PROMOTING AGING IN PLACE THROUGH GREATER USE OF REVERSE MORTGAGES

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Challenges of aging in place

- Fixed incomes and limited liquid assets may not be enough to pay for services and supports, along with everyday expenses.
- Hard to manage the family budget when unstable health makes the need for funds unpredictable.
- Seniors with an impairment often have diverse needs, such as transportation, home modifications and repairs, and help with daily activities.
- Families cannot do it all. Nor can government.

Home equity – A new financing option

- About 82 percent of seniors are homeowners. Among older homeowners, 74 percent have no mortgage.
- Over half the net worth of seniors is tied up in their homes and other real estate (over $2 trillion).
- New Medicaid eligibility rules – home equity cannot exceed $500,000 (up to $750,000 at state discretion).
- Reverse mortgages can promote “aging in place” and reduce the risk of Medicaid spend-down and costly institutional care.

Ways to tap home equity

- **Sell the house and move.**
- **Conventional home equity loan or line of credit.**
  - Familiar product that may have lower closing costs.
  - May not qualify - Banks look at income and debt.
  - Risky – May lose house if cannot make monthly payments.
- **Single purpose loans** – State or local programs to help with home repairs or property tax deferral.
- **Reverse mortgage.**
  - Best for those who can stay at home several years.
  - No income requirement. No monthly payments.
  - Borrowers have a right to continue to live in the home as long as they pay taxes, insurance, and repairs.

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Reverse Mortgages
The Basics

How does a reverse mortgage work?

- A loan that allows homeowners age 62+ to convert home equity into cash while living at home for as long as they want.
- Can receive payments as a lump sum, line of credit, monthly payments (for up to life in the home).
- Funds can be used for any purpose. Tax free. Will not affect Medicaid eligibility if used in the month received.
- Loan comes due when the (last) borrower moves out, dies, or sells the home.
- Borrowers (or heirs) can either repay the loan and keep the house, or sell it and keep the amount left over after repayment.

Types of reverse mortgages

- **HECM** – Home Equity Conversion Mortgage
  - HUD program, insured by FHA.
  - Most popular reverse mortgage – 90% of market.
- **Fannie Mae Home Keeper loan**
  - Borrowers receive more cash than a HECM because loan limits are higher.
- **Financial Freedom Cash Account loans**
  - Targeted to homes worth $400,000+.
  - Almost no maximum loan limit.

Factors affecting the size of the loan

- Value of the home.
- Age of youngest borrower (higher amounts at older ages).
- Current interest rate.
- HUD lending limits for HECM loans. In 2006:
  - $362,790 in metro counties with high home values.
  - $200,160 in rural counties.
- Home repairs. House must meet FHA standards.
- Fees rolled into the loan.
  - Origination fee.
  - Upfront mortgage insurance premium (HECM).

Consumer safeguards

- Asset protection - Never owe more than the value of the house at the time of sale or repayment.
- Must receive independent counseling before the loan application can be processed.
- HECM - limits on loan fees. Standard and capped interest rates.
- Total Annual Loan Cost disclosure – the total transaction costs over the projected life of the loan.
- No prepayment penalty – loan can be paid off at any time with no additional fees or costs.

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Using Reverse Mortgages to Pay for Help at Home

