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# Love Them or Loathe Them, Reverse Mortgages Have a Place

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Your Money

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Executives from reverse mortgage companies know plenty about consumers' feelings around inheritance. After all, they're in the business of encouraging older Americans to drain equity now from homes they may pass on to their heirs in the future.

But dare to quote one of these people as a source in this publication, as I did last week, and this is the kind of vigorous reaction that comes from readers:

"I can't even imagine a scenario where a reverse mortgage should be considered anything but radioactive," said one comment.

And: "They're nothing but a scam that nobody with any common sense should fall for," according to another.

"These vehicles are the province of the most unscrupulous of lenders and would be outlawed in a more civilized society," said a third.

These are easy things to say when you have enough savings or pension and Social Security income to get by. But given that older Americans' homes are worth, on average, more than their other combined savings, there is a begrudging inevitability about reverse mortgages. As more people enter retirement in the coming decades with modest savings and no private pension, they're going to need some of that home equity back during their increasingly long lives.

It's been fascinating to watch the reverse mortgage industry grow up —or try to —in recent years. On one hand, it's always been filled with no-name companies using second-tier celebrities to try to sell seniors on the product. Unethical salespeople engaged in all manner of bad behavior, persuaded customers to pull equity from their homes and invest it in inappropriate financial products or to leave spouses off the property's deed in a way that caused them to lose the homes later. Name-brand companies like Bank of America, Wells Fargo and MetLife fled the sector in horror.

But this summer, BNY Mellon got back into the business as a servicer and securitizer of the loans. And several respectable researchers have endorsed certain uses of reverse mortgages; one has even gone so far as to invest money in a start-up reverse mortgage lender. A series of legal and regulatory changes intended to lower the number of defaults have also taken effect or are about to.

Many of the people entering or examining the reverse mortgage business now describe their interest in it as a sort of conversion. Even half a decade ago, Michael Gordon, BNY Mellon's head of retirement and strategic solutions, would never have suggested that the company come near the product. Companies considering a potential customer generally did not check to make sure that the borrower would be able to afford property taxes and home insurance payments. They also did not disqualify many borrowers for whom the loan was simply not suitable.

That's changing now, and BNY Mellon's news release about its intentions was replete with happy talk about buying only loans that lenders had underwritten in a "socially responsible" manner. Mr. Gordon is quick to note that the product is not right for everyone. But he also thinks that many retirees with investment portfolios that are half in stocks and half in bonds are unaware of their true asset allocation. After all, their home equity is an asset too. Many people have an awful lot of it, and those who bought retirement homes in 2005 know all too well how much of it can disappear.

"We have this idea as human beings that we live at the end of history and all facts are known," he said. "But my sense here is that we're still figuring out how your home is supposed to fit with the rest of your assets."

Over the years, you've probably seen Alicia H. Munnell quoted in this publication. A former member of the Council of Economic Advisers under President Clinton and a 20-year veteran of the Federal Reserve Bank of Boston, she now runs the Center for Retirement Research at Boston College. While the center receives financial support from a long list of financial companies, including a reverse mortgage lender, she'd never thought to make a six-figure bet on any of them.

But recently, the 72-year-old Ms. Munnell and her husband, who probably ought to be getting more conservative with their money as they get up in years, invested $150,000 in a new reverse mortgage lender called Longbridge Financial. "I've never done anything like this before in my whole life," she said. "I believe in it that much that I used some of my children's inheritance to invest."

Her conviction brings her no particular joy. "When I look forward, I don't see how people are going to have enough, I really don't," she said. People spend their adult lives paying off their mortgages, and those with pensions were often able to avoid using that home equity in retirement.

"Our assessment going forward is that it's a luxury we're not going to be able to afford," Ms. Munnell added. "They are going to need money, and this is the place where the money is."

As a reverse mortgage counselor for an affordable-housing nonprofit in Marion, Ind., a decade ago, Stephanie Moulton at first reflexively adopted the same biases many people have about the products —that they are evil. "But I got to meet a lot of consumers," she said. "And this started to look like a financial instrument like any other."

Roughly a decade later, she's now an associate professor at the John Glenn School of Public Affairs at Ohio State University, publishing research on reverse mortgages. Her most recent work revealed that reverse mortgage consumers were not necessarily desperate people with no assets left aside from their home equity; their average credit scores looked a lot like other older Americans their age. She and two colleagues concluded that if federal regulators required borrowers with FICO credit scores below 580 to set some money aside for future property taxes and insurance premiums, defaults could fall by 45 percent.

At Harold Evensky's financial planning firm, he and his partners have the types of clients that tend not to default on any of their debt. But they do worry a lot about people having to sell their investments when the markets have fallen, because that locks in losses.

Mr. Evensky hadn't given reverse mortgages much thought over the years or wondered how they could help stabilize client portfolios. "Like most practitioners, my attitude was that I thought they were terrible and that the costs were usurious," he said.

But as costs fell and some of the loan rules changed, two of Mr. Evensky's colleagues at Texas Tech, where he teaches, decided to run the numbers. What the three realized and eventually published in The Journal of Financial Planning was that many retirees could benefit from paying the closing costs necessary to have a reverse mortgage line of credit (which lenders can't close down, unlike home equity lines of credit) on standby for times when their investments have fallen. People could then borrow money via the reverse mortgage to live on, and repay it once markets recovered and they could get a better price for selling those investments. The net result is that retirement portfolios can last longer.

Mr. Evensky earns no money from recommending reverse mortgages, and he takes pains to be clear on how people should use the loans. "It's strictly as a risk management tool, not as leverage or an investment vehicle," he said. "It's a way of allowing investors to have a long-term portfolio and not be forced to sell at the wrong times."

Lenders have asked the well-respected Mr. Evensky to use his research in new releases, he said, and are prone to wanting to oversell it or extrapolate it to other uses. The industry, where loan originations have fallen roughly by half in recent years, has a slight whiff of desperation about it.

Still, over the next five or 10 years, more people are probably going to need these loans whether we like it or not. It could happen if they're completely out of money, in which case they may use so much of their equity for living expenses that there may not be much left if they later need to sell the house and move to a nursing home. Others may want to upgrade their standard of living in their golden years (and worry little about leaving an inheritance, which is certainly their right). Or they may simply want some Evensky-style portfolio insurance.

Call the loans and the lenders and the executives who run them all the names you want. But the tool they sell is one whose time is coming, and people who refuse even to consider a reverse mortgage in the coming years may do themselves a disservice.

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