

The HECM Program in a Snapshot

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Abstract

The first Home Equity Conversion Mortgage (HECM) loan was originated in 1989. As of early 2017, more than 1 million borrowers had taken advantage of the program, which enables participants to extract home equity while aging in place. The aging of the U.S. population and strong preference to age in place suggest potential for growth of the HECM program in the coming years. Any growth must be managed and strong consumer protections enforced, however, to ensure the viability of the HECM program. The purpose of this article is, first, to describe the reverse mortgage market using survey and administrative data and, second, to discuss the HECM program in light of certain demographic, economic, and housing market trends.

Introduction

The Home Equity Conversion Mortgage (HECM), a program insured by the Federal Housing Administration (FHA), enables eligible homeowners to withdraw equity from their home with no required repayment of principal or interest until the borrower(s) vacates the home. To be eligible for the program, a borrower must be 62 years of age or older, with no mortgage or with a mortgage balance that is easily paid off with proceeds from the HECM loan.¹ The HECM program was first envisioned as a way to enable borrowers to meet retirement expenses while aging in place. Although it is estimated that only about 2 to 3 percent (CFPB, 2012) of eligible homeowners participate in the program, the aging of the U.S. population, large share of wealth held in equity, and strong preference to age in place suggest potential for growth of the HECM program.

¹ For a full list of the latest borrower requirements, visit http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmabou.

The purpose of this study is to first describe what is known about the reverse mortgage market. Using survey data from the American Housing Survey (AHS), we track the reverse mortgage market over time. We then compare demographic, financial, and housing characteristics of the reverse mortgage borrower with otherwise similar homeowners. We find results consistent with previous research in terms of race, ethnicity, income, and age (CFPB, 2012; Haurin et al., 2014).

Using administrative data from the FHA, we then specifically focus our attention to the most common reverse mortgage product: the HECM loan. We examine HECM originations over time and construct a measure of market penetration that allows for comparison across states. We find that originations peaked in 2008, at about 115,000 loans, but subsequently have fallen to an annual average of around 58,000 loans from 2011 to 2015. Further, we find that significant variation exists across states in the market penetration of HECM loans.

Finally, we conclude the article with a discussion of opportunities for HECM. We specifically discuss certain demographic, financial, and housing trends that may affect the HECM program in the future.

American Housing Survey

Although the overwhelming majority of reverse mortgages are insured through the HECM program, a small segment of the market is not. The AHS allows for an unrestricted examination of the market that includes both HECM and non-HECM reverse mortgages. Since 2001, the AHS has asked homeowners who are age 62 or older whether they have a reverse annuity or home equity conversion mortgage.

According to our tabulations of the AHS,² the number of active reverse mortgages, not just originations, was 31,626 (or 0.16 percent of eligible homeowners) in 2001, and the number increased steadily to a high of 435,411 (or 1.74 percent of eligible homeowners) in 2011. The number of active reverse mortgages declined to 418,595 (or 1.58 percent of eligible homeowners) in 2013.³ (See exhibit 1.)

Homeowners age 62 and older can be divided into three main categories: (1) those who own their homes free and clear, (2) those who have reverse mortgages, and (3) those who own their home with a regular mortgage and/or home equity mortgage. Splitting homeowners into these categories

Exhibit 1

Reverse Mortgage Trends

| Year | N ^a | Percent of Owners Age 62 and Older |
|------|----------------|------------------------------------|
| 2001 | 31,626 | 0.16 |
| 2003 | 47,332 | 0.24 |
| 2005 | 66,442 | 0.32 |
| 2007 | 158,911 | 0.74 |
| 2009 | 252,333 | 1.15 |
| 2011 | 435,411 | 1.74 |
| 2013 | 418,595 | 1.58 |

^a N is both weighted and rounded.

Note: For data accuracy, see <http://www2.census.gov/programs-surveys/ahs/2013/2013%20AHS%20National%20Errors.pdf>.

Source: 2001–2013 American Housing Surveys

² All differences reported in the text have been tested at the 10-percent significance level.

