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Reverse Mortgages: Senior Housing Bubble Held Together by Glue and Tax Dollars

Reverse mortgages are loans that allow seniors to take equity out of their homes to help pay for living expenses or other costs. As the equity in their home decreases, the amount of the loan increases. Unlike a traditional mortgage, seniors do not make monthly payments. The loan becomes due when the borrower dies, moves out of the house, or fails to maintain the property and pay homeowner's insurance and property taxes. This type of loan is almost always insured by the Federal Housing Administration through the Home Equity Conversion Mortgage Program.

As financial pressures on seniors have increased, the numbers of reverse mortgages have grown, and so have the opportunities for unscrupulous lenders to take advantage of seniors. These loans are complex, expensive, and drain equity from the property, leaving seniors with very few options later in life. In the 1990s, less than 10,000 reverse mortgages were issued a year. In 2009, the number of reverse mortgages peaked at 114,412 loans. On top of the economic pressures, seniors are convinced by trusted celebrity spokespeople, including former Senator Fred Thompson, Henry Winkler, Robert Wagner, and Pat Boone, that a reverse is the best fit for them. High default rates and recent losses through the program prove otherwise.

Key Findings

- **One out of every ten reverse mortgages is in default and could face foreclosure.**
- Reverse mortgages are expensive. After ten years, interest and ongoing **fees on a lump sum reverse mortgage can add up to more than $100,000,** after twenty years interest can reach more than $300,000 on top of the original loan amount**.**
- As defaults and foreclosures have increased, FHA's reverse mortgages **lowered the value of the Mutual Mortgage Insurance Fund by $5.2 billion in Fiscal Year 2012**. Forcing the Treasury Department to transfer $1.7 billion to the MMI Fund for the first time in the Fund's history in the fall of 2013.

Recommendations

Additional reforms to the program are needed to adequately protect seniors and ensure the longevity of the FHA's Mutual Mortgage Insurance Fund. These changes should include: reverse mortgage lenders and servicers having a fiduciary responsibility to act only in the best interest of borrowers; limiting FHA backing for reverse mortgages issued by lenders with persistently high default rates; restoring funding for housing counseling; and extending the "free look" period to allow seniors more than three days to determine if a reverse mortgage is right for them.