National Reverse Mortgage Lenders Association

Eastern Regional Meeting

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Economic Update: Who are the HECM Borrowers?

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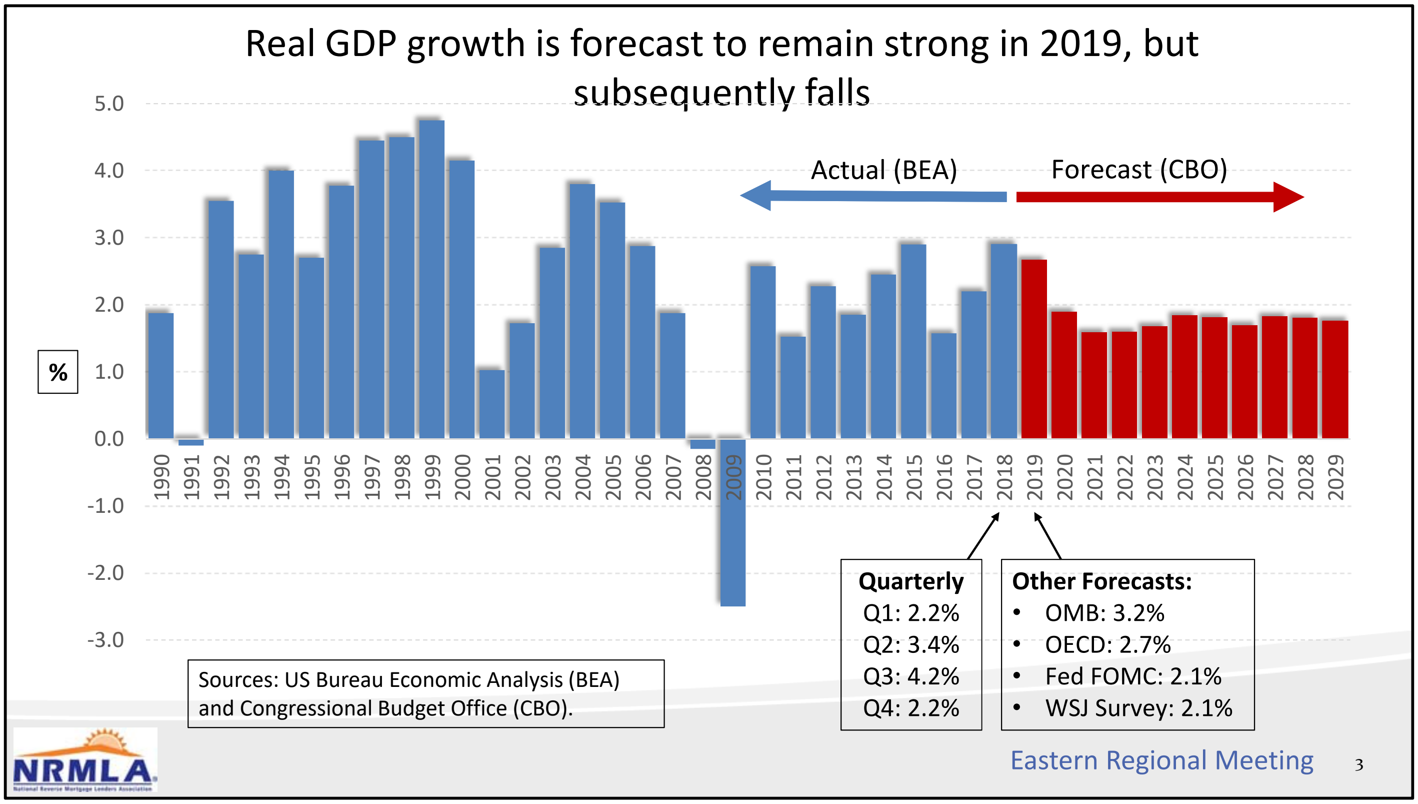
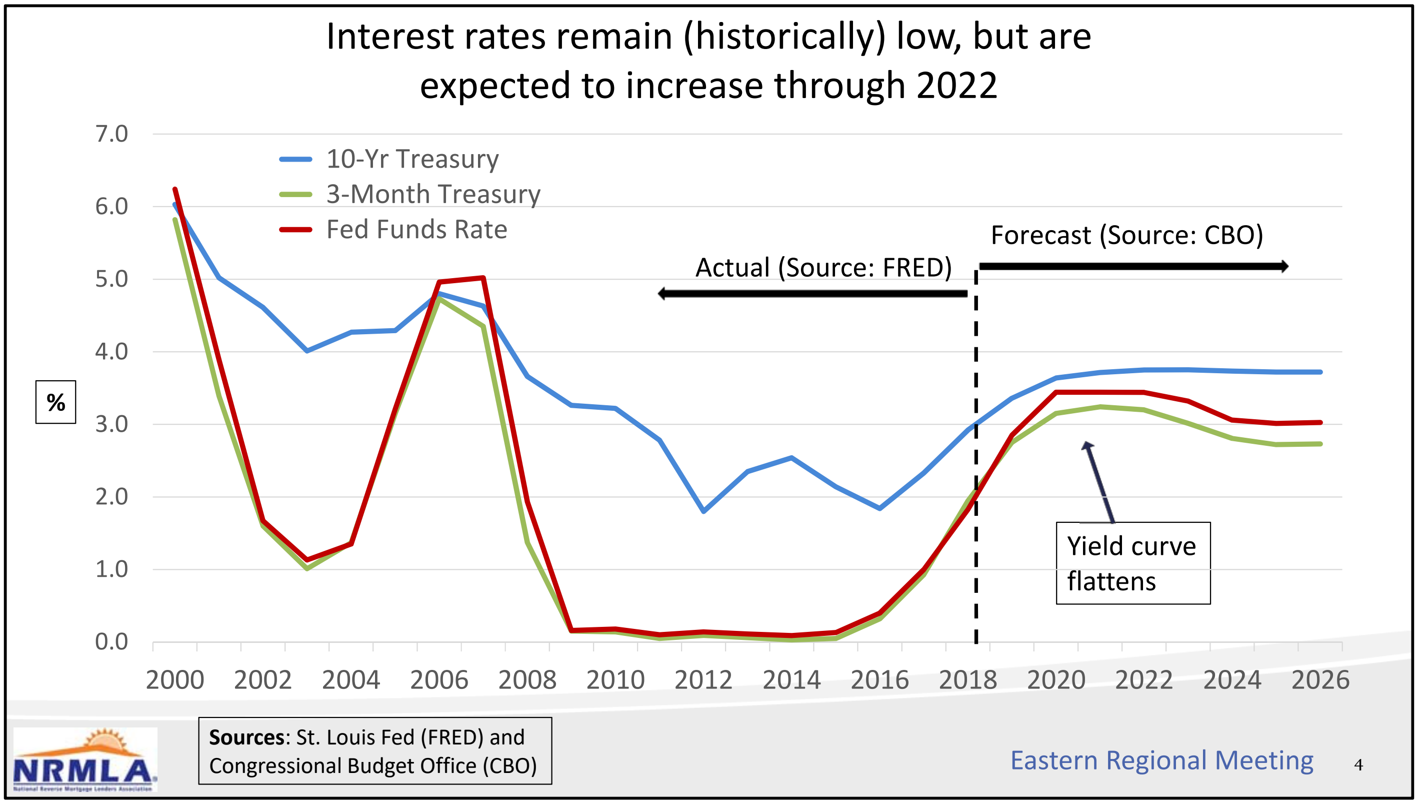
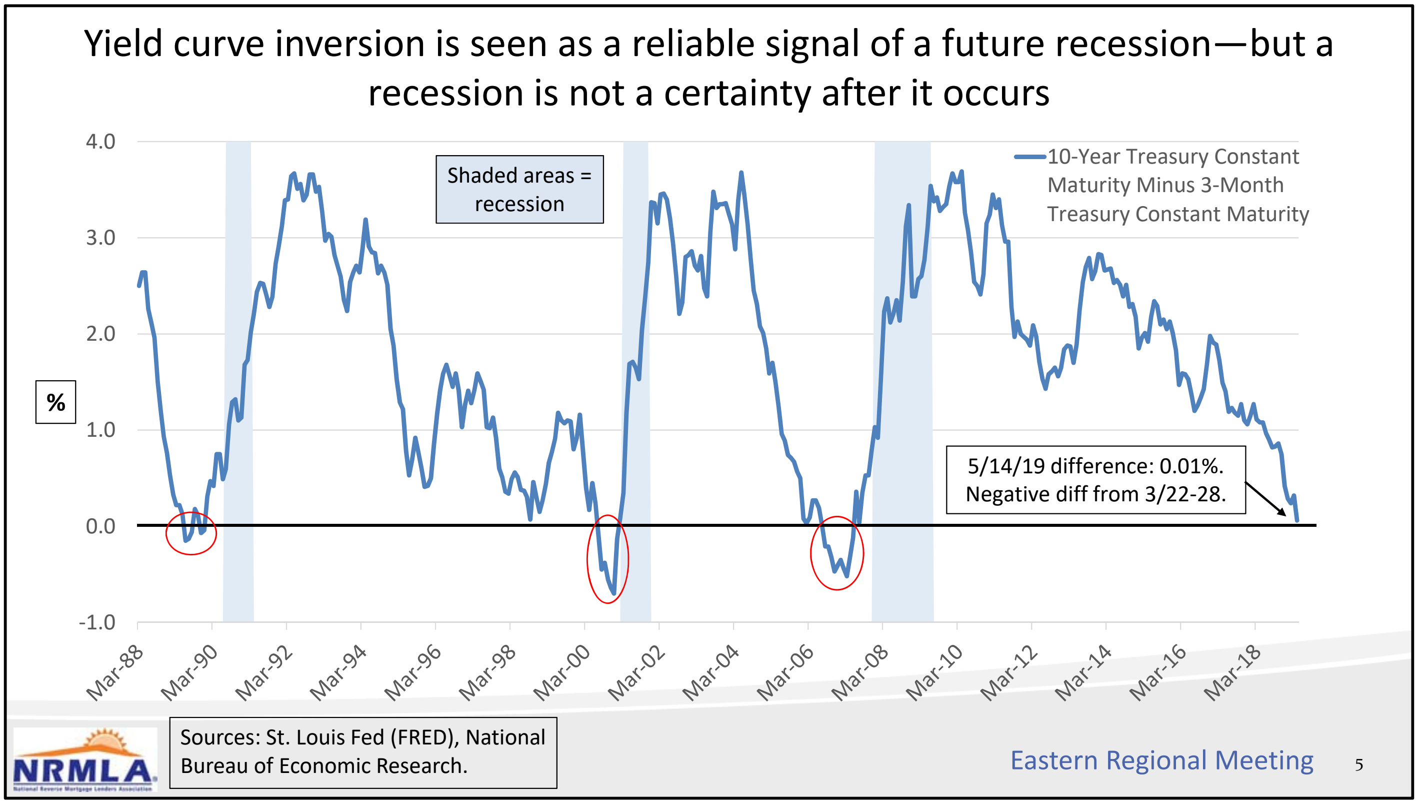


