseling at the FLC HFC from October 1, 1997 to September 30, 2009?

2. What were the demographic, debt, and mortgage profiles of clients who sought reverse mortgage counseling at the FLC HFC from October 1, 2005 to September 30, 2009?

3. What were the presenting reasons the clients stated for considering a reverse mortgage?

4. What percentage of clients followed through with reverse mortgage financing?

5. Were there differences in the reasons for considering a reverse mortgage between younger and older reverse mortgage counseling clients?

6. Were there differences in the reasons for considering a reverse mortgage between married households and single households (single, divorced, and widowed)?

Data Analysis

The data collected from the reverse mortgage files at the FLC HFC was analyzed using The Statistical Package for the Social Sciences (SPSS). For question 1, a bar graph was used to illustrate and evaluate trends in reverse mortgages. Descriptive frequencies and cross tabulations were used to answer questions 2, 3, and 4. To answer questions 5 and 6, chi squared analysis and ANOVAs were used.
CHAPTER IV
RESULTS

This chapter presents the results from the data analysis. Data was collected from the reverse mortgage counseling files at the USU Family Life Center – Housing and Financial Counseling Services (FLC HFC). Inactive client files dating from October 1, 1997 to September 30, 2009, totaling 361 clients, were used for research question one. Because more complete client information was gathered more recently, a subset of 117 client files dating from October 1, 2005 to September 30, 2009, was used for research questions 2 through 6. The U.S. Department of Housing and Urban Development (HUD) fiscal year (FY) runs from October 1 through September 30. Figure two, was used to illustrate the numbers of clients who sought reverse mortgage counseling at the FLC HFC from October 1, 1997 to September 30, 2009.

For research question two, descriptive statistics and crosstabs were used to create a profile of the reverse mortgage clientele. In the next sections, frequency tables were again used to answer research questions three and four, to identify the presenting reasons clients stated for considering a reverse mortgage, and to calculate the percentage of clients that followed through with reverse mortgage financing. The remaining sections answer research questions five and six by presenting the crosstabs results showing the differences in reasons for considering a reverse mortgage between younger and older reverse mortgage counseling clients and between married households and single households (single, divorced, and widowed) seeking reverse mortgage counseling.
Research Questions

Research Question 1

Was there an increase in the number of clients who sought reverse mortgage counseling at the FLC HFC from October 1, 1997 to September 30, 2009? The number of clients who sought reverse mortgage counseling at the FLC HFC per HUD fiscal year (FY) ranged from a high of 55 clients in FY 2005-06 to a low of 11 clients in FY 2006-07. The total number of clients served over the twelve year span was 361 with an average of 30.1 ($SD = 13.8$) per year and a median of 34.5.

Figure 3 illustrates the activity in the number of reverse mortgage clients seeking counseling over the past twelve years of the program.

![Number of Clients seeking Reverse Mortgage Counseling (1997-2009)](image)

*Figure 3.* Reverse mortgage clientele at the FLC HFC.
Overall the numbers of reverse mortgage clients served at the FLC HFC did not mirror the increases experienced nationwide. The number of clients served at the FLC HFC was influenced by several different components including funding, number of counselors on staff, number of days available per week for counseling appointments, and referrals from lenders. The drop in client numbers coincided with reductions in HUD funding; during FY 2003-04 no HUD funding was received; the HUD funding from FY 2004-05 was split and some carried over to FY 2005-06 with no additional funding during FY 2005-06. HUD funding was again received in FY 2006-07, but it was less than half as much as in previous years. Because of funding issues, the number of counseling days was reduced from three days per week to two days per week during the last part of FY 2005-06. Around the beginning of FY 2006-07, the number of reverse mortgage counselors dropped to one specialized counselor; and face-to-face counseling was encouraged rather than phone counseling. During FY 2008-09, three lenders in the area added reverse mortgage lending to their local services.

It is interesting to note that both FY 2005-06 and FY 2008-09 mirrored increases in HECM loans. Fiscal year 2005-06 represented an increase of 77% in HECM nationwide and an increase of 83% at the FLC HFC. The first half of FY 2008-09 saw record numbers of HECM loans with April 2009 setting the all-time record for one month. The FLC HFC also saw record numbers during the first half of the year with a reduction of clients seeking counseling after April 2009; of the 36 clients served during FY 2008-09, 25 were served in the first 6 months, five were served in April, and only six were served in the last 5 months of the fiscal year.
Research Question 2

What were the demographic, debt, and mortgage profiles of clients who sought reverse mortgage counseling at the FLC HFC from October 1, 2005 to September 30, 2009? A total of 117 households sought counseling from the FLC HFC during this four year period. Of the 117 clients, 101 followed through with the one-on-one counseling session to obtain a reverse mortgage counseling certificate; sixteen clients decided against following through with the counseling session after reading the information packet sent to them prior to the session. Without a counseling certificate, the client cannot obtain a reverse mortgage of any type. Minimal information was obtained from these 16 clients.

The average age of the reverse mortgage clients was 74.0 ($SD = 6.4$) years old for males and 72.0 ($SD = 6.8$) years for females. The median ages for males and females were 73 and 72 respectively, slightly lower than the typical reverse mortgage borrower’s median age of 75 in 2000 and 74 in 2006 (Federal Housing Administration [FHA], 2006). Looking at just the FY2005-06 clients, the median ages for males and females were 72.0 and 70.5 respectively at the FLC HFC. There were fewer males ($N = 77$, 44.8%) than females ($N = 95$, 55.2%). The gender population distribution for the population 60 years of age and older in the U.S. was 42.7% males to 57.3% females (Administration on Aging [AOA], 2000). The detailed age characteristics for this sample can be found in Table 1.

