DELAWARE FINANCIAL HEALTH PROJECT
WHITE PAPER ON REVERSE MORTGAGES

INTRODUCTION

Seniors face a myriad of financial issues and problems that can affect negatively their "financial health," which in turn may jeopardize their quality of life and physical health, as well. To inform and empower older consumers and help them sort through information and resources of which they may not be taking advantage, either because they find them confusing or don't know that they exists, Delaware State Treasurer Jack Markell retained **Public Works** to design a "tool kit" that will make information simple to gather and easy to understand, and this White Paper on reverse mortgages. Older Americans own about $2 trillion in untapped housing wealth. The majority of seniors are homeowners,[1] and over half of seniors' net worth is in their homes. The homeowner can tap an average of $72,000 in reverse mortgage loans that can allow them to remain at home while being able to afford home health care, non-medical senior services, respite for family care givers, and medications.[2]

Thus, beyond enhancing the quality of life for older Americans, reverse mortgages also have the potential to lower the premature utilization rate of nursing home care that currently is driving state Medicaid budgets further into the red. However, many seniors are not aware of how to access these funds, do not know how to do so safely, or do not think of using them for these purposes.

This White Paper will:

- □ Explain what reverse mortgages are and how they can be used;
- □ Evaluate the potential for greater use of reverse mortgages by older homeowners in Delaware;
- □ Discuss the policy reasons for encouraging reverse mortgage use;
- □ Review and analyze impediments to doing so; and
- □ Make recommendations on how to address these issues.

---

[1] *Use Your Home to Stay at Home, Expanding the Use of Reverse Mortgages for Long-Term Care: A Blueprint for Action*, by Barbara R. Stucki, Ph.D. of the National Center on Aging (NCOA), 2005.
[2] Ibid

1. REVERSE MORTGAGES

Reverse mortgages have the potential to alter how older Americans live by offering another option for drawing down cash reserves they have accumulated as home equity, enabling those who desire to remain in their homes as they age to do so. Although reverse mortgages are increasing in popularity, and the number of reverse mortgages has increased significantly in the past year, there is still a limited demand for reverse mortgages among older homeowners: Less than one percent of older homeowners have obtained a reverse mortgage.[3] In short, they are an underused long-term care financing option worthy of added consideration.

Beyond creating an opportunity for older homeowners to better their quality of life, reverse mortgages potentially can change the way our long-term care system is financed. This paper explains what reverse mortgages are and to discuss the benefits that reverse mortgages could mean for older Delawareans and for the state's long-term care system. In doing so, the paper also uncovers barriers and explains why reverse mortgages might be underused today. Finally, the paper provides recommendations for ways to promote reverse mortgages to eligible homeowners in order to boost usage in Delaware and to pay for a portion of the long-term care needs that otherwise are paid by the State.

1.1. WHAT IS A REVERSE MORTGAGE?

A reverse mortgage is a loan that older homeowners can use to tap into the equity they have accumulated in their homes and turn it into cash. Rather than borrowing money from a lender that he or she must then repay, a borrower receives payments from the lender against equity the borrowers have in their home.

One benefit of using a reverse mortgage – as opposed to a simple home equity loan – is that the reverse mortgage does not have to be paid back as long as the homeowner lives in the home. All that is required of borrowers is that they pay annual property taxes, maintain a homeowner's insurance policy, and make general home repairs.

There are many benefits to using reverse mortgages. Besides providing eligible, older homeowners with a steady stream of income they can tap into and spend however they choose, reverse mortgages, unlike conventional mortgages or other forms of borrowing, do not require repayment until the last remaining homeowner dies or the home is sold. And although homeowners or their heirs must pay the loan back eventually, plus interest and fees, the total cannot grow to be more than the value of the home at the time of the sale.[4]

---

[3] Ibid
[4] "Let's Talk Reverse Mortgages," by Walter Updegrave, *CNN Money*, March 30, 2004.

There are no income requirements for taking out a reverse mortgage, only the requirements that homeowners must be 62 years of age or older and must fully own their home (or have only a modest amount left to pay on their original mortgage or line of credit). Factors like income, credit history and medical conditions are not used to determine eligibility.

A reverse mortgage can be used only on a home that is considered the homeowner's primary residence. All loans on the property must be paid before a reverse mortgage can be obtained, so that the reverse mortgage is the only debt on the property. Most properties – including manufactured homes and U.S. Department of Housing and Urban Development (HUD) approved condominiums – are eligible, but mobile homes and cooperatives are not.[5] All homes are assessed to ensure that they meet the Federal Housing Administration's (FHA) minimum property standards for general durability, so that its value is not reduced by deterioration. The home's doors, windows, gutters, carpets and floors, walls and overall structural soundness are inspected to make sure it is in good condition and free of major repairs.

Reverse mortgages require a fair amount of research, however, to make sure that homeowners choose the best loan for them. Even comparing just the loan options can be overwhelming and confusing, let alone selecting an interest rate or a payment option.

1.2 LOAN AMOUNTS

The amount of money a homeowner receives from a reverse mortgage is calculated using three main factors:

- □ Age (when there is more than one homeowner, the age of the youngest homeowner is used);
- □ Value of the home; and
- □ Interest rates.

.

Actual loan amounts vary by age even when a home is valued the same. This is because lenders calculate the potential payout time before death or sale of home based on actuarial calculations: The older the homeowner, the shorter the expected payout time and the more home value that is available for the reverse mortgage. A 75 year old homeowner would be eligible for more money than a 65 year old for a home of similar value. For example: A homeowner who owns a home with an assessed value of $100,000 might expect to receive the following payments:[6]

[5] *Home Made Money*: A Consumer's Guide to Reverse Mortgages, published by the AARP (2004).
[6] This example uses a Home Equity Conversion Mortgage (HECM) – the most popular of all reverse mortgages. HECM loan amounts are limited by the median home value for the county in which the borrower resides. In the example above, the $100,000 value home provided similar payout amounts in

Age	Lump Sum or Credit Line	Monthly Payment
62	$48,375	$278
72	$57,877	$368
82	$68,563	$544

Although age is important in determining how much equity a homeowner can access – the older the homeowner, the higher the cash payment – the value for which the home is appraised also affects how much equity a homeowner can access. For instance, a homeowner aged 62 who owns a home in Sussex County, Delaware, worth approximately $400,000 could access a lump sum amount using a HECM loan of about $94,260 as of June 2005.[7]

Interest rates also impact how much money a homeowner can receive, since all reverse mortgages are subject to an interest charge. The lower the interest rate, the more money the homeowner receives. This is illustrated below.[8]

Age	Lump Sum or Credit Line		
	6%	7%	8%
65	$103,207	$83,323	$66,955
70	$133,027	$95,083	79,471
75	$123,332	$107,715	93,648
80	$134,154	$121,053	108,719
85	$144,937	$134,344	124,132

Over time, the amount of the debt grows as interest is added to the loan's balance. But remember that the debt owed can never exceed the value of the home at time of sale.

1.3 RECEIVING PAYMENTS

Homeowners can choose how they want the money paid out, as the figures above suggests. In most states, the homeowner usually can select from four different payment options:

□ All at once, in a single lump sum of cash;

several counties we checked throughout the United States, but a more valuable home may be affected by the limits for its area.

7 Phone call with Financial Freedom Senior Housing Corporation, Eastern Region, 6/16/05.

8 *Home Made Money*: A Consumer's Guide to Reverse Mortgages, published by the AARP (2004).

- As a regular monthly cash advance;
- As a "credit line" account that lets them decide when and how much of their available cash is paid to them; or
- As a combination of these payment methods.

Some reverse mortgages – those that are typically offered by private lenders – may limit payment to only one or two of these options.

1.4 WHAT YOU CAN DO WITH THE MONEY

Older homeowners who choose to exercise this financial option have flexibility in how they decide to use the cash from the loan. Homeowners can use funds to pay for things like:

- Long-term care insurance;
- Prescription drugs;
- Other medical costs like in-home nursing care or respite for care givers;
- Home remodeling and retrofitting;
- Weatherization to save on energy costs;
- Property taxes or utility bills; or
- Other quality-of-life enhancements like vacations.

The only restriction on how funds may be used is when a borrower opts for a special option under a HECM loan that waives a portion of the loan's closing costs if the borrower agrees to use 100 percent of the funds to pay for long-term care insurance. Besides this exception, there are no other restrictions placed on fund use.

1.5 CLOSING COSTS

Reverse mortgages, like conventional mortgages, require that closing costs be paid upfront before the loan can be approved. Closing costs typically include a loan origination fee and service fees; the total amount of these costs can differ from lender to lender. A portion of the amount of money taken out using a reverse mortgage, however, can be used to pay closing costs, as well as to pay off any remaining debt on the home.

So far, this all sounds great. But one of the major disadvantages of reverse mortgages is the closing costs associated with them. These easily can be thousands of dollars, and for many cash-strapped seniors it's difficult to find the money to cover these costs. Even though homeowners can use a portion of the funds they receive from a reverse mortgage to pay closing costs, unless they remain in their home for many years the closing costs could consume a large portion of the available funds and wind up costing the homeowner a large part of their home equity.