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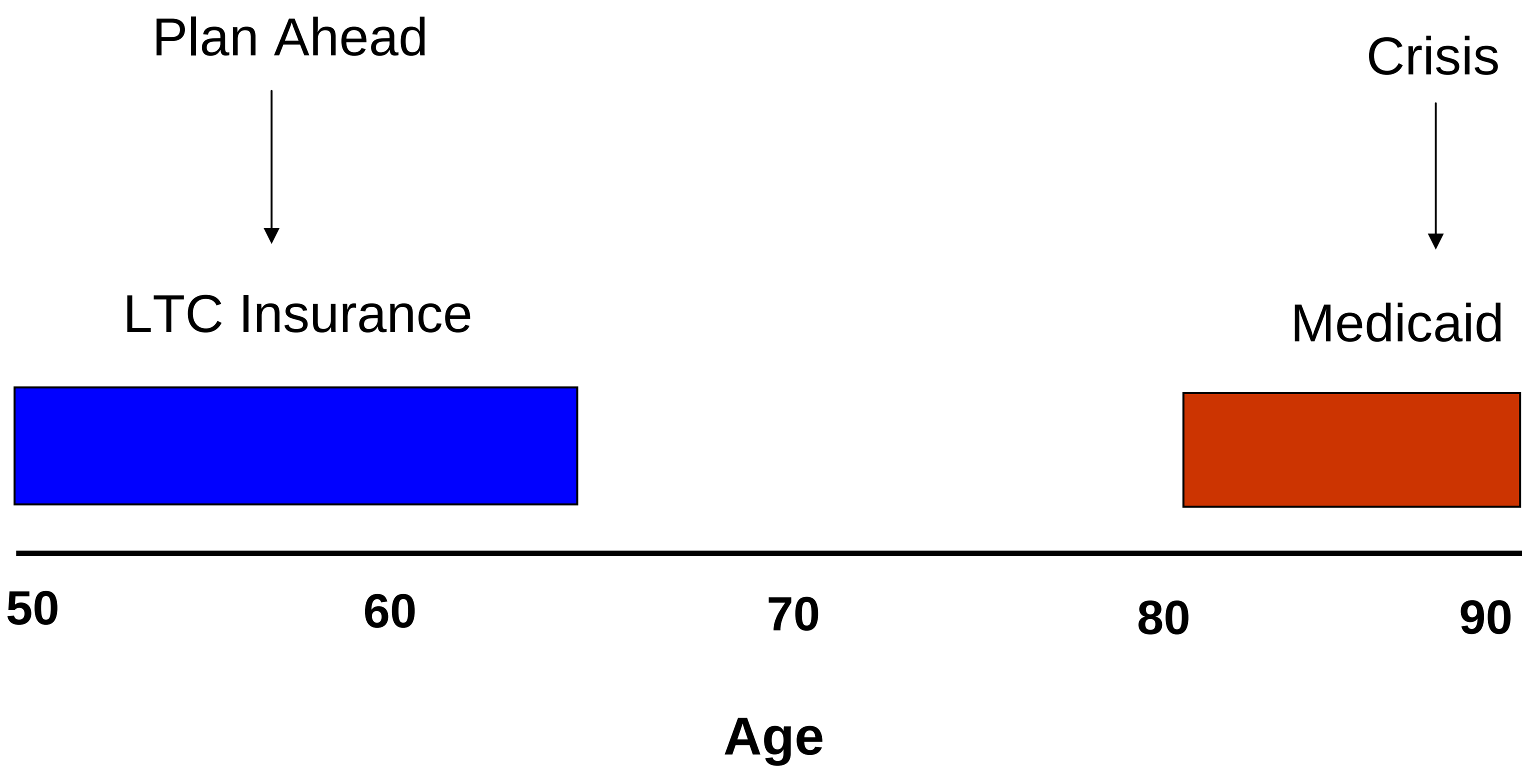