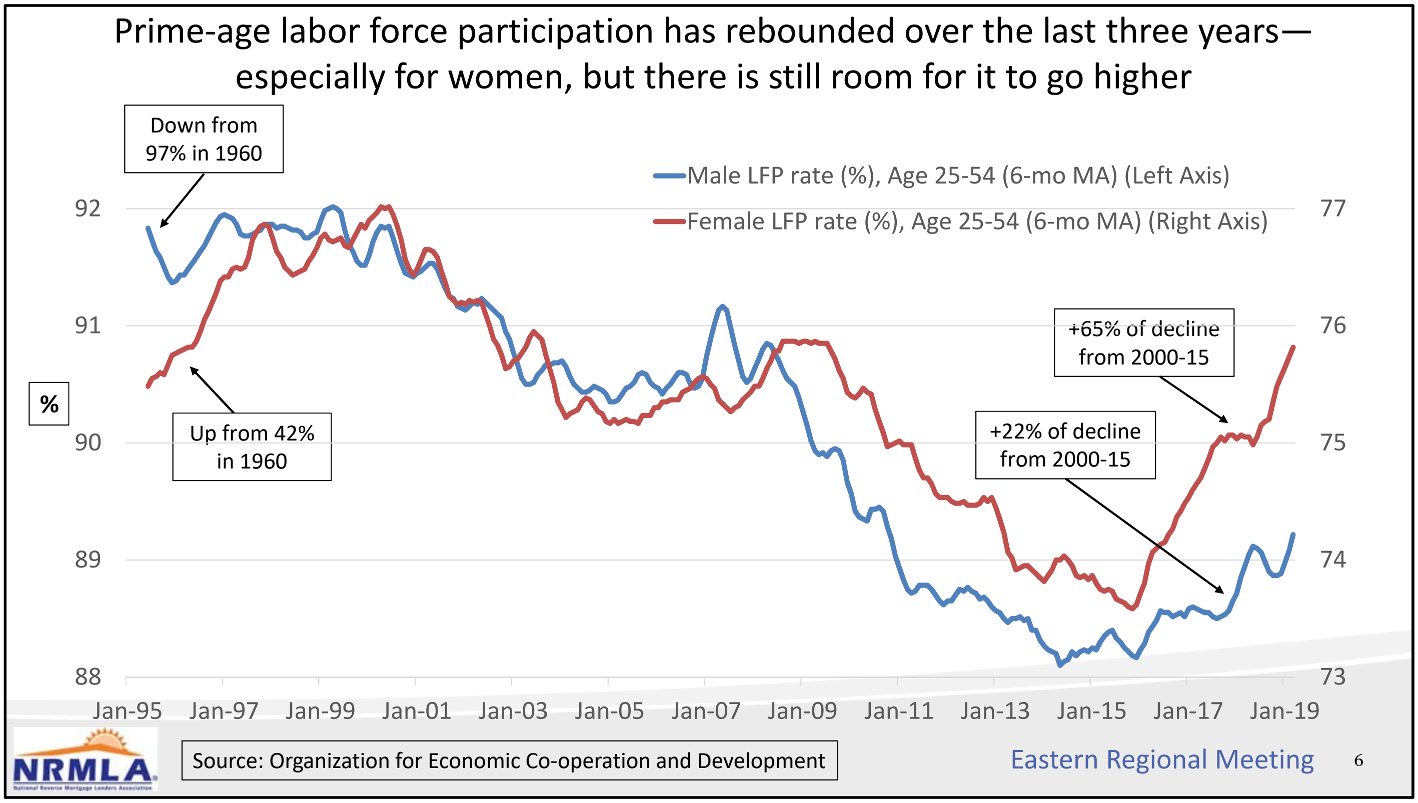
- CBO released its 10-year forecast for real GDP in January.
  - Strong numbers expected to continue—CBO's current 2019 forecast (2.7%) is slightly lower than it's 2019 forecast from August 2018 (2.8%).
  - Growth slows to 1.9% in 2020 and 1.6% in 2021, then slow through 2029.
- Long post Great Recession expansion may come to an end in 2020. Why?
  - **Federal Deficits**: 2017 deficit of 3.5% of GDP ($665 B). Grew to 3.9% ($779 B) in 2018. Deficits predicted to grow to 4.9% in 2019-28.
  - **Debt** held by public: 76% GDP (= $15 T) up to 96% (= $29 T) in 2028.
  - Potential **trade wars** still linger.
    - **China**: US sources 20% of its manufactured imports from China. But tariff increases have been partially offset by a 6.5% depreciation in the Yuan relative to the U.S. dollar (from 5.1.18 to 5.1.19).
    - NAFTA 2.0 (USMCA) needs approval for 2020 implementation.
  - **Slowdown in other economies**—China slowest growth (6.4%) since 1990 (with fixed investment spending in 9-yr downward trend), European Central Bank acknowledged growing downside risks, BREXIT, Bank of Japan—deflation risk.
- **Modern Monetary Theory**: Is this the most recent fad?
  - Shouldn't we be fixing the deficit when there is full employment?
  - CBO long-term outlook: Payments on debt will be 6.3% of GDP in 2048.
  - Fed interest payments ≈ Social Security budget at that point.
  - Fed spending would be 29% of GDP (levels not seen since WWII).