Another disadvantage of using a reverse mortgage involves cash management. While the cash received from a reverse mortgage is not taxed, it is considered a liquid asset, and thereby can affect public benefits, like Supplemental Security Income or Medicaid, that a retired homeowner might receive. The only way to avoid jeopardizing a borrower's public benefits is to ensure that any cash received each month from a monthly cash advance is spent by the end of the calendar month in which the cash payment was received[9] – any cash that remains at the end of the month, whether it's in a checking or savings account, is counted towards the homeowner's liquid assets threshold for certain public assistance programs like Medicaid.

1.6 PAYING IT BACK

Reverse mortgages, like conventional mortgages, must be paid back. The loan becomes due when the last surviving borrower dies or the home is sold. The loan also could become due if:

- The property is not maintained properly, which could affect its value;
- The borrowers move and the current home is no longer their principal residence;
- The borrowers are unable to live in the home for twelve consecutive months as a result of a physical or mental impairment; or
- The borrowers are unable to pay property taxes or their homeowner's insurance policy or both.

And, again, it's important to note that a reverse mortgage loan cannot exceed the value of the home at the time the home is sold. If a borrower fails to draw down all of the equity in their home allotted by a reverse mortgage and the home is sold, the borrower's heirs or designate will receive the funds that remain after the loan has been paid off. Similarly, if the home is sold for more than the value it was appraised for at the time the loan was granted, the borrower's heirs or designate are entitled to the funds in excess of the loan, as well.

[9] Fact Sheet on Reverse Mortgages, AARP, www.aarp.org

1.7 TYPES OF REVERSE MORTGAGES

There are three basic types of reverse mortgages available. They include:

- □ Home Equity Conversion Mortgages (HECMs);
- □ Proprietary reverse mortgages; and
- □ Uninsured reverse mortgages.

Each of these loans has its own advantages and disadvantages depending on how the homeowners intend to use the cash they receive from the mortgage.

FHA Home Equity Conversion Mortgages (HECMs) are the most popular, and is the only reverse mortgage insured by the federal government.[10] HECM loans give borrowers the largest loan advances, and provide the most flexibility in how cash is paid out.[11] Another advantage of a HECM loan is its low fee requirements, which can be substantially less than those associated with other types of reverse mortgages. The maximum lending limit is adjusted annually and varies by geographic location based on the market value of homes in your community. Currently, it's between $172,632 and $312,895 in Delaware.[12]

Proprietary reverse mortgages are private loans that are backed by the companies who develop them. The Fannie Mae Home Keeper loan is one example. It's offered in all 50 states. It has a higher lending limit than the HECM loan, and is ideal for homeowners whose home value is above the HECM limit, so they can draw down more cash. Fannie Mae annually adjusts its maximum lending limit, which currently is $359,650.[13] Borrowers who use this option can choose between a monthly cash payment or a credit line, or a mix of both.

Financial Freedom Senior Funding Corporation, a leading servicer and originator of reverse mortgage loans, offers another type of proprietary reverse mortgage, called a Cash Account. Cash Accounts are an option for homeowners whose home is valued at $400,000 or more. This type of loan is tailored to older homeowners who own expensive homes, and who want to tap into the home's equity. A Cash Account allows borrowers to take out an "open line of credit" meaning that they can tap into this account as many times as they choose until they exhaust their funds and as long as they continue to live in the home. What makes this option different from a line-of-credit is that the entire loan amount does not become due until the last homeowner dies or the home is sold – a characteristic shared by most types of reverse mortgages.

[10] Ibid
[11] Ibid
[12] Financial Freedom Senior Funding Corporation, www.financialfreedom.com
[13] Ibid

A downside of using proprietary reverse mortgage loans is that they typically have higher closing costs, and therefore are more expensive than HECM loans. What, then, are the advantages of choosing a proprietary reverse mortgage product over a HECM? Simply that you can borrow higher amounts, and you don't have to pay mortgage insurance, which is used by the federal government to provide cash advances to other borrowers.

In some states – including Arizona, California, Massachusetts, and Minnesota – lenders offer uninsured reverse mortgages.[14] These require the homeowner to pay them back before the loan becomes due, and payments only can be drawn down in monthly cash advances. Homeowners might use this option if they plan to sell their home within a few years after the loan has been taken out. This option is not available in Delaware, however.

There also are some state and local governments that offer various types of reverse mortgages, like Property Tax Deferral (PTD) or Deferred Payment Loans (DPL). These loans require funds to be used to pay for property taxes or home repairs. In most cases, there are income restrictions for the borrower, and they usually are intended for low or moderate income homeowners who are in need of financial assistance. Borrowers of these loans generally are considered high-risk borrowers, and for this reason, lenders sometimes add high fees on top of the original loan amount to reduce their risk of loss should the borrower default on repayment. A 2000 study conducted by AARP found programs like these in 24 states.[15] There are no programs like these operating in Delaware at this time, either, however.

Of the three basic types of loans, a HECM loan is likely the best choice for the majority of older Delawareans who meet the loan's eligibility requirements. The Fannie Mae Home Keeper Loan and Cash Accounts are best suited for older homeowners whose home is valued well above the HECM lending limit and who want to be able to access more of their home's equity in higher payment amounts.

1.8 LENDERS

There are ten National Reverse Mortgage Lender Association (NRMLA) lenders licensed to originate reverse mortgages for Delawareans.[16] The lenders consist of a mix of banks and mortgage companies. Only two, Financial Freedom Senior Funding Corporation and Wells Fargo Home Mortgage, are Fannie Mae-approved lenders and offer HECM loans and Home Keeper loans in Delaware.[17] Bank of New York also provides the HECM, Home Keeper Cash Account option for Delaware homeowners.[18]

[14] Ibid
[15] Low-Cost Public Loans, AARP, www.aarp.org
[16] www.reversemortgage.org
[17] Fannie Mae's Approved Lender List, www.fanniemae.com
[18] Phone call with Financial Freedom Senior Housing Corporation, Eastern Region, 6/16/05.

2. PUBLIC POLICY REASONS FOR INCREASING REVERSE MORTGAGE USE

In addition to the advantages that reverse mortgages provide borrowers, they have the potential to change the way we finance our long-term care system. A recent report called, "Use Your Home to Stay at Home," published by the National Center on Aging (NCOA), suggests that reverse mortgages offer a way to rebalance our long-term care system and how its financed, so that more emphasis is placed on in-home supports and community-based care rather than more costly forms of care like nursing homes.[19]

2.1 LONG-TERM CARE COSTS PAID BY THE STATE

Totaling nearly $800 million, the Medicaid program is the State's largest line item, and is the second largest budget expenditure trailing only the public school system.[20] The Medicaid budget doubled in the years between FY 2000 and FY 2004.[21] Besides growing in costs, the number of Medicaid enrollees is growing, as well: Enrollment has increased by about 38 percent in four years and now exceeds 138,000 Delawareans.[22] A substantial proportion of new Medicaid enrollees are seniors.

In FY 2003, the State of Delaware spent $720 million on Medicaid, which is almost 13 percent of its total budget.[23] The majority of Medicaid funds now go to finance long-term care for the elderly. More than 10,000 older Delawareans currently receive Medicaid assistance, and this number likely will increase significantly as the population continues to age, thus the probability that the State will spend even more for Medicaid due to increased long-term care demands is great.

In fact, when one looks at other funding sources, the State spent about $276 million in total in SFY2003 on long-term care for Delawareans.[24] The breakdown was as follows:

- $28.5 million (10.3%) on intermediate care facilities for the mentally retarded.

- $23 million (8.3%) on medical care facilities (e.g., assisted living facilities).

---

[19] *Use Your Home to Stay at Home, Expanding the Use of Reverse Mortgages for Long-Term Care: A Blueprint for Action*, by Barbara R. Stucki, Ph.D. of the National Center on Aging (NCOA), 2005.
[20] Delaware Streamlining Initiative (2/25/2005) www.dhss.delaware.gov/dhss/admin/streamlininginitiative.html
[21] Ibid
[22] Ibid
[23] Distribution of State Medicaid Spending on Long-Term Care (SFY03), Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates based on data from Centers for Medicare and Medicaid Services-64 reports, 2004.
[24] Ibid

- $153 million (55.3%) on nursing facilities.

- $72 million (26.1%) on home health and personal care services.

There's no doubt about it: Long-term care is expensive. Care needs vary considerably from person-to-person and can become more extensive and complicated over time as one's physical needs increase, but, on average, nursing home care costs about $150 per day and over $50,000 annually.[25-26] The average stay is about 2.6 years,[27] putting the cost well into six-figures per person. Home health care is almost as expensive. The current market price for home health care is $37 per hour for a licensed practical nurse and about $18.12 per hour for a home health aide.[28] Home health care is thus a viable alternative to nursing homes only when family and community support is available to fill gaps when a health care provider cannot be present.

Nonetheless, in the right instances, home- and community-based care can be *not only* preferable options for elderly patients, *but also* cost-saving mechanisms for the State. In fact, to the extent that alternatives are employed to keep elderly patients *from needing* institutional care at all, their quality-of-life *and* the State's bottom line can *both* be improved.

3.2 HOW GREATER USE OF REVERSE MORTGAGES CAN HELP REDUCE MEDICAID COSTS

Medicaid, unlike Social Security, is administered by states, and provides states the ability to set most eligibility and benefit limits. As health care costs continue to rise, both federal and state governments have been pressured to control costs. States, including Delaware, have opted to control costs by restricting eligibility and limiting benefits. These measures, although they might result in savings, reduce consumers' access to care and limit the quality of care they can receive.

