



August 15, 2006

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, N.W.  
Washington, D.C. 20551  
[Regs.comments@federalreserve.com](mailto:Regs.comments@federalreserve.com)

**Home Ownership and Equity Protection Act Hearings. Docket No. OP-1253**

Dear Ms. Johnson:

The National Council on Aging (NCOA)<sup>1</sup> appreciates the opportunity to provide written comments to the Federal Reserve Board on the home equity lending market, and the adequacy of existing regulatory and legislative provisions in protecting the interests of consumers.

In our oral comments, presented to the Board on June 7, 2006, we highlighted the growing importance of reverse mortgages as a valuable option for sustaining homeownership among frail and impaired older Americans. With over \$2.5 trillion in the homes of older people, reverse mortgages are increasingly seen by consumers and policymakers as an important new resource to help seniors to continue to live at home as they grow older (termed “aging in place”). Ensuring that home equity is used appropriately for this aim, however, will require additional counseling, protections, and research to address the unique needs of frail and impaired borrowers.

Sustaining homeownership can be difficult in retirement. Three-quarters of older homeowners in the United States have a physical or mental limitation that can make it hard for them to stay in the home they have worked hard to own. A chronic health condition also adds to the challenge of making wise decisions about tapping home equity for aging in place. This is true not only for cash-poor consumers, but also for middle-income families who often struggle to pay the extra cost of help at home.

Protecting the interests of frail and impaired older Americans is becoming urgent, as the market for reverse mortgages continues to expand, and as federal and state policymakers begin to promote these loans for long-term care. We recommend that the Federal Reserve Board take the following actions to better protect older homeowners:

1. Ensure adequate funding for current reverse mortgage counseling.
2. Strengthen the reverse mortgage counseling process with age-appropriate, detailed, and up-to-date information on how seniors can use home equity to live longer and better at home.

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<sup>1</sup> NCOA is a 501(c) (3) charitable organization dedicated to improving the health and independence of older persons. NCOA efforts to promote the appropriate use of home equity among seniors, as part of our Use Your Home to Stay at Home Initiative, can be found on our website at: <http://www.ncoa.org/content.cfm?sectionID=250>.

3. Support additional research on the risks and needs of older borrowers.

These efforts will be critical to ensure that older homeowners can make informed choices, better utilize this important financial asset to sustain their quality of life, and avoid unnecessary nursing home placement.

### **Ensure Adequate Funding for Counseling**

One of the unique consumer protections associated with reverse mortgages is the requirement that all potential borrowers receive counseling from an independent, HUD-approved counseling agency before they begin the loan process. The main goal of this counseling is to educate consumers about the appropriateness of these loans to address their financial needs and situation.

In recent years, reverse mortgages have grown from a small demonstration program to an established financial tool with over 50,000 loans originated per year. While this success reflects the growing importance of these loans, HUD appropriations for mandatory reverse mortgage counseling has not kept pace with rising demand. Increasing numbers of frail and impaired older borrowers will further heighten this financing challenge for HUD. In a recent NCOA study, we estimate that about 13 million older households are candidates for using a reverse mortgage to pay for long-term care at home.<sup>2</sup>

To fill the funding gap for reverse mortgage counseling, HUD is considering allowing counseling agencies to charge borrowers a fee for this mandatory service. With already high closing costs, we believe that an additional fee would further reduce the already limited amount of loan funds available to frail and impaired borrowers, many of whom will rely on these funds to continue to live at home.

### **Recommendation**

- The Federal Reserve Board should work with Congress and HUD to adequately fund the growing demand for HUD-certified HECM counseling.

Additional HUD funds would also help to build the capacity of aging services organizations to provide specialized reverse mortgage counseling to frail and impaired older homeowners. NCOA was recently approved by HUD to become a HECM counseling intermediary. In partnership with the Administration on Aging, we are creating a new Aging in Place HECM Counseling Network to provide potential borrowers with in-depth information on a wide array of social and health services, along with housing and other financing options. Many aging service organizations view counseling about aging in place, and the role of reverse mortgages, as compatible with their mission and values. However, without adequate financing, they would have difficulty providing this counseling.

### **Strengthen Reverse Mortgage Counseling and Education**

As Americans live longer, there will be a growing need for more consumer counseling and education to help older borrowers to age in place. Over 90 percent of seniors want to remain in their homes as long as possible.<sup>3</sup> More than two-thirds of all older Americans who need help with

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<sup>2</sup> Stucki, BR (2005). *Use Your Home to Stay at Home. Expanding the Use of Reverse Mortgages for Long-Term Care: A Blueprint for Action*. Washington, DC: National Council on Aging.