- Fed Chairman Powell's message: **Patience** with regard to additional monetary tightening, **continued data dependence** with a close watch on inflation.
    - FOMC adopted a more **dovish stance**.
- Current Fed Funds Rate (2.25-2.5%) gives the Fed leeway in case of recession to use policy lever.
- CBO forecasts have rates increasing quickly due to faster growth.
    - The **yield curve** is also expected to flatten.
- Previously, forecasts were flat after increase. Now, with increased deficits and slower economy, CBO forecasts that rates will decrease after initial increases.
- Things to remember:
    - Rates are still historically low.
    - The Fed has ≈ $4 trillion of securities on its balance sheet from QE.
    - Deficits will increase in the short run due to tax changes.
    - As US debt increases, rates should increase.

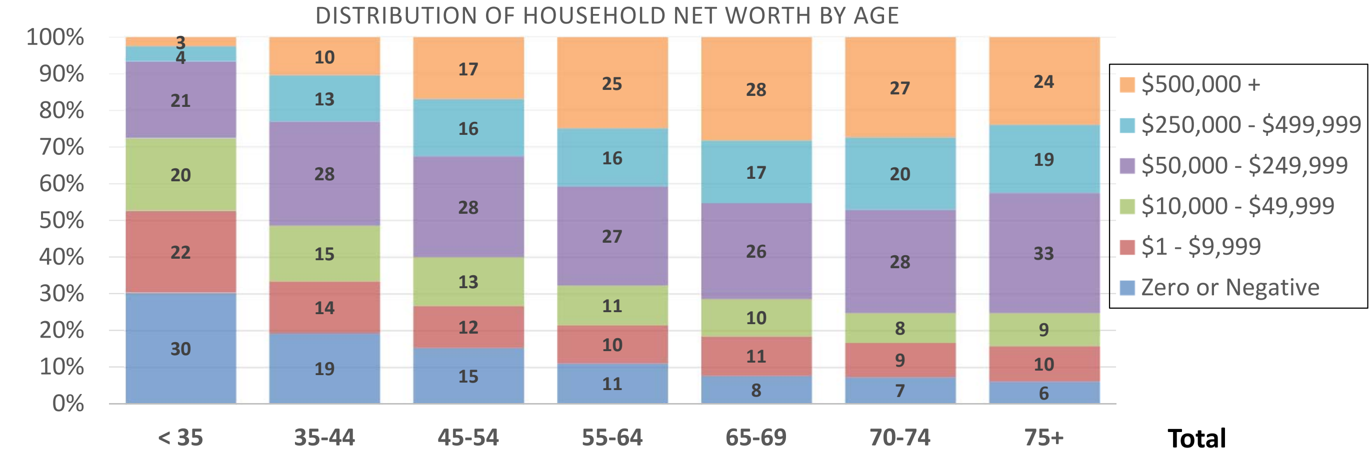


- No clear agreement as to which two maturities to use (e.g., 10y-2y, 10y-3m, ...).
- The 10y-3m version is seen as the most reliable signal of future recession (San Fran Fed).
    - Inversions of that spread have preceded each of the past seven recessions, including the 2007-2009 contraction.
    - But there have been two false positives—after the 1966 inversion and a "very flat" curve in 1998.
- An inverted yield curve typically reflects recessionary conditions, but doesn't cause them.
- A recession is not a certainty. The waters are muddied by quantitative easing.
    - QE was an alternative to lower interest rates.
    - Yield curve is estimated to be 40-50 bps flatter than it would be without QE.
- Recessions in the past have typically started around a year after an inversion.
    - The 10y-3m curve has inverted for 10 straight days six or more times in the last 50 years, with a recession following, on average, 311 days later.



- **There is a close link between LFP and economic growth.**
  - For example, increased female LFP from 1970 added 13.5% to GDP.
  - Can we keep on adding jobs? What's the employment situation?
- The official unemployment rate, U-3, was 3.6% in Apr (down b/c LFP down 0.2%).
- 263k jobs added to non-farm payrolls. Payrolls increasing for 103 straight months.
  - Average for first 4 months of 2019 is 205k. Was 223k in 2018.
  - Residential construction employment (incl. specialty trade contractors) was up to 2.9 million. (Was 2.0 mill at end of 2010).
- Natural rate of UE is ≈ 5%. CBO predicts U-3 will fall to 3.5% by the end of 2019.
  - **Tight market**. Will then rise gradually to 4.8% in 2022.
- Low unemployment and high job openings (7.5 mill in **JOLTS**) should translate into upward wage pressure and (discouraged) workers reentering labor markets.
  - Wages up 3.5% in last 12 months; there were 3.4 mill quits in March 2019.
    - Quits indicate optimism—they are higher than prerecession levels.
- We focus on **prime-age LFP**—if include seniors, post-2000 decline more profound.
- Is **2015-2018 increase** short-term cyclical post-recession recovery or a return to longer term trend?
  - Return has been weak for **lower educated women**. Without child care or elder care, it will not be possible to increase their LFP rates.
  - **Male LFP still below long-term trend**. Suggests that rate will continue to increase—especially as millennials increase rates of household formation.

As Americans age their net worth increases with home equity playing a key role



	< 35	35-44	45-54	55-64	65-69	70-74	75+	Total
Median Net Worth	$7,700	$55,400	$98,800	$163,300	$193,400	$209,200	$194,900	$81,900
Excluding Own Home Equity	$4,700	$21,900	$33,900	$61,400	$66,300	$62,600	$45,700	$25,200

Source: Census Bureau, Survey of Income and Program Participation, 2014 Panel, Wave 2 (released Sept 2018).

