



A bridge linking housing research and practice

Volume 2, number 9

## Reverse Mortgages: Converting Equity into Cash



Many older Americans are using their largest asset – their homes – to finance home improvement projects, supplement their retirement income, and cover healthcare expenses. The financial instrument that makes it all possible is called a reverse mortgage, and it allows older homeowners to convert part of the equity in their homes into cash – *without* having to sell their homes or take on additional monthly bills.

With a reverse mortgage, the homeowner receives money from the lender, unlike standard mortgages in which the homeowner makes monthly payments. Reverse mortgages have increased in popularity during the past two decades as a way for house-rich but income-poor older Americans to live in their homes for as long as possible.

*Reverse mortgages can help seniors stay in their homes while converting part of their home equity into cash.*

### HUD's Home Equity Conversion Mortgage (HECM) Program

To allow homeowners to convert some of their home equity into cash, the U.S. Department of Housing and Urban Development (HUD) has created the Home Equity Conversion Mortgage (HECM) program – one of the first reverse mortgage programs. Begun as a demonstration program in 1987, HECM became a permanent HUD program in 1998 and is now available in all 50 states, the District of Columbia, and Puerto Rico.

With HECM, which is insured by the Federal Housing Administration (FHA), the homeowner receives payments from the lender. Many seniors use the funds to supplement Social Security, make needed home improvements, retrofit their homes to improve safety and mobility, meet unexpected medical expenses, and cover daily living expenses.

### How HECM Works

*Who is eligible?* Unlike a traditional home equity loan or second mortgage, a reverse mortgage requires no repayment until the owner dies, sells the home, or no longer occupies the home. Single-family houses,

*continued on page 2*

## contents

Housing-Income Gap: Crisis Mobilizes Solutions	4
Homebuilding Industry Slowed by Old-Fashioned Processes	6

## Reverse Mortgages: Converting Equity into Cash continued from page 1

2- to 4-unit owner-occupied dwellings, townhouses, condominium units, and some manufactured homes are eligible for the program if they meet HUD's minimum property standards. Mobile homes and cooperatives are not eligible. Owners must be 62 or older, occupy the residence, have a low outstanding mortgage balance or own their home outright, and receive consumer education from a HUD-approved counseling agency prior to obtaining the loan.

*How much money is available?* The mortgage amount depends on the owner's age, current interest rate, other loan fees, and the appraised value of the home. Although there are no limits on the value of homes that can qualify for HECM, the amount that can be borrowed is capped by the maximum FHA lending limit for each city and county, and varies from \$172,632 in rural areas to \$312,895 in many major metropolitan areas (the limit is higher in Alaska, Hawaii, and the U.S. Virgin Islands). Mortgage amounts increase with the home's value and the owner's age, as well as a decrease in interest rates.

*How much does it cost?* Reverse mortgage costs are similar to those of conventional mortgages and include an origination fee, appraisal and inspection fees, title policy fee, mortgage insurance, and other closing costs. All of these costs can be financed as part of the reverse mortgage.



Seniors use reverse mortgages to help cover unexpected medical expenses and daily living expenses.

*How is the money paid back?* Because no monthly payments are made on the mortgage loan, the debt grows larger over time, and the equity remaining after selling the home (and paying off the debt) decreases. If the sale proceeds do not cover the amount owed, HUD will pay the lender the shortfall. FHA collects an insurance premium from all borrowers to provide this coverage, so a homeowner can never owe more than the home's value at the time the loan is repaid. Borrowers continue to own their homes and are responsible for taxes, insurance, and any repairs.

Reverse mortgage loans can be paid to homeowners in a number of ways:

- **Tenure**—provides equal monthly payments as long as the owner lives and occupies the property as a principal residence.
- **Term**—provides equal monthly payments for a fixed period of time.
- **Line of Credit**—allows the homeowner to receive unscheduled payments or installations at times and in amounts of the homeowner's choosing until the line of credit is exhausted.
- **Modified Tenure**—offers a combination of line of credit with monthly payments for as long as the homeowner remains in the home.
- **Modified Term**—provides a combination of line of credit with monthly payments for a fixed period of time selected by the borrower.