To prevent further reductions in access and limitations placed on care, states should seek more innovative approaches to slowing the expansion of, or even reducing, their Medicaid spending. Reverse mortgages should be considered one such approach to aid in financing long-term care for more Delawareans.

---

[25] Statistic on per day cost of nursing care provided by: "Linking Reverse Mortgages to Long-Term Care Insurance" by Alexis Ahlstrom, Anne Tumlinson and Jeanne Lambrew of the Brookings Institute, first of a series of papers in the Retirement Security Project supported by the Pew Charitable Trusts, statistic provided by: Mature Market Institute, "Metlife Market Survey on Nursing Home and Home Care Costs," 2002. Found at www.aarp.org.
[26] Statistic on annual cost of nursing care provided by: U.S. Department of Labor, Bureau of Labor Statistics, 2001. Found in the National Association of Insurance Commissioners (NAIC), "A Shopper's Guide to Long-Term Care Insurance," 2003.
[27] Ibid. Statistic provided by: American Council of Life Insurers, "Can Aging Baby Boomers Avoid the Nursing Home?" March 2000. Found at www.metlife.com.
[28] "Choosing a Long-Term Care Insurance Policy: Understanding and Improving the Process," prepared by Robert B. Friedland and Stephanie E. Lewis of the Center on an Aging Society, Health Policy Institute, Georgetown University for the Retirement Security Project funded by Pew Charitable Trusts (2004).

Reverse mortgages can shift a portion of the cost born currently by the State to consumers to whom the care is provided and who can afford it. In return, consumers who use a reverse mortgage to subsidize a portion of their health care costs can improve the quality of care they receive, thus keeping them in their homes where they are more comfortable and out of nursing homes. This is therefore a potential win-win situation.

There are several ways in which reverse mortgages could allow homeowners to tap assets both to improve the quality of their own lives *and* to reduce Medicaid dependence:

- ☐ **Transitioning back or stay in their home**

High-risk Medicaid reverse mortgage candidates should be encouraged to use home equity as savings that they can tap to remain in their homes longer, which will help reduce the costs of long-term care and the effects it has on Delaware's state budget. If, for instance, just 100 older Delawareans (or 1% of the state's current Medicaid population) categorized as high-risk Medicaid could use in-home care or medical supports to keep them out of a nursing home for just one year, the State would save $5 million (or nearly 2% of the state's current Medicaid budget). In fact, that means that the potential exists for the State to offer financial incentives for reverse mortgage use – and *still* save money.

Another opportunity for the State to save is to target Medicaid beneficiaries who are currently in nursing homes but own a home whose equity could be used to assist them in transitioning from the nursing home back into their house with the help of in-home care or respite care to support caregivers. Even if this option only applied to a very small percentage of nursing home residents, the savings to the State could be in the hundreds of thousands, if not millions of dollars, per year. And in virtually all such instances, the patient's quality-of-life and quality of care could be improved.

- ☐ **Encouraging the purchase of long-term care insurance**

Seniors, especially those in their early years of retirement, might find appealing the option to purchase long-term care insurance with loan proceeds. Loan proceeds could be used to pay long-term care insurance premiums and provide added protection from high out-of pocket costs that could affect seniors later in life.

- ☐ **Making home modifications to avoid injuries and/or thermal problems**

Reverse mortgages also can assist financially and physically healthy seniors. Active seniors, particularly, might not see the value in obtaining a reverse mortgage because the way it has been marketed – as a financial tool for the financially needy or physically impaired – is not in line with their current lifestyles or aging needs. Educating these "low-risk Medicaid" seniors about what a reverse mortgage could do for them could affect how they age and the long-term care options available to them down the road.

Modifying one's home is important to "aging-in-place." Not only does it allow someone to live more comfortably in their existing home, but also prevents injuries like falls that tend to occur more frequently as one ages. A 2004 JOURNAL OF REHABILITATION article, *An Interdisciplinary Approach to Reducing Fall Risks and Falls*, found that each year one-third of all adults 65 years or older will experience a fall.[29] These falls are likely to result in more severe injury that requires additional hospital care.[30] By the year 2020, direct costs associated with falls for those 65 years of age or older is predicted to cost $32.4 billion.[31] Although it's difficult to determine how much falls cost Delawareans, any effort the State can take to keep falls from occurring or to reduce the extent of injury resulting from a fall, should be encouraged. This includes promoting reverse mortgages as a financial tool that can be used to make necessary home modifications.

Reverse mortgage funds, for instance, could pay for home remodeling or retrofitting to accommodate challenges associated with aging. Home modifications could include: installing grab bars in showers and bathrooms; changing the wall color so that the walls are more distinguishable; adding more lights; widening door ways and halls so they are wheelchair accessible or converting a closet on a first floor into a full-bathroom or a room into a master suite. Unfortunately, seniors in this group initially might not see the benefits of a ranch style house over a two-story house that might, for instance, require more home remodeling to install a full bathroom on the first floor or to convert a dining room into a bedroom suite rather than simply installing handrails or more lighting. In addition, older homes sometimes cannot be retrofitted as well as new ones. Structural limitations can drastically impact the amount of money needed to make modifications and can result in more money than the homeowner originally had planned.

- **Weatherization**

Seniors are particularly vulnerable to extreme temperatures changes. Older seniors and those who suffer already from a chronic condition are at even greater risk of illness or even death caused by sudden variations in temperature. Even younger, healthier seniors may not immediately feel the effects that extreme cold or extreme heat have on their bodies because they are taking medications that impair their body's ability to regulate its temperature. One way to prevent weather-related illness and mortality is to invest in home weatherization.

[29] *An Interdisciplinary Approach to Reducing Fall Risks and Falls,* Journal article by Tatjana Bulat, Stephanie Hart-Hughes, Polly Palacios, Patricia Quigley, Steven Scott; The Journal of Rehabilitation, Vol. 70, 2004 (citation within: Hausdorff, Rios, & Edelber, 2001; Hornbrook et al., 1994).
[30] Ibid (citation within: Doweiko, 2000; Hoskin, 1998; Rubenstein, Josephson, and Robbins, 1994; Rubenstein, Powers, & Maclean, 2001).
[31] Ibid (citation within: Englander, Hodson, & Terregrossa, 1996).

Weatherization is a process of installing energy saving measures, like caulking or replacing windows and doors; sealing vents to prevent leaks; or installing a furnace or water heater replacements or upgrades, to name only a few. And besides keeping older homeowners physically safer, steps taken to weatherize a home can keep utility costs down, and allow the money saved to be used for other purposes.

Seniors who use reverse mortgages in these ways can positively influence how scarce public resources are spent to supplement long-term care, because more of them would be better able to remain in their homes longer and rely on less costly forms of medical care that would otherwise be paid by taxpayers. There is a strong public interest in promoting such strategies.

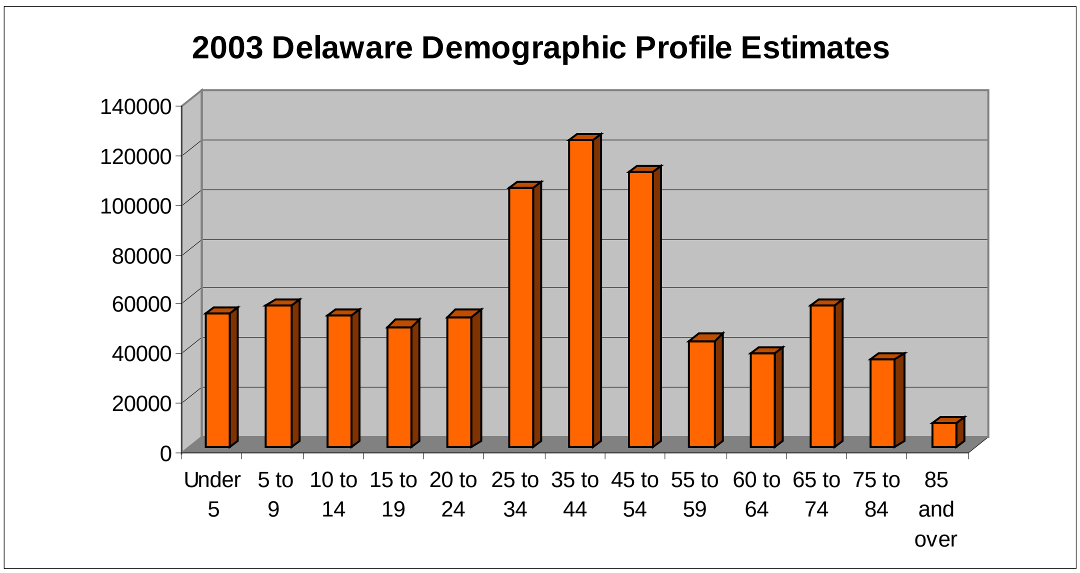
3. REVERSE MORTGAGE POTENTIAL IN DELAWARE

Reverse mortgages, while a valuable tool for some, are not for everyone. As noted previously, less than one percent of older homeowners have obtained a reverse mortgage. How many more would benefit from doing so? This section evaluates the status of older homeowners in Delaware who may be eligible for a reverse mortgage and estimates the market potential for greater reverse mortgage use.