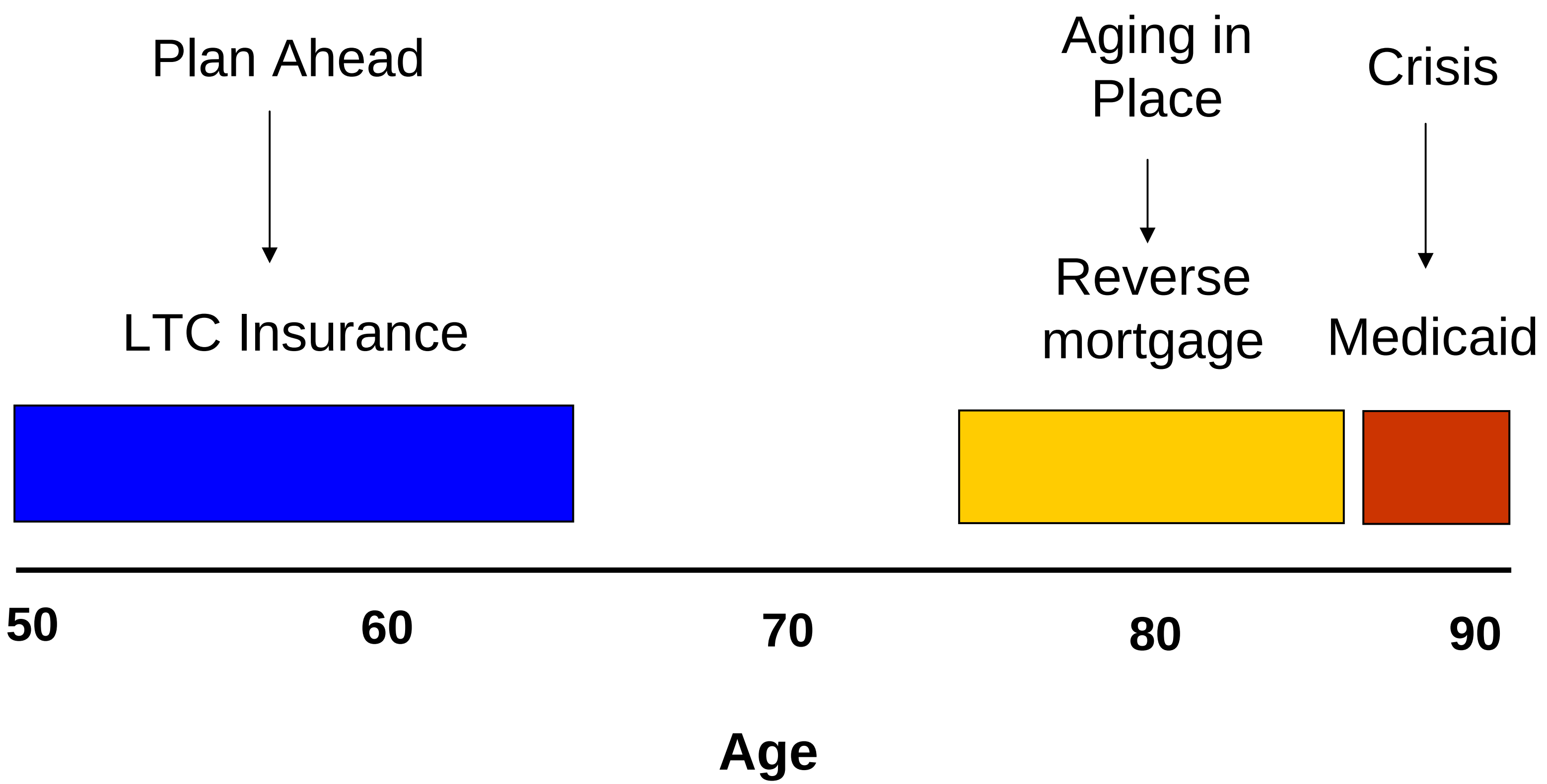
Long-term care financing options today