The majority of clients (69.3%) were married ($N = 72$); 30.7% were single, divorced, or widowed. Within this single, divorced, or widowed group, 6.7% were men
Table 1

*Client Age Characteristics*

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Median</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>All clients' group characteristics:</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Age of male clients</td>
<td>77</td>
<td>62</td>
<td>90</td>
<td>74.0</td>
<td>73.0</td>
<td>6.4</td>
</tr>
<tr>
<td>Age of female clients</td>
<td>95</td>
<td>56</td>
<td>87</td>
<td>72.0</td>
<td>72.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Age of study group</td>
<td>72</td>
<td>56</td>
<td>90</td>
<td>72.9</td>
<td>72.0</td>
<td>6.7</td>
</tr>
<tr>
<td>Younger (≤ 74) clients' group characteristics:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age of younger male clients</td>
<td>55</td>
<td>62</td>
<td>74</td>
<td>70.9</td>
<td>71.0</td>
<td>4.4</td>
</tr>
<tr>
<td>Age of younger female clients</td>
<td>62</td>
<td>56</td>
<td>74</td>
<td>68.0</td>
<td>68.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Age of younger group</td>
<td>117</td>
<td>56</td>
<td>74</td>
<td>68.7</td>
<td>70.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Older (&gt; 75) clients’ group characteristics:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age of older male clients</td>
<td>21</td>
<td>75</td>
<td>90</td>
<td>81.6</td>
<td>81.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Age of older female clients</td>
<td>33</td>
<td>75</td>
<td>87</td>
<td>79.6</td>
<td>79.0</td>
<td>3.4</td>
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<tr>
<td>Age of older group</td>
<td>54</td>
<td>75</td>
<td>90</td>
<td>80.1</td>
<td>80.0</td>
<td>3.6</td>
</tr>
</tbody>
</table>

(N = 7) and 24.0% were women (N = 25). Comparing the FY2005-06 clients to typical HECM borrowers, 64.4% of the FLC HFC clients were married whereas 39.0% of the typical HECM borrowers were married in 2006 (FHA, 2006). In the United States 58.0% of adults 60 and older were married (AOA, 1990), and 57.1% of adults 65 and older were married (U.S. Bureau of the Census, 2002). In Utah 54.3% of adults 62 and older were...
married (U.S. Bureau of the Census, 2000). Another study involving seniors in Cache County, the Cache County Memory Study, found similar results; 64.8% of their sample were married ($N = 5092$) and 30.7% were single, divorced, or widowed in their 1995 baseline study (M. Norton, personal communication, May 25, 2010).

The majority of clientele, 94.6%, were Caucasian; 2.7% were Hispanic, and 2.7% were from other minority groups. The population of Utah is 83% Caucasian, 12% Hispanic, and 5% other minority groups (1% being Black); the U.S. population is 65% Caucasian, 16% Hispanic, 12% Black, and 7% other (Kaiser State Health Facts, 2008). The Hispanic group was underrepresented in this sample compared to the state population (Joint Center for Housing Studies, 2010). See Table 2 for client gender characteristics.

The financial characteristics of the reverse mortgage clients at the FLC HFC are as follows. Of those clients who reported their employment status, a higher percentage of the female clients, 72.6%, stated they were retired compared to 57.3% of male clients.

Table 2

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single females</td>
<td>56%</td>
<td>44%</td>
<td>29%</td>
<td>24% (25)</td>
</tr>
<tr>
<td>Single males</td>
<td>14%</td>
<td>17%</td>
<td>7%</td>
<td>7% (7)</td>
</tr>
<tr>
<td>Couples</td>
<td>30%</td>
<td>39%</td>
<td>64%</td>
<td>69% (72)</td>
</tr>
</tbody>
</table>

*Note. Federal Housing Administration, 2006.*
The average monthly income per reverse mortgage client household was $2,452 ($SD = 1344.6) with a low of $650 and a high of $7,700. The average annual income per client household was $29,483 ($SD = 16320.2) ranging from $7,860 to $92,400. The median annual household income was $24,996. See Table 3 for financial particulars. According to the Federal Reserve, the median income for households aged 65-74 rose from $31,000 in 1998 to $39,000 in 2007; and for households 75 years or older it ranged from $21,300 to $22,800 with a high of $26,200 in 2001 (Bucks, Kennickell, Mach, & Moore, 2009). Utah’s median annual household income is $58,820 and the U.S. median household income is $51,233 for all households (Kaiser State Health Facts, 2008).

Younger clients, 74 years and younger, reported a median monthly income of $2,500 and a median annual income of $30,000. Older clients, age 75 and older, reported a median monthly income of $1,484 and a median annual income of $17,544. Older clients are living on less income.

Table 3

Client Financial Characteristics (as reported by client)

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Median</th>
<th>SD</th>
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</thead>
<tbody>
<tr>
<td>Monthly income</td>
<td>96</td>
<td>$650</td>
<td>$7,700</td>
<td>$2,452</td>
<td>$2,083</td>
<td>1344.6</td>
</tr>
<tr>
<td>Annual income</td>
<td>96</td>
<td>$7,860</td>
<td>$92,400</td>
<td>$29,483</td>
<td>$24,996</td>
<td>16320.2</td>
</tr>
<tr>
<td>Non-housing debt</td>
<td>49</td>
<td>$450</td>
<td>$105,000</td>
<td>$15,193</td>
<td>$10,140</td>
<td>17490.2</td>
</tr>
<tr>
<td>Housing debt</td>
<td>64</td>
<td>$1,500</td>
<td>$159,000</td>
<td>$59,851</td>
<td>$54,997</td>
<td>38676.5</td>
</tr>
<tr>
<td>Property value</td>
<td>101</td>
<td>$40,000</td>
<td>$800,000</td>
<td>$174,382</td>
<td>$150,000</td>
<td>104475.9</td>
</tr>
</tbody>
</table>
Less than half of the reverse mortgage clients reported whether or not they had non-housing debt. The 49 who reported having non-housing debt had an average of $15,193 outstanding with a low of $450 and a high of $105,000. Eleven clients reported having medical debts.