3.1 DEMOGRAPHIC OVERVIEW

According to the American Community Survey, an annual survey conducted by the U.S. Census Bureau, Delaware had almost 800,000 residents in 2003. More than 122,000 residents were 62 years of age or older and more than 140,000 were 60 or older. The median age for all Delawareans was 37 years old. Chart One below provides a complete demographic profile for the State during that year – the most recent results published by the U.S. Census Bureau for this survey.

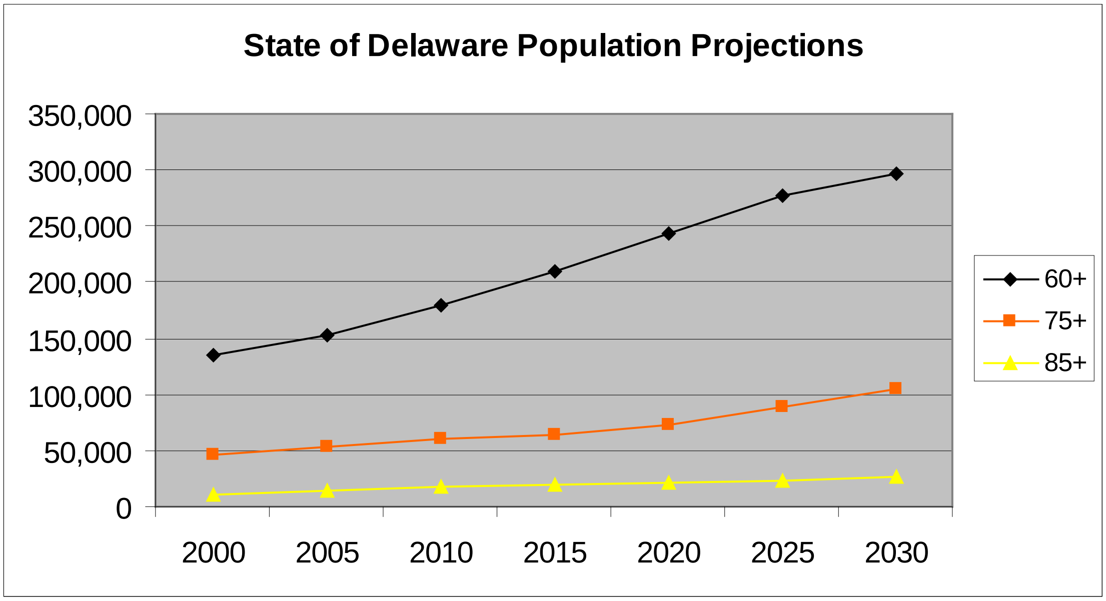
CHART ONE



Source: 2003 American Community Survey, U.S. Census Bureau

Although a significant proportion – just below 18 percent – of Delaware's population today already is 60 years or older, this number will more than double in the next 10 to 20 years. Chart Two shows how Delaware's population will change over the next 25 years as the population continues to age: While today there are about 150,000 residents age 60 or older living in Delaware, by 2030 that number will have risen to about 300,000.

CHART TWO



Source: Delaware Population Consortium, Annual Population Projections September 23, 2003, found at Delaware Division of Services for Aging and Adults with Disabilities, *www.dhss.delaware.gov/dhss/dsaapd/population_projections_delaware.html*

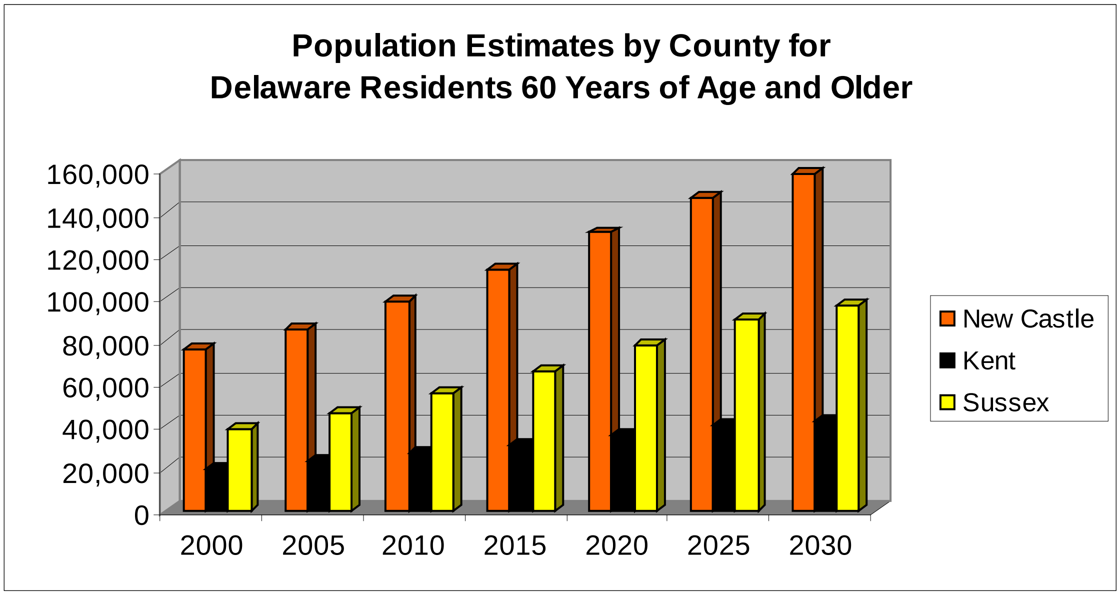
More than 300,000 households of all sizes and relation exist in Delaware at this time. About 28,000 of those are single-member households comprised of someone 65 or older.[32] As of 2000, the most recent data set available for this population demographic, over 55,000 housing units were owner-occupied by someone 65 or older.[33] This figure includes single-member households and households of two or more.

The majority of Delaware's residents live in New Castle County, followed by Sussex and Kent Counties. According to statistics produced in 2003 by the Delaware Division of Services for Aging and Adults with Disabilities, Delaware's senior population mirrors overall residential growth trends for the State. Chart Three illustrates the population projections by county.

[32] 2003 American Community Survey, Delaware Housing Statistics, U.S. Census Bureau, www.census.gov

[33] 2000 American Community Survey, Delaware Housing Statistics, U.S. Census Bureau, www.census.gov

CHART THREE



Source: Delaware Population Consortium, Annual Population Projections September 23, 2003, found at Delaware Division of Services for Aging and Adults with Disabilities, *www.dhss.delaware.gov/dhss/dsaapd/population_projections_delaware.html*

The population boom in Sussex County over the past decade, fueled by baby boomers who once vacationed in the eastern third of the county along the shoreline and since have purchased homes in the area, many moving there permanently, probably is not adequately captured in these projections, however. Thus, the elderly population in Sussex is likely to be even larger in the future, both in absolute terms and as a percentage of the State's senior population.

3.2 DELAWARE HOMEOWNERS AND THEIR HOMES

Homeownership is a requirement for a reverse mortgage. Because a significant number of Delawareans own their homes, the opportunity for greater to use of reverse mortgages likely exists.

3.2.1 Homeownership rates and mortgage status

Last year, the U.S. Census Bureau estimated Delaware's homeownership rate as 77.3 percent, up from 72.3 percent in 2000.[34] In 2000, Delaware's homeownership rate exceeded the national rate by 6.1 percentage points.[35]

[34] U.S. Census Bureau, Delaware Housing Statistics Fact Finder (2004), www.census.gov
[35] Ibid (2000)

Delaware had more than 177,000 homeowners in 2000.[36] Of those, over 47,000 homeowners *did not* have a mortgage. About 130,000 did hold a mortgage, contract to purchase or some other debt, but information about the dollar amount of the debt is not available.[37] Of those, an estimated 93,000 homeowners had no second mortgage or home equity loan, over 36,000 had a home equity loan or second mortgage and about 700 had both.[38] New Castle County, which had the highest number of homeowners also had the highest number of homeowners without a mortgage – about 28,000.[39] Kent had 6,500 homeowners without a mortgage and Sussex had over 12,500.[40]

3.2.2 Mortgage status and aggregate home values

During this same time, estimates show that the median value of homes in Delaware was $130,400 compared to the national median home value of $119,600.[41] A breakdown of median home value by county for 2000 shows values of:

- $136,000 in New Castle County,
- $114,100 in Kent County, and
- $122,400 in Sussex County.[42]

These numbers may be even higher today due to historically low mortgage rates during the past five years, which have driven up home values and prices all across the country, including Delaware.

For homes without mortgages, the aggregate home value in Delaware was estimated to be nearly $7 billion in 2000.[43] The total value of all homes – those with and without mortgages – was about $27 billion.[44]

Statistics on homeownership rates and mortgage status can be used to identify potential candidates for reverse mortgages in Delaware. They also can be used to prepare a rough estimate of the economic impact that reverse mortgages could have on Delawareans. While we are unable to break down home values by age of

[36] U.S. Census Bureau, Delaware Housing Statistics Fact Finder, Mortgage Status of All Homeowners in Delaware (2000), www.census.gov
[37] Ibid
[38] Ibid
[39] U.S. Census Bureau, Housing Statistics Fact Finder, Mortgage Status of All Owners by County (2000), www.census.gov
[40] Ibid
[41] Ibid (2000)
[42] Ibid (2000)
[43] U.S. Census Bureau, Housing Statistics Fact Finder, Aggregate Value of Housing Units by Mortgage Status (2000), www.census.gov
[44] Ibid

homeowners, we already know that 55,000 homes were owned by Delawareans 65 and older as of 2000. If we estimate, conservatively, that 60 percent of the homes did not have a mortgage, then approximately 33,000 homes were without a mortgage and owned by Delawareans 65 and older. If we further assume that most of these homeowners currently are not reverse mortgage users, then approximately $4.9 billion of housing wealth exists today that can be tapped by 33,000 senior households.