³ The decline was not significant at the 10-percent significance level.

presents a picture of the ownership position of older homeowners. Exhibits 2, 3, and 4 present selected household and housing characteristics of the homeowners eligible for reverse mortgages in 2013. Exhibit 2 shows the distribution of positions by demographic and income characteristics of householders and households. White-alone homeowners are more likely to own their homes free and clear (62.51 percent) than Black-alone homeowners (50.65 percent). Black-alone homeowners are slightly more likely to have a reverse mortgage (2.50 percent) than White-alone homeowners (1.54 percent), but the differences between Hispanic and non-Hispanic homeowners were not statistically significant at the 10-percent level. Homeowner householders with forward mortgages (median age 67) are younger than those with reverse mortgages (median age 75) and those who own free and clear (median age 73). We find no differences in the median number of individuals (two) living in owned homes who are age 62 and older. Households with reverse mortgages have lower median incomes than households that own their homes free and clear or have forward mortgages. Median household incomes of those with reverse mortgages are a little more than one-half of the Area Median Income (AMI), but median household incomes of those with forward mortgages are nearly equal to AMIs.

Turning to the structures in which older homeowners live (exhibit 3), we see that those with reverse mortgages and those who own free and clear are living in older structures (median year built: 1960 and 1970, respectively) than those with forward mortgages (median year built: 1975). Those with reverse mortgages and those who own free and clear moved into their homes earlier (median year moved in: 1984 and 1986, respectively) compared with those with forward mortgages (median year moved in: 1996). Homes owned with forward mortgages have higher median values (\$180,000) compared with those owned free and clear (\$150,000) and those with reverse mortgages (\$160,000). When value is examined in relation to current income (a measure of affordability), we see that those with reverse mortgages have higher ratios (5.98) compared with those who own free and clear (4.17) and those with forward mortgages (3.57).

Exhibit 2

Ownership Type by Demographic and Income Characteristics, Homeowners Age 62 and Older

| | No Mortgage: Owned Free and Clear | Reverse Mortgage | Regular and/or Home- Equity Mortgage |
|---|--------------------------------------|------------------|---|
| Race and Hispanic origin (%) | | | |
| White alone | 62.51 | 1.54 | 35.96 |
| Non-Hispanic | 62.93 | 1.51 | 35.57 |
| Hispanic | 56.13 | 1.99 | 41.88 |
| Black alone | 50.65 | 2.50 | 46.85 |
| Non-Hispanic | 50.45 | 2.54 | 47.00 |
| Hispanic | 62.19 | — | 37.81 |
| Other | 50.10 | 0.67 | 49.23 |
| Hispanic or Latino (any race) | 55.42 | 1.86 | 42.72 |
| Non-Hispanic | 61.45 | 1.57 | 36.98 |
| Median age of householder | 73 | 75 | 67 |
| Median number of individuals living in the house (persons) | 2 | 2 | 2 |
| Median Household Income (\$) | 32,756 | 26,099 | 50,964 |
| (Median household income/ Area median income) x 100 | 66.78 | 53.07 | 98.37 |

Note: For data accuracy, see <http://www2.census.gov/programs-surveys/ahs/2013/2013%20AHS%20National%20Errors.pdf>.
Source: 2013 American Housing Survey

Exhibit 3**Ownership Type by Structure, Occupancy, and Home Value, Homeowners Age 62 and Older**