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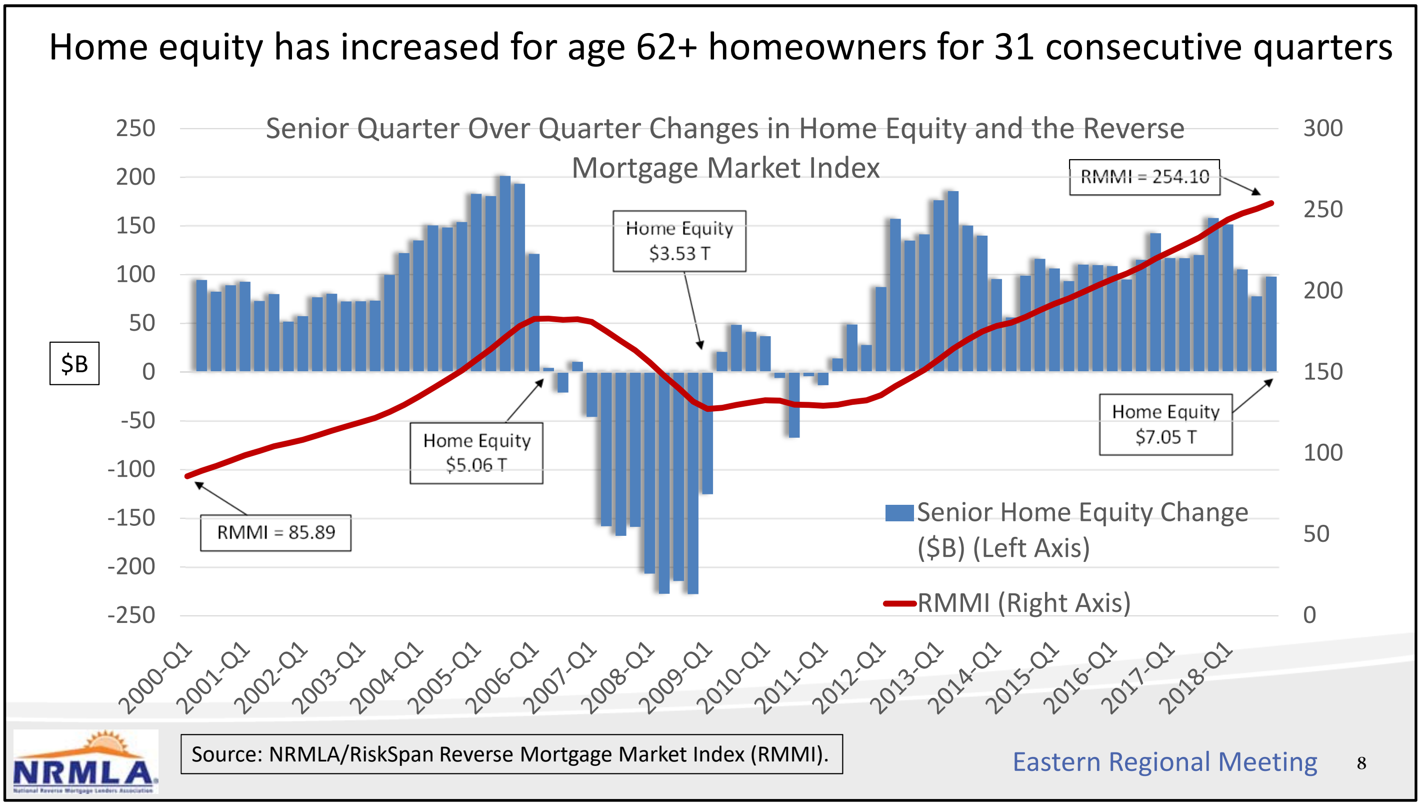
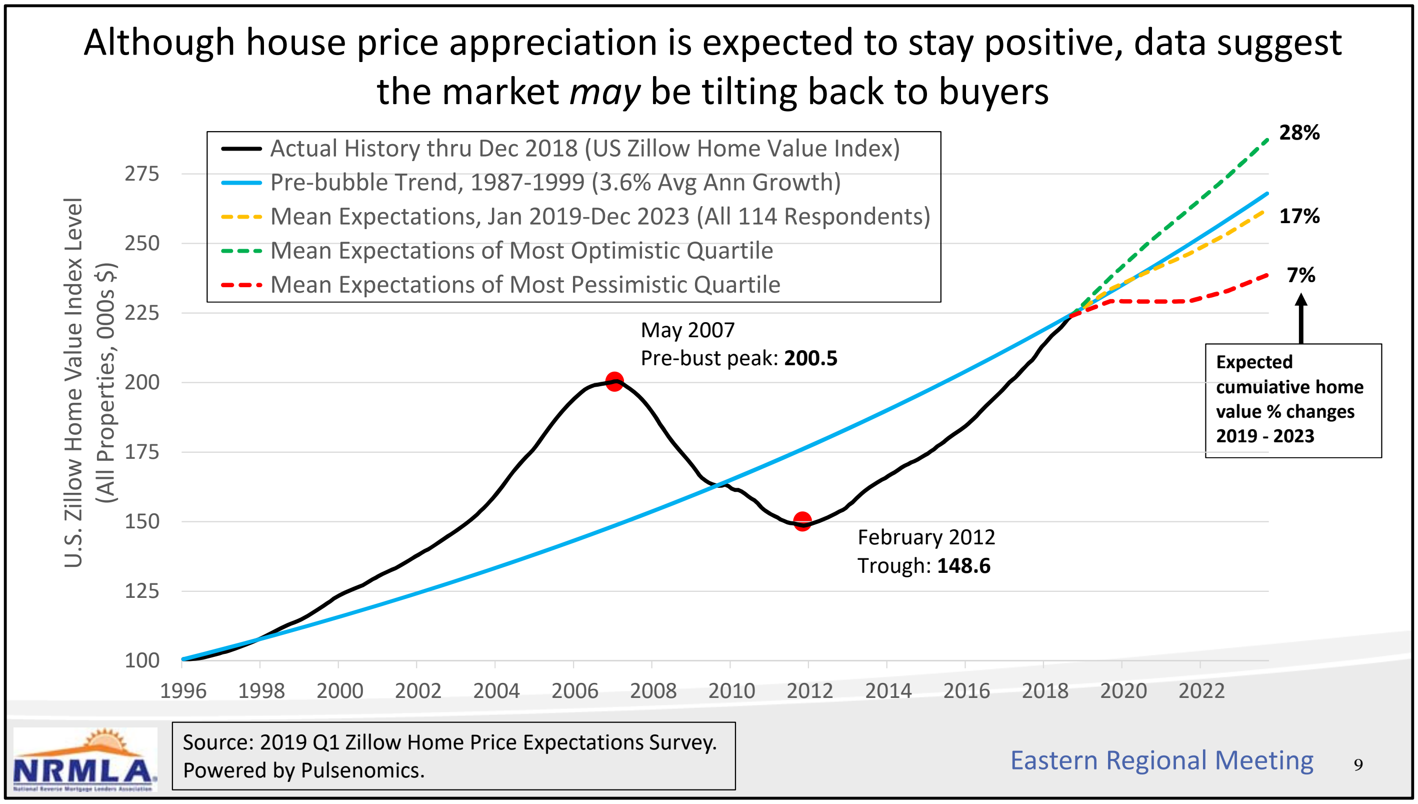
- What is the situation for older Americans, and how have they faired in the economy?
    - Only 2% of seniors have taken RMs.
    - We are a long way from the 12-14% that some have suggested are eligible and could sensibly use RMs.
- What is our net wealth situation?
- Focus on the **65-69** and **70-74** age groups:
    - Wealthiest age groups.
    - When exclude own home equity, net worth ↓ by **66%** and **70%**.
    - Over 25% have net worth $50k-$250k.
        - Since w/o home equity this is low, could benefit from RMs.
    - 45% and 47% have net worth over $250k.
        - Could benefit from RMs for mitigating periods of poor investment returns.
- Inequality also important when thinking about who may be an eligible borrower:
    - Homeowners have a median of **$205k**. Renters have **$2k**.
    - No high-school **$5k**, high-school **$36k**, BA **$149k**, Grad/prof **$315k**.