3.3 ECONOMIC STATUS

When and how borrowers use reverse mortgages is influenced by their economic status. For this reason, the NCOA estimated the number of candidate households nationwide who could use a reverse mortgage to pay for long-term care by consumer groups. The report relied on numbers obtained using data from the 2000 Health Retirement study to calculate homeownership by market segment and divided candidate households into four categories: Medicaid beneficiary, high-risk Medicaid, spend-down risk and low-risk Medicaid.[45]

Each of these consumer groups likely will spend the proceeds from the loan in different ways, which ultimately would affect the financial impact that greater reverse mortgage use would mean to the State in savings. For example:

- A Medicaid beneficiary might use a reverse mortgage to pay for in-home care that Medicaid otherwise does not cover.

- A borrower who has exhausted their retirement funds to pay for medical care might apply funds from a reverse mortgage to medical costs or to maintain their home by paying for utility bills or property taxes.

- A homeowner who had a personal or medical emergency might use the funds to pay for home remodeling or to subsidize a portion of their medical bills not covered by Medicare or other insurance they may have.

- Finally, a borrower in the low-risk category, if in their early years of retirement, might decide to use a reverse mortgage to pay of long-term care insurance, or might choose to retrofit their home so that it accommodates them better later in their life.

If we use 33,000 as the estimate for the number of candidate households in Delaware, per above, and apply the same percentages found in candidate households nationwide to Delaware estimates,[46] we can get a sense of the potential market segment for reverse mortgages use here. The estimate is as follows:

[45] Ibid
[46] This might skew slightly the distribution, as Delawareans 65 years and older exceeded the national median household income by as much as $5,000 per year in 1999. For the years 2001 through 2003,

- □ 990 or 3 percent Medicaid beneficiaries;
- □ 3,630 or 11 percent high-risk Medicaid;
- □ 8,250 or 25 percent spend-down risk; and
- □ 20,130 or 61 percent low-risk Medicaid.

Although this breakdown assumes that all 33,000 reverse mortgage candidates would use a reverse mortgage, something which is improbable, it offers a way to categorize and quantify potential reverse mortgage demand.

---

median household yearly income for all Delawareans was estimated to be $50,451 nearly $7,000 higher than the national figure.

4. IMPEDIMENTS TO INCREASED REVERSE MORTGAGE USEAGE

Reverse mortgages, although more popular today than in the past, still are an underused option for seniors to stay in their homes longer, and possibly to rebalance the long-term care financing system. Advantages and disadvantages of reverse mortgages have been addressed already in this paper. This section addresses in more detail the disadvantages that may serve as barriers limiting reverse mortgage use.

The section specifically will focus on barriers such as:

- Consumer attitudes and trends.
- Need for consumer protections.
- High closing costs.
- Jeopardizing public assistance eligibility.
- Need for better public policy and program integration in using reverse mortgages to finance long-term care.

The second part of this section will discuss barriers and product flaws associated with the last of these: using reverse mortgages – specifically, the most-popular HECM loans – to pay for long-term care insurance as permitted under the federal American Homeownership and Economic Opportunity Act (AHEO) – legislation that encourages affordable housing by removing costly regulatory barriers hindering low-income families, the elderly, or disabled persons from owning or renting a home. One provision of the AHEO Act directly impacts how reverse mortgages can be used, especially when loan proceeds are used to pay for long-term care. Specifically, this provision:

- Allows HUD to waive the upfront mortgage insurance premium for HECM borrowers who use all of the proceeds of their reverse mortgage to purchase a tax-qualified long-term care insurance policy.
- Streamlines the process of refinancing an existing reverse mortgage by applying the origination fee the borrower paid on the original loan to the refinance reverse mortgage.
- Broadens guidelines used to define a homeowner to include condominiums and cooperatives as an eligible primary residence.
- Calls for better consumer protections to be provided by HUD to reinforce the need for mandatory counseling prior to submitting an application for a reverse mortgage, and to establish guidelines that consumers could use to determine

the viability of refinancing. HUD, however, has not yet published regulations to implement this provision.[47]

4.1 GENERAL IMPEDIMENTS TO REVERSE MORTGAGE USAGE

4.1.1 Consumer attitudes and trends

More and more older homeowners are considering options that will allow them to "age in place." Often this is because of financial constraints, which limit their ability to consider other options, like retirement communities, but mostly it is because older Americans enjoy their independence and do not want to lose it.[48] In addition, those who are sick and require some form of constant medical care often prefer to stay in their home instead of moving to an assisted living facility or nursing home.

Despite the growing desire to explore alternatives to institutionalized care and Medicaid, many seniors still are reluctant to consider reverse mortgages as a viable alternative. Many simply do not view home wealth as an asset that can of should be liquidated and put toward other uses or expenses. In fact, the NCOA conducted a survey using a sample of older homeowners from various states to test consumer attitudes, and identified three main reasons why this is the case:

- □ Housing wealth is not regarded as a financial resource.
- □ Seniors desire to leave a bequest.
- □ Seniors are saving home equity as "insurance" for emergencies.[49]

In addition, seniors sometimes think of reverse mortgages as an option only for the financially desperate, and therefore, see them as one of last resort[50] – and, thus, historically that is how they have tended to be used.[51]

4.1.2 The need for greater consumer protections

Even though HUD, AARP, Fannie Mae, Financial Freedom, and numerous lenders all provide a wealth of information on their websites and in consumer guide books about reverse mortgages, the information is not presented consistently. Sifting through these materials can be difficult for seniors and cause them to be apprehensive

---

[47] The Long-term Care Connection, Alternatives to Long-Term Care Insurance, http://ltcconnection.com/alternative/act.htm
[48] "Increasing Opportunities for Aging-in-place," by Elizabeth Mynatt, Irfan Essa and Wendy Rogers of the GVU Center of the George Institute of Technology (2000).
[49] *Use Your Home to Stay at Home, Expanding the Use of Reverse Mortgages for Long-Term Care: A Blueprint for Action*, by Barbara R. Stucki, Ph.D. of the National Center on Aging (NCOA), 2005.
[50] Ibid.
[51] Ibid.

about reverse mortgages in general. Many seniors also may have a hard time understanding how the loan benefit amount is calculated, or knowing when it's best to tap into their equity, since loan amounts increase as they age. And those financially savvy seniors capable of understanding the eligibility requirements and particulars about each loan option available still might be overwhelmed by the amount of work involved in selecting a payment option that best suits their needs.

On the other hand, seniors often turn to reverse mortgages after a significant health problem. This is a vulnerable time and the risk of making a poor decision or being misled is higher than in less stressful times. It is also a time when seniors least can afford to make a mistake about how to fund their long-term care.

If reverse mortgage use continues to grow and is linked more with long-term care expenditures, more companies will enter either the reverse mortgage or home long-term care market to serve this population. Overall, that would be a positive development and create increased competition, new product development and economies of scale. It also might attract, however, more unscrupulous characters who would try to take advantage of seniors, especially those who are infirm.

Delaware currently offers very little information on reverse mortgages, and provides no information on State agency websites. The State does provide a variety of programs to assist older Delawareans, and lists programs and services, as well as others offered in the community in a resource guide. Included in the list is a very brief paragraph on home equity conversion supported by a list of HUD certified counseling agencies and a short list of phone numbers for companies that offered reverse mortgage at the time the guide was published. (Delaware's AARP chapter presents little information about reverse mortgages on its website, either, and instead refers interested homeowners to their main website.) Other states – New Jersey, California and Texas, for example – provide fact sheets and eligibility criteria on their websites.

4.1.3 High closing costs

Closing costs also can deter older homeowners from using reverse mortgages. These costs generally include fees for appraisals, title searches, insurance, inspections and recording fees. The amounts may differ from lender to lender, but usually are several thousands of dollars. Closing costs for a 75-year-old borrower receiving a HECM loan for a home valued at $105,000, for example, could come to $6100 with an additional service fee set aside of $5300, reducing the net loan value by a total of $11,400.[52] Homeowners with limited financial resources may find these costs too high and bypass the reverse mortgage option altogether, opting either to sell their home and seek alternative living arrangements, or to forgo the need they wished to finance. In addition, younger or more affluent borrowers who would be more apt to use loan proceeds to pay for long-term care insurance or home remodeling may forgo a reverse

---

[52] *Use Your Home to Stay at Home, Expanding the Use of Reverse Mortgages for Long-Term Care: A Blueprint for Action*, by Barbara R. Stucki, Ph.D. of the National Center on Aging (NCOA), 2005.

mortgage and instead continue to draw down savings from a retirement account or sell their home for a smaller, cheaper one.

While reverse mortgages offer borrowers an opportunity to pay closing costs using loan funds, closing costs can consume a lot of the benefit amount, and further reduce the cash payment to the homeowner. These high costs are especially daunting when, because of the health of the borrower, the reverse mortgage is expected to be only a one- or two-year transaction.