| | No Mortgage: Owned Free and Clear | Reverse Mortgage | Regular and/or Home- Equity Mortgage |
|---|--|-------------------------|---|
| Year structure built (%) | | | |
| 2010 to 2014 | 48.27 | 3.25 | 48.48 |
| 2005 to 2009 | 50.42 | 1.05 | 48.53 |
| 2000 to 2004 | 51.51 | 1.27 | 47.21 |
| 1995 to 1999 | 53.57 | 0.87 | 45.56 |
| 1990 to 1994 | 55.97 | 1.26 | 42.77 |
| 1985 to 1989 | 57.83 | 1.31 | 40.86 |
| 1980 to 1984 | 60.36 | 2.07 | 37.57 |
| 1975 to 1979 | 62.18 | 1.21 | 36.61 |
| 1970 to 1974 | 65.11 | 2.09 | 32.80 |
| 1960 to 1969 | 65.44 | 1.62 | 32.94 |
| 1950 to 1959 | 65.18 | 2.54 | 32.28 |
| 1940 to 1949 | 61.98 | 2.44 | 35.58 |
| 1930 to 1939 | 62.57 | 1.04 | 36.40 |
| 1920 to 1929 | 65.08 | 0.42 | 34.50 |
| 1919 or earlier | 65.02 | 0.94 | 34.04 |
| Median (year) | 1970 | 1960 | 1975 |
| Year householder moved into unit (%) | | | |
| 2010 to 2014 | 52.59 | 1.26 | 46.15 |
| 2005 to 2009 | 49.95 | 0.85 | 49.20 |
| 2000 to 2004 | 49.26 | 1.44 | 49.30 |
| 1995 to 1999 | 53.64 | 1.28 | 45.08 |
| 1990 to 1994 | 56.85 | 1.54 | 41.61 |
| 1985 to 1989 | 58.07 | 1.23 | 40.70 |
| 1980 to 1984 | 64.66 | 1.47 | 33.87 |
| 1975 to 1979 | 66.89 | 2.51 | 30.60 |
| 1970 to 1974 | 73.10 | 2.18 | 24.72 |
| 1960 to 1969 | 79.06 | 1.90 | 19.04 |
| 1950 to 1959 | 87.77 | 1.82 | 10.40 |
| 1940 to 1949 | 86.38 | 3.68 | 9.94 |
| 1939 or earlier | 92.10 | 3.97 | 3.94 |
| Median (year) | 1986 | 1984 | 1996 |
| Median home value (\$) | 150,000 | 160,000 | 180,000 |
| Ratio of value to current income | 4.17 | 5.98 | 3.57 |

Note: For data accuracy, see <http://www2.census.gov/programs-surveys/ahs/2013/2013%20AHS%20National%20Errors.pdf>.

Source: 2013 American Housing Survey

With the absence of forward mortgage costs, median monthly housing costs are less for those who own their homes free and clear and for those with reverse mortgages compared with those with mortgages (\$458 and \$457 vs. \$1,188). Because housing costs are higher for those with mortgages, so are housing burdens (28 percent). Because owners with reverse mortgages have lower incomes, however, they also have higher burdens (21 percent) than do those who own free and clear (16 percent). Costs for nonmortgage components of housing costs, including costs for taxes, electric, gas (piped and bottled), fuel oil, trash, and water, are relatively consistent across the ownership categories. It appears that owners with reverse mortgages pay less for other fuels, which include wood, coal, kerosene, or any other fuel, but a relatively small amount of homeowners use these types of fuel and this difference is not statistically significant at the 10-percent level.

Exhibit 4**Housing Costs by Ownership Type, Homeowners Age 62 and Older**

| | No Mortgage: Owned Free and Clear | Reverse Mortgage | Regular and/or Home- Equity Mortgage |
|--|--|-----------------------------|---|
| Median monthly housing costs (\$) | 458 | 457 | 1,188 |
| Median monthly housing costs as a percentage of current income (%) | 16 | 21 | 28 |
| Median annual taxes paid per \$1,000 value (\$) | 10 | 9 | 10 |
| Median monthly cost paid for electricity (\$) | 97 | 103 | 108 |
| Median monthly cost paid for piped gas (\$) | 50 | 53 | 52 |
| Median monthly cost paid for fuel oil (\$) | 167 | 167 | 167 |
| Median monthly cost for selected utilities when paid separately (\$) | | | |
| Water | 38 | 42 | 44 |
| Trash | 21 | 21 | 24 |
| Bottled gas | 23 | 24 | 24 |
| Other fuel | 33 | 17 | 25 |

Note: For data accuracy, see <http://www2.census.gov/programs-surveys/ahs/2013/2013%20AHS%20National%20Errors.pdf>.
Source: 2013 American Housing Survey

FHA Administrative Data

In this section we use FHA administrative data to specifically examine HECM originations. The first HECM loan was originated in 1989 as a pilot program that was not made permanent until 1998 (Szymanoski, Enriquez, and DiVenti, 2007). The number of HECM loans originated during the 1990s was relatively low, with annual endorsements not exceeding 10,000 until 2002. Exhibit 5 shows the number of HECM originations from 2002 to 2015.

