Repair Cracks in the Nest Egg

Reverse mortgages can help seniors regain their financial footing in uncertain times

By Mark Reeve

These are scary times for older Americans and not only because COVID-19 puts their health more at risk. Retirees and older workers nearing retirement are anxiously watching the economy and market gyrations, and wondering whether their investments and savings will be there when they need them.

Thirty-eight percent of baby boomers said they were more concerned about the financial impact of the coronavirus pandemic on their retirement than they were about the virus' health risks, according to a poll conducted this past May by investment adviser Personal Capital. Although the stock market has since recovered, the unsettling experience is still fresh in the minds of many retirees and near retirees. So, it's not surprising that as sophisticated seniors and their financial advisers search for new ways to protect income and lower expenses, reverse mortgages are attracting renewed attention.

Reverse mortgages aren't a core product for many mortgage originators, and some originators have even made a conscious decision to not offer them. These decisions probably reflect past issues with the product and bad behavior by some market players.

This view doesn't take into account current guardrails that protect older consumers, nor significant product advances such as new proprietary jumbo loan offerings that broaden the appeal of reverse mortgages. In many instances, this type of loan is not only the right option for these uncertain times, it is one of the only available avenues to tap into home equity.

Struggling seniors

Even before the current economic crisis, many retirees and older workers had limited retirement savings. At the end of 2019, only 5% of Americans ages 65 and older had investments or savings of more than $1.4 million, while half of this age group had saved approximately $80,000 per person or less, according to the Kaiser Family Foundation.

During the first three months of this year, the Russell 3000 Index, which tracks all U.S. stocks, fell by 25% and conceivably wiped out $3.8 trillion in retirement savings. At the same time, the nationwide shelter-in-place lockdown disproportionately hit older workers nearing retirement age. The unemployment rate for workers 55 and older climbed from 2.6% prior to the pandemic to 8.8% in July 2020, according to the AARP Public Policy Institute. No wonder so many older homeowners are worried about future income and housing.

Home equity, currently at all-time highs for U.S. homeowners, is one of the few bright spots in an unsettling economic picture. In fact, senior U.S. homeowners are currently sitting on about $7.2 trillion in equity, according to RiskSpan, a company that analyzes loan performance.

Homeowners 62 and older can qualify for federally insured home equity conversion mortgages (HECMs), the most common type of reverse mortgages. These loans offer senior homeowners a significant amount of financial flexibility and security. Homeowners can reduce their monthly expenses because they no longer have to make traditional principal and interest payments (although they still have to pay property taxes and insurance). They can continue making payments if they choose, but they also can tap equity in a number of ways as HECMs can be used to buy a second home or help adult children with homeownership opportunities.

In January 2020, the maximum loan limit for HECMs grew to $765,600. Recently, some companies have been offering proprietary reverse jumbo loans that can have similar characteristics and underwriting standards as traditional HECMs. These jumbo products, however, have loan limits into the millions of dollars, making them particularly useful for older homeowners in high-cost housing markets.

Building reserves

In times like these, reverse mortgages provide savvy homeowners with a way to access liquidity for additional income or to rebuild reserves. At the same time, senior homeowners can secure future credit to sustain their retirement needs.

What makes these mortgages even more compelling now is that traditional alternatives for accessing credit — such as jumbo cash-out refinances and home equity lines of credit — are now much more difficult to get. One scenario in which a reverse mortgage comes in handy is when a senior may be concerned about drawing against a retirement portfolio during a fluctuating stock market. A reverse mortgage line of credit option can be used as a strategy when the market shows strong swings or declines.

Another example of the usefulness of a reverse mortgage is when a senior needs help satisfying their monthly cash flow due to unemployment or underemployment. Potentially, seniors may want to have a reverse mortgage in place so that as unexpected needs arise, the line of credit and the option of not having to make a mortgage payment are there. This can provide tremendous financial flexibility and peace of mind during uncertain times.

Safety concerns

In addition to learning the ins and outs of reverse mortgages, originators need to be mindful of consumer safety concerns. For the foreseeable future, older borrowers may be leery about in-person contact with loan officers, appraisers, notaries and title agents.

The Federal Housing Administration (FHA) has been offering temporary relief on home inspections and had extended its exterior-only inspection option through this past August. In many cases, private lenders also will allow exterior-only inspections if the borrower is uncomfortable with an appraiser in the home.

There is a fair amount of paperwork and documents involved with a reverse mortgage, but much of the application process and initial disclosures can be done online. Unfortunately, FHA doesn't currently permit e-closings or remote online notarization (RON) options, and there also are variances among the counties that allow them. Hopefully, acceptance of RON will be one of the changes that will come out of this crisis.

If your senior clients are concerned about meeting in person, be strategic in sending over hard copies with highlighted details of the loan terms, rates, fees and cash available. After that, schedule a call or virtual meeting to go through the proposal. Finally, applications and disclosures can be e-signed or sent by mail with the applicable signature lines highlighted.

Overall, prepare yourself to be patient. Listen to your senior borrowers. It is crucial to identify their motivation and desired outcome of a reverse mortgage.

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Just as relationships with Realtors are key to building purchase mortgage business, connecting with financial advisers, lawyers and accountants is the way to reach reverse mortgage clients. Now is a perfect time to start because these intermediaries and their clients are looking for new strategies to rebuild retirement wealth. Aside from reverse mortgages, there aren't many options. ●

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