Instead, homeowners can use a HECM product that waives the upfront mortgage insurance premium, reducing the closing costs by $2000, but 100 percent of funds received from the reverse mortgage then must be used to pay for long-term care insurance. Homeowners who choose this option forfeit the flexibility of using reverse mortgage cash as they choose. Even within the context of financing long-term care costs, this can be problematic, however, for borrowers who exhaust their loan proceeds and outlive their long-term care insurance benefit. Seniors in this group likely would become dependent on Medicaid to cover their medical costs when they are older and when care is most expensive. Moreover, this option also is too restricting, because it does not allow borrowers to use funds for home remodeling or weatherization – investments that promote independent living, and help reduce future Medicaid and long-term care costs, as well.

The State of Delaware currently offers no closing cost assistance of its own to older homeowners who use reverse mortgages.

4.1.4 Public assistance eligibility restrictions

Reverse mortgage payments are considered a liquid asset and can be counted against income thresholds for public benefit programs like Social Security or Medicaid. Some borrowers therefore can be left in a worse income position by taking out a reverse mortgage. The only way to avoid this happening is to make sure that any cash received from a monthly cash advance is spent by the end of the calendar month in which it was received.[53] Any cash left over at the month's end is counted against the homeowner's liquid assets threshold for all public benefit programs. In some states, this limits the payment options to just monthly payments. Other Medicaid issues include asset transfer flexibility; Medicaid liens that could violate the requirement of a free and clear ownership; and estate recovery program complications.

[53] Fact Sheet on Reverse Mortgages, AARP, www.aarp.org

4.2 PROBLEMS SPECIFIC TO USING LOAN PROCEEDS FOR LONG-TERM CARE FINANCING

There are some disadvantages associated specifically with promoting reverse mortgages as a way to rebalance the long-term care financing system. Reverse mortgages initially were not designed to be used for a specific purpose: Homeowners generally are entitled to use the cash from reverse mortgages however they see fit. Despite an estimated $2 trillion of untapped housing wealth that exists today – nearly $5 billion of it in Delaware – it would be impractical to think that all of it or even half of it will be spent on home remodeling or long-term care. It is, therefore, almost impossible for policy makers to predict how greater use of reverse mortgages might impact state spending on long-term care in the future. But, as noted earlier, even modest increases in use of reverse mortgages to subsidize some medical expenses, home remodeling or long-term care insurance would produce savings significant enough to warrant further promotion.

Certain problems particular to use of reverse mortgages in this context would need to be addressed, however:

4.2.1 Timing does not mesh well

The provision in the AHEO Act that allows the mortgage insurance premium associated with a HECM loan to be waived if loan proceeds are spent on long-term care insurance is the first step in formally linking reverse mortgages and long-term care. But there are significant differences in these products that are not addressed in the law, which may limit the number of persons who use the HECM loan to pay for long-term care insurance.

The optimal times for purchasing the two products correspond poorly: For many seniors, the best time to buy long-term care insurance is during their 50's or early 60's. Waiting longer can result in higher monthly premiums and increased chances that a person will be medically ineligible for long-term care insurance. Pre-existing conditions also could be a factor at any age, in which case the HECM loan option could never help.

Reverse mortgages provide the opposite age restriction and financial incentive for many. First, older homeowners cannot obtain reverse mortgages until they are 62 years old, which eliminates the ability to use this financing option during the optimum years for purchasing long-term care insurance. Second, obtaining a reverse mortgage in one's early 60's limits the equity available through the mortgage (both total and monthly), and increases interest costs relative to those for older homeowners in their 70's and 80's.

4.2.2 The HECM long-term care insurance option is too restrictive

In addition to the foregoing problems, HECM loans that fall under the AHEO Act provision also have strict requirements as to how the funds must be used, since 100 percent of the loan's proceeds must be used for long-term care insurance. Although the intention of this option was to create a subsidy that could be applied to long-term care insurance, and thus encourage more consumers to purchase insurance, the requirement that all loan proceeds must be used for that purposes poses potential barriers and should be rethought.

The requirement means that none of the money can be used to address other important needs for the funds. Uses such as paying property taxes, maintaining the home, and, for an increasing number, home care for their parents, siblings or disabled children are off limits. Not only is this personally difficult, but it could result in higher Medicaid and social service program costs especially if the result is a loss of a home and the other members of the household are forced into long-term care facilities Flexibility is needed in such cases.[54]

4.2.3 Failure of long-term care insurance to cover in-home care could force home sale

A related problem is that reverse mortgages require that the home be the primary residence of the mortgage holder. If a medical condition requires an extended stay at a medical or other care facility *because the long-term care insurance policy does not pay for at-home treatment* (this is often more expensive coverage), then the long-term care insurance provision combined with a reverse mortgage could force sale of the home because the home is no longer (even if only temporarily) the patient's "primary residence."

These issues particularly affect asset-rich but cash-poor seniors and lower-income reverse mortgage borrowers generally. These are the homeowners least likely to be able to meet multiple obligations with non-reverse mortgage assets. This dynamic can be seen from historical users of the product: The typical long-term care insurance holders tend to be higher income seniors, while reverse mortgage borrowers tend to be lower income.[55]

For some older homeowners, however, it is exactly the right thing to do with the mortgage money. Long-term care costs far could exceed the value of the home and not only are some of the assets of the policy holder protected (including any residual home

[54] For a more detailed explanation of these issues, see "Linking Reverse Mortgages to Long-Term Care Insurance" by Alexis Ahlstrom, Anne Tumlinson and Jeanne Lambrew of the Brookings Institute, first of a series of papers in the Retirement Security Project supported by the Pew Charitable Trusts, statistic provided by: Mature Market Institute, "Metlife Market Survey on Nursing Home and Home Care Costs," 2002. Found at www.aarp.org.

[55] *Use Your Home to Stay at Home, Expanding the Use of Reverse Mortgages for Long-Term Care: A Blueprint for Action*, by Barbara R. Stucki, Ph.D. of the National Center on Aging (NCOA), 2005.

value), but so are the assets of their children who might otherwise have to pay for the medical care. For policies including home medical care, it could help seniors stay in their homes longer and with a better quality of life. For this pool of people, the question is whether the benefit of avoiding the closing costs is worth the use restrictions. This would depend on factors such as age, the total cash available after payment of the long-term care insurance premium, the appreciation value of the house that might afford more long-term financial flexibility, and the presence or absence of the other complicating factors discussed above.

4.2.4 Other integration issues

There are many “integration questions” regarding the meshing of long-term care insurance industry regulation and HECM loans under the AHEO Act. For instance, what happens if the long-term care insurance provider goes bankrupt or if there are coverage disputes? A significant portion of long-term care insurance regulation is carried out by states, so both the nature and quality of long-term care insurance regulation may vary significantly. In addition, the long-term care issue adds another state regulatory system to the reverse mortgage equation.

Conversely, there are missed opportunities when reverse mortgage choices are not analyzed in the context of state, local and federal public and non-profit programs designed to help seniors stay in their homes. This includes property tax relief, home maintenance loans, rural homeowner programs and design assistance among others. Proceeds from reverse mortgages, for instance, could be used to match funds currently paid using taxpayer dollars for home maintenance programs, and thus share responsibility for paying for home repair with the homeowner as opposed to taxpayers bearing the full financial burden. Any analysis needs to consider other programs that might assist or reduce property taxes or help fund energy efficient home improvements.

4.3 CONCLUSION

A reverse mortgage is not the right answer for everyone and sometimes can be the wrong answer. Someone who is too sick to be at home should not obtain a reverse mortgage and then spend the proceeds on home remodeling. More likely, such persons should sell their home and use the proceeds to get the best nursing home care they can afford. Lower income households with lower value homes; rarely find reverse mortgages to be a good deal: The closing costs are too high and the return is too small to cover needed home remodeling and long-term care costs. The foregoing discussion also highlights the need for the creation of new and more flexible aging-in-place reverse mortgage and other financing products. There need to be products, for example, that better address health circumstances and life expectancy of a person rather than being based purely on age. A 65-year-old person with significant illness needs a different product than does a healthy one.

Reverse mortgages, however, can have a positive effect on the lives of many older Delawareans, especially those who are able to live independently but who lack the resources to make it possible to remain in their homes. In addition, reverse mortgage proceeds could make it financially viable for older Delawareans who are in their early years of retirement to pay for long-term care insurance – an option that they might bypass today fearing that they will be unable to pay for coverage as they age.

The real potential strength of reverse mortgages lies in the ability to link and integrate them with the entire network of laws, programs and revenue sources for long-term care. This includes removing the barriers previously identified and thinking of ways to leverage multiple resources. A reverse mortgage is only one tool that alone can make a difference, but in combination with other tools and programs could make a major impact on the lives of seniors.

5. RECOMMENDATIONS

Delaware can be the national leader in aging-in-place financing opportunities that can benefit citizens who chose to remain at home and maintain the quality of life through the use of personal finances.

Most states are wrestling with the issues of reverse mortgages with few definitive answers. No state appears to be taking a comprehensive approach, since aging-in-place and long-term care financing needs vary by state and often by regions within a state. Differences in demographics, level of homeownership, nature and pattern of housing (including urban vs. rural vs. suburban), income and health levels, strength of private and public financial advisors, and Medicaid provisions are just a few of the considerations.