### More about HECM

HUD's 2000 report, *No Place Like Home: Evaluation Report of the FHA Home Equity Conversion Mortgage*

continued on page 3

### HUD USER Help Desk

HUD USER is your primary source for federal government reports and information on housing policy and programs, building technology, economic development, urban planning, and other housing-related topics.

Our helpful Information Specialists can respond to your inquiries and publication requests by phone or e-mail: Monday through Friday, 8:30 a.m.–5:15 p.m. (Eastern).

Phone: (800) 245-2691 (toll-free)

Phone: (800) 927-7589 (TDD)

E-mail: [helpdesk@huduser.org](mailto:helpdesk@huduser.org)



## Reverse Mortgages: Converting Equity into Cash continued from page 2

*Insurance Demonstration*, suggested that the use of HUD's FHA-insured reverse mortgages could be increased if overall loan costs decreased, FHA loan limits increased, and the public's awareness of the reverse mortgage program increased. Among the findings presented in *No Place like Home*:

- HECM borrowers tend to be older and are more likely to be single female households;
- HECM properties are more valuable and owners have a higher equity stake;
- HECM properties are more common in the West and Northeast regions of the country; and
- The program is experiencing rapid growth in center cities.

### The Impact of Reverse Mortgages

Recent reports suggest that reverse mortgages may have the potential to help older homeowners meet pressing financial and healthcare needs by using the increased equity in their homes. The National Council on Aging recently released a study showing that reverse mortgages could be used by more than 13 million Americans to pay for long-term care expenses (either long-term care itself or long-term care insurance premiums), thus allowing many seniors to remain in their homes. The report, *Use Your Home to Stay at Home: Expanding the Use of Reverse Mortgages to Pay for Long-Term Care*, found that reverse mortgages could alleviate financial pressure on state Medicaid programs as well as on individuals and their families. "This is an important study that, for the first time, shows that elderly homeowners, many with chronic conditions, can use reverse mortgages to pay for care at home," said Jim Knickman, vice president for research at the Robert Wood Johnson Foundation, one of the report's funders. "We hope that these findings will prompt new thinking into how the nation addresses the challenge of financing long-term care."

Barriers to increased use of reverse mortgages for long-term care expenses include loan costs, lack of knowledge about the mortgages, and current Medicaid policies on how reverse mortgages affect eligibility for long-term care benefits.

Georgetown University's Long-Term Care Financing Project<sup>1</sup> ([ltc.georgetown.edu](http://ltc.georgetown.edu)) recently released *Home Equity Conversion Mortgages and Long-Term Care*,

which provides an overview of how reverse mortgages work, how elder households qualify for the mortgages, how much money can be borrowed, and how reverse mortgages might provide funds to pay for long-term care insurance premiums or long-term care. The study notes that middle-income households without other resources might benefit from using reverse mortgages to help pay for home health care. However, the report indicates that it does not expect reverse mortgages to play a major role in financing long-term care because the costs are high relative to the benefits received.

For America's seniors, reverse mortgages offer an opportunity to make necessary repairs and improvements, meet daily living costs and unexpected medical expenses, and supplement their retirement income. HUD's HECM program can help more seniors age in comfortable, safe, and familiar surroundings.

For more information about HUD's Home Equity Conversion Mortgage program, visit the HUD Website: [www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm](http://www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm). Additional information about the HECM program is also available from AARP ([www.aarp.org/money/revmort](http://www.aarp.org/money/revmort)) or by calling (800) 209-8085. **HUI**

1. Mark Merlis, *Home Equity Conversion Mortgages and Long-Term Care*, Georgetown University Long-Term Care Financing Project, March 2005.

## Regulatory Barriers Clearinghouse

The Regulatory Barriers Clearinghouse provides state and local governments, organizations, and individuals with resources that can help overcome the regulatory barriers to affordable housing.