<sup>3</sup> Bayer, A.H., and Harper, L. (2000). *Fixing to Stay: A National Survey of Housing and Home Modification Issues*. Washington, D.C.: AARP.

everyday tasks live at home, including those with Alzheimer's disease.<sup>4</sup> Older homeowners typically own houses that are at least 35 years old, and often face costly repairs or modifications so they can continue to live at home.<sup>5</sup>

Frail and impaired seniors have unique needs when deciding to take out a mortgage loan. For example:

- An elder with an unstable health condition decides to take out a conventional home equity line of credit. As her health deteriorates, she cannot keep up with monthly loan payments, in addition to other expenses, and could lose the house.
- While recuperating from a serious fall, an elder is convinced by her family to take out a reverse mortgage. However, without knowing the most cost-effective service options, she quickly uses up all her loan funds and has to move to the nursing home.

Expanded counseling will be essential to help avoid these risks and to ensure the appropriate use of home equity. In each of these cases, the actual "cost" of the solution could not be addressed by looking solely at the financial details of the loan or the borrower's immediate cash needs. These homeowners would also have benefited from an evaluation of their ability to live at home.

### Recommendations

- The Federal Reserve Board should develop consumer education materials, and decision-support tools, to help frail and impaired older homeowners make wise choices about using home equity in general, and specific mortgage loans, for aging in place.
- The Federal Reserve Board should develop basic standards that protect frail and impaired older borrowers from taking out loans that are not suitable to them..

The Federal Reserve Board could partner with the Department of Health and Human Services (HHS) to help seniors make informed decisions about using home equity for aging in place. Two recent educational efforts by HHS that include information on reverse mortgages are the National Long-Term Care Education Campaign, and the National Clearinghouse for Long-Term Care Information.

### **Additional Research on Older Homeowners**

As reverse mortgages become a mainstream product, federal and state policymakers are using these loans as an important new policy tool to assist frail and impaired seniors. For example, the recently passed Budget Deficit Reduction Act of 2006 will, for the first time, limit the amount of home equity allowed for Medicaid eligibility. This law explicitly allows seniors to use a reverse mortgage to reduce home equity to meet the new Medicaid guidelines. In addition, as part of a new study funded by HHS, NCOA is working with Minnesota, Washington State, and the City of Los Angeles to explore ways for states and municipalities to promote the use of reverse mortgages among frail and impaired elders. Such policy efforts could have a significant impact on government expenditures for long-term care. We estimate that about 5 million of the 13 million

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<sup>4</sup> U.S. Dept. Health and Human Services (2003). A Profile of Older Americans: 2003. Washington, DC: Administration on Aging; Alzheimer's Association (2005). Fact Sheet.

<sup>5</sup> U.S. Census Bureau (2004). American Housing Survey for the United States: 2003. Current Housing Reports, Series H150/03. Washington, DC: U.S. Government Printing Office.

reverse mortgage candidate households already rely on Medicaid, or are at financial risk for needing public assistance should they become impaired.

Greater focus on aging in place can be a powerful framework for strengthening ties between agencies that seek to improve the quality of life for seniors. At the same time, there will likely be closer scrutiny of reverse mortgages by legislators, other governmental agencies, and consumer groups that serve seniors. There will be a growing need for systematic data on reverse mortgage borrowers, and the impact of these loans on seniors' ability to age in place. In addition, policymakers and consumer advocates will be looking for other data on mortgage lending to seniors, to help identify the specific risks and trends among older homeowners.

### Recommendations

- The Federal Reserve Board should conduct research on the factors which influence the use of home equity, and specific mortgage loans, among older borrowers.
- The Federal Reserve Board should expand Home Mortgage Disclosure Act reporting requirements, by adding variables on the age of the borrower and co-borrower.

Over the past three years, NCOA has been conducting consumer research to better understand the unique needs of frail and impaired older homeowners. But this is just the tip of the iceberg. Despite the importance of home equity, few studies have examined the attitudes and behavior of older Americans regarding the use of home equity in retirement. In addition, relatively little is known about the factors which influence the liquidation of this asset, and the impact of different mortgage loans. Without understanding the dynamics of home equity use among seniors, it will be difficult for the Federal Reserve Board to develop effective additional consumer protections for vulnerable older borrowers.

### **Conclusion**

Reverse mortgages have the potential to be a powerful force for expanding the boundaries of what is possible in using private funds to enhance sustainable homeownership among older Americans with a chronic health condition. If used wisely, these loans can help borrowers to live with independence and dignity for many years.

NCOA appreciates the opportunity to provide comments on the special needs and concerns of frail and impaired older homeowners, and the importance of providing additional counseling and consumer protections for this important new segment of the reverse mortgage market.

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