The majority of reverse mortgage clients were mortgagors compared to homeowners (without any type of mortgage debt); 65.3% compared to 34.7% respectively (see Table 4). Between 1989 and 2001, Apgar and Di (2005) found the percent of American households aged 55 to 64 who had paid off their mortgages dropped from 54 to 41%; for the same period, Americans aged 65 and older tripled their mortgage debt. Clients had an average property value of $174,382 ($D = 104475.9) with a low of $40,000 and a high of $800,000; the median property value was $150,000. The Federal

<table>
<thead>
<tr>
<th>Mortgagor status</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgagor</td>
<td>60</td>
<td>51.3</td>
<td>59.4</td>
<td>59.4</td>
</tr>
<tr>
<td>Reverse mortgagor</td>
<td>6</td>
<td>5.1</td>
<td>5.9</td>
<td>65.3</td>
</tr>
<tr>
<td>Homeowner</td>
<td>35</td>
<td>29.9</td>
<td>34.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>101</td>
<td>86.3</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>16</td>
<td>13.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>117</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Reserve reports the median property values for households 65-74 years old at $164,700 in 2004 and $200,000 in 2007; for households 75 and older the property values were $137,300 in 2004 and $150,000 in 2007 (Bucks et al., 2009).

Of the 101 clients reporting, 60 had forward mortgages, 6 had reverse mortgages and were seeking a refinance of that mortgage, and 35 were mortgage-free homeowners. The average amount of all mortgage type debt reported by 64 of the 66 mortgagors was $59,851 with a low of $1,500 and a high of $159,000.

**Research Question 3**

What were the presenting reasons clients stated for considering a reverse mortgage? The most common presenting reason stated by the client was to pay off an existing mortgage; this goal was stated by 60 of the 101 clients counseled. The second most commonly stated reason, for 43 out of 101 clients, was to increase income. Of these clients, 22 stated that they wanted to pay off an existing forward mortgage and to increase income. Paying off an existing mortgage or existing debt in effect increases discretionary income. All clients with an existing forward mortgage stated paying it off as a presenting reason, 17 of those 60 also stated paying off non-housing debt as a reason. Of the 43 who stated they wanted to increase their income, 17 had a mortgage and 26 did not; 6 also stated they wanted to pay off non-housing debt. Five clients stated they wanted to pay off their existing forward mortgage, pay off non-housing debt, and increase their income.

Figure 4 illustrates the different reasons stated by reverse mortgage clientele at the FLC HFC as to why they were considering a reverse mortgage and the number of clients stating each reason.
Figure 4. Presenting reasons client stated for considering a reverse mortgage.

Note. More than one reason could have been stated by each client.

The ‘other’ category included reasons such as to be able to afford to retire, to prevent foreclosure, as an option to pay for long-term care, as an option to use up money or hide assets so as to be eligible for Medicaid assistance to pay for long-term care, as an option in case investments continue to depreciate, to visit family and travel, to purchase a new hearing aid, to pass money to children without probate and tax consequences, to pay off a child’s mortgage, pressure from a salesperson, as a result of attending a free seminar (with free dinner), because a relative has one and likes it, and to learn more about reverse mortgages (for education) just in case one becomes an option in the future. The category of ‘for security purposes’ is different than the education listed in the ‘other’ category; the clients who stated it was ‘for security’ seriously wanted to put something in place today
so that they did not have worry about how they would meet future expected and unexpected financial needs.

**Research Question 4**

What percentage of clients followed through with reverse mortgage financing?

An outcome was recorded for 94.9% of the clients who sought reverse mortgage counseling at the FLC HFC (111 of the 117). Of the 111 clients, 57 choose not to obtain a reverse mortgage (51.4%) and 54 choose to obtain a reverse mortgage (48.6%).

Included in these numbers are the six clients who sought counseling to refinance their existing reverse mortgage; of those six clients, three chose not to obtain the refinance and three chose to refinance. See Table 5 for follow through data.

Of the 54 clients who obtained a reverse mortgage, 42 reported how they received the funds from their loan. See Tables 6 and 7 for details. Just over half, 52.4%, received their funds from a combination of options. Most of the 42 reporting clients, 85.7%,

### Table 5

*Clients Following Through with Reverse Mortgage Financing*

<table>
<thead>
<tr>
<th>Description</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did not obtain</td>
<td>57</td>
<td>48.7</td>
<td>51.4</td>
<td>51.4</td>
</tr>
<tr>
<td>Did obtain</td>
<td>54</td>
<td>46.2</td>
<td>48.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>111</td>
<td>94.9</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>6</td>
<td>5.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>117</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 6

*How Clients Chose to Receive the Reverse Mortgage Funds*

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
<th>Lump sum</th>
<th>Credit line</th>
<th>Monthly income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients reporting</td>
<td>42</td>
<td>36</td>
<td>27</td>
<td>4</td>
</tr>
<tr>
<td>Missing</td>
<td>12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>54</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note.* More than one funding option could be stated by each client.

received all or some of the funds as a lump sum; 64.3% received all or some of the funds as a line of credit; and 9.5% chose to receive a set monthly income along with one or more of the previous options. Eschtruth and Tran reported in 2001, more than three-fourths of HECM borrowers chose the line of credit option; an additional 12% selected a line of credit in combination with monthly payments.

No mortgagor received only a monthly income; 47.6% did not choose a combination of options, but received their funds from either a lump sum or a line of credit.