Keep informed with a free subscription to:

- Regulatory Barriers Clearinghouse newsletter, *Breakthroughs*
- Regulatory Barriers 'Strategy-of-the-Month Club'

Regulatory Barriers Clearinghouse  
Phone: (800) 245-2691, option 4  
[www.huduser.org/rbc](http://www.huduser.org/rbc)



"Work Here! Live Where?" was the theme of a May 2005 conference on affordable housing hosted by Montgomery County, Maryland. The theme effectively underscores a growing problem in communities across the nation: the cost of land and housing is rapidly rising, while family incomes have not kept pace.

From June 2004 to June 2005, the National Association of Realtors® (NAR) reported a 14.5 percent rise in the median price of an existing single-family home—from \$191,000 to \$218,000. At the same time, according to Department of Housing and Urban Development estimates, the median family income saw only incremental change: from \$57,400 in 2004 to \$58,000 in 2005. Statistics readily illustrate the widening gap between family income and the cost of housing in communities across the country. For example, according to the NAR, Sarasota County, Florida, experienced one of the highest jumps in home prices, an increase of 36 percent. The *Sarasota Herald-Tribune* reported on July 20 that the median sale price for a home in that community hit \$330,000 in May, while just one percent of its workforce had the annual income of \$80,000 needed to sustain such an investment.

Many families are responding to the housing-income gap by lengthening their commutes to work, opting to spend less on housing and more on transportation. For

families, this tradeoff doesn't come cheap. The Center for Housing Policy reported this spring that "working families spend 77 cents on transportation for every dollar decrease in housing costs." This calculation is only part of the picture, in that it does not include the negative impact of longer commutes on quality of life.

The cost of this gap to communities, with the options it leaves for working families, is also significant:

- A rise in commuting means traffic congestion, greater energy consumption, and increased pollution.
- An increase in commuting time results in a loss of social capital (e.g., participation in community activities by residents).
- Employers are finding recruitment and retention difficult. One Sarasota employer found, when it surveyed employees, that 70 percent of its workforce lived outside of the city and that some commutes were as long as 100 miles a day. This hinders recruitment of workers, as Sarasota's school system discovered with the job offer rejections received from incoming teachers due to prohibitive real estate prices.
- Communities are left vulnerable by insufficient coverage on the part of essential personnel, such as firefighters, police officers, and healthcare workers, who cannot afford to live near their work.
- The growth of business is stifled, not only by the inability to attract workers, but also by the inability to attract businesses in need of a viable labor supply. A recent column by David Broder in *The Washington Post* on the housing-income gap noted that, like many other regions, economic development in the San Diego area is suffering, while relocation continues to grow more attractive to many residents. The New Hampshire Workforce Housing Council recently documented the adverse impact of the housing-income gap in terms of the loss in jobs, personal income, state and local revenue, and the Gross State Product. This group illustrates one response to the housing-income crisis, in that it is organized expressly to "increase and diversify the supply of housing so employers will view our state as an attractive place to live and work."

*continued on page 5*



**HUD USER News Listserv**

**Housing and community development professionals . . .**

Keep up with the latest news and research on housing policy and programs, building technology, economic development, urban planning, and other housing-related topics from HUD's Office of Policy Development and Research.

For a free subscription to *HUD USER News*, send an e-mail to [hudusernews@huduser.org](mailto:hudusernews@huduser.org) and type "subscribe" in the subject line.





## Housing-Income Gap: Crisis Mobilizes Solutions continued from page 4

In 2002, the Greater Minnesota Housing Fund did a thorough investigation of employee assisted housing (EAH) initiatives and authored a resource guide available at [www.gmhf.com/Publications/eah/eah\\_guide.pdf](http://www.gmhf.com/Publications/eah/eah_guide.pdf). This project found that employers who get involved in EAH tend to focus on developing new housing or helping employees purchase housing. Fannie Mae, which assists employers in setting up EAH programs, says that the common approaches are "grants, forgivable loans, deferred or repayable loans, matched savings, interest rate buy-downs, shared appreciation, and homebuyer education." In essence, there are numerous EAH options available to meet the needs of employers, employees, and the community.