From 2002 to 2008, HECM originations increased from slightly less than 15,000 loans to the peak of about 115,000 loans. After the peak, the number of originations fell to an annual average of around 58,000 loans from 2011 to 2015. Although not included in exhibit 5, the number of loans originated during the first half of 2016 was 21,000, which is slightly less than the recent 5-year annual average.

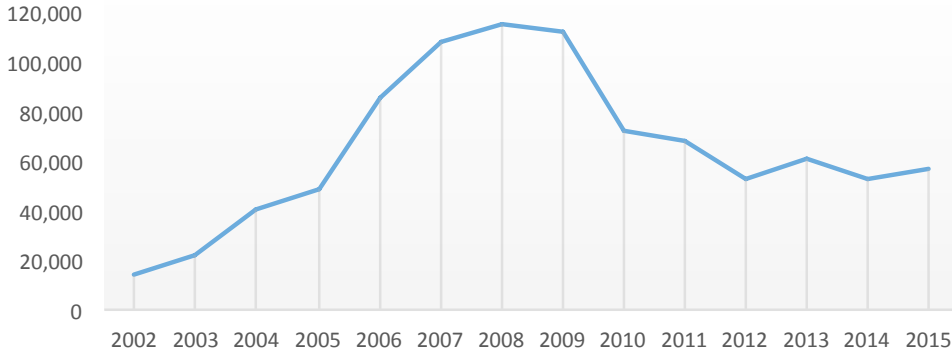
At the end of 2015, there were more than 360,000 active HECM loans. The latest American Community Survey estimates that nearly 27 million homeowner households in which the household head was at least 62 years of age. Using these two statistics, we constructed a measure of market penetration of HECM loans that is comparable across time and geography. For example, in 2015, for every 1,000 age- and tenure-eligible households in the United States there were 13.4 HECM loans.⁴

An estimated measure of market penetration for each state and the District of Columbia (DC) is provided in exhibit 6. Utah is the state with the highest measure of HECM loans, at 21.2 loans per

⁴ The figure is lower than the 2 to 3 percent estimate provided in the Consumer Financial Protection Bureau's 2012 report to Congress (CFPB, 2012), because not all age- and tenure-eligible households will have enough equity to qualify for the program, resulting in a lower denominator and higher estimate of market penetration from previous studies.

Exhibit 5

HECM Originations by Year



HECM = Home Equity Conversion Mortgage.

Source: Tabulations of Federal Housing Authority administrative data

Exhibit 6

HECM Loans Active in 2015 per 1,000 Eligible Households

| | | | |
|----------------------|------|----------------|------|
| District of Columbia | 56.9 | Oklahoma | 12.1 |
| Utah | 21.2 | Michigan | 12.1 |
| Maryland | 18.6 | Tennessee | 12.1 |
| Louisiana | 18.6 | Connecticut | 12.1 |
| California | 18.1 | Arkansas | 11.7 |
| Florida | 17.4 | Maine | 11.0 |
| Texas | 16.7 | Wyoming | 10.8 |
| New Mexico | 16.7 | Rhode Island | 10.5 |
| New Jersey | 16.2 | North Carolina | 10.3 |
| Delaware | 15.9 | Alaska | 10.2 |
| Alabama | 15.6 | Missouri | 10.0 |
| Oregon | 15.5 | New Hampshire | 9.5 |
| Nevada | 15.0 | Indiana | 9.4 |
| Virginia | 14.4 | Vermont | 9.2 |
| Georgia | 14.3 | Massachusetts | 8.8 |
| New York | 14.0 | Ohio | 7.7 |
| Idaho | 13.9 | Kansas | 7.1 |
| Mississippi | 13.7 | Minnesota | 7.1 |
| Colorado | 13.5 | Wisconsin | 7.1 |
| South Carolina | 13.3 | West Virginia | 6.8 |
| Arizona | 13.1 | Kentucky | 6.6 |
| Hawaii | 13.1 | Nebraska | 6.0 |
| Pennsylvania | 12.9 | North Dakota | 5.3 |
| Illinois | 12.9 | Iowa | 5.0 |
| Montana | 12.4 | South Dakota | 4.9 |
| Washington | 12.1 | | |

HECM = Home Equity Conversion Mortgage.

