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Scare-Mongering the HECM Reverse Mortgage

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The HECM reverse mortgage is one of the best engineered financial tools of our generation, designed to meet a wide spectrum of senior needs, from repairing the roof of their home, to paying for their grandchildren's education, to meeting expected and unexpected contingencies. Yet the program elicits negative reactions from large segments of the media, whose distorted descriptions of the HECM program are scaring off millions of seniors whose lives could be enriched by it.

Converting Abuses by Seniors Into Abuses of Seniors: The Abused Widows

Particularly irksome (to me) is a tendency to depict abuses of the program by a minority of seniors as if the seniors were being abused by the program. Typical was a front-page article in the New York Times on October 15 by Jessica Silver-Greenberg. The first sentence states "The very loans that are supposed to help seniors stay in their homes are in many cases pushing them out." But it turns out that the seniors involved deliberately placed themselves at risk.

Two cases are cited in which the widows of seniors who had taken out HECMs were forced out of their homes. In neither case were the widows part of the HECM contract.

The rules are very simple. Seniors who take out HECMs have the right to live in their homes, without repaying the HECM, until they die. The amount they can draw on the HECM is based on their age, the older they are the more then can draw. If there are two owners, both must be covered by the HECM, and the draw amounts are based on the age of the younger one.

In one of the two cases cited, the widow was too young to be eligible for the HECM, but they went ahead with it anyway. In the other the widow was old enough but not on the deed, and the HECM was executed in her husband's name. (In some cases, the younger spouse is taken off the deed in order to draw a larger amount.) Both widows claim that they were misled by their loan officers, and that is always possible. But the loan officers involved were not interviewed, and both senior s were counseled by an independent counselor, which is required under the program.

Converting Abuses by Seniors Into Abuses of Seniors: Property Tax Defaults

A similar conversion of abuses by seniors into abuses of seniors arises in connection with property tax defaults. A number of seniors with HECMs have stopped paying their property taxes, probably because they have calculated that their equity was largely gone, so what was the point? While they understand that not paying violates their contract, they believe that FHA won't throw them out in the street. Probably they are right. The seniors are the abusers, and the FHA should be faulted for not finding a way to stop them. See Property Tax Defaults on HECMs.

Nonsense About Unaffordable Fees

The article also states that "Some lenders are aggressively pitching loans to seniors who cannot afford the fees associated with them, not to mention the property taxes and maintenance." But there are no mortgage payment obligations under a HECM, all the fees incurred are financed, so the claim that fees are unaffordable makes no sense. Borrowers are required to maintain the property, and pay property taxes and homeowners insurance, but these are burdens of ownership that they have whether they take out a HECM or not.

Misleading Comparisons to the Sub-Prime Crisis

Equally fallacious is the statement that "concerns raised by the multi-billion-dollar reverse mortgage market echo those raised in the lead-up to the financial crisis when consumers were marketed loans – often carrying hidden risks – that they could not afford."

In fact, the two programs could hardly be more different. Subprime loans imposed repayment obligations on borrowers, many of whom were woefully unprepared to assume them, and which tended to rise over time. The financial crisis began with the increasing inability of sub-prime borrowers to make their payments, with the result that defaults and foreclosures ballooned to unprecedented heights. Subprime foreclosures imposed heavy losses on lenders. and on investors in mortgage securities issued against subprime mortgages.

In contrast, reverse mortgage borrowers have no required monthly payment to make. The obligation to make payments under a HECM is the lender's, not the borrowers, and lender exposure to loss is very small because of FHA insurance. The major risks are borne by FHA, for which purpose it maintains a reserve account supported by insurance premiums paid by borrowers. According to New View Advisors, who are seasoned experts on HECMs, the current reserve account is adequate. See Reverse Mortgages Are Not the Next Sub-Prime.

The Real Tragedy: Low Utilization

The one credible claim in the article is that "borrowers are putting their nest eggs at risk by increasingly taking out the loans at younger ages and in lump sums…" That is true, because HECMs have become a lifeline for the financially desperate who are not turned off by the negative press. While there is nothing wrong with using a HECM to meet immediate financial needs, there is something wrong with the very low utilization among seniors who aren't desperate but who could enrich their lives and don't.

There are about 25 million homeowners 62 or older, and at least 10 million of them could significantly improve their lives by taking out a HECM. But an article on this problem would not land on page 1 -- if it landed anywhere.