Retirement Income
JOURNAL

Selling like Coldcakes

By Kerry Pechter *Thu, Mar 31, 2016*

This week, RIJ features the first installment of a three-part series on the reverse mortgage industry, and why it's shrinking when it should, on paper at least, be growing.

Recent articles by Wade Pfau and others on the strategic use of reverse mortgage lines-of-credit have rekindled the conversation in the retirement industry about these useful but complex instruments, officially known as Home Equity Conversion Mortgages.

In a series of articles that begins today, *RIJ* aims to solve what we call the Reverse Mortgage Puzzle. It starts with a question: If HECMs are so great, why don't more retirees use them? Rather than look at the pros and cons of reverse mortgages for consumers, we wanted to find out why HECMs are underperforming as a line of business.

We discovered a long list of reasons, most of them linked directly or indirectly to the 2008 financial crisis. The once-generous program, created in 1998, attracted too many marginal borrowers during the mid-2000s, then suffered through a period of foreclosures and losses during the Great Recession. In response, the government tightened the terms of the loans, making them less attractive and accessible. Sales fell by half.

In the first installment of our series, we look at the cuts, the costs, the complexity and the counseling requirements associated with HECMs. In part two, we'll examine the distribution vacuum left by the departure of big banks and the abstention of brokerages from the reverse mortgage business. In part three, we'll assess solutions to the program's difficulties, including potential new uses for HECMs, and reflect on its future.

HECMs are a work in progress. They have gone from being oversold and abused to being undersold and underused. Their target market is slowly shifting from cash-strapped seniors who desperately need them to affluent seniors who can employ them as part of a sophisticated wealth management strategy in retirement. That affluent market is still largely unrealized.

By all accounts, reverse mortgages, or "equity release," as the instrument is called in the United Kingdom, are here to stay. But their moment of greatest opportunity is right now, when interest rates are low, loan amounts are high and thousands of under-saved Boomers are retiring each week. Time, as ever, is money.