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**Reverse Mortgages:
An Idea Whose Time Has Come**

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Reverse Mortgages: An Idea Whose Time Has Come

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Introduction

As the American population continues to age, and seniors have not saved enough money for retirement, but homeownership rates for seniors is well above the national average, home equity will have to play a role in retirement planning. This paper will review these demographics, the history of reverse mortgages, how reverse mortgages work, an overview of the laws and regulations applicable to reverse mortgages, and the legal and regulatory challenges faced by reverse mortgage lenders and servicers today.

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I. The Demographics and Driving Need for Reverse Mortgages¹

A. American Seniors

The senior population in the United States, herein defined as persons 65 years of age or older, numbered 39.6 million in 2009.² At that time, seniors represented 12.9% of the U.S. population, about one in every eight Americans.³ By 2030, there will be about 72.1 million seniors, more than twice their number in 2000.⁴ Seniors represented 12.4% of the population in the year 2000 but are expected to grow to be 19% of the population by 2030.⁵

B. Savings Rates

Personal savings in the United States averaged 8.39 percent from 1959 until 2015, reaching an all-time high of 17 percent in May of 1975 and a record low of 1.90 percent in July of 2005.⁶ Currently, savings rate are slightly above 5%. The average combined IRA and defined contribution pension balances for 2010 is \$40,500, and this is down more than 20 percent from the 2007 value of \$50,600.⁷ Financial assets⁸ saved varies by income groups, however.

¹ *This paper is for general informational purposes only, and is neither a solicitation nor an advertisement or offer for or of legal advice, and does not constitute legal advice from the author or the law firm of Weiner Brodsky Kider PC.*

² Administration on Aging, U.S. Department of Health and Human Services, at http://www.aoa.acl.gov/Aging_Statistics/index.aspx, last accessed by author on July 4, 2015.

³ *Id.*

⁴ *Id.*

⁵ *Id.*

⁶ Personal Savings in the United States is reported by the U.S. Bureau of Economic Analysis. <http://www.tradingeconomics.com/united-states/personal-savings>, last access by author on July 4, 2015.

⁷ Federal Reserve Bulletin, Sept. 2014, Vol. 100, No 4, *Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances*; Jesse Bricker, Lisa J. Dettling, Alice Henriques, Joanne W. Hsu, Kevin B. Moore, John Sabelhaus, Jeffrey Thompson, and Richard A. Windle of the Board's Division of Research and Statistics, prepared with assistance from Sebastian Devlin-Foltz and Jacob Krimmel.

⁸ Financial assets refers to transaction accounts, certificates of deposit, savings bonds, other bonds, stocks, pooled investment funds, retirement accounts, cash value life insurance, and other managed assets.

"unsheltered" (non-401(k or IRA) liquid savings average around \$25,000 per family.⁹ Adding in social security, and making broad assumptions of an assumed retirement age of 70, a life expectancy dissipation rate for a 65 year old with a life expectancy of 85, an average senior family currently has a savings shortfall of approximately \$300,000, if one assumes a post-retirement desired annual income of \$50,000, a pre-retirement return of 8.5% on assets and a post-retirement return of 5%.

These assumptions vary based on income profiles and demographics, and actual market performance and economic conditions will fluctuate, however, there is widespread recognition that America's seniors have not saved enough financial assets for retirement.

C. Home Ownership Rates and Net Housing Value

In 2013, there were 26.8 million households headed by a senior. Of these households, 81% were owners and 19% were renters.¹⁰ In 2013, almost 45% of senior householder spent more than one-fourth of their income on housing costs — 39% for owners and 69% for renters — as compared to 45% of all households.¹¹ In 2013, the median net worth for all U.S. families was approximately \$81,000.¹² In 2013, the mean net housing value (defined as the home's value less any debts on the home) for home owning families was \$159,400.¹³ Overall, between 1983 and 2007, the median net worth (including the value of retirement investment accounts) of

⁹ Federal Reserve Bulletin, Sept. 2014, Vol. 100, No 4, *Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances*; Jesse Bricker, Lisa J. Dettling, Alice Henriques, Joanne W. Hsu, Kevin B. Moore, John Sabelhaus, Jeffrey Thompson, and Richard A. Windle of the Board's Division of Research and Statistics, prepared with assistance from Sebastian Devlin-Foltz and Jacob Krimmel.

¹⁰ Administration on Aging, U.S. Department of Health and Human Services, at http://www.aoa.acl.gov/Aging_Statistics/Profile/2014/11.aspx, last accessed by author on July 4, 2015.

¹¹ *Id.*

¹² Federal Reserve Bulletin, Sept. 2014, Vol. 100, No 4, *Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances*; Jesse Bricker, Lisa J. Dettling, Alice Henriques, Joanne W. Hsu, Kevin B. Moore, John Sabelhaus, Jeffrey Thompson, and Richard A. Windle of the Board's Division of Research and Statistics, prepared with assistance from Sebastian Devlin-Foltz and Jacob Krimmel.

¹³ *Id.*

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