**Research Question 5**

Were there differences in the reasons for considering a reverse mortgage between younger and older reverse mortgage counseling clients? To answer this question crosstabs and ANOVAs were used. See Table 8 for details. The results indicated a significant statistical difference between younger (74 and younger as per the age of the youngest client) and older (75 and older) clients who reported their reason for
Table 7

*Reverse Mortgage Proceed Details*

<table>
<thead>
<tr>
<th>Description</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>One lump sum (LS)</td>
<td>14</td>
<td>25.9</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>Line of credit (CL)</td>
<td>6</td>
<td>11.1</td>
<td>14.3</td>
<td>47.6</td>
</tr>
<tr>
<td>Monthly income payments (M)</td>
<td>0</td>
<td>0.0</td>
<td>0.0</td>
<td>47.6</td>
</tr>
<tr>
<td>Combination (see below):</td>
<td>22</td>
<td>40.8</td>
<td>52.4</td>
<td>100.0</td>
</tr>
<tr>
<td>LS and CL</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LS and M</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CL and M</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LS, CL, and M</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>77.8</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>12</td>
<td>22.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>54</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note.* More than one funding option could be stated by each client.

considering a reverse mortgage for the purpose of paying off an existing forward mortgage, to increase their income, or to purchase a car. The younger clients were more likely than the older clients to report the desire to pay off an existing forward mortgage ($p = .02$) as a reason. A statistically significant difference in property values was found. The one-way ANOVA showed younger clients had an average property value of
Table 8

*Reasons For Considering a Reverse Mortgage by Age*

<table>
<thead>
<tr>
<th>Description</th>
<th>Chi-sq value</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay off an existing forward mortgage</td>
<td>5.4&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.02*</td>
</tr>
<tr>
<td>Increase income</td>
<td>4.0&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.05*</td>
</tr>
<tr>
<td>Pay off existing non-housing debt</td>
<td>3.5&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.06</td>
</tr>
<tr>
<td>For home improvements</td>
<td>0.7&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.40</td>
</tr>
<tr>
<td>For financial security</td>
<td>0.1&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.82</td>
</tr>
<tr>
<td>Pay off medical debt</td>
<td>0.4&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.51</td>
</tr>
<tr>
<td>Purchase a new car</td>
<td>5.5&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.05*</td>
</tr>
<tr>
<td>Refinance an existing reverse mortgage</td>
<td>2.5&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.11</td>
</tr>
<tr>
<td>Other reasons</td>
<td>1.2&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.29</td>
</tr>
</tbody>
</table>

*Note.* More than one reason could be stated by each client.

<sup>a</sup> 0 cells (.0) have expected count less than 5.

* <i>p < .05</i>

$190,856 (SD = 126326.6), and older clients had a lower average property value of $149,176 (SD = 43710.6) with f = 3.7, df = 97, and <i>b < .05</i>.

In contrast, the older clients were more likely than the younger clients to list a desire to increase income (<i>p = .05</i>). Analysis found a statistically significant difference in income. Older clients had a lower average annual income of $25,089 (SD = 16322.8), and younger clients had an average income of $32,087 (SD = 15995.3) with f = 4.1, df =
93, and \( p < .04 \). Older clients were also more likely to list the need to purchase a new car \( (p = .05) \). While not significant, \( p = .06 \) suggests that younger clients are more likely than older clients to seek a reverse mortgage to pay off existing non-housing debt. No statistical differences were noted for the remaining reasons clients reported for considering a reverse mortgage.

**Research Question 6**

Were there differences in the reasons for considering a reverse mortgage between married households and single households (single, divorced, and widowed)? There does not appear to be a difference in reasons for considering a reverse mortgage between married households and single households (see Table 9).

**Summary of Results**

This chapter presented the results of the statistical analysis of the data gathered from reverse mortgage clients of the FLC HFC. Longitudinally the numbers of clients serviced by the FLC HFC did not mirror year by year the increasing numbers of reverse mortgages; client numbers served by the FLC HFC are highly influenced by differences in funding and thus the number of counselors available each year. The largest year, FY2005-06, for FLC HFC reverse mortgage clientele did correspond with a 77% jump in HUD reverse mortgages the same year. There were 55 clients seeking counseling during FY2005-06 compared to an average of 30.8 per year during the twelve year study which represented a 56% increase.
Table 9

*Reasons For Considering a Reverse Mortgage by Marital Status*

<table>
<thead>
<tr>
<th>Description</th>
<th>Chi-sq value</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay off an existing forward mortgage</td>
<td>1.10&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.30</td>
</tr>
<tr>
<td>Increase income</td>
<td>0.60&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.45</td>
</tr>
<tr>
<td>Pay off existing non-housing debt</td>
<td>0.40&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.53</td>
</tr>
<tr>
<td>For home improvements</td>
<td>1.00&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.32</td>
</tr>
<tr>
<td>For financial security</td>
<td>1.10&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.31</td>
</tr>
<tr>
<td>Pay off medical debt</td>
<td>0.02&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.87</td>
</tr>
<tr>
<td>Purchase a new car</td>
<td>0.20&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.70</td>
</tr>
<tr>
<td>Refinance an existing reverse mortgage</td>
<td>1.30&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.25</td>
</tr>
<tr>
<td>Other reasons</td>
<td>0.10&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.77</td>
</tr>
</tbody>
</table>

*Note.* More than one reason could be stated by each client.

<sup>a</sup> 0 cells (.0) have expected count less than 5.

* *p < .05*

The average age for clients seeking reverse mortgage counseling at the FLC HFC was 74.0 for males and 72.0 for females. Most were married (68.6%) and Caucasian (94.6%). Of those clients reporting employment status, more than half reported they were retired (with or without additional income from investments and/or jobs). As stated by the clientele, the median household monthly income was $2,083 with a median annual
income of $24,996. The majority of clients were mortgagors as opposed to homeowners with no mortgage debt, and the median property value was $150,000.

More than half of the reverse mortgage clientele at the FLC HFC stated the presenting reason for seeking the reverse mortgage was to pay off an existing forward mortgage (60 of 101). The second most common reason was to increase income followed by a desire to pay off existing non-housing debt and to acquire funds to pay for home improvements.

About half of the FLC HFC clients followed through with originating a reverse mortgage; 51.4% of clients did not obtain a reverse mortgage while 48.6% did obtain a reverse mortgage. Of the six clients with existing reverse mortgages, three did not refinance and three did.

