

Reverse Mortgage Originations and Performance in Philadelphia

Jaclene Begley, Fannie Mae†
Lauren Lambie-Hanson, Federal Reserve Bank of Philadelphia*
Mike Witowski, Federal Reserve Bank of Philadelphia

June 19, 2017

*Corresponding Author, lauren.lambie-hanson@phil.frb.org.

†The views reflected in this report represent those of the authors and not necessarily those of the Federal Reserve Bank of Philadelphia, the Federal Reserve System, or Fannie Mae.

From 2010–2016, Philadelphia ranked first in the nation for reverse mortgage originations per senior homeowner. Reverse mortgages in the city have been predominantly concentrated in lower-income, minority neighborhoods. Nearly one-third of borrowers in Philadelphia with loans that were originated in 2010–2014 have defaulted on the loans because of nonpayment of property taxes and homeowners insurance. This amount is more than double the national reverse-mortgage default rate.

Reverse mortgages provide a way for homeowners aged 62 and older to access the equity they have built in their homes. Reverse mortgages provide lines of credit or cash payments, which homeowners may use to cover health-care costs, smooth consumption in retirement, or finance modifications to their homes, which could enable them to age in place. Unlike home equity lines of credit and other types of forward mortgages, a reverse mortgage requires no repayment of principal or interest as long as the borrower lives in the home. However, borrowers are still responsible for keeping their properties in suitable condition and for paying property taxes and homeowners insurance. Failure to do so can result in default and foreclosure.

As we can see in Figure 1 and which was studied by Shan (2011), reverse mortgages gained popularity in the mid-2000s. Growth in originations has since stalled, in part because of declining house prices, which have had a negative effect on the amount of equity that homeowners could potentially draw down. Additionally, policy changes in the Home Equity Conversion Mortgage (HECM) program in recent years may have also dampened demand (Meadows, 2017).¹ In particular, beginning in April 2015, HUD adopted tougher HECM underwriting standards and required set-aside accounts for those with blemished credit, which may discourage demand for HECMs by riskier borrowers.

Nationally, Philadelphia had the highest rate of HECM originations in 2010–2016, with 50 originations per 1,000 homeowners aged 65 or older.² We are currently exploring possible

¹ Nearly all reverse mortgages that were originated in the past two decades were HECMs, which are insured by the Federal Housing Administration.

² This ranking is based on the top 100 most populous counties in the U.S. Following Philadelphia were: 2) Salt Lake City, UT (45 HECMs per 1,000 senior homeowner households) and 3) San Diego County, CA (43). These

explanations for this, such as differences in marketing behavior by lenders or economic characteristics of homeowners. As Shan (2011) puts it, reverse mortgages are particularly attractive to homeowners who are “house-rich but cash-poor.” Given that Philadelphia has the highest poverty rate among the nation’s ten largest cities, it could be that more homeowners in the city have the need to draw down home equity (The Pew Charitable Trusts, 2015).

High rates of HECM borrowing are most common in the Point Breeze/Grays Ferry neighborhood southwest of Center City, although the rates are also high in West Philadelphia and in some neighborhoods in the north and south of the city. Center City and neighborhoods in the northeast have relatively low rates of HECM use among older homeowners.

In total, 19 zip codes in the city had HECM origination rates of 60 or more per 1,000 senior households, which is three times the national rate of HECM borrowing during this time period. Of these 19 high-HECM zip codes, 13 fell short of the city’s \$26,533 median household income for those aged 65 and older, and 16 had senior populations that were more than 70 percent nonwhite or Hispanic. Previous research has also found that reverse mortgages are concentrated in lower-income, minority communities, (Bowen Bishop and Shan, 2008; Shan, 2011; Davidoff, 2014; Begley and Lambie-Hanson, 2015). The prevalence of reverse mortgages in minority communities, in particular, deserves more study, particularly to determine if it results from borrower steering.

Among loans that were originated in Philadelphia during 2010–2014, 31 percent experienced default because of nonpayment of property taxes or insurance, which is more than twice the national default rate of 13 percent for this cohort of loans.³ Reverse mortgage borrowers may be particularly sensitive to increases in property taxes, since taxes make up a large share of their ownership costs and many reverse mortgage borrowers are retirees with fixed incomes.

In addition, 4 percent of HECM borrowers in Philadelphia experienced default because they failed to keep their properties in suitable condition.⁴ The Consumer Financial Protection

HECM counts include HECM refinances, which accounted for 17 percent of all originations in Philadelphia during this time.

