

FannieMae Foundation

**The Reverse Mortgage as an Instrument for Lifetime  
Financial Planning: An Analysis of Market Potential**

**Preface by Wendy R. Sherman and James H. Carr**

Purchasing a home is the largest single investment that most of us make in our lifetimes. Homeownership — the American dream — offers not only shelter and investment value but also housing security, privacy, and flexibility to adapt space to meet individual needs and preferences.

The investment value of homeownership has been greatly enhanced by the relatively recent development of financial instruments that allow owners to get cash from their home equity without having to sell and move. These financial products — home equity lines of credit and reverse mortgages — can make housing equity the cornerstone of financial planning for families and individuals.

While most homeowners are familiar with home equity loans, reverse mortgages are not well known or understood. **This research report suggests that they hold huge unrealized potential as financial tools.** Life-tenure reverse mortgages appeal to elderly Americans, who may have a strong desire to remain in their homes but face pressing financial demands that could be met by tapping home equity. Most previous assessments of the market for reverse mortgages have focused only on house-rich and cash-poor single elderly persons. The authors of this report present a much broader perspective that views the reverse mortgage as a mechanism for tapping housing equity for various purposes and at various stages in an individual's life cycle. For example, a reverse mortgage could be used by middle-aged homeowners to fund a college education or job retraining, provide care for elderly parents, or support a temporary absence from the workplace.

One potentially important use for housing equity in this broad perspective is for financing long-term health care insurance. Most studies of the respective roles of public and private funding of long-term care ignore home equity, thereby greatly underestimating the potential role of private financing. An elderly person could use a reverse mortgage to fund the purchase of a prepaid long term care insurance policy without reducing their current income or depleting their non-housing assets. With public spending for health care placing an increasingly heavy burden on tax payers, this user-funded solution to providing care for an aging population offers an attractive option that should have a major role in the health care policy debate.

Several factors seem to be in place for rapid growth of the reverse mortgage market. The industry is maturing, products are widely available, both financial advisers and the popular press are providing more information to consumers about reverse mortgages, and aging of the population supports fast growth of potential demand.

This emerging market has tremendous potential benefits for both consumers and mortgage lenders. Reverse mortgages can give consumers greater flexibility in financial planning by providing another option for managing assets and financing consumption over an individual's life cycle. They also enhance the liquidity and safety of the housing investment and offer financial security against contingencies such as cash flow disruptions arising from temporary spells of unemployment.

For lenders, development of the reverse mortgage market will produce new business opportunities. By enhancing the investment value of homeownership, reverse mortgages should encourage households to place a greater portion of their total wealth in their homes. When households seek to build this equity by financing a home purchase or access this equity through reverse mortgages or other instruments, lending volume will increase. The enhanced ability of borrowers to meet lifetime financial needs, particularly during short periods of financial stress, should also reduce credit risk, thereby improving the performance of mortgages as investments.

This study is part of the Fannie Mae Foundation's research on underserved housing markets, which is investigating the credit and financing needs of a variety of consumer groups. The underserved market research program is guided by a perspective that recognizes the diversity of the renter, homeowner, and potential home buyer markets. It also recognizes that certain segments of each of those markets are underserved by the current housing and housing finance systems. Finally, this perspective addresses the need to broaden the concept of housing finance so it is viewed not just as a means for expanding ownership and rental opportunities within these diverse consumer markets, but also as a critical vehicle for increasing the financial security and flexibility of American households.