Because of its large and growing senior population and higher than average homeownership rate, Delaware has advantages over other states and can be a leader in aging-in-place financing. Delaware has:

- Strong financial literacy initiatives that provide the foundation for building increased public awareness and literacy programs for reverse mortgages and other aging-in-place financing.

- A world-class financial industry that has taken local and national leadership roles in senior homeownership projects and policies. The industry includes a strong financial advisory sector that will be a critical part of any public awareness and counseling program. The industry's current and retired employees also form a base for a volunteer financial aging-in-place guidance initiative.

- An innovative healthcare industry that can leverage reverse mortgage and other dollars into the next frontier of home-based medical diagnosis and care.

- A strong building industry including architects, designers, developers, contractors and employees. This industry can provide the leadership and capacity for aging-in-place home construction and remodeling.

- A large core of higher-income seniors who represent a key consumer group to target for linking home equity and long-term care.[56] Also, this group may be a strong segment for using reverse mortgages for leisure and investment purposes. Using reverse mortgages to increase one's quality of life through leisure or investment would help establish the reverse mortgage product even if it would not directly address the long-term care link.

[56] *Use Your Home to Stay at Home, Expanding the Use of Reverse Mortgages for Long-Term Care: A Blueprint for Action*, by Barbara R. Stucki, Ph.D. of the National Center on Aging (NCOA), 2005.

- The ability to help seniors make good financial choices that will keep them in their homes for as long as they are able and desire is a logical extension of the new Livable Delaware approach.

Following are recommendations to capitalize upon Delaware's strengths with good public policy and realistic actions on reverse mortgages. They represent opportunities to keep more, older Delawareans in their homes longer by addressing general impediments to reverse mortgage use.

5.1 OUTREACH AND EDUCATION

There is a great need for public education and personal counseling regarding reverse mortgage products and programs. It is a component of the financial literacy needed not only by those over age 62, but also by those in their 50's who are planning their retirement, and the children and other potential caregivers of seniors. Public education and counseling is the linchpin for long-term growth of reverse mortgages and successfully linking them with other opportunities for financing long-term care.

The need for financial literacy is recognized in the requirement for counseling under the AHEO Act and the establishment of the national counseling program for HECM loans that allows borrowers to make good choices about how best to use the money they receive. More information about the national counseling program can be found at: www.hecmresources.org.

Delaware – particularly the State Treasurer's Office – has significant experience in developing financial literacy programs such as the Delaware Money School classes offered by the Delaware Financial Literacy Institute. This experience and framework places the State in an excellent position to work and build upon national programs to help older homeowners make good reverse mortgage and long-term care financial decisions.

The State should develop an outreach strategy to target older homeowners and their families. This strategy should include:

- Production of printed materials that can be accessed at local senior centers, libraries, doctors' offices, or simply handed out at various public events that seniors might attend

- Provision of information about reverse mortgages on websites that older Delawareans frequent, with links to other sites such A the Division of Services for Aging and Adults with Disabilities, the Department of Health and Social Services, the State Treasurer's Office, and the ElderInfo Office, part of the Department of Insurance

- Use of web-based information sessions on reverse mortgages that would offer older homeowners, their families and advocates the opportunity to join in monthly Internet discussions where they could share experiences, ask questions and learn more about how reverse mortgages work.

- Inclusion of speakers who are experts on reverse mortgages at conferences such as the Governor's Conference on Aging or other seminars the State holds on retirement planning and long-term care

- Identifying, whenever possible, existing resources and organizations rather than creating new ones to further a reverse mortgage use in Delaware. For instance, there is a host of AARP approved counselors already on-hand in Delaware within the non-profit community that should be used to promote responsible reverse mortgage use.

- Designing a comprehensive counseling program on long-term care financing. Part of the program specifically would be geared towards promoting reverse mortgages, but it also would include marketing the entire range of options and programs available to older Delawareans. HUD already requires potential HECM loan borrowers to undertake counseling on requirements and obligations associated with the HECM loan and strongly encourages all borrowers interested in obtaining a reverse mortgage other than a HECM loan to do the same. As Delaware works to promote reverse mortgage as a long-term financing option, the need for counseling that encompasses all financing strategies becomes important in order to ensure that a homeowner weighs all options equally. Such counseling therefore should cover not just reverse mortgages but also how to request a Medicaid waiver; long-term care insurance; where to look and how to obtain a grant for home remodeling or retrofitting; money management; other loan options; and when it might make sense to sell the home altogether.

- Creating a Master Financial Advisor certification program for public and private sector financial advisors in the area of long-term financial planning. Not only would this provide a core of qualified advisors, but it also would be a mechanism to further the incorporation of reverse mortgages and long-term care insurance into mainstream financial planning.

Delaware also could do better at tracking older homeowners who are at risk of needing Medicaid assistance by surveying homeowners more often and monitoring the frequency of Medicaid applications diligently to identify patterns or trends. Doing so would provide the State a way pro-actively to target consumers who might be eligible for reverse mortgages before they become dependent up on Medicaid to pay for long-term care.

5.2 CLOSING COST AND FINANCIAL ASSISTANCE

Closing costs are one of the main barriers to greater reverse mortgage use. To overcome this obstacle, and help more consumers view reverse mortgages as a viable option for tapping into cash reserves accumulated in home equity, Delaware should:

- Develop a pilot program to subsidize a portion of or all closing costs associated with a reverse mortgage linked specifically to long-term care costs. The pilot program also could be used to test other long-term care-related subsidies or financial instruments.

  The State should seek federal foundation funding or funding through state housing finance agencies to support the pilot program to the extent that it can. Ultimately, as mentioned earlier, the hope is that savings would be realized in the Medicaid program that would exceed the costs of the reverse mortgage today. Examples of similar state initiatives are:

  - The New Jersey Housing and Mortgage Finance Agency offers a reduced and fixed $1800 origination fee and a below-market average monthly servicing fee in the amount of $25. Mortgage insurance costs are not subsidized.

  - Rhode Island charges a one percent (standard is two percent) origination fee for HECM loans for households with an annual income less than $78,000 (amount varies by size of household).

  - The Montana Reverse Annuity Program offers its own reverse mortgage. Applicant has to be 68 years or older. There is a sliding scale for closing costs that is limited to 80 percent of FHA appraised value. The loans are non-recourse and can be used for any purpose.

  - Between 1995 and 2003, Connecticut granted approximately 80 loans under its long-term care-linked reverse mortgage program. The program since has been suspended due to lack of interest.

  Some of these programs have been unsuccessful because they were not instituted in combination with a strong outreach component to educate consumers about reverse mortgages. A consumer awareness campaign to educate consumers about this product and its benefits therefore must be undertaken in conjunction with any financial assistance program developed and funded by the State to pay for a portion or all closing costs.

- The State should also work with the reverse mortgage industry to help refine reverse mortgage products, including:

- underwriting medical costs, especially for very ill or older homeowners;

- offering higher pay outs to limited-life expectancy borrowers by waiving home assessment measures used to determine reverse mortgage product options available to certain consumers; or

- creating single-purpose loans to allow borrowers to pay for property taxes, home repair or utilities. Single purpose loans usually provide a single one-time payment and do not require the loan to be paid back as long as the homeowner lives in the home.

- Another option might be to offer an uninsured reverse mortgage, which would work like a credit line. This type of reverse mortgage might provide short-term financial assistance for borrowers who plan on selling their home, which would allow them to payback the loan within a few years.

- Collaborate with the Delaware financial industry to develop new lower cost products that are more flexible than current reverse mortgages, especially for very ill seniors. An example that should be considered is developing a fixed-term reverse mortgage product. The San Francisco Development Fund offered a loan like this one, which made monthly payments to borrowers for a maximum of twelve years. Interest was fixed for the life of the loan. This type of loan could be appealing to reverse mortgage candidates who, for instance, do not plan on remaining in their current home as they age, but who still want to remain their for a set number of years. A loan like this one could provide borrowers the flexibility to do that while still benefiting from cash saved as home equity while they still live independently.

□ The state government should build a detailed map and profile of senior homeownership by county. The purpose of the map is to learn facts, trends and attitudes that impact decisions made by older homeowners today, and to estimate the market potential of reverse mortgages and other products, which may present an opportunity to discover new housing options and neighborhood configurations that might be needed to support aging-in-place. For instance, the map should identify: Where geographically do seniors live (down to the neighborhood and apartment building level)? What is the value of their homes; What is the potential reverse mortgage market size? What do older homeowners think about using their homes as assets they can tap into as the plan for or need to pay for long-term care needs? In addition, questions as to how healthy are older Delawareans by age, income, race, and geography, should also be answered.

Obtaining information like this also would allow the State to identify residents who currently are on Medicaid, those who are at high-risk of needing Medicaid in the future and those who might be “spending down” their cash assets now, which may put them at risk of needing medical assistance paid for using Medicaid later in life. This information would allow the State to target a consumer group who would likely benefit from a reverse mortgage, and to make sure they have access to information about the product and how it can be used.