³ We calculate default rates using Intex Solutions, Inc. data on securitized reverse mortgages that were originated 2010–2014 and followed through June 2016. Almost all reverse mortgages are securitized by Ginnie Mae into HECM Mortgage Backed Securities. After cleaning our data, we have 3,602 distinct reverse mortgages that were originated in 2010–2014, which is nearly 97 percent of the 3,720 HECM mortgages that are recorded as being originated in Philadelphia during this period in the U.S. Department of Housing and Urban Development (HUD)’s Single Family Portfolio Snap Shot data. Using HUD administrative data on reverse mortgage borrowers who received borrower counseling in 2006–2011, Moulton, Haurin, and Shi (2015) find that, nationally, 16 percent of reverse mortgage borrowers had defaulted due to nonpayment of taxes and insurance. Using similar data, consultants for HUD revealed a taxes-and-insurance default rate of 12 percent (Integrated Financial Engineering, 2014). Although our data set is different from previous researchers, we find very similar default rates.

⁴ The causes of default as recorded in the data are mutually exclusive for a particular month, but a given loan can experience more than one default reason over its lifetime—or even in a particular month, though just one

Bureau explains that “if the borrower allows the condition of the property to deteriorate without making the necessary repairs (the borrower commits ‘waste’), the lender may consider the borrower to be in default on the loan and the servicer could foreclose on the home,” (2016, p. 4). While previous research has focused on nonpayment of taxes and insurance, which is certainly the dominant cause of defaults, our results suggest that defaults because of property conditions also deserve a closer watch. This is particularly salient in Philadelphia and other cities that have an aging housing stock.

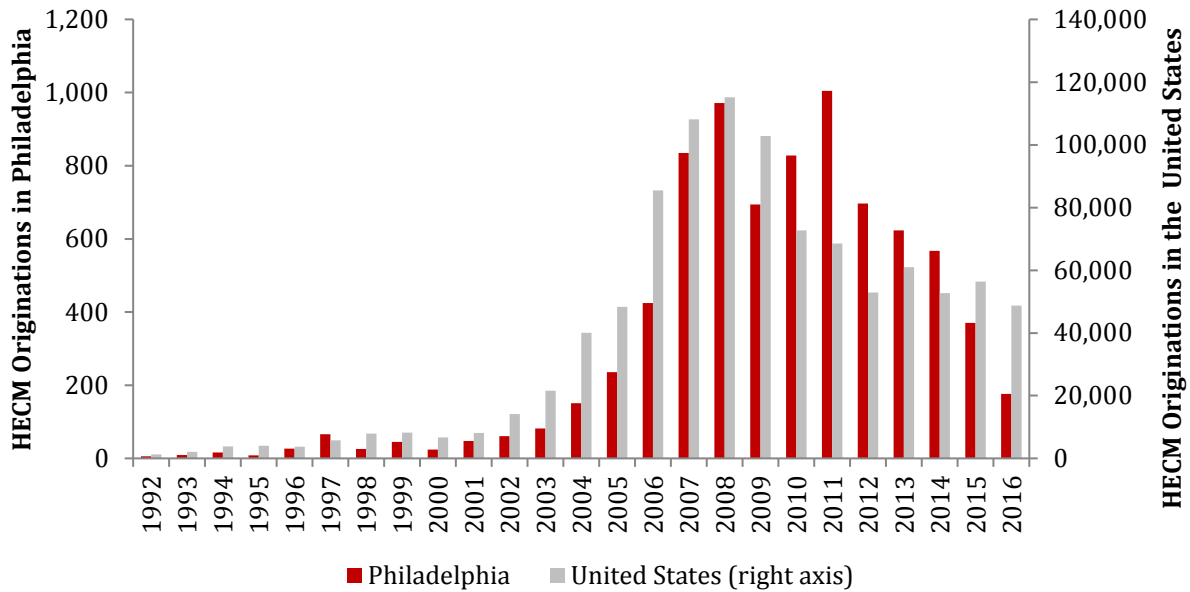
Figure 3 shows that default rates in the Philadelphia metropolitan area have been lower than in the city of Philadelphia, although the metro area ranks third for tax and insurance defaults among high-HECM-volume metros. The Philadelphia metro region places second, after the Chicago area, for the greatest rate of defaults because of property disrepair.