Employers obviously can't go it alone. The Atlanta, Georgia, metro area has five counties that contain 80 percent of the region's jobs; these counties are also where the housing-income gap is most pronounced. In one Atlanta suburb, construction began in June on Mitchell Chase, a development of 31 homes affordable (at \$150,000 each) to police officers, teachers, and other public employees. Conceived by an Atlanta-area developer, the project is viable thanks to the cooperation of builders, subcontractors, and suppliers — some of whom are making pro bono contributions to Mitchell Chase — and HUD HOME grant monies that flow through state and local governments to create affordable homes for low- and moderate-income families. Purchasers will receive assistance with downpayment and closing costs, and will have access to \$7,500 in interest-free HUD HOME loans. Mitchell Chase, a 2005 "Innovation in Workforce Housing" National Association of Home Builders award recipient, is just one example of the response to Atlanta's housing-income gap.

Local governments are also assuming leadership. In Baltimore's *Live Near Your Work Program*, the city and state each match a \$1,000 grant from an employer to give employees \$3,000 toward buying a house in designated areas of the city. Pinellas County, Florida offers Hometown Hero loans up to \$20,000 with no repayment for five years, 20-year terms, and zero interest. Sarasota County contributes to a new non-profit that plans to build or remodel 3,000 homes for moderate-income households in the next decade. The county further presses for wide participation by other community organizations and is considering

the adoption of a fee on low-wage businesses to help subsidize affordable housing.

Community foundations also get involved, such as the Gulf Coast Community Fund of Venice, Florida. This charitable organization invests in arts, culture, health and human services, education, civic affairs, and technical assistance on behalf of the community. Now its attention is turning to the housing-income gap, and the foundation intends to buy land for a large workforce housing development. Other community-based initiatives establish community land trusts that retain ownership of the land, thus lowering costs for homebuyers.

Is the national, integrated response sufficient, given the magnitude of the housing-income divide? No, according to *The State of the Nation's Housing 2005*, an assessment conducted by the Joint Center for Housing Studies of Harvard University. The report concludes that, certainly, "The nation's housing challenges will not diminish without the involvement of all levels of government, as well as the collaboration of businesses and nonprofit housing and service providers." Nonetheless, projects that rely on a collaborative approach to reducing the housing-income gap are showing great promise, as they serve as a model in communities that recognize the value of bringing the workforce home. ■■

### **Attention Affordable Housing Professionals: Don't Fly Solo!**

Sign up for the Regulatory Barriers Clearinghouse free listserv and receive concise, bimonthly "Strategy-of-the-Month Club" messages describing successful affordable housing reform efforts underway in cities and towns across America. You'll also receive our e-newsletter, *Breakthroughs*, which offers more in-depth coverage of the strategies and practices that are making affordable housing possible. Don't be a solo 'regulatory landscaper' — build on the successes of your peers!

For a free subscription, simply send an e-mail to [rbc@huduser.org](mailto:rbc@huduser.org) and type "subscribe" in the subject line.



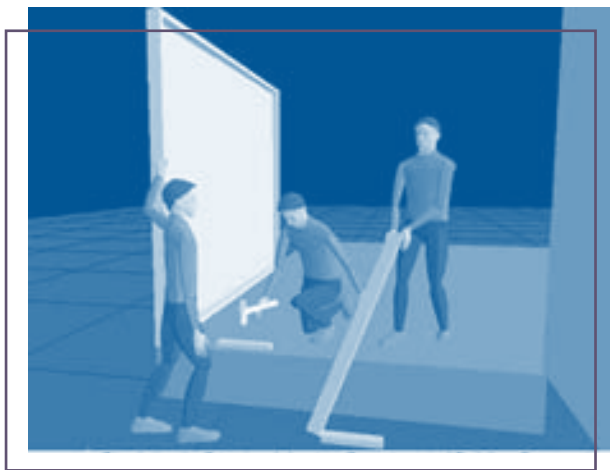
## Homebuilding Industry Slowed by Old-Fashioned Processes

The housing market is booming. Over 1.2 million new single-family housing units were completed in 2000, a figure that rose to more than 1.5 million units in 2004. In the first quarter of 2005, a record number of applications for single-family housing permits and construction starts for single-family housing units were filed. Even with more than a million new homes being constructed each year, the automation and technological advances that deliver a wealth of benefits to other manufacturing industries have not yet reached the residential construction site. In fact, today's homes are constructed using a framing technique that has improved only slightly since it was developed back in the 1830s.