A map and profile also would examine building and remodeling trends that already might be occurring in Delaware now. Information such as this would provide a baseline for measuring the effectiveness of consumer outreach programs on reverse mortgages, as well as help gauge what options are best suited for each county. In combination with the first set of questions, questions related to building and remodeling trends would help identify areas that would be suitable for cooperative service approaches to provide services to older Delawareans more cheaply and establish a coordinated network for delivery. For example, Naturally Occurring Retirement Communities (NORCs), once communities for all ages that evolved into households commonly lead by seniors, might exist throughout the State already, but with limited acknowledgement. There are condominium apartment buildings in Wilmington, for instance, that fit this description. There may be other opportunities where cooperative service approaches could be employed, especially in new housing developments that cater to older residents. The primary advantage associated with cooperative service approaches is the potential to reduce costs – both medical care and remodeling – through economies of scale and a stronger market position, because there is a larger pool of customers who likely will demand services. The increase in demand ultimately will drive down costs, and make it more affordable to seek in-home or in-community care, or both from quality health care programs and services.

- The state government should perform additional research to determine if cooperative service approaches can be undertaken in Delaware, and if so, whether there is an opportunity for them to be tried in new ways. There are several questions that can serve as a basis to guide additional work in this area. For instance:

    - Is it possible to link NORCs in different areas of the State?

    - Cooperative service approaches might be served best when they are implemented in NORCs that are geographically close, but there may be ways to link more geographically dispersed NORCs if there are health care providers who have already or could develop the capability to treat residents in different areas of Delaware, especially in a state as accessible as ours.

    - Are there ways to link seniors who live in rural areas by way of a circuit rider system that would provide mobile care at a lower cost?

- □ Are there ways to link seniors who live in urban or suburban areas with common employers who may have similar insurance benefits today, especially if done in cooperation with these companies?

- □ Are there opportunities to pool sets of seniors in close proximity for home remodeling done specifically to promote independent living?

- □ The fundamental question is: Whether there are ways to pool consumer resources to provide lower cost health care and building or remodeling costs?

□ Finally, the State could conduct a series of public dialogues with seniors about how they view their homes as assets for long-term care and aging-in-place. The first set of dialogues would need to occur prior to beginning the map and profile study. The second series would take place after the study so that the findings could be shared and discussed publicly. Dialogues like these might provide valuable insight about how different minority groups view their home and reveal valuable insights that the State can use to design a pilot program, revise existing policies or programs or to create new ones. The dialogues may reveal, for instance, that the African American community sees their homes as assets that are gifted to family members as a right of passage, and therefore may be less reluctant to opt for a reverse mortgage unless they are in dire need of cash.

5.3 PROMOTING USE FOR IN-HOME CARE

Although the federal government establishes rules for Medicaid eligibility, states do have flexibility in how they choose to implement certain provisions and guidelines within the rules. Delaware should:

□ Change how it counts regular monthly cash payments from a reverse mortgage loan. Currently, loan proceeds are counted as assets, which impact Medicaid eligibility requirements. Instead of treating funds paid out from reverse mortgages as income, the funds should be treated as proceeds from a loan. Until this change is made, the State will limit its ability to encourage “high-risk Medicaid” seniors – one of the largest consumer groups for reverse mortgages – from tapping home equity using a reverse mortgage.

□ Revise the State’s policy on estate recovery. Estate recovery relies on liens – the legal instrument used to prevent Medicaid beneficiaries or their families from selling the home without first paying any costs incurred by Medicaid – to recoup medical expenses. A lien could prevent the spouse of a Medicaid beneficiary from accessing a reverse mortgage, since a reverse mortgage must be the primary loan on a property to qualify. On occasion, Delaware uses liens to recoup Medicaid costs. The State should change this policy, so that estate recovery liens are the secondary rather than primary loan on the home, which would enable any remaining spouse still living in the home to apply for a reverse mortgage loan. Another option would be to simply do away with estate recovery altogether.

- Consider allowing seniors who use a reverse mortgage to pay for in-home services to protect a defined amount of assets from being subject to Medicaid estate recovery. This would encourage more Medicaid beneficiaries to use their own financial resources saved as home equity to cover a greater portion of their own medical care.

- Market reverse mortgages to “dual eligibles.” Dual eligibles are consumers who qualify for both Medicare and limited Medicaid services. Usually, this group does not meet the income thresholds or health status requirements to qualify under the Home and Community Based Service waiver for coverage of in-home care, but are well enough to remain in their homes if adequate support were available. Incentives also are needed to encourage this group to view home equity as a resource they can use to pay for in-home support.

5.4 PROMOTING USE FOR HOME MODIFICATION

Home remodeling and new home construction designed for seniors are a growing phenomenon and industry. These designs and products will allow older Americans to stay at home longer. The National Association of Home Builders in conjunction with the AARP has a national aging-in-place program that includes training and certification for aging-in-place specialists including advisors, contractors and others who can help those interested in aging-in-place construction. There is a strong Delaware connection to this phenomenon through the leadership participation of companies such as Bank One, Citizens Bank and Bank of America in the non-profit organization Neighborhood Works America. Neighborhood Works America has both national and local programs to help find solutions to assist seniors “age in place” specifically including the issue of non-liquid assets such as homes.

As Delaware’s population continues to age, the State should develop a long-term plan for caring for and providing for promoting home modification as one way in which reverse mortgages can help Delawareans preserve their independence as they age. The State should:

- Design and offer a deferred payment loan (DPL) product. A DPL usually is a loan offered by local or state governments with the help of the private lending community for the purpose of making home repairs and improvements. It is often a financial tool used by low to middle income borrowers for home projects such as plumbing, floors, stairs or porches, but many programs also cover home modification projects and energy efficiency improvements. A borrower who uses a DPL receives a one-time lump sum cash advance and like a traditional reverse mortgage the borrower is not required to repay the loan as long as they remain in the home. Clackamas County in Oregon, for example, offers a DPL to county residents who own or are buying a home that is in need of repair. The DPL program requires that the potential borrower must be current in paying property taxes. The amount of the loan is based on the amount of equity in the home and the type of repairs that need to be completed, but cannot exceed $35,000. An interest rate of 3 percent in added to amount borrowed.

- Allow DPLs to be combined with a HECM loan. Any DPL product that Delaware designs should be flexible enough so that it can be tied to a HECM loan. One benefit of doing this is that a borrower can get the benefits of a DPL and a HECM all in one. A DPL typically does not charge a loan origination fee, has lower closing costs and accrues less interest, since it's done on a fixed rather than on a compound basis, so the rate never changes. A DPL, however, usually must be used for home modification projects, and is provided in a one-time lump sum. Whereas, a HECM loan offers various payment options and does not stipulate what the loan's proceeds must be used for.

- Develop a plan to become a leader in adoption of home medical diagnosis and treatment, "aging-in-place" home design, home building and home remodeling. Use the home show and other public forums to help introduce these ideas and products. Attract foundation and research dollars to help with model homes, product development and field tests.

- Create a program that assists older homeowners with home repairs or home modification, if they agree to apply for a reverse mortgage once the repairs or modifications are made. A portion of the loan proceeds should be used to pay back some of the needed home repairs/modifications, but at a reduced rate. Low-income seniors often consider a reverse mortgage to prevent a foreclosure from happening. In many of these cases, however, the home no longer meets the maintenance requirements mandated by FHA for a HECM loan, and the cost to bring the home up to code would consume too much of the equity to make a reverse mortgage a viable option. Although some financial assistance already is available to low-income residents, the funds typically are not enough to cover maintenance requirements that HECM loans require. In addition, Medicaid beneficiaries are not eligible to receive funds for home modification. Funding like this could make it easier for them, especially those in a nursing home, to pay for transition costs and other services that would allow them to transition from the nursing home back home.

5.5 INTEGRATING WITH LONG-TERM CARE INSURANCE

It is important for Delaware to increase acceptance and awareness of reverse mortgages to pay for long-term care insurance. Specifically, the State could:

- □ Develop a state-level HECM equivalent that waives closing costs if the loan is used to buy long-term care insurance – but, unlike under the federal AHEO Act program, provides greater flexibility in allowing diversion of the proceeds for other specified needs, in order to avoid the types of potential family hardship discussed earlier.

- □ Integrate reverse mortgage and long-term care insurance counseling into human resource programs, and encourage private companies to do the same. Educating younger, healthier seniors and those on the cusp of retirement about the advantages of long-term care insurance earlier while they are still working, and offering them an option to pay for premiums that are associated with long-term care insurance will help build acceptance for these products and promote greater usage.

- □ Review state long-term care insurance regulations and make sure they are designed to enhance and not hinder the reverse mortgage linkage. Sp

- □ Work with lenders to design a long-term care insurance policy that is tailored to the needs of reverse mortgage borrowers. Things to consider include:

  - □ Guaranteeing the policy to last throughout a policy holder's lifetime.

  - □ Tying the cost of the insurance policy to the value of the home.

  - □ Offering varying benefit plans.

  - □ Capping premiums so they cannot exceed the value of a senior's assets at the time the policy is purchased.

- □ Encourage Delaware 's federal representatives to work for changes in the AHEO law that links reverse mortgages and long-term care insurance so that it can be a realistic option for more consumers.

CONCLUSION

Reverse mortgages can help older homeowners pay for services that allow them to remain in their home and live independently longer. While reverse mortgages are gaining in popularity, many older homeowners still are unaware of what they are and how they can be used. There are many other barriers that need to be overcome before reverse mortgages truly will be viewed as a viable option for financing ones long-term care needs, and ultimately as a way to save money in long-term care expenses to the State in the future. The potential, however, is great, and further attempts to increase their use are worthy of exploration.