Not all mortgages that enter default result in foreclosure. The data we used in this default analysis contain limited information on post-default outcomes, which precludes us from determining how many of the homeowners ultimately lost their homes through foreclosure. The next step for our research is to use public records data to assess the volume of completed foreclosures on reverse mortgages in Philadelphia. Second, we plan to update our data to include more recent vintages of loans, which were subject to the tighter underwriting standards mandated by HUD beginning in 2015.

reason for default is accommodated in the data. There is a slight overlap in these two default groups: 0.4 percent of a national sample of HECM borrowers had experienced defaults because of both property disrepair and nonpayment of taxes and insurance. The different underlying causes of default are likely to be interrelated. Borrowers may become delinquent on property taxes, for example, because of a need to make a critical home repair. Alternatively, he or she may forego maintenance in order to make tax payments.

Figures

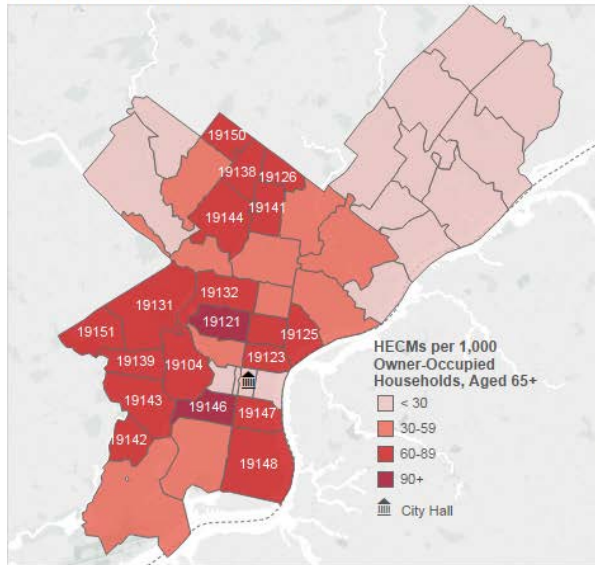
Figure 1: Number of HECM Originations in Philadelphia and United States by HUD Endorsement Year, 1992–2016



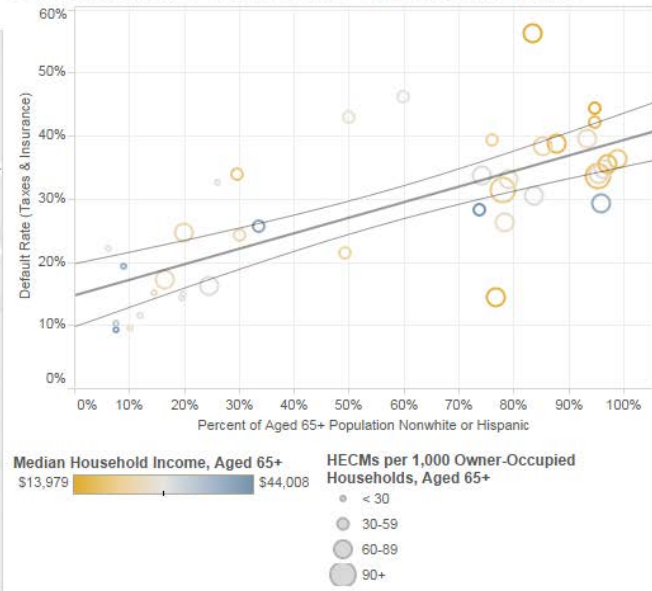
Source: Authors' tabulations of data from the HECM Single Family Portfolio Snap Shot data from the U.S. Department of Housing and Urban Development. Note: The earliest year of HECM originations was 1989, but we begin displaying data in 1992, the first year with over 1,000 originations nationally.

Figure 2: Philadelphia HECM Originations, Default Rates, and Neighborhood Characteristics