Note: An eligible household is defined as a homeowner with a household head who is at least age 62.

Source: 2014 American Community Survey

every 1,000 age- and tenure-eligible households. Maryland and Louisiana, both at 18.6, follow Utah. The state with the lowest penetration of HECM loans is South Dakota, at 4.9, followed by Iowa, at 5.0, and North Dakota, at 5.3.

The state variation in the penetration of HECM loans may be explained by differences in preferences, state-level regulations, market saturation, and local housing market conditions. In fact, empirical examination of state-level variation in the rate of origination of HECM loans finds evidence that seniors use the product to insure against house price declines (Haurin et al., 2016). This finding may be one plausible explanation for the high uptake of HECM mortgages in California and Florida before the housing bust.

Discussion

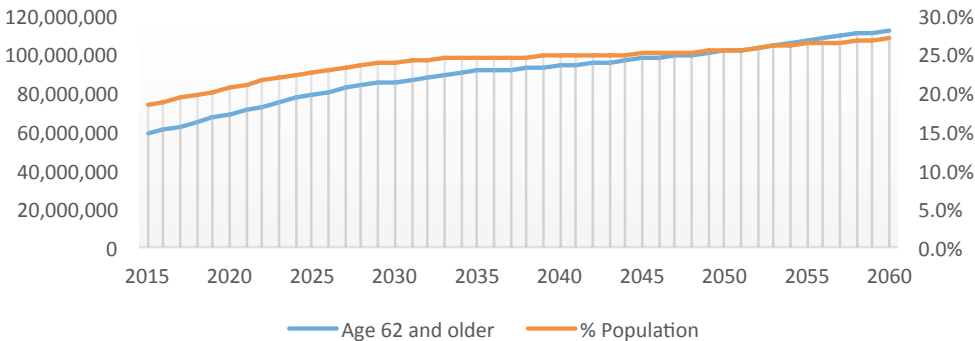
The potential for growth in HECM lending is mostly attributable to three factors. The first is that the U.S. population is aging and will continue to do so. As the baby boomers move into retirement, those with enough equity in their home will meet the age requirement for the HECM program. In 2015, it was estimated that the population older than 62 years was roughly 59 million, representing a sizeable share of the U.S. population, at 18.3 percent.

The absolute number and share of the population are projected to increase, as exhibit 7 illustrates. According the U.S. Census Bureau's latest National Population Projections, the population older than 62 years will nearly double to more than 112 million by 2060, representing an even larger share, at 26.9 percent of the population. In other words, by 2060, more than one in four people in the United States will meet the age requirement for the HECM program.

Although not all homeowners 62 years and older will have enough equity to qualify for a HECM loan, it is important to note that homeownership rates generally increase with age. For example, the Census Bureau estimated that, in the first quarter of 2016, the homeownership rate for those younger than age 35 was just 34.2 percent, whereas the homeownership rate for those older than 65 years was 79 percent. The share of homeowners that own their home free and clear also increases with age.

Exhibit 7

Population Projection: Age Requirement for HECM Program



Source: U.S. Census Bureau

The second factor suggesting growth in HECM mortgages is that housing wealth continues to be an integral part of the U.S. financial portfolio. It is estimated that, for those age 62 and older, 55 percent of their wealth is held in housing (CFPB, 2012). The HECM mortgage enables eligible homeowners an opportunity to tap into the equity to supplement retirement income.

Finally, a strong preference exists among seniors to age in place, and this preference is expected to persist. In fact, a recent survey by AARP found that 71 percent of those ages 50 to 64 wanted to age in place (AARP, 2014). The HECM program provides an established option to supplement retirement income while remaining in the home. Proceeds from the HECM loan can also be used to make necessary home modifications that help seniors delay or avoid the need to enter assisted-living communities (HUD/PD&R, 2013).

Although at least three factors point to the potential for growth in the number of new HECM mortgages originated, challenges persist and many eligible homeowners remain reluctant. The reluctance is due to several factors, including the complexity of the program, the perception that a HECM loan is a last resort, and a desire to leave the home as an inheritance (CFPB, 2012). These factors must be considered as well. The potential growth must be managed and strong consumer protections enforced to ensure the viability of the HECM program in the future.

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