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Real Estate Economics / Volume 39, Issue 4 / pp. 743-768

Reversing the Trend: The Recent Expansion of the Reverse Mortgage Market

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First published: 30 June 2011

https://doi.org/10.1111/j.1540-6229.2011.00310.x

PDF

Abstract

Reverse mortgages allow elderly homeowners to tap into their housing wealth without having to sell or move out of their homes. However, very few eligible homeowners used reverse mortgages to achieve consumption smoothing until recently, when the reverse mortgage market in the United States witnessed substantial growth. In this article, I examine 1989–2007 loan-level reverse mortgage data and conduct three sets of analyses to better understand the demand for reverse mortgages among elderly homeowners. First, I study the ZIP code characteristics correlated with reverse mortgage originations. Second, I show that recent reverse mortgage borrowers are significantly different from earlier borrowers in many respects. Third, I investigate the reasons why the reverse mortgage market experienced substantial growth in the mid-2000s. Combining the reverse mortgage data with county-level house price data, I find that higher house prices lead to more reverse mortgage originations. Specifically, the increases in house prices account for about one-third of the overall growth in the reverse mortgage market from 2003 to 2007.

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