Test Your Reverse Mortgage IQ

By Kerry Pechter *Thu, Jun 2, 2016*

To benchmark the public's level of knowledge about HECMs, The American College's New York Life Center for Retirement Income sponsored a survey that included a 10-question quiz. We invite you to take the test.

Whether it's an urban brownstone, a tract-mansion in the suburbs or a rural trailer on cinder blocks, our homes are often our biggest financial assets and our biggest liabilities. For many older people, home equity outweighs their savings. Their mortgage payment, if they still have one, may also be their single largest expense.

Yet "seniors" as a group don't know much about reverse mortgages. That's ironic, because home equity conversion mortgages (HECMs), as they are officially known, could help a lot of retirees improve their standards of living by unlocking the equity in their homes.

Not long ago, The American College decided to address the issue of using home equity in retirement, and to make reverse mortgages part of the curriculum of its Retirement Income Certified Professional designation. To benchmark the public's level of knowledge about HECMs, the College's New York Life Center for Retirement Income also sponsored a survey.

The survey consisted of 10 true-or-false questions about HECMs. Pollsters Greenwald & Associates and Research Now administered it to about 1,000 Americans between ages 55 and 74 with at least $100,000 in investments and $100,000 in home equity.

If you're an advisor, or if you think you might ever consider using a reverse mortgage, we invite you to take the quiz yourself. One of the survey's findings was that people with financial advisors didn't score any better or worse than respondents *without* advisors. You can jot down answers to the questions below or access an **electronic version** of the quiz.

The test should be particularly useful for advisors with older clients, especially advisors who practice lifecycle planning and/or develop holistic financial plans for their clients. Such planners typically include the entire household balance sheet in the plan, including home equity and potential for earning income in retirement (human capital).

After you take the quiz, a link will take you to The American College **report** on the survey, where you can find out how well you did and compare your knowledge with that of others.

The American College Reverse Mortgage Quiz

1. The earliest age at which a person who is the sole owner of a home can enter a reverse mortgage is 62. (T/F)
2. If the value of your home has grown since you bought it, entering into a reverse mortgage would result in a taxable gain. (T/F)
3. Under a reverse mortgage the homeowner generally is not required to repay the loan until he/she stops using the home as the principal residence. (T/F)
4. You cannot enter into a reverse mortgage unless your home is completely paid off and there is no outstanding mortgage balance. (T/F)
5. One downside with a reverse mortgage is that if the home goes under water (the home is worth less than the amount owed to the lender), the homeowner, estate or heirs need to pay off the additional debt. (T/F)
6. The only currently available form of payment from a reverse mortgage is a single lump sum distribution. (T/F)
7. The amount of money that you can borrow as a reverse mortgage depends on the age of the younger borrower or eligible non-borrowing spouse, the current interest rate and the value of the home. (T/F)
8. A reverse mortgage is different from a traditional mortgage in that the homeowner is not responsible for any property taxes or insurance payments. (T/F)
9. Generally using a reverse mortgage early in retirement to support a retirement plan is better than as a last resort toward the end of retirement. (T/F)
10. Because of concerns about poor money management and financial elder abuse, the Government has restricted the use of reverse mortgage proceeds to health care benefits, long-term care costs, home improvements and tax payments. (T/F)

To find out how well you did on the test compared to typical older investors, click **here**. If you got five or more correct, you beat the average. If you scored a seven or higher, you passed. The average score was 4.8 and only 30% of those surveyed passed the test. No one posted a perfect score.

Men’s average score (5.4) was the higher than women’s (4.1). Those ages 62 to 74 outperformed those ages 55 to 61. Those with more savings and home equity tended to know more about HECMs.

As you can see, Americans don’t know much about reverse mortgages. That’s not surprising. For reasons that were described in RIJ’s recent series on reverse mortgages, the loans have received lots of bad publicity over the past decade and the rules have changed more than once. HECMs are rarely recommended by advisors, who typically aren’t licensed to broker mortgage loans and have no clear financial incentive to learn about them or show their clients how to use them.

Besides the quiz, The American College gathered attitudinal information about the 1,005 people who took the survey. Although a majority of respondents wanted to stay in their homes during retirement, only 44% had ever considered tapping their home equity. Only

25%, including only 63% of the 14% who had considered a reverse mortgage, felt "comfortable" spending down home equity in retirement.

Older Americans clearly have enough home equity to spark a HECM boom. Collectively, retirees and near-retirees have some $5 trillion in home equity, according to one estimate. Eighty-one percent of Americans ages 60 and older own homes. The median net worth for people age 65 and older is about $194,000, of which about $150,000 is equity in their homes, according to the U.S. Census Bureau.

But home equity, like income and wealth in general, isn't evenly distributed. The least wealthy half of Americans have an average of less than $100,000 in home equity, and even the next 40% have an average of only about $120,000 in home equity on average, according to the Federal Reserves' 2016 Survey of Consumer Finances. The wealthiest 10% of Americans—those most likely to have advisors—had an average of more than $400,000 in home equity in 2013 (down from a peak of $600,000 in 2007).

While that imbalance might limit the size of the HECM market, reverse mortgages can still serve as important components in a holistic retirement income plan for certain people—those who want to wipe out an existing mortgage, get a chunk of cash, create a monthly income, or have a source of ready money that would remove the pressure to sell depressed stock during a market downturn.

"Retirement income planning is extraordinarily challenging. Retirement income professionals are expected to manage a variety of client risks, legal changes, and ethical issues when developing a comprehensive plan," wrote Jamie Hopkins, the co-director of the New York Life Center for Retirement Income and a professor of taxation at The American College.

"The survey responses show that many people moving into retirement with some home equity do not fully understand reverse mortgages, including those individuals that have reviewed reverse mortgages as a potential income source," he added.

"While a reverse mortgage is not the right solution for every retiree, it can be a helpful retirement income tool. A reverse mortgage can diversify your home equity, build in a non-market correlated source of income to help offset market and sequence of returns risk, can be used to improve cash flow by turning off payments to a traditional mortgage, and be used for tax efficiency purposes during retirement."