The younger reverse mortgage clients were found to be more likely than the older clients to report the goal of paying off an existing forward mortgage (chi-square = 5.393, df = 1, p < 0.05) as a reason for seeking a reverse mortgage. On the other hand, the older clients were more likely than the younger clients to list a desire to increase income (chi-square = 3.994, df = 1, p < 0.05) and to purchase a new car (chi-square = 5.509, df = 1, p < 0.05). Although not significant, younger clients seemed more inclined than older clients (p = .063) to list the desire to pay off existing non-housing debt. Statistical analysis did not show a difference in reasons for considering a reverse mortgage between married households and single households.
CHAPTER V
DISCUSSION

The number of reverse mortgages has continued to grow over the past 20 years of the program (HUD, 2008a; NRMLA, 2009). At the same time, the age of the borrowers applying for a reverse mortgage has decreased (Szymanoski et al., 2007). These trends are expected to continue as an increased number of baby boomers enter retirement with insufficient wealth from other sources and an increased debt load, including mortgage debts (Apgar & Di, 2005; Eschtruth et al., 2006). Limited information about the characteristics of the borrowers exists including ages, marital status, gender distribution, and property values (Eschtruth & Tran, 2001; Federal Housing Administration, 2006; HUD, 2008a). But little empirical research has addressed why clients seek reverse mortgage counseling, how their numbers compare to actual borrowers, and the reasons why they are seeking the reverse mortgage. This study focused on the reverse mortgage counseling clients and their reasons for seeking a reverse mortgage.

The purposes of this study were to describe and categorize the types of clients seeking reverse mortgage counseling, and to document the growth in demand for reverse mortgage counseling from one counseling center: The USU Family Life Center – Housing and Financial Counseling Services (FLC HFC), a U.S. Department of Housing and Urban Development (HUD) approved counseling center. A second purpose was to gain a better understanding of the reasons why more senior Americans are seeking reverse mortgages in order to identify common trigger events leading to the use of reverse mortgages. A third purpose was to gain a better understanding of the retirement
preparedness of current seniors seeking reverse mortgages, which could lead to improved counseling services, early retirement intervention awareness, and encourage increased pre-retirement preparation.

**Profile of Reverse Mortgage Clientele**

In brief, this study found the typical FLC HFC reverse mortgage clients to be married, age 73 for men, 72 for women, white, and retired with a median annual income of $24,996. They were mortgagors with a median mortgage debt of $54,997, property value of $150,000, and non-housing debt of $10,140. Their main reasons for seeking a reverse mortgage were to pay off an existing mortgage, increase their income, and pay off existing non-housing debt. Slightly more than half of the sample in this study did not obtain the reverse mortgage; thus almost half of the clients obtained a reverse mortgage. Many seniors entering retirement with increased debt levels, including mortgage debt, are finding retirement to be financially difficult, and are seeking ways to solve their financial concerns.

**Age**

The median age of a reverse mortgagor has been decreasing over the life of the program. According to the Federal Housing Administration (FHA), from 2000 to 2006, the median age dropped from 75 to 74 (2006). This study found the median age of male clients to be 73 and females to be 72, and validates the trend of younger seniors tapping into their housing equity. The life-cycle hypothesis proposes that people attempt to maintain a reasonably stable level of consumption over their lifetime and older adults
spend down their assets as their income drops in retirement to maintain their consumption level (Ando & Modigliani, 1963). One of the largest concerns expressed by AARP is that the sooner a senior begins to use their home equity, the less equity will be available later in life when health care, home maintenance, and other living expenses may increase (2008). Two client couples sought the reverse mortgage prior to the wife turning 62. To obtain the mortgage, the younger wife’s name had to be removed from the title of the home; both obtained the mortgage. Currently one wife is close to 62, and has begun the process of adding her name back to the title and refinancing the reverse mortgage. The other wife is still five years away from turning 62.

Emergency expenses may also be a large concern for seniors. A reverse mortgage can be a blessing to older seniors who find themselves in a financial emergency. One client couple sought reverse mortgage counseling because of a car accident and the need to replace their car; they were in their 80s and mortgage free, yet decided against the reverse mortgage. Almost one client out of every ten expressed the need for a new car with almost half of those indentifying an automobile accident as the cause of the need.

Furthermore, retirees are living longer and spending additional years in retirement thus complicating the need to stretch available assets over a longer time spent in retirement (Center for Disease Control [CDC], 2005; DeVaney, 2008). One younger client couple sought counseling to gain more information so that they could make an educated decision between the choice of selling off investments or tapping into their home’s equity. They did not want to sell depreciated investments thus cementing their losses, but decided a reverse mortgage was not a better choice at this time in their life.


**Marital Status**

In addition to concerns over tapping into home equity earlier, older women are more likely to be at an economic disadvantage compared with older men (DeVaney, 2008). This study did find more single women (24%) than single men (7%) seeking reverse mortgage counseling; but it also found most of the clients (69%) to be married. Nationally, typical reverse mortgage borrowers were single females (44%) and 17% were single males; from 2000 to 2006 the percent of married borrowers increased from 30% to 39% (FHA, 2006). Financial security throughout retirement may be more difficult for younger married couples as they transition to older, possibly widowed retirees. One widowed client came seeking a reverse mortgage because she needed additional income to compensate for the reduction in Social Security at the death of her husband. With additional income from a reverse mortgage, she was able to maintain her independence and financial security; she was in her late 70s and mortgage-free.

**Housing and Non-housing Debt**

Between 1989 and 2001, the percent of households aged 55 to 64 who had paid off their mortgages dropped from 54 to 41% (Apgar & Di, 2005). One assumption of the life-cycle hypothesis is that middle-aged adults pay down debt, including mortgage debt, and save a significant part of their earnings (Ando & Modigliani, 1963). Contrary to the life-cycle hypothesis, this study found FLC HFC reverse mortgage clients to be 65.3% mortgagors and 34.7% homeowners; these mortgagors did not pay down their debt before retiring. Apgar and Di (2005) also reported Americans aged 65 and older to have tripled their mortgage debt between 1989 and 2001 (after adjusting for inflation) to a median of
FLC HFC clients carried a median of $54,997 worth of mortgage debt and a median of $10,140 worth of non-housing debt. This study also found many retired seniors have unmanageable housing payments. Many who own their homes are carrying an increased amount of non-housing debt; regardless of the affordability pressures, many older Americans are unwilling or unable to downscale their housing (Apgar & Di, 2005).

