Seniors are feeling the pressure

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Older American homeowners may want to take a second look at all their retirement options sooner than later. Retirees who have saved for their retirement may find themselves challenged more specifically in three ways: home appreciation, stock portfolio losses, and increasing interest rates.

Seasoned reverse mortgage originators can certainly recall how the borrowers who took the loan prior to 2009 locked in a portion of their home's value despite the market crash. While it's highly unlikely that we're in another housing or credit bubble, home appreciation is slowing nationwide in 71 of the largest 100 markets. According to the latest data from Black Knight, home values have shown their biggest single-month decline, albeit a modest one, since the housing market began to recover. In the west, California saw home price appreciation growth drop from 10.3% to 3.7% in nine months. While far from a death knell for the housing market this does serve as a reminder that a homeowner's access to equity is no certainty, and what equity they have could dwindle significantly. A point worth making with prospective borrowers.

While the nation watches the stock market on their daily news shows, retirees are especially wary with good reason. Despite the Dow Jones Industrial Average's significant gains in the last 3 years, the overall equities market remains volatile. That volatility is particularly real for retirees who may find themselves unable to draw the same amount from their investments each month without significantly shortening the life of those funds.

As a recent New York Times article put it "If you have to start selling investments when they are worth less, you'll have to sell more shares to get the cash you need — and the repercussions build on themselves.". Many financial professionals refer to this as the 'sequence of returns' risk. When spending and budgeting cuts don't close the gap, a reverse mortgage may help sustain these retirees in a turbulent market without selling their stocks at a loss. To avoid all market risks one could sell all their stocks to purchase their future income with a single premium annuity which would provide a guaranteed and predictable monthly payout. However, most investors do not easily divest themselves entirely from the market. A more palatable option could be for them to instead annuitize a portion of their home's value tapping into a HECM line of credit when withdrawals from their market accounts are not desirable.

And while each birthday brings a potential HECM borrower a higher principal limit factor (PLF), the cost of waiting often erodes any benefit that would be realized. In addition to slowing home appreciation, interest rates are expected to continue to rise, albeit modestly this year. Some forecasters predict that the 10 year LIBOR swap rate, upon which the HECM's expected rate is keyed, is expected to rise as high at 3.10%. Some loan officers are illustrating the impact of waiting until interest rates are modestly higher, assuming there are no further reductions in the HECM's principal limit factors.

Despite increased consumer confidence and an expanding economy, few retirees are free of financial concerns or risks that would undermine their standard of living. Even those who have invested and saved a significant sum. Perhaps now is the time to open a conversation on slowing home appreciation, a turbulent stock market, and rising interest rates.

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