Reverse mortgages fill a critical gap



New strategy to build resilience for elders at risk of needing Medicaid

- Strengthen family caregiving.
  - Pay for extra help to reduce physical and mental stress.
  - Provide income to unpaid caregivers.
- Pay for preventive measures.
- Keep the home livable.
  - Fund home repairs and maintenance.
  - Pay for adaptive devices, home modifications.
- Support communities.
  - Strengthen ties of reciprocity and reduce isolation.
  - Maintain or revitalize neighborhoods.
  - Enable elders to stay active and involved.

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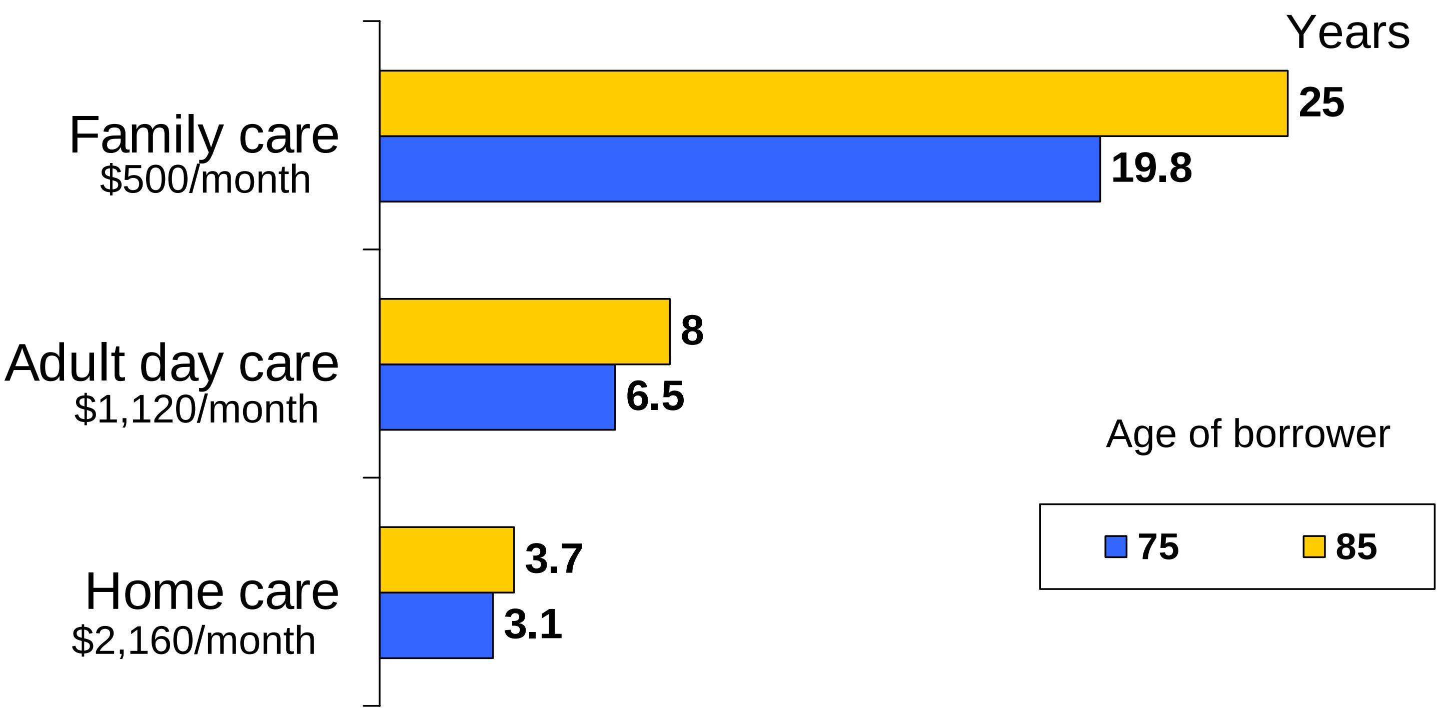
Reverse mortgages can pay for help at home for many years

Likely duration of funds based on monthly withdrawals from a HECM creditline (years)*



*Estimates based on HECM amount for a $122,790 home and an annual creditline growth of 5.36%. Source: NCOA analysis using the AARP reverse mortgage calculator