Two younger client couples in their late 60s had too much mortgage debt to qualify for a reverse mortgage. One couple set the goal to work full-time for the next two years to pay their mortgage down to a level so that they could qualify; this couple also had more than $20,000 in non-housing debt. Two younger clients, one a widow and one a couple, wanted to retire or at least cut back to part-time work, but could not afford to with their existing mortgage payments. Both obtained the reverse mortgage. An older client couple originated a reverse mortgage on their large home on acreage to pay off their debt, both mortgage and non-mortgage, so that they would have enough income to pay for maintenance such as yard work and housekeeping rather than downsizing their residence.

**Presenting Reasons**

The reverse mortgage lending product was created to allow senior homeowners access to additional income to pay for home repairs and home improvements, existing debts, existing home loans, and to meet living expenses (AARP, 2008; Weber & Chang, 2006). Paying off an existing mortgage in effect increases monthly income. The majority of clients stated the main reason for seeking a reverse mortgage was to pay off an existing mortgage. The top three presenting reasons were to pay off a mortgage,
increase income, and pay off non-housing debt. Older clients were more likely to desire an increase in income, while younger clients were more likely to want to pay off their existing mortgage or non-housing debts. Five clients stated they wanted to pay off their existing forward mortgage, pay off non-housing debt, and increase their income. One client, who stated a desire for all three, could only get enough from the reverse mortgage to pay off the existing forward mortgage. Using up all the funds from a reverse mortgage to pay off an existing forward mortgage is troubling as little or no funds will be left for later when seniors may need to pay for home repairs, health care, future emergencies, and other unanticipated expenses (AARP, 2008).

Of three clients with non-housing debt who were homeowners without mortgage debt, only one of them, a younger couple with more than $40,000 of non-housing debt, originated a reverse mortgage. The other two, each with $20,000 to $30,000 of non-housing debt, did not choose to obtain a reverse mortgage because even though they desired to pay off the non-housing debt, they felt uncomfortable with the idea of mortgaging their home. This hesitation to spend down assets follows the hypothesis of precautionary savings. The goal of precautionary saving is to protect against future drops in income and assumes older adults will be cautious about spending down their assets because of uncertainty about their life expectancy, health and health care costs, and the possibility of a lower standard of living (Carroll, 1997; Deaton, 1992). Another younger couple wanted the reverse mortgage to add a second bathroom, but after the counseling session, they decided it would be much less expensive to use a home equity line of credit
which could be paid back prior to full retirement or forego the bathroom thus preserving the asset of their home for use later in retirement.

**Limitations**

This study examined the reverse mortgage clientele of the FLC HFC (their numbers and demographics), their financial and mortgage situations, why they sought a reverse mortgage, and whether or not they originated a reverse mortgage within six months of the counseling. The differences between younger and older clients and the differences between married and single clients were also examined. This study was, however, not without limitations. First, some of the client files were incomplete due to inconsistencies in original data collection and the willingness and ability of each client to disclose information. In the early years of reverse mortgage counseling at the FLC HFC only minimal client information was gathered; the main purpose of the counseling was to meet the minimum requirements necessary to issue a counseling certificate, and no follow-up was conducted. The client files from October 1, 2005 through September 30, 2009 (the study’s 4-year subset) were more complete. Even with the more complete files, some senior clients refused to divulge personal financial information in preparation for and during the counseling sessions; some clients were too embarrassed to admit their mortgage, debt, and/or savings levels feeling they “should be better off at their age.” Some clients were unsure about their personal financial information. For example, some may have confused and reported their net monthly or annual income amounts rather than their gross as requested; and some were unsure about their property values. These
situations created missing data and limitations in the interpretation of the income, debt, savings, property value, and employment variables.

Second, the study was limited to northern Utah and Southeastern Idaho which is the area served by the FLC HFC. It would have been beneficial if additional housing counseling agencies could have participated. Third, the study was cross sectional in that the clients were only able to be observed during their counseling experience and about six months after the counseling for an outcome. It is unknown what financial successes or difficulties occurred after making the decision to get a reverse mortgage or not, if the clients were happy with (or without) a reverse mortgage, and if the reverse mortgage met their original goals successfully.

**Recommendations For Future Research**

The number of reverse mortgages again increased during the HUD FY 2008-09 ending on September 30, 2009 and setting a new FY high of 114,692 (NRMLA, 2009). Over the next several years, additional baby boomers will cross the age threshold of 62 to qualify for a reverse mortgage greatly increasing the population of possible borrowers (AOA, 2008). Many of these potential borrowers will have mortgage debt. Between 1989 and 2001, the percent of households aged 55 to 64 who had paid off their mortgages dropped from 54% to only 41%; and many who own their homes are carrying an increased amount of non-housing debt (Apgar & Di, 2005). There is a need to not only study actual reverse mortgage borrowers, but also the counseling clients considering a reverse mortgage.
Suggestions for future research include replicating this study for other housing counseling agencies beyond the local area at the state level, the regional level, and the national level; thus creating more generalizable results. If a replica study were to occur at this or another housing counseling agency, it would be helpful to create a client survey to gather information valuable to the study. This survey, in addition to basic demographic information, could include specific questions of housing debt amount, date of mortgage origination (if housing debt), length of time living in the home, non-housing debt amount, medical debt amount, savings amount, employment status, a list of reasons for seeking the reverse mortgage counseling, and the request to rank the reasons. It would also be helpful to know if the clients had previously obtained reverse mortgage counseling and why they were reconsidering a reverse mortgage.