- Opportunities for seniors to take on additional debt is summarized by the quarterly RMMI.
- RMMI has tracked the reverse mortgage market since 2000.
  - Analyzes and reports on trends in senior home values and home equity levels.
  - Most recent RMMI, published in March 2019 (for 2018 Q4), hit an all-time high at **254.10**. Reflects record senior home equity of **$7.05 T**.
    - Note that total home equity is **$15.54 T**
      - Pre-crisis it was **$13.40 T**, bottomed out at **$6.12 T**.
  - Note that senior home equity has been less volatile than total.
    - Fell by **30%** versus **54%** for total.
    - Is up **100%** from 2009 Q1, total equity is up **154%**.
    - Less leverage (i.e., lower LTVs) for seniors. Older, more established neighborhoods.



- House price appreciation shows signs of slowing down.
  - Blue line shows **3.6%** average annual growth.
  - Yellow is the mean expectations—is at **3.2%**
    - Optimistic **5.1%**, pessimistic at **1.3%**.
- **Months of supply** dropped to 3.1 in March.
  - Similar as March 2018 and Mar 2017 (Redfin).
  - Six months is often considered a “balanced” market. This was last so at the start 2012.
- **New starts** (at **1.14 million**) are almost 400k below the 1.5 million needed to satisfy demand. Especially as millennials accelerate household formation.
- Homeownership rate dropped in 2019 Q1. From 64.8% to 64.2%.
  - At 78.5% for ages 65+.
- Recently, data suggest the balance may be **starting to tilt back toward buyers**.
  - **Home-value growth is slowing** in more than half (19) of the nation's 35 largest metros, and price cuts are becoming more common.
  - Sellers continue to have the upper hand, but 3 out of 4 economists surveyed (by Pulsenomics) said the national housing market would shift to a buyers market in 2020 (or later).

Who are the HECM borrowers?

	Counseled HECM Borrowers	Counseled HECM Nonborrowers		HRS Non-counseled Nonborrowers
DEMOGRAPHICS				
Hispanic (%)	4%	6%		6%
White (%)	76%	64%	<	89%
Black (%)	14%	27%	>	8%
Education: Less than high school (%)	15%	15%		16%
Education: High school (%)	46%	44%	<	54%
Education: 2-year college (%)	9%	11%	>	4%
Education: 4-year college (%)	21%	21%	>	13%
Education: postgraduate (%)	8%	9%	<	11%
Age of youngest household member (yrs)	70.2	69.6		69.8
Unmarried male (%)	19%	22%	>	11%
Unmarried female (%)	35%	38%	>	31%
Married (%)	45%	40%	<	58%

Source: Moulton, Loibl and Haurin, Cityscape (2017).

- The Moulton et al. paper uses data on 1,761 households that received counseling. ¾ of them obtained a RM.
- Matched with Health and Retirement Study data for RM eligible households (i.e., homeowners with one member age 62+) (13,516 records).
- Notes from table:
    - A higher proportion of HECM borrowers are Black (14%) than in the general population (8%).
        - Difference is more pronounced for black households (27%) that received counseling but did not take out a HECM loan.
    - Homeowners who have a two- or four-year college degree are more likely to obtain HECM loan counseling.
        - The relationship is flipped for homeowners who have a high-school education level.
    - There is no significant difference between groups re age of youngest household member.
    - A higher proportion of HECM borrowers are unmarried.
        - True for men (19% borrowers versus 11% in the general population) and women (35% versus 31%).
        - The larger difference among unmarried men is a novel finding.

HECM counseled households have lower incomes and more modest non-housing wealth than the general population

	Counseled HECM Borrowers	Counseled HECM Nonborrowers	HRS Non-counseled Nonborrowers
FINANCIAL VARIABLES ($)			
Household income	2,981	2,682 <	5,310
Assets other than primary residence	38,788	39,535 <	252,051
Home value (primary residence)	312,615 >	242,715	239,649
Mortgage debt (where > 0)	132,644	118,015	115,457
Home Equity of primary residence	230,919 >	163,853	197,491
Monthly mortgage payment (where > 0)	1,132	1,007	1,048

Source: Moulton, Loibl and Haurin, Cityscape (2017).

Who are the HECM borrowers? Some additional regression based results

- Homeowners with reverse mortgages have better self-reported health statuses.
  - Respondents with two or more activities of daily living (ADL) problems are 70% less likely to have a reverse mortgage.
  - Those with private long-term care insurance are 67% less likely.
- Married homeowners are 40% less likely to have a reverse mortgage.
- Homeowners with some or a full college education are twice as likely to have a reverse mortgage as homeowners that didn’t finish high school.
- Households with reverse mortgages are more risk averse, are more likely to have prepared a 5+ year financial plan and are more likely to report a higher probability of leaving a bequest.
- Risk averse respondents are 44% more likely to have a reverse mortgage than those who are not.

Source: Chatterjee, International Journal of Financial Studies (2016).