Potential Impact on Medicaid

13.2 million older households could use a reverse mortgage for aging in place

27.5 million households age 62+ in 2000

↓

21.5 million own a home

↓

15 million would likely qualify for a reverse mortgage

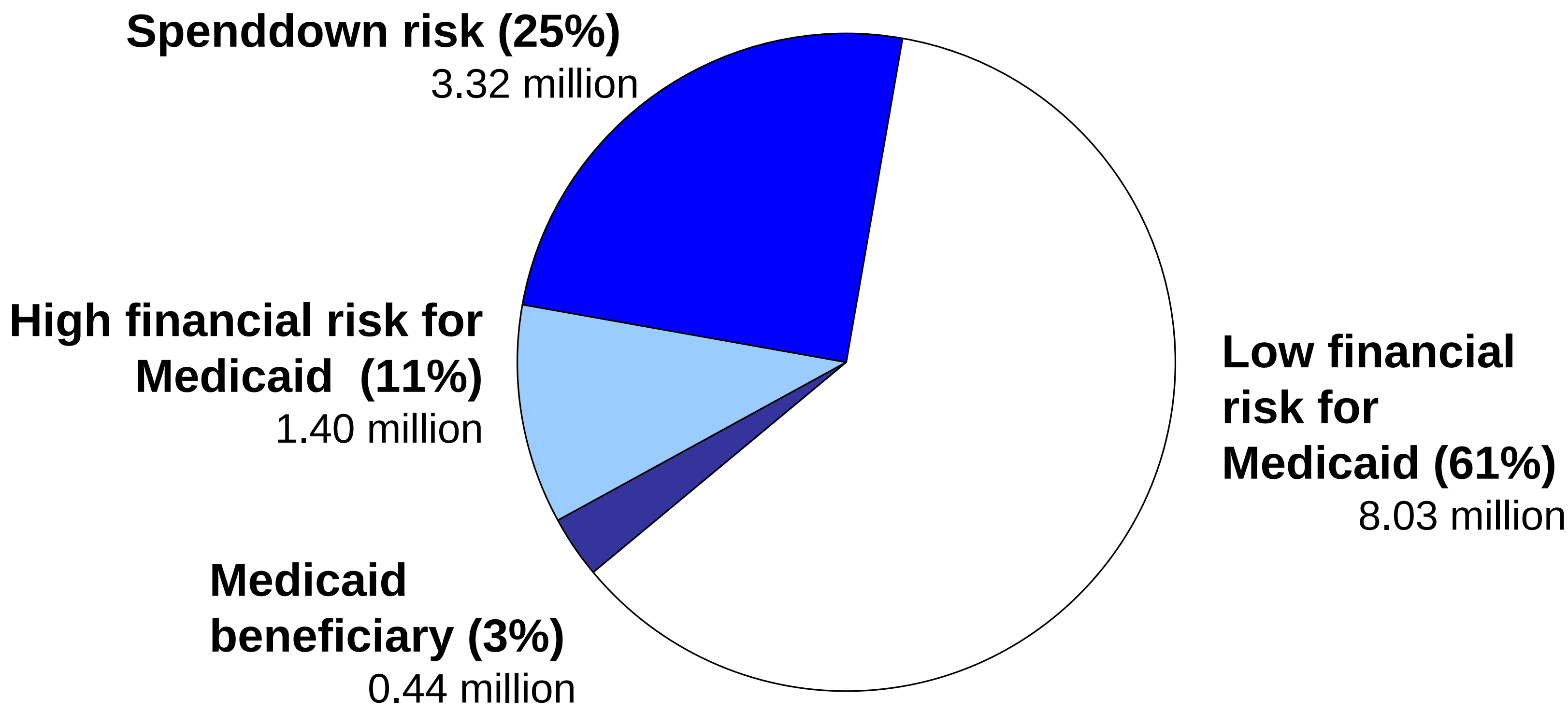
↓

13.2 million could receive at least $20,000 from a reverse mortgage (48%)

Source: NCOA (2005). *Use Your Home to Stay at Home*. Analysis based on data from the 2000 Health and Retirement Study.

About 5.2 million candidate households are on or at financial risk for Medicaid

N=13.2 million older households who are candidates for a reverse mortgage for aging in place



Source: NCOA (2005). *Use Your Home to Stay at Home*. Analysis based on data from the 2000 Health and Retirement Study.

Reverse mortgage could significantly increase private funding

- Over $308 billion in home equity could be tapped through HECMs by households on/at risk for Medicaid.
- The 1 million households on/at risk for Medicaid who need LTC could tap over $57 billion in HECMs for care.
- Greater use of reverse mortgages by 2010 could reduce Medicaid long-term care expenditures for seniors.
  - 4% increase → $3.3 billion annual reduction.
  - 9% increase → $3.6 billion annual reduction.
  - 25% increase → $4.9 billion annual reduction.

Source: NCOA (2005). *Use Your Home to Stay at Home*. Analysis based on data from the 2000 Health and Retirement Study and projections made by the Lewin Group using the Long-Term Care Financing Model.

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Promoting Reverse Mortgages

Key barriers limiting the use of reverse mortgages

- Limited public understanding of reverse mortgages.
- Negative consumer perceptions about using home equity.
- Substantial upfront costs.
- Programmatic disincentives.
- Greater need for consumer protection.