Second, it would be valuable to know how reverse mortgage clients feel about the counseling process and sessions. Do they feel the counseling sessions were educational, helpful, worthwhile, and/or necessary? Knowing if the clients have positive feelings about the counseling could encourage future clients to be more open to the counseling process. One former client commented after arriving at the counseling session that; his mind was set on the reverse mortgage, he felt the two hour drive to the counseling center was a waste of time, he thought he knew all there was to know about the lending product, and he did not like the idea of being forced to attend a counseling session. After the session, his feelings were very different. He said he felt the counseling process and session balanced out his knowledge of the product, had given him several things to think
seriously about before proceeding with the loan process, and that the counseling session was worth every minute he spent.

Third, it would be valuable to study the reverse mortgage borrowers longitudinally. Are they happy with the results of the reverse mortgage (short-term and long-term)? Did the reverse mortgage meet the needs and/or goals it was intended to? When following up to collect outcome results, former client comments included both positive and negative comments. One couple was happy to be free of the monthly house payments so that the wife could quit her part-time job; another couple was relieved to pay off their non-housing debt, establish a monthly income payment and a line of credit, and they were excited to “treat” themselves to an exercise bike and quilting frames. One widow liked not having to pay her monthly house payment. Another widow was also able to retire after eliminating her mortgage payment. Another single female was able to build a garage and then get the reverse mortgage to pay off her mortgage and second mortgage used to build the garage so that she no longer had to clean the snow off her car during the winter. She was happy to have $13,000 left over in a line of credit for future needs.

On the other hand, a few clients were shocked at how quickly the rising loan balance really increased. Two clients who obtained the reverse mortgage for security (emergency fund) reasons were seriously considering repaying the loan to get out from under it; one commented he hated watching the loan balance increase each month. One couple said they thought the increase of monthly income from not having to pay their
mortgage would be enough, but after only a few months, they realized it is not, therefore, they will need to watch their spending very carefully.

Fourth, with a higher percentage of couples and a decreasing median age for borrowers, more borrowers will hold a reverse mortgage for more years (FHA, 2006). Another question comes to mind: what will the effects of tapping into home equity in a borrower’s 60s have on a couple’s financial stability in their 70s or 80s or when they become widow or widower? The results of a longitudinal study could be used to assess the appropriateness of the current threshold age of 62 for reverse mortgage qualification.

Recommendations and Implications

This study was unique. It analyzed clients seeking counseling for a reverse mortgage rather than just the borrowers who originated a reverse mortgage. The practical significance of its findings can be used to increase the preparation of near-retirement adults and increase the financial well-being of seniors.

While clients reported many different reasons for seeking a reverse mortgage, the largest percentage (60%) sought the mortgage as a means to pay off their existing mortgage. Home equity represents the largest if not the only element of wealth for many seniors. Tapping into home equity, especially tapping it out, early in retirement can become problematic in later years. Extracting too much too early can mean problems, especially for women. Further, this study found the clients to be younger and married with the majority of single clients to be female. This study supports and joins AARP in warning clients, especially younger married clients, “The more you use now, the less you
will have later when you may need it more….If you are not facing a financial emergency now, then consider postponing a reverse mortgage” (2008, p. 1).

Next to paying off an existing mortgage, the most common reason for seeking a reverse mortgage was to increase income followed by a desire to pay off existing non-housing debt. These findings identify entering retirement with elevated debt loads, both housing and non-housing debts, and the monthly payments that go along with the debts, as trigger events leading to consideration of a reverse mortgage. Preventative measures are needed to encourage people of all ages, but especially the near-retirees and younger seniors to pay off or at least pay down their mortgages before entering retirement or exiting the work force. One consideration may be raising the age to qualify for a reverse mortgage, possibly in line with Social Security full retirement age which is gradually increasing to 67 (Social Security Administration, 2009).

Other housing counseling agencies participating in the reverse mortgage counseling process can use the findings from this study to alert future clients of the concerns over tapping into their home equity too early. Twomey and Jurgens (2009) call for the strengthening of reverse mortgage counseling to combat what they call the “marketing machine” (p.11). Too many lenders are aggressively marketing these loans for lifestyle enhancement (Twomey & Jurgens, 2009). Counseling agencies can also use the findings to encourage reverse mortgagors to plan carefully the use of the funds received from the reverse mortgage. Thoughtful planning and careful spending are especially important “if your home is one of your few financial assets” (AARP, 2008, p. 29).
One surprising discovery of this study was that only 48.6% of the FLC HFC reverse mortgage clientele followed through with their mortgage origination (51.4% did not). If this finding were to be generalized nationwide, the 114,692 reverse mortgages originated in 2009 would translate to 235,892 reverse mortgage counseling clients (NRMLA, 2009). This is especially important considering the new HECM Standardization and Roster Final Rule which went into effect on October 2, 2009 (Federal Register, 2009). As of the effective date, all housing counselors who conduct HECM counseling must be registered on the HECM roster. To be listed on the roster, a counselor must: (1) be employed by a HUD-approved housing counseling agency, (2) have passed a standardized HECM counseling exam, and (3) received training and continuing education. The need for qualified, well trained, and unbiased reverse mortgage counselors will continue to increase rapidly.
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APPENDICES
APPENDIX A

Certificate of HECM Counseling
Certificate of
HECM Counseling

U.S. Department of Housing
and Urban Development
Office of Housing

OMR No. 2512.0624
(expires 2/28/2011)

Provision of this information is required to obtain benefits. HUD may not collect this information, and you are not required to complete this form, unless the form has a currently valid OMB control number

Privacy Act Notice: The United States Department of Housing and Urban Development, Federal Housing Administration, is authorized to solicit the information requested in the form by virtue of Title 12, United States Code, Section 1701 et seq., and regulations promulgated at Title 12, Code of Federal Regulations. While no assurance of confidentiality is pledged to respondents, HUD generally discloses this data only in response to a Freedom of Information Act request.

Homeowner(s) Name(s)

Property Address City/State/Zip

The U.S. Department of Housing and Urban Development (HUD) requires that homeowner(s) interested in pursuing a Home Equity Conversion Mortgage (HECM) receive information about the implications of and alternatives to a reverse mortgage. The HECM counselor must advise all of FHA’s guidelines regarding information that must be provided to the potential HECM mortgagee and must tailor the session to address the unique financial circumstances of the household being counseled.