The Partnership for Advancing Technology in Housing (PATH), a public-private initiative coordinated by the Department of Housing and Urban Development, is exploring how the homebuilding industry might implement new techniques, materials, tools, and organizational methods to reap benefits similar to those being used in other manufacturing industries — and more importantly, to share these benefits with homeowners. Through a multiphase, multiyear research project, *Industrializing the Residential Construction Site*, PATH seeks ways of transferring efficient processes and procedures to residential construction as a means of increasing quality and decreasing time-to-market and production costs.

The first phase of the project compiles an overview of industrialization in the homebuilding industry (along with techniques and processes used in other industries that show particular promise for homebuilders). With the most promising techniques already identified, Phase I evaluates how the integration of these techniques would benefit homebuilding.

Phase II of the project analyzes the internal flow and timeliness of information for five homebuilders who carry varying volumes of business. These particular builders operate on the eastern seaboard, use the same materials, have product lines ranging from starter homes to more expensive dwellings, and share the same fundamental building processes. Researchers collected data relating to their field construction and management processes, and developed case studies that depict the 'information paths' inherent in



Members of a virtual 'ergonomic team' hold a panel, prepare tools, and pick up bracing material.

construction. Disconnects, or disruptions, in information flows unique to each builder were noted. Researchers determined that builders' primary challenge lies in communicating change, and that 24-hour access to current, accurate information describing changes would eliminate most disconnects or bottlenecks in information flows. The researchers also concluded that the inherent differences between office-based and field activities are important to keep in mind when creating a sound, company-wide information system.

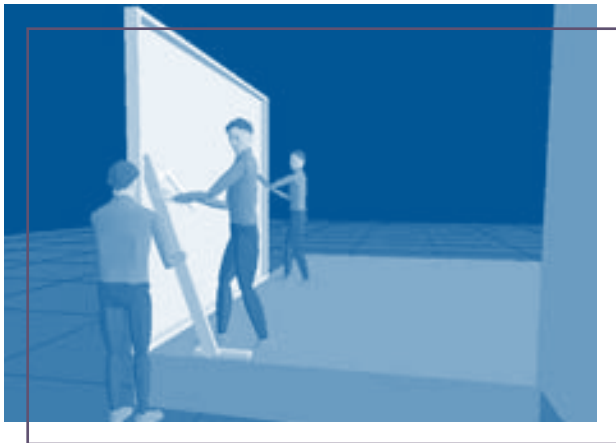
Phase III takes a closer look at the impact of information disruptions on actual workflow. Working with four of the production builders who participated in Phase II, researchers examine production systems in residential construction by observing framing processes. Field studies were conducted at each builder's production site, which resulted in hundreds of pages of notes and observations on the actual work tasks. This effort yielded a finer-grained mapping that identified errors and production bottlenecks. The majority of errors in the builders' operations were attributable to the handling and transmission of information, such as misreading a drawing, miscounting a quantity, or misinterpretation of symbols. Errors of interpretation, omission, representation, and coordination — as well as out-of-date information — suggest opportunities for improving quality, profitability, and productivity if front office processes can capture, integrate, appropriately represent, and disseminate the information

*continued on page 7*

## Homebuilding Industry Slowed by Old-Fashioned Processes continued from page 6

needed by production crews and their leaders. Forging clear, unfettered information paths will likely produce highly efficient production systems capable of reducing the costs and time needed to construct a home, while simultaneously improving quality—without substantial changes to the materials, tools, labor skills, and systems currently used.

Given the nature of the errors discovered in Phase III, Phase IV focused on the kinds of information needed by field installers. The study created a simulation, which was used as a benchmark for comparison to alternative processes. Erecting wall panels was chosen for the Phase IV study, because wall panels fall at the interface between site-crafted foundations and industrially produced components that are only installed (not crafted) onsite. The field processes of three builders who use onsite assembly and erection of pre-manufactured wall panels were studied. Simulation models were developed based on the tasks performed by the builders. For the fourth builder, who uses off-site modular construction techniques, production



The virtual team holds the panel, plumbs the panel, and prepares to install a brace.

processes for roof element assemblies were studied and a simulation model was developed. All simulation models were capable of capturing process information in detail and helped researchers understand the effect of production bottlenecks, design errors, execution errors, and construction system design.