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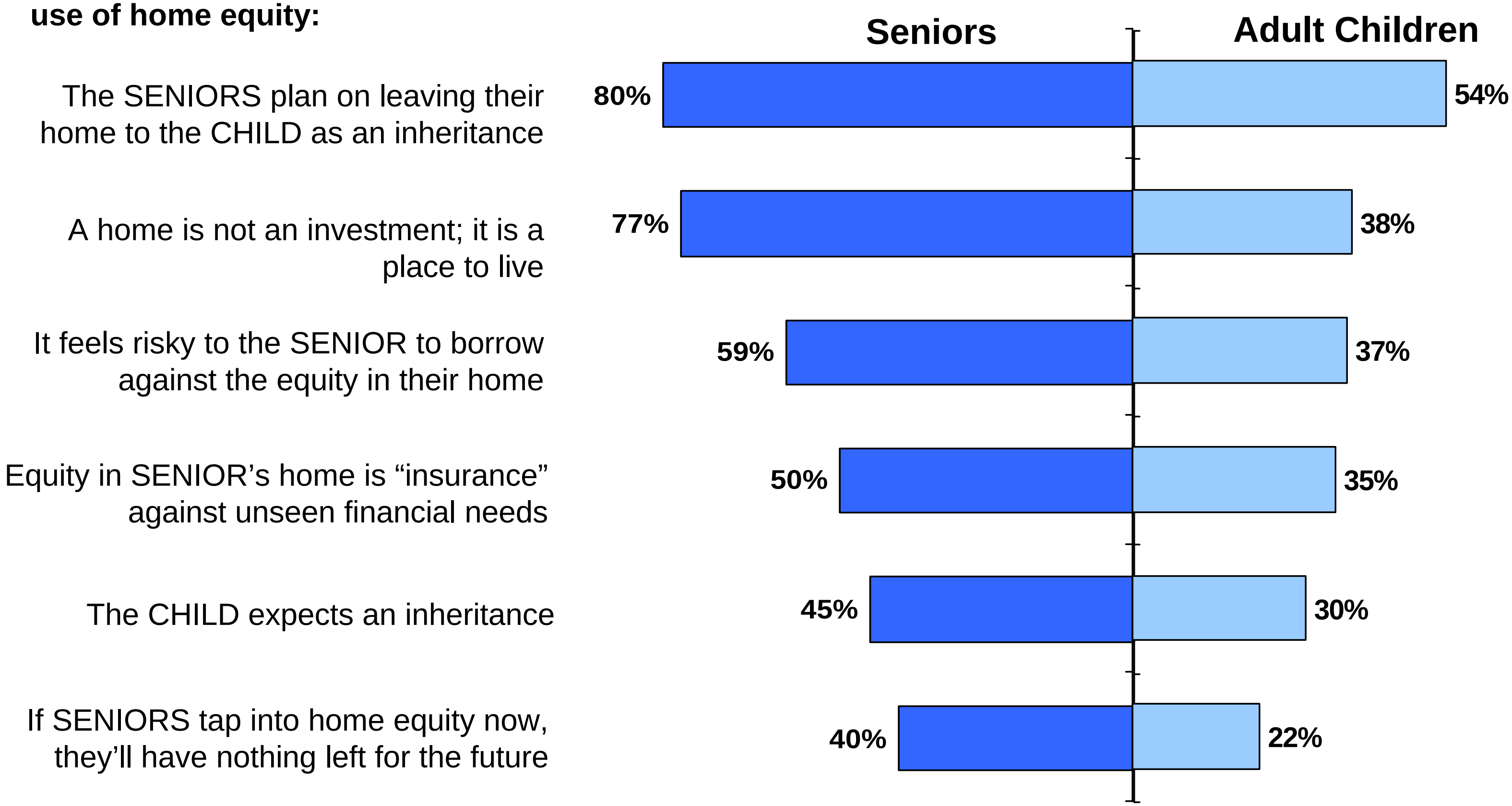
Options for action - Education

- Educate older homeowners and their families about using reverse mortgages for aging in place.
  - Expanded role for ADRCs and the aging network.
  - Educate care providers and financial advisors to elders.
- Include reverse mortgages in the National Clearinghouse for Long-Term Care Information.
- State websites can discuss reverse mortgages for aging in place.
- Expand HUD reverse mortgage counseling to cover aging in place.

Seniors and adult children differ in their attitudes on using home equity.

Attitudes that could limit the use of home equity:

Percent agreeing strongly with each statement (7-10).



Q11b1-11; n=100 in both sample types

All results reflect statistically significant differences between seniors and adult children at the 95% confidence level.

Source: NCOA (2005). *Use Your Home to Stay at Home*.

New public-private partnerships

- Examine Medicaid policy and public incentives.
  - Lower the risk of impoverishment through a reverse mortgage partnership model.
  - Reverse mortgage as an alternative to estate recovery.
- Reduce the cost of tapping home equity for LTC.
  - State or Medicaid pay some or all of upfront loan fees.
  - Develop new reverse mortgage products or state-run reverse mortgage programs. Redesign the HECM loan.
- Provide additional assistance and advice to help borrowers to stay at home as long as possible.
  - Cash and Counseling model.
  - Link with state and local programs.

Ongoing research and activities

- New Reverse Mortgages for LTC project that is looking for ways to encourage impaired elders at risk of needing Medicaid to use these loans for home and community services.
- Funded by grants from the Assistant Secretary for Planning and Evaluation (ASPE) and Administration on Aging.
- Research is being conducted by NCOA, in collaboration with the Lewin Group.
- Working with three localities – Minnesota, Washington State, and the City of Los Angeles (Department of Aging).