Counselor Certification:

In accordance with Section 255 of the National Housing Act and 24 CFR 206.41, I have discussed in detail the following items with the above-mentioned homeowner(s):

1. Options other than a Home Equity Conversion Mortgage that are available to the homeowner(s), including other housing, social service, health and financial options.

2. Other home equity conversion options that are or may become available to the homeowner(s), such as other reverse mortgages, sale-leaseback financing, deferred payment loans, and property tax delinquency.

3. The financial implications of entering into a Home Equity Conversion Mortgage.

4. A disclosure that a Home Equity Conversion Mortgage may have tax consequences, affect eligibility for assistance under Federal and State programs, and have an impact on the estate and heirs of the homeowner(s).

5. Whether the homeowner has signed a contract or agreement with an estate planning service firm that requires, or purports to require, the mortgagee to pay a fee on or after closing that may exceed amounts permitted by the Secretary or in Part 206 of the HUD regulations at 24 CFR.

6. If such a contract has been signed, the extent to which services under the contract may not be needed or may be available at nominal or no cost from other sources, including the mortgagee.

7. The Home Equity Conversion Mortgage will be due and payable when no longer remaining borrower lives in the mortgaged property, or when any other covenants of the mortgage have been violated. (Borrowers are those parties who have signed the Note and Mortgage or Deed of Trust.)

I hereby certify that the homeowner(s) listed above have received counseling according to the requirements of this certificate and the standards of the U.S. Department of Housing and Urban Development, as described in mortgagee letters, handbooks, regulations, and statute. This interview was held: ☐ Face to Face ☐ Telephone and the amount of time required to cover the above items was as follows:

Counselor's Name (Printed):

HUD Approved Counseling Agency Name:

Counselor's Name (Signature & Date):

Address (City/State/Zip):

Telephone No.:

Agency Employee Identification No.:

Homeowner Certification:

I/we hereby certify that I/we have discussed the financial implications of and alternatives to a HECM with the above Counselor. I/we understand the advantages and disadvantages of a HECM and each type of payment plan, as well as the costs of a HECM and when the HECM will become due and payable. This information will enable me/us to make more informed decisions about whether I/we want to proceed with obtaining a HECM. I/we understand that I/we may be charged a counseling fee that may be paid upfront to the counseling agency or if I/we decide to proceed with a HECM loan, financed into the mortgage and payment under any of these methods will be reflected in the IHB or IHB-1 settlement statement in accordance with HUD's Real Estate Settlement Procedure regulations at 24 CFR part 1000 (see: 24 CFR 1000.8).

Homeowner Signature & Date:

(All homeowners shown on the deed must sign the mortgage and this counseling certificate.)

Upfront Fee for Counseling Session: ___________ Financed Fee for Counseling Session: ___________ Fee Waived: Yes [ ]

Date Counseling Completed: ___________ Certificate Expiration Date: ___________ (180 days from date HECM counseling completed)

X

X

X

X
APPENDIX B

Consumer Responsibility/Consent Form
Reverse Mortgage Education
Consumer Responsibility/Consent Form
(All participants in the counseling must sign this responsibility form.)

Homeowner Section:

I understand that the USU Family Life Center Housing and Financial Counseling is prepared to provide information on housing and financial options available to me. I invite the reverse mortgage counselor to provide such information, printed or verbal, but I assume the responsibility for making all decisions. I will not hold the counselor or agency liable for the results of any decision that I make.

I also understand there is a possibility that USU senior level students or supervising staff may be observing this counseling session and my data may be used for research purposes; names will never be associated with the research and information is held strictly confidential.

__________________________________________  ____________________________  ____________
Homeowner (Signature)  Homeowner (Printed)  Date

__________________________________________  ____________________________  ____________
Homeowner (Signature)  Homeowner (Printed)  Date

Additional Counseling Participants:

__________________________________________  ____________________________  ____________
Counseling Participant (Signature)  Counseling Participant (Printed)  Date

__________________________________________  ____________________________  ____________
Counseling Participant (Signature)  Counseling Participant (Printed)  Date

__________________________________________  ____________________________  ____________
Counseling Participant (Signature)  Counseling Participant (Printed)  Date

__________________________________________  ____________________________  ____________
Counseling Participant (Signature)  Counseling Participant (Printed)  Date

__________________________________________  ____________________________  ____________
Counseling Participant (Signature)  Counseling Participant (Printed)  Date

Counselor Use Only:

Client’s 9 digit number ____________________________
APPENDIX C

Data Collection Form
Client Number: _________________________

1) Date counseling was sought (intake date): _________________________

2) Age: Male applicant’s Birthday ______________ Age at intake _______
   Female applicant’s Birthday ______________ Age at intake _______

3) Marital status: Married _____ Single _____ Divorced _____ Widowed _____

4) Race: Caucasian _________ Hispanic _________ Other _________

5) Employment status:
   Male applicant’s Full-time ___________ Part-time __________
   Seasonal __________ Self-employed __________ Retired __________
   Female applicant’s Full-time ___________ Part-time __________
   Seasonal __________ Self-employed __________ Retired __________

6) Annual income: ________________ Monthly income: ________________

7) Amount in savings: _________________________

8) Amount of non-housing debt: _________________________

9) Amount of mortgage debt: _________________________

10) Mortgage status: Homeowner _____ Mortgagor _____ Reverse Mort _____

11) Property value: _________________________

12) Presenting reasons for considering a reverse mortgage (check all that apply):
   Increase monthly income __________ Pay off a forward mortgage __________
   Pay off existing consumer debt __________ Pay off medical debt __________
   For home improvements __________ For security __________
   Other ___________________________________________________________________

13) Reverse Mortgage Outcome: Yes, obtained ______ No, non-obtained _______

14) Pay out choice (check all that apply):
   One lump sum ____ Line of credit ____ Monthly (tenure / term) ____ Combination ____