2010-2016 HECM Originations per 1,000 Owner-Occupied Households Aged 65+



Default Rate (Taxes & Insurance) by Zip Code Demographics



Summary of Zip Codes with 40+ HECMs per 1,000 Senior Households

Zip Code	Neighborhood	HECMs per 1,000 Owner-Occupied Households 65+	HECM Originations 2010-2016	Median Household Income, Ages 65+	Percent of Aged 65+ Population Nonwhite or Hispanic	HECM Default Rate: Taxes & Insurance	HECM Default Rate: Property Conditions
19146	Point Breeze/Grays Ferry	119	214	\$20,255	78%	31%	5%
19121	Brewerytown	97	126	\$18,510	95%	34%	8%
19150	Stenton	83	221	\$39,711	96%	29%	4%
19143	Kingsessing	81	376	\$25,529	93%	39%	7%
19141	Fern Rock	80	158	\$24,534	96%	34%	8%
19138	East Mount Airy	79	254	\$29,926	96%	35%	3%
19104	University City	78	72	\$14,266	83%	56%	8%
19123	Northern Liberties	74	28	\$15,625	77%	14%	0%
19122	Kensington	74	57	\$16,522	88%	39%	4%
19125	Fishtown	74	79	\$24,245	20%	25%	0%
19131	Wynnefield	71	217	\$23,706	85%	38%	4%
19151	Overbrook	70	120	\$30,599	74%	34%	5%
19139	West Philadelphia	69	160	\$17,762	97%	36%	4%
19148	East Passyunk	68	237	\$25,326	17%	17%	1%
19144	Germantown	68	129	\$26,545	79%	33%	5%
19126	Oak Lane	67	85	\$30,511	84%	30%	4%
19132	Strawberry Mansion	66	163	\$20,072	99%	36%	3%
19147	Bella Vista	61	121	\$30,102	25%	16%	2%
19142	Elmwood	61	46	\$25,953	78%	26%	3%
	Philadelphia	50	4,266	\$26,533	50%	31%	4%
	United States	20	412,871	\$37,945	21%	13%	2%

Source: Authors' tabulations of data from the HECM Single Family Portfolio Snap Shot data from the U.S. Department of Housing and Urban Development, the U.S. Census Bureau's 2014 American Community Survey 5-Year Estimates, and Intex Solutions, Inc.

Figure 3: Lifetime Default Rates for the 10 Metropolitan Areas with the Greatest Number of HECM Originations, 2010–2014 Originations

	Taxes & Insurance	Property Disrepair
Metro Area		
Houston	26.4%	0.7%
Miami	24.4%	1.2%
Philadelphia	20.3%	3.2%
Chicago	18.0%	3.6%
Baltimore	16.5%	1.4%
New York	16.5%	2.8%
Dallas-Fort Worth	14.8%	0.6%
Washington, DC	9.8%	2.8%
Los Angeles	8.7%	1.0%
Riverside-San Bernardino	6.9%	2.0%
Total, Top 10 Metros	15.7%	2.1%
United States	13.9%	1.6%
PA, NJ, and DE	15.9%	2.8%
City of Philadelphia	30.6%	4.1%

Source: Authors' tabulations of data from Intex Solutions, Inc.

References

- Begley, Jaclene, and Lauren Lambie-Hanson. 2015. "The Home Maintenance and Improvement Behaviors of Older Adults in Boston," *Housing Policy Debate* 25:4, pp. 754–781.
- Bowen Bishop, Tonja and Hui Shan. 2008. "Reverse Mortgages: A Closer Look at HECM Loans," NBER Working Paper, available at <http://www.nber.org/programs/ag/rrc/08-Q2%20Bishop,%20Shan%20FINAL.pdf>.
- Consumer Financial Protection Bureau. 2016. "Reverse Mortgage Servicing Examination Procedures," available at http://files.consumerfinance.gov/f/documents/102016_cfpb_ReverseMortgageServicingExaminationProcedures.pdf.
- Davidoff, Thomas. 2014. "Reverse Mortgage Demographics and Collateral Performance," Working Paper, available at https://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2399942.
- Integrated Financial Engineering. 2014. "Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund HECM Loans for Fiscal Year 2014," report to U.S. Department of Housing and Urban Development, available at <https://portal.hud.gov/hudportal/documents/huddoc?id=AR2014MMIHECMRpt.pdf>.
- Meadows, Mackenzie. 2017. "The New Reverse Mortgage Landscape: A Primer (Part 2 of 3)," *The Pipeline*, Issue 47, Andrew Davidson & Co.
- Moulton, Stephanie, Donald R. Haurin, and Wei Shi. 2015. "An Analysis of Default Risk in the Home Equity Conversion Mortgage (HECM) Program." *Journal of Urban Economics*, 90, pp. 17–34.
- Shan, Hui. 2011. "Reversing the Trend: The Recent Expansion of the Reverse Mortgage Market," *Real Estate Economics*: 39:4, pp. 743–768.
- The Pew Charitable Trusts. 2015. "Philadelphia 2015: The State of the City," available at http://www.pewtrusts.org/~media/assets/2015/05/2015-state-of-the-city-report_web.pdf.