The information obtained during Phase IV suggests that simulation models are useful because they can accurately represent observations of current field processes. Later on, they can help refine existing or develop new building processes. Researchers also

built a more detailed 3-D virtual model of the same processes that accurately represents the complexity of erecting wall panels. Such virtual prototyping is useful when analyzing interactions between workers and materials. This, too, provides a mechanism for integrating field knowledge into the design process.

The next stage of *Industrializing the Residential Construction Site (Phase V: Virtual Manufacturing)* is a natural extension of the work conducted in Phase IV. The project will develop a data-driven simulation model of a construction management sequence for a production house. The model will be used to make changes and improvements to the construction process using design-for-assembly principles. The model can also help develop strategies and mechanisms to prevent—and recover from—error. Phase V is scheduled for completion in March 2006.

A report on each completed phase of the project is available for a nominal fee by calling 1-800-245-2691. You can also download them for free at the following websites:

Phase I: *Industrializing the Residential Construction Site*, [www.huduser.org/publications/manufhsg/ircs.html](http://www.huduser.org/publications/manufhsg/ircs.html)

Phase II: *Industrializing the Residential Construction Site: Information Mapping*, [www.huduser.org/publications/pdf/ircs2.pdf](http://www.huduser.org/publications/pdf/ircs2.pdf)

Phase III: *Industrializing the Residential Construction Site: Production Systems*, [www.huduser.org/publications/manufhsg/ircs3.html](http://www.huduser.org/publications/manufhsg/ircs3.html)

Phase IV: *Industrializing the Residential Construction Site: Production Simulation*, [www.huduser.org/publications/destech/ircs4.html](http://www.huduser.org/publications/destech/ircs4.html) 



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

HUD USER

P.O. Box 23268

Washington, DC 20026—3268

PRESORTED  
FIRST-CLASS MAIL  
POSTAGE & FEES PAID  
HUD  
PERMIT NO. G—795

Official Business

Penalty for Private Use \$300

Return Service Requested

In the Next Issue of... <sup>research</sup> **works**

- We'll examine a typical Mutual Self-Help Housing program, designed to boost homeownership for low- and very-low-income families who provide at least 65 percent of the construction labor for their own and their neighbors' homes. The article will describe how sweat equity is combined with home financing assistance from USDA's Rural Housing Service and FHA. We'll also discuss a recent analysis of mutual self-help housing that finds this approach to affordable housing appropriate for building community support and enhancing neighborhood relations.
- The Neighborhood Assistance Corporation of America (NACA) is a nonprofit that seeks to combine affordable financing with comprehensive housing services for potential homeowners and subprime borrowers. NACA works closely with prospective purchasers, starting with homebuyer workshops and coaching sessions that guide participants through the process, with closure in the form of post-purchase assistance. This article will explore program features from the perspective of a NACA-assisted homeowner.
- *ArcGIS and the Digital City* serves as both a text for geographic information system (GIS) classes in urban planning and a workbook for local governments. We'll interview the authors, review the text, and see how planners, analysts and local governments can incorporate existing computer-aided design maps into GIS databases and create new ways to view their jurisdictions. We'll also look at how local governments are using GIS to find vacant lots for development and parks, as well as potential GIS applications in law enforcement.
- Over the next decade, immigrants will account for one-third of net household growth in the U.S. Increasingly, immigrants are settling first in suburban or non-metropolitan areas, as did over half of new arrivals to the U.S. during 2003. In response to this growing market segment, we're seeing various initiatives aimed at making homebuying more understandable and safer for immigrant families. We'll discuss the trends and initiatives that assist foreign-born homebuyers and the native-born children of immigrants who will soon be buying homes of their own.

www.huduser.org • 800.245.2691



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

