

Reverse Mortgages and Interest Rate Risk

Thomas P. Boehm, Michael C. Ehrhardt

First published: June 1994

<https://doi.org/10.1111/1540-6229.00639>

Accessibility issue? [Request accessibility update.](#)



PDF

Abstract

We develop and apply a valuation model that quantifies the interest rate risk inherent in fixed-rate reverse mortgages. Consistent with intuition, our results show that the interest rate risk of a reverse mortgage is greater than that of either a typical coupon bond or a regular mortgage. Somewhat surprisingly, we find that this difference in interest rate risk is extremely large. In fact, the interest rate risk of a reverse mortgage often is several orders of magnitude greater than the interest rate risk of other fixed-income securities.

References

Brennan, M. and E. Schwartz. 1977. Savings Bonds, Retractable Bonds and Callable Bonds. *Journal of Financial Economics* (August): 67-88.

[Web of Science®](#) | [Google Scholar](#)

Brennan, M. and E. Schwartz. 1985. Determinants of GNMA Mortgage Prices. *Journal of the American Real Estate and Urban Economics Association* 13(3): 209-28.

[Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[CAS](#)[Web of Science®](#)[Google Scholar](#)

Daves, P.R. and M.C Ehrhardt. 1993. Joint Cross-Section//Time-Series Maximum Likelihood Estimation of the Parameters of the Cox-Ingersoll-Ross Bond Pricing Model. *Financial Review* 28(2): 203–37.

[Google Scholar](#)

Dunn, K.B. and J.J. McConnell. 1981. Valuation of GNMA Mortgage-Backed Securities. *Journal of Finance* 36 (June): 599–616.

[Web of Science®](#) [Google Scholar](#)

Examining Bulletin on Interest Rate Risk (EB 90-1). 1990. Office of the Comptroller of the Currency (January 2).

[Google Scholar](#)

Green, J. and J.B. Shoven. 1986. The Effects of Interest rates on Mortgage Prepayments. *Journal of Money, Credit, and Banking* (February): 41–59.

[Web of Science®](#) [Google Scholar](#)

Hall, A.R. 1985. Valuing the Mortgage Borrower's Prepayment Option. *Journal of the American Real Estate and Urban Economics Association* 13(3): 229–47.

[Web of Science®](#) [Google Scholar](#)

Federal Register. 1988. Home Equity Conversion Mortgage Insurance Demonstration; Proposed Rule. (October 25).

[Google Scholar](#)

Ingersoll, J.E., Jr.. 1987. *Theory of Financial Decision Making*. Rowan and Littlefield.

[Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

[Manage Preferences](#)[Accept All](#)[Reject Non-Essential](#)

[Web of Science®](#) 

[Google Scholar](#) 

Schwartz, E.S. 1977. The Valuation of Warrants: Implementing A New Approach. *Journal of Financial Economics* 4: 79-93.

[Web of Science®](#) 

[Google Scholar](#) 

Schwartz, E.S. and W.N. Torous. 1989. Prepayment and the Valuation of Mortgage-Backed Securities. *Journal of Finance* 44(2): 375-92.

[Web of Science®](#) 

[Google Scholar](#) 

Sinkey, J.F. Jr. 1992. Commercial Bank Financial Management, 4th ed. Mac-millan.

[Google Scholar](#) 

Titman, S. and W. Torous. 1989. Valuing Commercial Mortgages: An Empirical Investigation of the Contingent-Claims Approach to Pricing Risky Debt. *Journal of Finance* 44(2): 345-74.

[Web of Science®](#) 

[Google Scholar](#) 

Citing Literature


[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential