A HOME EQUITY CONVERSION PROGRAM FOR HAWAII'S ELDERLY HOMEOWNERS

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FOREWORD

This report on A Home Equity Conversion Program for Hawaii's Elderly Homeowners was prepared in response to House Resolution No. 19, adopted during the 1983 legislative session.

House Resolution No. 19 requested the Office of the Legislative Reference Bureau to conduct a study on the possibility of replicating in Hawaii two types of home equity conversion programs currently in existence. In order to properly inform the legislature on this subject, the scope of the study was broadened to include discussions of other home equity conversion programs in operation.

We wish to express our sincere appreciation to the retirees who responded to our survey as well as to the following individuals for their assistance and guidance: Cullen Hayashida, Ph.D., Senior Research Associate, Kuakini Medical Center; Renji Goto, Director, Executive Office on Aging; Gail Haruki, Legislative Researcher, Executive Office on Aging; Carswell Ross, Program Specialist, Executive Office on Aging; Ray Higa, Property Valuation Analyst, City and County of Honolulu Department of Finance, Real Property Assessment Division; Michael Hennessy, Ph.D., Assistant Professor in Sociology, University of Hawaii; Bronwyn Belling, Associate Director, Reverse Annuity Mortgage Program of the San Francisco Development Fund; and Donna Guillaume, Director, Buffalo Home Equity Living Plans Program.

Samuel B. K. Chang
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SUMMARY

This study on A Home Equity Conversion Program for Hawaii's Elderly Homeowners indicates that home equity conversion has the potential to assist elderly homeowners in need of additional income by allowing homeowners to draw upon their home equity while continuing to reside in their homes.

This report sets forth the various home equity conversion models and different programs currently in operation. The report also covers the population that home equity conversion might benefit and the population that expressed interest in two proposed programs, as well as government actions that may encourage wider use of home equity conversion and issues involved in a state-sponsored program.

The report concludes that much education must occur before it can be determined whether there is a need or demand for a state-sponsored home equity conversion program in Hawaii. In the interim, it is recommended that the private sector be encouraged to offer home equity conversion opportunities and that a long-term means of financing be explored.

Chapter 1

INTRODUCTION

The "greying of America" has been a focus of national attention in recent years and rightly so, as dramatic demographic changes taking place will have profound effects on all aspects of our social, economic, and political lives.

The population over 65 years of age in 1960 comprised 9.2 per cent of the total U.S. population. By 1981, this figure had risen to 11.4 per cent of the total population, and it is expected to reach 13.1 per cent by the year 2000.[1]

Hawaii, with the nation's highest life expectancy, ranked third among the states in terms of elderly population growth between 1970 and 1980.[2] Hawaii's over 65 population in 1980 of 76,150 persons comprised only 7.9 per cent of the population but these figures are expected to increase to 142,000 and 11.6 per cent by the year 2000.[3]

The rate of growth in the elderly population holds frightening prospects for government expenditures for elderly related programs. In 1978, then secretary of the federal Department of Health, Education and Welfare, Joseph A. Califano, Jr., noted that his department's programs would pay out in excess of $94 billion to person's 65 and older. Another $18 billion from programs under other federal departments would raise the total that year to an estimated $112 billion, or five per cent of the Gross National Product.[4] With the postwar "baby boom" turning into the "senior boom", real spending was expected to reach $635 billion around 2025, constituting more than ten per cent of GNP, and more than 40 per cent of total federal outlays.[5] Recent budgetary constraints at all levels of government have resulted in drastic cuts in human service programs and tightening of eligibility standards.

The emergence of a new concept that would allow elderly homeowners, who comprise the majority of the elderly population, to help themselves rather than rely on government assistance, thus is indeed timely. Until recently, a homeowner's only way of benefitting from home equity was by selling the home and moving. Home equity conversion instruments allow a homeowner to use some or all of the stored home equity to enjoy a better standard of living without relinquishing residency in the home.

The potential impact of home equity conversion on a national scale becomes strikingly apparent with statistics showing that 82 per cent of elderly household heads over 65 years old owned their homes in 1976.[6] Of these elderly homeowners, 84 per cent did not have a mortgage.[7] In dollar terms, the amount of elderly-held home equity has been estimated at over $500 billion.[8] What is unfortunate about the situation of some elderly homeowners is that although they may hold a significant amount of home equity, they also have incomes below national poverty levels.

These facts have led to the development of the home equity conversion concept in recent years. While almost unheard of in Hawaii, the concept first introduced in the early 1960s has aroused much attention nationwide. Since 1979 when a major conference on home equity conversion was held in

Wisconsin, interested individuals, scholars, and agencies have created a network supporting the development of different ideas and home equity conversion instruments. A national clearinghouse is coordinating research and development efforts and disseminating information to the public. Several small-scale research and demonstration projects have been launched in different areas of the country and a handful of private lenders and investors are offering commercial products.

The 1981 White House Conference on Aging supported the development of voluntary home equity conversion instruments in its housing platform. The President's Commission on Housing, in its 1982 report, stated:[9]

> The Commission endorses the use of mechanisms to allow older homeowners to convert their home equity into income while remaining in their homes and recommends that the Department of Housing and Urban Development, the Federal Home Loan Bank Board, and the Internal Revenue Service facilitate and encourage the use of such mechanisms.

Home equity conversion may assist the growing elderly population in coping with the rising cost of living as well as the increasing cost of maintaining their homes. At the same time, equity conversion can provide a means of coping with skyrocketing health care costs, perhaps one of the major worries of the aging. Cash received from home equity conversion may be used to pay for medical care as well as for periodic health and social services received in the home. Such services are often essential to aging persons in maintaining independent households and their sense of dignity.

Home equity conversion is not for every elderly homeowner. Selling the home and using the proceeds to purchase a unit in a life care facility or investing the proceeds to generate income for living expenses will continue to be viable options for many elderly homeowners. Many elderly homeowners, however, will choose to remain in familiar surroundings. Many homeowners who could use additional cash for more comfortable living will prefer to scrimp on themselves in order to leave their estates intact for their heirs. What equity conversion provides is a choice not previously available. Home equity conversion, however, is not without its risks and problems. Legal obstacles that prevent more effective use of certain instruments remain and risks for both the elderly homeowner and the lender or investor exist. The legal obstacles and risks are being minimized, however, as awareness of the concept develops.

House Resolution No. 19, attached as Appendix A, was adopted by the Hawaii House of Representatives during the 1983 legislative session. The resolution requested the Office of the Legislative Reference Bureau to conduct a study of "the feasibility of allowing elderly persons with low incomes to use their equity in their homes to obtain health and social services, financial payments, or both, from the State". H.R. No. 19 described two home equity conversion programs currently operating in Buffalo, New York, and Musashino City, Japan, as the basis for the Bureau's study. Other home equity conversion program models are of equal interest, however, and in order to properly inform the legislature the scope of this study has been expanded to discuss these other models. Although deferred payment loan programs for payment of property taxes are often discussed as a major form of home equity conversion, they will not be discussed in this report because the counties are currently studying this issue.

Chapter 2 discusses basic home equity conversion models. This is followed by chapter 3's description of different programs and chapter 4's outline of government actions that would allow wider use of home equity conversion. Chapter 5 provides numerical indications of potential benefits from home equity conversion nationally and in Hawaii while chapter 6 narrows the potentially eligible population in Hawaii to the population with an interest in equity conversion. Chapter 7 discusses administrative and financial issues in a home equity conversion program while chapter 8 presents findings and recommendations for a home equity conversion program in Hawaii.

Chapter 2

HOME EQUITY CONVERSION MODELS

House Resolution No. 19 described two home equity conversion programs currently in operation and requested a study of the feasibility of adopting a *similar program in Hawaii. Preliminary research for this study revealed that* many other home equity conversion programs besides the Buffalo HELP program and the Musashino program exist and that other program structures might be more workable or attractive in Hawaii. Thus, the study discusses as wide a range of available alternatives as possible.

Before describing the various public and private home equity conversion mechanisms currently in use, general models of loan, sale, and insurance plans will be discussed in order to provide an understanding of basic provisions of the different programs and why some are more workable than others.[1] Table 1 compares the different mechanisms and their respective advantages and disadvantages.

Different writers have used the terms "reverse mortgage", "reverse annuity mortgage", and "RAM" as generic terms for the same instrument and as distinct instruments. Since "annuity" refers to any series of payments made or received at regular intervals, an annuity could be paid by insurance companies or by institutional lenders such as banks and savings and loan institutions. To prevent misunderstanding, this report will specify when an annuity is purchased from an insurance company and will use the term reverse mortgage when a lender only is involved in the transaction.

Loan Plans

Loans allow the homeowner to draw on the homeowner's equity through a loan collateralized by the home equity. Loans considered in this study do not include the home equity loans or lines-of-credit currently being offered by commercial banks, savings and loan associations, and brokerage firms. That type of home equity instrument does not address the needs of low-income elderly homeowners because the loans are amortized over a relatively short period and require monthly repayments of principal or interest, or both, from the owner. Rather than liquidating the home equity, these loans force the homeowner to buy back the homeowner's equity in the home while the homeowner is still alive.[2]

The fixed debt loan model, designed well before the soaring interest rates experienced in the 1980s, was based on a homeowner making an interest-only, nonamortized loan with a lender and then using the one-time lump sum disbursement to purchase an annuity from an insurance company. The borrower would pay current monthly interest on the loan while receiving annuity payments from the insurance company for the remainder of the borrower's lifetime. The borrower's debt, fixed at the outset of the loan, would be repaid upon the borrower's death or prior sale of the property. Upon the homeowner's death the homeowner's estate would be responsible for the total loan amount. The annuity was intended to ensure a flow of lifetime income to the homeowner, thus reducing the risk of the homeowner outliving the loan term and experiencing termination of the income stream. The

Table 1

HOME EQUITY CONVERSION MODELS

	Advantages	Disadvantages
FIXED DEBT LOAN		
Homeowner makes interest-only loan and uses the lump sum to purchase an annuity from an insurance company Homeowner receives annuity payments for life Homeowner pays current interest on the loan and deducts interest from taxable income or Insurance company deducts interest from the gross annuity, remits interest to the lender, and remits the net annuity to the homeowner Loan can be renegotiated with an appreciation in property value Loan principal is repaid upon the homeowner's death or sale of the property	Homeowner retains ownership of property while receiving monthly payments for life Plan is easily understood as the loan amount stays fixed for its entire term Homeowner benefits from an appreciation in property value For the lender: Insurance company assumes the risk for the homeowner living "too long" Lender receives interest income throughout the life of the loan	Annuities that can be paid are very small and no positive net annuity is possible for some homeowners because annuity rates are always well below mortgage interest rates Homeowner continues to be responsible for payment of property taxes, maintenance costs, fire and casualty insurance Homeowner may become ineligible for government benefit programs if annuity payments are treated as income Upon homeowner's death, estate is responsible for repayment of the total loan amount
RISING DEBT LOAN		
Lender makes periodic payments to the homeowner, with each advance being a loan and generating rising indebtedness over time Accumulated indebtedness is repaid upon sale of the property, the homeowner's death, when the loan-to-value ratio reaches a specified level, or on a specified date Loan can be renegotiated with an appreciation in property value	Homeowner retains ownership of property while receiving monthly payments for a term Homeowner benefits from an appreciation in property value Homeowner is protected against losing a major part of equity should early death occur as lender's recovery is limited to the accumulated debt Homeowner is protected against loss of benefits from government programs if the loan advance is expended within the quarter received because the payment is in the form a loan advance	Homeowner continues to be responsible for payment of property taxes, maintenance costs, fire and casualty insurance Homeowner's tenure in the home is not guaranteed and the homeowner may have to sell the home to repay the loan
RISING DEBT LOAN WITH DEFERRED ANNUITY		
Lender makes periodic payments to the homeowner, with each advance being a loan and generating rising indebtedness over time The loan is combined with the purchase of a deferred annuity. The mortgage debt is allowed to rise to a specified level at which point the annuity from the insurance company would pay the loan interest only or the loan interest and a monthly payment to the homeowner Accumulated indebtedness is repaid upon sale of the property, the homeowner's death, when the loan-to-value ratio reaches a specified level, or on a specified date Loan can be renegotiated with an appreciation in property value	Homeowner retains ownership of property while receiving monthly payments for a term or life Homeowner benefits from an appreciation in property value Homeowner is more likely to receive significant monthly payments because the spread between the mortgage rate and the annuity rate constitutes a smaller burden on the transaction as the annuity portion is pushed into the future Homeowner is protected against loss of benefits from government programs if the loan advance is expended within the quarter received because the payment is in the form of a loan advance For the lender: Insurance comapny assumes the risk for the homeowner living "too long"	Homeowner continues to be responsible for payment of property taxes, maintenance costs, fire and casualty insurance

	Advantages	Disadvantages
SALE-LEASEBACK (terms vary greatly)		
Homeowner sells home to an investor but has the right to a lifetime or long term lease Investor makes a small downpayment and purchases the home in installments Homeowner receives monthly payments from which rent is deducted	Homeowner is freed from payment of property taxes, maintenance costs, fire and casualty insurance In case of homeowner's death installment payments go to homeowner's estate For the investor: Investor may claim deductions on taxable income for depreciation (method is unclear), maintenance costs, fire and casualty insurance, and property taxes Investor benefits from appreciation in property value Investor receives rental income from a good tenant	Homeowner does not benefit from appreciation in property value Homeowner may become ineligible to receive government benefits as monthly payments would be treated as income Homeowner relinquishes actual ownership of property and becomes a renter Contracts are very complex Requirements to claim the homeowner's $125,000 capital gains exclusion are unclear
SPLIT EQUITY (terms vary greatly)		
Homeowner sells residual interest in home to an investor while retaining a right to lifetime occupancy	Homeowner is guaranteed lifetime tenure in the home	Homeowner does not benefit from appreciation in property value Estate does not benefit in case of homeowner's early death Requirements to claim the homeowner's $125,000 capital gains exclusion are unclear Homeowner may become ineligible to receive government benefits as monthly payments would be treated as income

Sources: Compiled from discussions in Ken Scholen and Yung-Ping Chen (eds.), *Unlocking Home Equity for the Elderly* (Cambridge, Mass.: Ballinger Publishing Company, 1980), pp. 82-88.

Donald Edwards, "Reverse Annuity Mortgages" in *Alternative Mortgage Instruments Research Study*, Vol. III (Washington: Federal Home Loan Bank Board, 1977), pp. XIX-5-XIX-8.

Jack Guttentag, "Reverse Annuity Mortgages: How S & Ls Can Write Them", reprinted in *Alternative Mortgage Instruments Research Study*, Vol. III (Washington: Federal Home Loan Bank Board, 1977), pp. XVIII-2-XVIII-8.

Jack Guttentag, "Creating New Financial Instruments for the Aged", *The Bulletin*, Bulletin 1975-5 (New York: New York University Graduate School of Business Administration), p. 30.

problem with the fixed debt loan in practice was that the difference between the mortgage interest rate paid and the annuity rate received resulted in very small annuities or usable income after deductions were made for monthly interest payments. In effect, the homeowner would be investing at a lower rate than the rate at which the homeowner borrowed, a process called negative arbitrage. For many homeowners, no positive net annuity would be possible under a fixed debt loan plan.

Interest-only debt loans without an insurance company annuity have been more successful. A homeowner secures a reverse mortgage for a term, receives monthly payments directly from the lender, and pays current interest on the loan. The loan must be structured to prevent the interest from consuming greater and greater portions of the monthly payment to the borrower.

The rising debt loan involves fixed monthly payments flowing from the lender to the borrower for a scheduled number of months with interest on the payments accumulating with the principal to be repaid at the end of the loan term. Rather than having a fixed, unchanging debt, compound interest or interest on deferred interest charges on the monthly payments results in a rising debt. The accumulated debt is repaid upon the borrower's death, sale of the property, when the loan-to-value ratio has reached a specified level, or on a specified date.

A variation of the rising debt loan is the rising debt loan combined with a deferred annuity purchased from an insurance company. The deferred annuity would take effect when the mortgage debt has reached a certain level and would pay either interest payments to the lender only or interest payments to the lender along with the same monthly payments to the borrower previously provided by the lender. Since a single premium deferred annuity costs much less than a single premium immediate annuity, the problem with the spread between the mortgage rate and the annuity rate would be much less severe. Again, the accumulated indebtedness would be repaid upon the borrower's death, sale of the property, when the loan-to-value ratio has reached a specified level, or on a specified date.

In all reverse mortgage loans, the size of the monthly payments that can be obtained depends on the property value less encumbrances, household composition, and the period over which payments to the homeowner are desired. The loan term has a significant effect on the interest charged. Kaplan, Smith & Associates, Inc., a financial consulting firm, notes that "...the payments from a reverse mortgage are tied to a final loan balance. The longer the maturity of the loan the longer the period of time over which interest accumulates in addition to the longer the period over which disbursements or payments are being made."[3] Reverse mortgages have been extended for terms of three to fifteen years. Shorter loan terms allow larger payments to the homeowner and might be desired in certain situations. A loan term of three years might be selected by a recently widowed woman who desires a temporary source of income while she decides whether and where to move. A person who is waiting for pension payments to begin or one with a short life expectancy because of illness also might choose a short loan term. From the lender's perspective, of course, shorter loan terms are not as risky as longer ones. No matter what the term, however, reverse mortgages as opposed to annuity plans or sale plans provide homeowners with the option of prepayment. A person deciding to move to another home or another state after entering into a reverse mortgage can easily sell the home, repay the reverse mortgage debt, and move. It is much more difficult to withdraw from an annuity or sale agreement.

Maximum loan amounts in reverse mortgages are usually limited to 70 to 80 per cent of the appraised value of the property. For example, a homeowner whose mortgage has been paid off and whose home has an appraised value of $100,000 would be able to obtain a reverse mortgage for a maximum of $70,000 or $80,000, including both principal and interest. The borrower thus retains equity at the margin which is the borrower's to bequeath and which will increase as the property appreciates.

A significant component of loan plans is the tremendous impact that interest charges have in decreasing the home equity actually disbursed to the elderly homeowner. James A. Graaskamp notes that in a 15-year loan at 10 per cent compound interest, a homeowner might receive only 43 per cent of total home equity while 57 per cent of the equity would go to the lender as compound interest.[4] The compounding of interest or charging of interest on interest remains a condition inherent in reverse mortgages; however, interest consumed in a ten-year reverse mortgage is only about two-fifths that charged in the first ten years of a 30-year conventional mortgage.[5]

Reverse mortgages have been designed with variable interest rates which move up or down with fluctuations in market interest rates and with renegotiable terms which vary according to property appreciation and changes in interest rates. While variable and renegotiable rates are more desirable than fixed rates to the lender, such loans have not received widespread consumer acceptance. In the special case of variable rate reverse mortgage loans, Kaplan, Smith & Associates, Inc., notes that:[6]

> ...a change in the mortgage interest rate (over a reasonable range) has a considerably milder effect on monthly payments to the senior than does a change in maturity or initial disbursement.

The interest rate might be lower than the market rate if the lender approves a shared appreciation reverse mortgage. In return for a lower interest rate, the borrower agrees to repay the loan amount plus a specified percentage of the appreciation in property value that occurs over the loan term.

Reverse mortgages may also differ by their methods of disbursement. Some mortgages provide for graduated increases in payments to the borrower to adjust for increases in the cost of living. Some reverse mortgages allow a borrower to receive an initial lump sum disbursement to pay off a remaining mortgage balance, make home repairs, or purchase an annuity policy from an insurance company. While the purpose behind initial disbursement reverse mortgages seems entirely reasonable, Kaplan, Smith & Associates, Inc., explains how initial lump sum disbursements affect reverse mortgages:[7]

> ...the disbursement RAM has a much higher loan balance from start to finish. *In a certain sense, a bit more is at risk for the* lender.... From the borrower's perspective, ...monthly payments received are much lower with the disbursement RAM, and [total] interest charges are much higher.

Further:[8]

> ...if there are obligations that must be taken care of at the time the RAM is being considered, it may well be wise to consider other ways of financing them [because the initial disbursement option] will be an expensive decision in terms of future income foregone.

Finally, repayment of reverse mortgage loans may be over an extended period or lump sum repayment may be required. Unless the borrower's child is willing to assume repayment responsibility the borrower may be unable to meet monthly repayment requirements as the borrower's income probably would not have increased since making the loan. Lump sum repayment usually requires sale of the home.

Lender Concerns

Lenders have many reservations about offering reverse mortgages. Perhaps a lender's main consideration is that the capital will be tied up during the loan term. In fixed debt loans, the lender receives current interest payments and tying up capital is not as great a concern. In rising debt loans where the lender has agreed to defer repayment of principal and interest until some point in the future, the lender is at a greater disadvantage. The lender has extended funds to the homeowner probably at a fixed interest rate while the lender may have to pay a substantially higher interest rate for the funds required to provide the payments to the homeowner. Variable rate or renegotiable reverse mortgage loans would mitigate this lender concern although the loans are more difficult to market to the target population.

Another concern of lenders with loan plans is the possibility of the homeowner outliving the loan term and being forced to sell the home in order to repay the loan. While it can be argued that the intent of a reverse mortgage loan is not to ensure lifetime occupancy of the homeowner's accustomed home, but rather to allow the homeowner to remain in the home for a longer period than might otherwise be possible, few lenders relish the thought of putting an elderly homeowner out on the street when the loan term is up. Contrary to this popular lender belief, however, are reports from a private reverse mortgage program and a public property tax deferral program that more persons sold their homes to repay their loans than had been expected.[9]

Another concern is repayment in cases where the borrower dies. The loan repayment would be delayed until settlement of the estate which often takes two years or more.

Another lender concern is property risk. Property risk is the risk that the property securing repayment of the reverse mortgage will depreciate in value by the end of the loan term. Should depreciation occur, the homeowner may be unable to repay the full amount of the loan. In Hawaii where real estate values have traditionally appreciated at a rapid rate this might not seem to be a problem. Nevertheless, interviews with officials of lending institutions revealed that this is indeed a concern.[10] Moreover, evidence indicates that during the recent recession, sales prices of both new and existing single-family units dropped slightly.[11]

Two financial analysts predict higher servicing costs for reverse mortgages than for standard mortgages because reverse mortgages would require closer monitoring and site inspections as well as additional expenses for transmitting monthly disbursements. Moreover, servicing costs would be borne by the lender until the loan is paid off.[12]

Sale Plans

Two types of sale plans discussed in the literature are the sale-leaseback and a split equity arrangement. Unlike loan plans which involve a partial conversion of equity, sale plans involve a complete conversion of equity. Noncommercial sale-leasebacks have occurred in the United States where children purchase the home from their parents.[13] Sale-leasebacks are derived from a well-established French instrument called <u>rente viager</u>.[14] In a sale-leaseback, a homeowner sells the home to an investor who may be an individual, a limited partnership, or an institutional investor and leases back the home as a tenant. Complicated contracts are required to cover the responsibility for property taxes and repairs, rental fees, purchase terms, and situations in which the homeowner-turned-tenant moves out of the home or suffers physical or mental deterioration. A well-designed instrument can ensure lifetime tenure in the home and relatively high lifetime gross income while risk to the elderly homeowner is virtually eliminated.[15] Split equity arrangements involve a guarantee of lifetime occupancy of the home for a senior citizen and the acquisition of the residual equity, or remainder interest, in the property by the investor through an installment sale. Whenever the homeowner dies, the entire value of the property accrues to the investor. As in sale-leasebacks, split equity contracts must specify the responsibilities of each party to the transaction.

Reverse Insurance

In addition to loan plans and sale plans, home equity conversion researchers have discussed a mechanism called reverse insurance which is used in England. In fact, although reverse insurance is discussed much less frequently than loan or sale plans today, Yung-Ping Chen's writings about his "housing annuity plan" or "actuarial mortgage plan" in the 1960s were the first discussions of home equity conversion in the United States.[16] Reverse insurance, unlike the situation where proceeds from a fixed debt reverse mortgage are used to purchase a conventional annuity from an insurance company, involves the purchase of an annuity from an insurance company, with the purchase payment deferred until the homeowner's death. Reverse insurance benefits provided during the homeowner's lifetime would be discounted to reflect both the lower value of the future payments and the uncertainty of when they will occur.[17]

Using conventional life insurance principles, the insurance company incorporates mortality risk into the loan process. Payouts to those homeowners who die early would balance payouts to those homeowners who live longer.

Although such a system would provide tax advantages to insurance companies, Yung-Ping Chen notes that in his discussions with insurance companies in the 1960s, the companies were worried about property maintenance and foreclosure, and about owning residential property.[18] Indeed, Guttentag notes that insurance companies have gradually withdrawn from the residential mortgage market over the last decade.[19]

The Choice Among Instruments

No single home equity conversion instrument will appeal to all elderly homeowners as each mechanism involves different benefits and risks. Some homeowners will prefer a private program while others might feel safer in a publicly sponsored program. Some homeowners might prefer to take out a loan and incur debt rather than sell the home and retain residency rights. Loans involve the payment of closing costs and substantial interest costs which lessen the amount of equity to be received as cash. With loan plans, homeowners also risk outliving the loan term and having to repay possibly the entire loan amount. Loans do allow the homeowner to benefit from any appreciation in property value and allow the homeowner to retain a portion of equity to bequeath to heirs. Sale plans usually require a transfer of title but guarantee residency rights. The senior's risk in sale plans is that the investor will be unable to maintain the required level of payments to the elderly person. Insurance company annuities may provide lifetime income, but the premium may be too costly relative to the expected benefits. Many researchers agree that insurance company annuities usually do not make sense for persons under 75.[20] Whatever the home equity conversion instrument, the homeowner must seek adequate counseling and advice and be fully aware of the relative costs and benefits of each instrument before making a choice.

Chapter 3

EXISTING HOME EQUITY CONVERSION PROGRAMS

This chapter discusses existing home equity conversion programs.

Buffalo Home Equity Living Plans (HELP)[1]

The Buffalo, New York, Home Equity Living Plan (HELP) program, originated in 1981, is a publicly sponsored split equity program. The program's three basic objectives are to (1) relieve the financial burdens of elderly homeowners; (2) preserve a specific neighborhood in Buffalo; and (3) create a self-sustaining, permanent program.[2] A new nonprofit organization, HELP, Inc., administers the program which was capitalized by $1.3 million from Buffalo's Community Development Block Grant (CDBG) funds. This "seed money" was invested in United States Treasury notes and until very recently the interest income has been adequate to cover program costs.[3] Program staff consists of one full-time director and a part-time assistant who handle public relations and outreach and coordinate the services of a bank's trust department, an appraisal firm, and a property management firm.

To be eligible to participate in the program, an elderly individual or couple must (1) be Buffalo residents 60 years of age or older; (2) own a house debt-free or with a small mortgage balance; (3) own a house whose value is found to be suitable under policy guidelines; and (4) have an income below the United States Department of Housing and Urban Development's (HUD) low-to-moderate income limits. Income limits in 1983 were approximately $15,000 for an individual and $17,000 for a couple. An elderly individual or couple participating in the program is guaranteed a life estate in the property and HELP, Inc., becomes owner of a remainder interest. The homeowner retains actual title to the property until the homeowner's death at which time HELP sells the house to recoup its investment. HELP, Inc., assumes responsibility for the payment of property taxes, insurance, and all property repairs and maintenance. In addition, the homeowner has a choice of receiving a lump sum cash disbursement or small monthly checks which continue until the homeowner's death. For a couple, the monthly payments continue until the death of the last survivor. The amount of the disbursements is based on the value of the house and the homeowner's life expectancy. Enrollment in the program involves no initial costs to the homeowner for appraisal or closing. Participants are allowed to withdraw from the program for a period of 12 months after signing the contract, repaying HELP, Inc., for cash or other benefits received. An important provision in the HELP arrangement is that if the corporation fails to deliver the promised payments, HELP forfeits all its right to the property and the homeowner retains payments received as well as the property.

As of July 1983, there were 34 households in the program with an average property value of $20,000. By the end of the program's marketing period in August 1984, program developers hope to have enrolled 50 households in the program. Participants have been single women, single men, and couples, in that order. According to the program's director most of the homeowners have children but the children do not want the home or the homeowners prefer to leave their children cash instead of the burden of settling an estate.[4] One couple has withdrawn from the program and repaid HELP, Inc., for the benefits received.[5]

This is one example of HELP benefits. A 66-year old woman who entered the program in August, 1981, with a $16,000 home, will receive $624 a year, or $52 a month, for the remainder of her life.[6]

Development of an operating manual to assist other cities in replicating the HELP model is scheduled for the near future.[7]

Musashino Program[8]

A different type of program with a home equity repayment option has been in operation since April 1981 in Musashino City, a suburb of Tokyo, Japan. This program, sponsored by the Musashino city government and operated by the quasi-public Musashino Public Welfare Corporation, offers comprehensive health and social services as well as financial assistance to elderly households with the goal of preventing unwanted institutionalization of the elderly. The program as described in H.R. No. 19 was inappropriately characterized as a home equity conversion program providing cash and health and social services. Although the program was designed as a home equity conversion program, it is now more accurately described as a health and social service program with a home equity repayment option. The program is overseen by a board of directors composed of business and political leaders and advised by a technical advisory committee composed of directors of city agencies. The program's full-time staff consists of a director and assistant director, three social workers, two registered nurses, and one home care supervisor. This staff coordinates the many free services to elderly persons available from the city as well as the services purchased from the corporation. Volunteer housewives assist the full-time staff in providing chore and personal care services for a minimal wage.

The program offers three types of assistance to participating households. Appendix B-1 shows the types of services available and their costs. All program participants are required to subscribe to basic health monitoring services while all other services are optional. Trained staff or volunteers provide "individualized services" which include meal preparation, nursing care, personal care, chore, escort, and other miscellaneous services. Finally, participants may obtain financial assistance which includes a monthly income supplement, larger amounts for non-program-related medical expenses, and a one-time lump sum for home renovation.

Program participants may pay for the services they receive on a monthly cash basis or arrange for a deferred payment loan secured by their home equity. Those using home equity are limited to using 90 per cent of their equity in a single-family home, but only 80 per cent of equity in a condominium. Repayment for services with five per cent interest is deferred until sale of the property upon the participant's death, at which time family members may repay the outstanding debt in order to retain title to the property. Should a participant exhaust the maximum amount of home equity available, the participant then must rely upon the services provided to Japan's populace through its national health care system.

While cash payment clients in the project do not have to meet eligibility requirements, those clients utilizing the home equity repayment option must be approximately 65 years old, reside in Musashino City or the vicinity, and meet a certain standard of physical or mental disability.

The Musashino program currently involves 140 persons in 106 households; however, service utilization data were available for only the 80 persons in 58 households as of April 1982. Of those 58 households, only 14 households or roughly 25 per cent of program households were using the home equity repayment option. Expenditures for the home equity repayment households are shown in Appendix B-2. Cash payments to these households which may include the maximum $365 a month for living expenses, a $3,200 a month maximum for medical expenses, and one-time maximum of $4,500 for home renovations, totalled $62,975 over the one-year period April 1981 to March 1982. This amount can be compared with the $13,919 expended by these same households for services such as meals, chore, personal care, and nursing services. Ten of the 14 home equity repayment households received the income supplement only or the income supplement in addition to services. The other four home equity repayment households did not require financial assistance but only services. How much this pattern will change with changing clientele and with the clients' aging is uncertain.

The program has received direct subsidies from the city of approximately $80,000 annually for program operating costs. This is in addition to "loan" funds from the city for home equity client expenditures of over $120,000 annually. The city expects the loan funds to be repaid as home equity participants pass away and their properties are liquidated. Although the city government intends to continue subsidizing the new program for the present, program developers are hoping that in the long run, unused equity will be donated to a successor foundation to the Public Welfare Corporation so that other persons may be allowed to benefit from the program.

Pennsylvania Home Equity Living Program[9]

The Pennsylvania General Assembly recently established a split equity program very similar to the Buffalo HELP program in benefits as well as in its name. Legislation enacted during 1983 created a new program to be governed by a home equity board composed of members of the legislature, the secretary of aging, elected local government officials, and senior citizens. The board was authorized to enter into split equity agreements with participating homeowners and provide for maintenance, fire and extended coverage property insurance, and a monthly cash payment to the homeowner. The homeowner would be assured a life estate in the home and the board would take possession of the home upon the homeowner's death. Participation was limited to homeowners (1) 55 years or older; (2) with an annual income of $8,200 or less; and (3) whose property value was $40,000 or below. The General Assembly appropriated $10 million to implement the program.

The Reverse Annuity Mortgage Program of the San Francisco Development Fund (RAM)[10]

The Reverse Annuity Mortgage (RAM) program of the nonprofit San Francisco Development Fund was begun as a two-year pilot project in Marin County, California, in 1981, with operating costs funded by the San Francisco Foundation, the Ford Foundation, the James Irvine Foundation, and the Federal Home Loan Bank Board. Four lending institutions: Crocker Bank, Bank of America, First Nationwide Savings (formerly Citizens Savings), and Wells Fargo Bank agreed to make a number of reverse mortgage loans on a rotating basis during the pilot period. Now expanding statewide, the program continues to receive operating funds from private foundations. Lenders participating in the statewide expansion include First Nationwide Savings, Crocker Bank, and Security Pacific Bank. Unlike the HELP split-equity arrangement, RAM offers two different loan plans and also offers a sale-leaseback option through the Fouratt Corporation, a real estate company offering the sale-leaseback independently of RAM as well. The program staff of five persons provides free counseling services to eligible applicants and is involved in developing a nationwide training program to assist other agencies in implementing a loan program.

To be eligible to participate in the Marin County loan program, an elderly homeowner must (1) be 62 or older; (2) have a maximum annual income within the United States Department of Housing and Urban Development's (HUD) moderate-income guidelines of 120 per cent of the median income in the area which are currently $25,620 for a single person and $29,280 for a couple; (3) live in a single-family residence, townhouse, or condominium with little or no mortgage balance; and (4) have no other substantial real property or assets. To be eligible for the Marin sale-leaseback program, the homeowner must (1) be a single male over 65 years old or a single female over 70 years old; and (2) live in a single-family dwelling with little or no mortgage balance. The sale-leaseback program has no maximum income limits and married couples may not participate. Examples of terms and cash payments received under RAM loan plans and the RAM Fouratt Plan are attached as Appendices C-1 and C-2.

Homeowners choosing loan plans retain title to their homes and are allowed to borrow up to 80 per cent of the property's appraised value to a maximum amount of $150,000. An optional lump sum disbursement of up to 25 per cent of the loan amount is available to pay off an existing mortgage, make home improvements, cover closing costs, or purchase a deferred annuity. Two types of rising debt loan plans are currently available for terms of 5 to 12 years. Homeowners receive the lump sum or monthly payments, or both, and defer repayment of all principal and interest until the end of the loan term.

The Type I loan, a simple reverse mortgage, involves a fixed interest rate for a fixed term and fixed monthly payments. The Type II loan, a graduated payment RAM, also offers a fixed interest rate for a fixed term; however, monthly payments to the borrower increase by six per cent each year. RAM program designers had intended to offer a third loan option which involved periodic reappraisal of the property and adjustment of monthly payments, interest rates, and the maximum loan amount based on the change in property value and a cost-of-living index. Difficulties in determining the complicated adjustments have prevented this adjustable loan option from being offered; however, a variable rate loan more attractive to lenders is being considered.[11]

Loan fees are limited to one per cent of the loan amount, the appraisal cost of $100 to $150, and normal closing costs such as escrow, title insurance, and recording fees. At the end of the loan term, the loan amount plus accrued interest must be repaid in full, which may require sale of the property. If the value of the property has increased substantially, the lender may agree to extend the loan. The homeowner may prepay the outstanding loan amount at any time before the end of the loan term without penalty.

The Marin program as of July 1983 had witnessed the closing of 39 reverse mortgage loans totalling over $4.1 million and six sale-leasebacks. A private pension fund purchased the sale-leaseback homes valued at over $1.2 million.[12]

RAM Participants[13]

An evaluation of the RAM program for the period March 1, 1980 through March 1, 1982 revealed much about the characteristics of those who applied for the program as well as those who actually signed a loan or sale contract, hereinafter referred to as the "takedowns". Of the 63 households who applied during the two-year period, 28, or 44 per cent of the total, actually participated in the program. The median age of the head of the household among the takedowns was 72, compared with a median of 71 for all the applicants. The proportion of takedowns with women as household heads was 61 per cent compared with 63.5 per cent among all applicants. Eighty-two per cent of the takedowns either lived alone or with a spouse only, while 79 per cent of all applicants had similar living arrangements. Forty-three per cent of the takedowns were childless while a slightly lower 38 per cent of all applicants were childless.

One-fourth of all applicants had incomes below $6,000 while the median income of all applicants was $9,000. Assets other than the home ranged in value from $1,000 to $100,000 for all applicants with a median of $18,000. Comparable information on the takedowns was not available. The median property value among all applicants was a very high $200,000. More of the takedowns had homes valued at more than $250,000 (32%) than nontakedowns (11.5%). Fifty per cent of the takedowns still had a mortgage balance, compared to 55.6 per cent of all applicants.

One last statistic of interest is the higher rate of participation of the takedowns in the California property tax postponement or assistance program. Half of the takedowns had participated in the programs, while only 37 per cent of the nontakedowns had done so.

RAM Statewide Expansion

The RAM statewide expansion program will involve eight other agencies, both public and private nonprofit in Sonoma, Napa, Southern Alameda, San Mateo, and Orange counties, and limited areas in Oakland, Los Angeles, and

San Diego. Eligibility criteria for these programs vary with the source of funding.

The RAM program also intends to assist interested agencies nationwide in establishing similar programs through its RAM Training Resources and Assistance Center (RAMTRAC). Under the terms of a recently approved federal grant, RAM will assist five or six agencies in establishing home equity conversion programs free of charge.[14] RAM has been soliciting applications from interested public and private nonprofit agencies nationwide and has already made commitments to groups in Denver, Boston, and Tucson.[15] Other agencies will be selected based on their record in aging and/or housing services, demonstrated need and community support, and financial resources and commitments to undertake the program. After selection RAMTRAC intends to provide an introductory workshop and two days of on-site training and have staff available to assist the agency in initial processing and counseling stages.

County of San Mateo RAM Program[16]

One of the agencies involved in the California statewide expansion of the RAM program is San Mateo county's Housing and Community Development Division which administers that county's Community Development Block Grant (CDBG) program. This program will be described in detail as it is one of the few public, rather than private nonprofit, agencies currently administering a home equity conversion program.

The San Mateo RAM program is modeled on the Marin county RAM program and utilizes the same forms and procedures. Its program budget of $38,000 is being financed by a $10,000 private foundation grant and the remainder by CDBG funds. Although no new staff was required for the new program, approximately one-half of an existing program specialist's time is absorbed by the RAM program. When necessary, the specialist consults with other staff members.

Between the program's inception in October 1982 and December 1983, 12 reverse mortgage loans had been closed with the Bank of America, a number substantially lower than the 20 loans anticipated by October 1983.[17]

The major difference between the Marin and San Mateo programs is that San Mateo had originally arranged for free legal services to program applicants through a $15,000 subcontract with the local Legal Aid Society. The agency found the service to be unnecessary as most applicants preferred either using their own attorneys or relying on the advice of family, friends, and financial advisors.

Program eligibility guidelines are as follows:

1. Minimum age: 62. For a couple, at least one person must be 62.

2. Applicant must be an owner-occupant of a single-family home, condominium, or townhouse and own no other real property.

3. Applicant must own the home free and clear or have no more than a remaining mortgage balance of $20,000.

4. Maximum annual gross income: $25,620 for one or $29,280 for a couple.

5. Assets over and above home and personal property are limited to $50,000.

Deering Savings Reverse Mortgage[18]

Deering Savings of Portland, Maine, made perhaps the first ever reverse mortgage in 1961. The association made approximately 50 loans before it stopped offering the loans in the early 1980s as a result of high interest rates and the large amount of counseling time involved.[19] The Deering reverse mortgage was a rising debt mortgage structured to meet the individual borrower's needs. In addition to monthly disbursements, advances were also made to pay off existing mortgages or to pay for home repairs. Repayment of all principal and interest was deferred until the end of the loan term. The association found that most of the loans were made for two- to three-year terms, and were required as a result of a spouse's, usually a husband's, death. The widow, often with limited experience in financial matters, would usually sell the property, pay off the debt, and make other living arrangements.

Broadview Savings Equi-Pay Plan[20]

Broadview Savings and Loan of Independence, Ohio, a state-chartered savings institution, began making reverse mortgages in 1977, two years before the Federal Home Loan Bank Board authorized federally chartered institutions to make reverse mortgages. The Equi-Pay plan was an interest-only loan with payouts for 80 per cent of a home's appraised value over a term of five to ten years, and repayment periods of up to 25 years. Initial lump sum disbursements were allowed to pay off a small mortgage balance or to make needed home repairs. A homeowner received regular monthly disbursements and repaid current interest on the funds, rather than deferring all interest payments to the end of the payout period. In addition, the homeowner paid $1 a month toward principal reduction, and one-twelfth of the annual real property taxes and insurance costs. At the end of the payout term the house could be reappraised to determine if further payouts could be made.

Like Deering Savings, Broadview stopped making Equi-Pay loans in 1981 because of soaring interest rates and has not indicated that it will resume making Equi-Pay loans.

Boiling Springs Savings and Loan "Home Plus" Program[21]

Boiling Springs Savings and Loan Association in Rutherford, New Jersey, recently instituted a reverse mortgage program. The "Home Plus" mortgage is a rising debt loan with a three-year term and a maximum loan amount of 70 per cent of property value. After the three-year period, the loan may be extended another three years if the property has appreciated significantly. Information on the repayment term was not available.

American Homestead's "Century Plan"[22]

American Homestead, a private corporation headquartered in New Jersey, has been developing a modified reverse mortgage program called the Century Plan. This plan provides monthly loan advances until the homeowner dies, sells the home, or reaches 100 years of age, whichever occurs first, at which time repayment is due. The amount of the loan advances is based on the homeowner's life expectancy and property value. Fixed interest charged on the loan amount is set at a rate below the market rate in return for the homeowner agreeing to relinquish a portion or all of the future appreciation in property value. At the time of repayment, the homeowner's liability is limited by the value of the property at that time. Even if the outstanding loan balance and American Homestead's share of appreciation exceed the property value, American Homestead is limited to recovery of an amount equal to the property value and no more. The company hopes that it can absorb the loss through its pooling of thousands of loans intended to be financed with private capital and marketed nationwide through federally chartered savings and loan associations.[23]

Initiation of the program, after several years of research and development, is reported to have occurred in New Jersey in 1983.[24]

Fouratt Senior Citizen Equity Plan

The sale-leaseback most discussed in the United States in recent years is the Fouratt Corporation's copyrighted Senior Citizen Equity Plan or Fouratt Plan. The California-based corporation has been testing its program since 1979, and since it has not actively marketed the plan, has only brokered a few transactions to date.[25] The corporation anticipates offering its plan "wherever it is needed" in the future but a spokesperson did not disclose exact locations or timetables.

The plan is designed as follows.[26] A senior homeowner must be 65 years or older if a male and 70 years or older if a female. If a couple, both persons must meet the age requirement. The senior homeowner sells the home to an investor at a discount from the home's market value and enters into a leaseback agreement with the investor. The leaseback is structured as a guarantee of the senior's right to live in the home as long as desired. After the agreement between the buyer and seller has been finalized, the senior's heirs are offered the opportunity to be substituted for the buyer in the purchase agreement on identical terms.

The buyer makes a down payment and executes a promissory note, including interest, and a deed of trust. The deed of trust secures amortized payment of the note and performance of all of the buyer's other obligations under the purchase agreement. The buyer also purchases a single-premium, no-death benefit, deferred annuity that guarantees continuation of the same monthly payments to the senior beginning the month after the purchase payments have ceased. The buyer pays off the promissory note to the senior over a 10- to 15-year period, depending on the senior's life expectancy. The buyer assumes responsibility for real property taxes, fire and liability insurance, and major maintenance. The senior pays rent to the buyer as long as the senior wishes to remain in the home, with rent increases limited by the purchase agreement. If and when the senior desires to move, the senior continues to receive the total amount of purchase (or annuity) payments, without a deduction for rent. If the senior dies before the last of the purchase payments, the senior's estate continues to receive the purchase payments. The estate does not benefit from deferred annuity payments after the senior's death.

For its services, the Fouratt Corporation charges a fee of four per cent of the discounted sale price of the home. The buyer and seller also pay a fee to a bank for servicing the purchase and rent payments.

As noted earlier in this chapter, the Fouratt Plan has been offered in the San Francisco Reverse Annuity Mortgage (RAM) Program. A consultant to the RAM program notes that while the Plan has highly desirable features, "[w]hether the Fouratt Plan will in fact work is another question."[27] The single premium, no-death benefit, deferred annuity, an essential component of the Fouratt Plan, is not commonly offered by insurance companies.[28] Moreover, the consultant notes, "in fact, because of the [high cost of] premiums for annuities for individuals in certain categories, a large number of senior homeowners would be prevented from engaging in this kind of plan."[29] The RAM program experience with this particular instrument was such that RAM recently completed a revamping of the sale-leaseback in conjunction with the National Center for Home Equity Conversion. The new arrangement is intended to provide more flexibility than the Fouratt Plan and to allow each program to establish its own guidelines for the discount on the sale price, amount of down payment, and other variables.[30]

While the Fouratt Plan offers attractive payments and security for homeowners, potential difficulties in attracting investors to purchase elderly homeowner's homes are apparent. One community group assessing different home equity conversion plans noted the plan's two primary drawbacks, "(1) negative after-tax cash flows in all years of the transaction; and (2) a non-competitive rate of return, i.e., in the 6-7% range, over a 15-year period".[31]

First Senior[32]

The First Senior sale-leaseback program in the Washington, D.C., area is similar to the Fouratt Plan; however, First Senior will also involve itself in property management after the sale. To attract elderly participants the company plans to offer a free appraisal, free computerized analysis of different mortgage terms, and payment of legal fees for the homeowner's attorney to review the contract. Sellers would be given a promissory note and a first mortgage as well as a deferred annuity insurance policy.

The program began offering the plan in 1982 to homeowners over 65 with minimum property values of $175,000.

Pilot Projects

New Jersey.[33] A group of community leaders in Essex County, New Jersey, undertook a feasibility study for a home equity conversion program in 1981-82. The study advisory committee's original idea was to create a nonprofit cooperative which then would function as a real estate investment trust (REIT), attracting outsiders to invest in the members' home equity.

After examining all of the major equity conversion instruments and financing arrangements, the committee recommended a housing annuity program similar to Buffalo's HELP program as that which would provide the greatest security and return on equity for participants.

The proposed program required an authorization of $13 million in tax-exempt bonds to assist 50 households with home equity of $50,000 per household. An addendum to the full report noted that "the members of the Committee...recognize that high interest rates and an overall instability in financial markets have curtailed the utility of long-term bonds. Further, the large amount of money needed to finance a relatively modest demonstration raises serious cost/benefit ratio questions, especially in this current period of economic austerity."[34] The committee then proposed a scaled-back project involving subsidization of standard reverse mortgages to be made to frail elderly homeowners; however, even this proposal has not yet been implemented.

Maine.[35] Maine's state agency for the elderly, the Bureau of Maine's Elderly, is currently administering a research and development project on home equity conversion using a $151,000 grant from the federal Administration on Aging (AoA). The project, sponsored by the Bureau, the University of Maine School of Law, Maine Savings Bank (Maine's largest financial institution), and guided by a task force, hopes to research technical aspects of home equity conversion; provide educational and counseling services for consumers, professionals, and service providers; and carry out two demonstration projects using equity conversion techniques. The Maine State Housing Authority will conduct ten consumer seminars to disseminate information on home equity conversion and assess consumer interest in different instruments. An important product of this phase of the project will be a consumer handbook on home equity conversion. The University of Maine School of Law will provide low-cost, individual counseling in estate planning for interested homeowners while other workshops will be held to inform service providers and professionals about home equity conversion options so that they may provide appropriate counseling and referrals.

The project will provide direct housing assistance to a small number of low-income elderly persons through the development of one group home and one shared home in conjunction with the use of home equity conversion mechanisms. A nonprofit corporation will purchase a large single-family home from an elderly homeowner. The home will be renovated and divided into several bedroom-half bath units using state and federal rehabilitation loan funds. One of the completed units will be leased back to the original homeowner and the other units will be leased to frail elderly persons whose rents will pay increased operating costs and loan amortization. Congregate services will be provided to all tenants by the nonprofit corporation for a fee.

In the other demonstration project, another nonprofit corporation will assist an elderly homeowner with a large home in obtaining a rehabilitation loan to convert the home into a number of rental bedroom units. Bathrooms and all other living areas will be shared. The rent collected is expected to be adequate for operating costs and loan amortization as well as provide supplemental income for the homeowner sharing the home.

Maine's State Housing Authority is also considering establishing a reverse mortgage loan program with a reserve fund to protect investors and lenders.[36]

Chapter 4

GOVERNMENT ACTION TO ENCOURAGE WIDER USE OF HOME EQUITY CONVERSION INSTRUMENTS

The programs described in the preceding chapter have allowed only a handful of elderly homeowners to benefit from their converted home equity. Reverse mortgage loans are reported to have been made at various times in Maine, Ohio, Pennsylvania, New Jersey, Wisconsin, California, Minnesota, and Arizona, while commercial sale-leasebacks have been used by realtors in California, Florida, Oregon, Wisconsin, and the District of Columbia.[1] An estimated 200 reverse mortgage loans have been made nationwide.[2] Far fewer homeowners have benefitted from other conversion mechanisms. This chapter will discuss government actions in several areas which may stimulate greater private sector involvement in home equity conversion or encourage elderly homeowners to participate in a home equity conversion program.

Federal Level

One no-cost federal government action that would greatly facilitate sale-leasebacks is the clarification of Internal Revenue Code treatment of two aspects of sale-leaseback transactions: (1) the requirements and method for depreciating the property purchased by the investor; and (2) the requirements and method for claiming exclusion of the one-time $125,000 capital gain for the seller. Such clarification is sought in pending federal legislation.[3]

Prior to 1982, national banks were not authorized specifically to make reverse mortgage loans but were making the loans under limited authority to make real estate loans that did not comply with amortization requirements in national banking laws. Such statutory restrictions were viewed as discouraging national bank initiatives in the reverse mortgage area. Recently enacted federal legislation granted the national banks increased flexibility in making real estate loans subject to regulations of the Comptroller of the Currency.[4]

Existing Federal Home Loan Bank Board (FHLBB) regulations which govern federally chartered savings and loan associations as well as state-chartered associations with a federal tie-in have allowed the making of reverse mortgages since 1979. The current regulations provide for adjustable interest rates, a plus for lenders; however, they do not allow lump sum disbursements unless they are to be used to purchase an annuity from an insurance company.[5] Although lump sum disbursements are costly in terms of future income foregone as discussed in chapter 2, there is wide support for proposed amendments to FHLBB regulations that would permit lump sum disbursements to be allowed as an option in reverse mortgages. The Garn-St. Germain Depository Institutions Act of 1982 authorized state-chartered lenders to offer any type of alternative mortgage instrument that comparable federally chartered institutions may offer. Thus, state-chartered savings and loan institutions may offer reverse mortgages subject to FHLBB regulations; state-chartered banks may offer reverse mortgages subject to regulations of the Comptroller of the Currency; and state-chartered credit unions may offer reverse mortgages subject to regulations of the National Credit Union Association.[6]

Some home equity conversion developers have called for a federal insurance or guarantee program for reverse mortgage loans to reduce lender risk, pointing out that a federal mortgage insurance program for the 30-year self-amortizing mortgage was crucial to the development and acceptance of that loan instrument. Max Kummerow notes that "[i]f a federal guarantee implies underwriting procedures, standard documents, and oversight, as well as guarantees to insure the solvency of the lender, a nightmare of potential consumer abuses could be avoided."[7] The federal Department of Housing and Urban Development (HUD) included a proposal for a demonstration project of Federal Housing Administration (FHA) insurance for reverse mortgages in its 1984 legislative package; however, in the supplemental appropriations bill passed in November 1983 (P.L. 98-181), the Congress included only a request for a HUD evaluation of home equity conversion mortgages and recommendations for a federal insurance program.[8] A HUD spokesperson explained the advantages of FHA insurance: (1) a higher loan-to-value ratio which would allow participants to tap more of their home equity, up to 90 per cent of property value within a maximum loan amount in this case; (2) enhancement of the marketability of reverse mortgages on the secondary mortgage market; and (3) a possible means of insuring the continuation of disbursements to homeowners.[9] It should be noted that the current limit of FHA insured mortgages is $67,500 for most of the country and $90,000 for high cost areas.[10]

A crucial factor in private lenders' decision to make reverse mortgages is the opportunity for lenders to sell their reverse mortgages on the secondary market. Kummerow notes that government insurance or guarantees are especially important for marketing reverse mortgages on the secondary market because the guarantee transforms the mortgage into a security that can be purchased by a "prudent man" in a fiduciary role, thus opening the market for pension funds and insurance companies.[11] Economist and home equity conversion consultant Maurice Weinrobe explains the difficulties of marketing reverse mortgages on the secondary market:[12]

> The idea of selling an obligation that commits the lender to pay out funds is quite different from selling a note that entitles the lender to receive a flow of funds [as in a regular mortgage].... A reverse mortgage is a promise to disburse funds over a fixed term or a defined period.... If [a reverse mortgage] was sold, the security being sold would be an obligation on the part of the purchaser to disburse funds over the remainder of the period in exchange for a repayment of funds with interest.

Since private investors would be hesitant about investing in reverse mortgages for this reason and because of the uncertainty associated with loan repayment, it has been suggested that the Government National Mortgage Association (GNMA or "Ginnie Mae") might purchase the reverse mortgages at least until other secondary market purchase programs were in place.[13] By purchasing the mortgages from the lenders who originated the reverse mortgages, Ginnie Mae would subsequently fund the disbursements to the borrowers while freeing the capital of the lender.

A new tax-exempt mortgage-backed, revenue bond program to finance reverse mortgages also has been suggested. Such a program would lower interest rates for reverse mortgage loans thereby allowing elderly borrowers to receive more of their home equity as principal rather than having it consumed as interest. Some have suggested that tax-exempt financing, a program alleged to be extremely costly for the federal treasury based on recent experience with single- and multi-family mortgage loan programs, be targeted toward those elderly persons who are frail or at risk of being institutionalized in expensive long-term care facilities, often at government expense.[14]

One financial consulting firm notes that premiums for insurance company annuities tied in with a reverse mortgage could be offered at much lower prices if favorable tax status were achieved by having such annuities treated as qualified annuities.[15]

Aside from the elimination of regulatory barriers and efforts to decrease the risks of providing home equity conversion mechanisms, there is also a continuing federal role in assuring adequate consumer protection in both loan and sale programs. Elderly persons have a particular need for protection against consumer fraud and potential lender or buyer bankruptcy.[16] In addition, the federal government has a role in supporting research and demonstration and counseling efforts. The Department of Health and Human Services (DHHS) and HUD have discussed joint efforts in the areas of research, evaluation, demonstration, policy analysis, and the production of technical assistance materials.[17] Neutral third-party counseling programs separate from marketing programs could serve an important function in the development of home equity conversion. Such counseling efforts could lessen the time required for providers to counsel prospective participants and thus lessen the costs to private providers. At the same time elderly persons would be assured that the counselors have no financial stake in a particular conversion instrument. Some have suggested that the federal Administration on Aging with its national network of elderly agencies could coordinate both paid and volunteer counseling efforts in this area.[18]

Finally, potential consumers require clarification of the treatment of home equity conversion proceeds as income in determining eligibility for government benefit programs such as Supplemental Security Income (SSI) and Medicaid. Without a determination from the Social Security Administration, homeowners receiving periodic cash advances under a reverse mortgage loan could be viewed as technically eligible for government assistance. Since the monthly disbursement is a loan advance, as long as it is spent within the period it is received it does not have to be counted as income. Unexpended funds would be counted as liquid assets. Proceeds from sale plans would reduce SSI benefits and could make participants ineligible for SSI and Medicaid.[19] The State of South Dakota has enacted legislation that specifically exempts reverse mortgage loan proceeds from consideration in determining initial and continuing eligibility as well as the amount of medical or public assistance.[20] This clarification on the national level will require a broader policy decision about the relationship between home equity conversion and all government assistance programs. If home equity conversion is to be a substitute for other benefit programs and if proceeds are to be fully taxed as income, there will be little incentive for homeowners to convert their home equity. If home equity proceeds are totally exempt from consideration in means-tested programs and from taxation as income, questions of equity among all elderly and nonelderly persons in need of government assistance would arise. Ken Scholen, Director of the National Center for Home Equity Conversion, believes that both the homeowner and the public treasury could benefit from home equity conversion if "some combination of exemption threshold and marginal tax rate" were used in counting converted home equity.[21]

This aspect of home equity conversion--people's willingness to utilize their home equity when they might be eligible for government assistance--is part of a larger policy question being addressed particularly in the area of health care financing. The scarcity of public resources coupled with the rapid growth of the elderly population requiring more expensive health care have forced policy analysts and decision makers to look to greater dependence on private resources to finance health care. Many states have enacted "family responsibility" legislation requiring family members to reimburse a state for Medicaid expenditures although some of the statutes have conflicted with federal law and regulations. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), recently reinterpreted Medicaid law to permit states to impose liens on an individual's real property if the individual is in a nursing home and unlikely to return home, unless certain related persons are still living in the home.[22] The trend toward greater reliance on private financing might affect the acceptability of home equity conversion as a financing alternative in the long term. Elderly persons faced with tighter restrictions on the receipt of Medicaid assistance might choose to liquidate their home equity in a way they can control rather than being forced to liquidate it by the federal or state government or having to see their children burdened with involuntary contributions toward their health care.

State Level

State actions to encourage home equity conversion are also possible. In 1978, the Hawaii Legislature authorized state chartered lenders to make reverse mortgages and exempted such mortgages from amortization requirements for real estate loans and usury laws that prohibit the imposition of interest on deferred interest.[23] Thus, a barrier that remained in other states until October 1982 had already been eliminated locally. Under its rule-making authority, the Department of Commerce and Consumer Affairs adopted more specific administrative rules for financial institutions offering reverse mortgages. The rules specify the following financial institutions as eligible to make reverse mortgage loans: any bank, savings and loan association, industrial loan company, trust company, certain licensed mortgage brokers or solicitors, and any other fiduciary company as defined in Hawaii law.[24] The rules provide that (1) in fixed term reverse mortgages, refinancing must be made available at the time final payment is due; (2) prepayment of the loan must be allowed without penalty; (3) annuities from an insurance company purchased with loan proceeds must be purchased from an insurance company authorized to do business in Hawaii; and (4) interest rates, established at loan origination, remain fixed. Detailed disclosure requirements are also governed by the rules. Particularly since FHLBB regulations allow variable interest rates and a proposal for FHA mortgage insurance would have allowed variable interest rates for reverse mortgages, lenders would be reluctant to be required to extend loans at fixed interest rates. A rule change allowing variable rates might result in a greater lender willingness to offer these loans.

While Hawaii can do little to encourage private pension funds to provide the capital needed to finance home equity conversion mortgages or sale-leasebacks, the Employees' Retirement System (ERS), whose members include all state and county government workers, might provide a source of financing. Scholen and Chen note that a pension fund's cash flow complements the cash flow of home equity conversion as pension plan members pay into the fund over many years and receive a return in the future while equity conversion requires pay outs over many years and repayment in the future. Matching the two cash flows could doubly benefit pension plan members in their retirement.[25] The system's trustees have a fiduciary responsibility to invest the system's funds prudently but such investment can be made to meet socially desirable goals. The ERS already invests some of its resources in mortgage loans to its members and a 1983 law allows the ERS to invest in second mortgages for the purpose of acquiring the fee simple interest in a leaseholder's property.[26] Public employee unions in Wisconsin and New Jersey recently made pension fund investment in home equity conversion a part of their formal contract bargaining positions.[27]

In the area of education and counseling, staff from the Executive Office on Aging and the Hawaii county office on aging have already made presentations on home equity conversion before elderly organizations. If a private lending institution were to establish a reverse mortgage loan program, or a nonprofit organization to establish a home equity conversion program, it may be possible for the state and county offices on aging to provide direct counseling services to prospective participants or to coordinate the efforts of elderly or nonelderly groups wishing to offer their assistance.

Chapter 5

POTENTIAL BENEFITS FROM HOME EQUITY CONVERSION

This chapter discusses the elderly population who might benefit from home equity conversion on a national level as well as those who might benefit in Hawaii.

National Potential

Bruce Jacobs of the University of Rochester has studied the national potential of home equity conversion instruments in terms of the number of persons who might benefit from their use. His estimates are presented in order to provide a perspective against which to view Hawaii data.

The 1979 Annual Housing Survey, an intercensal survey conducted by the federal Department of Housing and Urban Development, reported that there were 11,609,000 homes owned by persons aged 65 or older; Jacobs predicted that this number should have risen past 12.5 million by early 1982, assuming the growth rate experienced in the 1970s.[1] The 1979 survey further reported that the average value of those homes was $46,600, which in Jacobs' estimation increased to "substantially more than $50,000" in 1982.[2] Jacobs noted that about four of every five elderly homeowners have paid off their mortgages, resulting in an aggregate of over $500 billion in net home equity held by the elderly nationwide.[3]

The living arrangements of elderly homeowners are critical in estimating the population eligible to utilize home equity conversion. Elderly households *with a nonelderly member present* usually have not been included in home equity conversion programs because it is assumed that a longer life expectancy for the nonelderly person would necessitate spreading the home equity liquidated over a much longer period than if the household were comprised only of one or two elderly persons. Hawaii provides a different setting than the mainland United States because of its tradition of extended families sharing a home. A home equity conversion program in Hawaii could include households with a nonelderly person who may or may not share ownership of the home, although this would complicate greatly program administration and computer modeling of anticipated cash flow. This study will be limited to considering households composed of an elderly individual or couple only. Annual Housing Survey data from 1977 show that nationally, the most common living arrangement in elderly owned homes was an elderly couple, with no other persons present (44 per cent).[4] The next most common situation was a single homeowner living alone (37 per cent), followed by eight per cent of the homes with one elderly homeowner and another relative. Finally, the remaining 12 per cent of elderly owned homes housed more than one relative of the elderly homeowner.[5]

Jacobs also analyzed regional and metropolitan/nonmetropolitan variations in the amount of home equity held and went on to analyze the economic impact that two specific types of home equity conversion instruments might have had on household income if the instruments had been available in 1977. His estimates understate the benefit from home equity conversion because the instruments combined loans from private lenders with annuities purchased from an insurance company. As explained in chapter 2, the interaction between a mortgage interest rate and a much lower annuity rate tends to produce benefits to only a limited clientele. This interaction has greatly limited the usage of this type of instrument.

Jacobs found that depending on the region, 15 to 21 per cent of all elderly homeowners in nonmetropolitan areas and 18 to 30 per cent of all elderly homeowners in metropolitan areas could have received at least $50 a month through home equity conversion. While this amount may seem trivial to some, to an elderly homeowner with an annual income of $5,000, $50 a month represents a 12 per cent increase in annual income. For those homeowners over the age of 74, 34 to 46 per cent and 43 to 58 per cent of homeowners in nonmetropolitan and metropolitan areas respectively could have realized such income supplements.[6] A smaller proportion of all elderly households could have realized income supplements of at least $100 monthly. Of single persons 75 years or older and living alone, significant percentages of 26 to 35 per cent of such persons in nonmetropolitan areas and 36 to 52 per cent of such persons in metropolitan areas could have netted at least $100 a month in 1977.[7]

Jacobs also analyzed the net increases to income that would arise with the Fouratt Plan described in chapter 3. Very high percentages of the participants in each age group could have netted at least $600 and $1,200 a year under this plan compared to the loan and annuity instruments he analyzed.[8]

Jacobs' findings confirmed earlier expectations that those who would benefit most from home equity conversion are homeowners over 74, those living alone, and those living in metropolitan areas, especially in the western United States where home values are highest. Even in a later assessment at the end of 1980 when mortgage interest rates had risen dramatically, Jacobs found that conversion could still be an effective means of increasing the income of elderly homeowners.[9]

Small scale surveys in different areas of the United States have gauged growing, although still limited, consumer acceptance of home equity conversion.[10] These surveys, however, can hardly be said to demonstrate widespread interest in home equity conversion. Part of the problem lies in the difficulty of seeking responses to relatively detailed schemes which are inadequately explained in typical survey formats. Surveys on home equity conversion have probed acceptance only of the general concept, not of plans which might provide a specified sum of money for a set period of time at a specified interest rate. Even if a survey with more detailed questions were conducted, the responses could not be assumed to provide an accurate indication of market feasibility because those who say they would "definitely be interested" in a particular plan could not be relied upon to actually sign the mortgage note or sales contract when a program is implemented. Moreover, surveys provide only a snapshot of the survey population at one point in time. An unfamiliar concept such as home equity conversion will require extensive educational efforts before the population even becomes aware that such an option exists.

Statewide Potential

Census results show that there were 113,944 persons in 1980 over the age of 60 in Hawaii and 76,150 over the age of 65.[11] A home equity conversion program would involve only elderly homeowners, as elderly renters or others without legal title to a home would be excluded from the program. Moreover, program decisions about income-based eligibility would further limit the eligible population.

Elderly homeowners with low incomes and without a mortgage or lien on their homes would be eligible to participate in a home equity conversion under the guidelines imposed by House Resolution No. 19. Estimates of the low-income homeowning population, however, are difficult to obtain and must be derived through several sources which employ different units of measurement at different times. For example, the 1980 Census provides extensive information on household and family composition including the number of persons within a household or family who are 65; however, this information is not related to household income and homeownership status at the same time. Real property tax records provide information on the number of households which have claimed multiple home exemptions by virtue of having at least one recorded owner of the home over the age of 60 and residing in the home. Real property tax records, however, have no reason to correlate claims for exemption with household income and household composition. Thus, while estimates of elderly households with low incomes are available and the number of households with at least one elderly person holding an interest in the property are available, they cannot be cross tabulated. Furthermore, although it has been estimated that 80 per cent of elderly households nationwide (elderly here is over 65 years of age) have paid off their mortgages, no estimate of the number of elderly homeowners in Hawaii who have no outstanding mortgage or lien on their property can be made.

Results from a survey conducted in 1980 based on a statewide sample of elderly persons, however, do provide information which is extremely useful to this study. The Executive Office on Aging and county Area Agencies on Aging cooperated in conducting the survey using a standardized survey instrument designed by Duke University named the Older Americans Resources and Services Multidimensional Functional Assessment Questionnaire, hereinafter referred to as "OARS". The survey was designed to measure the well-being of the elderly over 60 years of age in five dimensions: social resources, economic resources, mental health, physical health, and activities of daily living.[12] Most of the questions in OARS relevant to this study involve the economic resources of the elderly.

A major constraint that must be imposed on the OARS survey responses, however, deal with the question "Do you own your own home?" Unlike the Census Bureau which tabulates owner-occupied housing units and their occupants in relation to the head of the household, OARS sought to identify "homeowners" without relation to the dwelling unit. Since either of two elderly persons owning one home would truthfully answer the question affirmatively, the survey resulted in a high degree of overcounting of homeowners in relation to the actual units they occupy.[13] Specifically, while real property tax assessment records for 1983 show 46,696 households with at least one person over the age of 60, the OARS instrument provided an estimate of 80,606 "homeowners".[14] Thus, the estimates and percentages presented in this discussion are analyzed with this limitation in mind.

Elderly Homeowners by County

OARS data on the geographic dispersion of elderly homeowners show that Kauai has the lowest rate of elderly homeownership among the four counties, followed by Oahu, Maui, and Hawaii. OARS numerical estimates of the elderly homeowner population are compared with 1983 real property tax records for multiple home exemptions given to homeowners over the age of 60 living in owner-occupied dwelling units below:

Table 2

ESTIMATES OF ELDERLY HOMEOWNER POPULATION

	OARS Estimate of Homeowners & Percentage of All Elderly Persons in County		1983 Claims for Multiple Home Exemptions for County Real Property Taxes
Kauai	3,819	(62.3)	2,596
Oahu	58,606	(69.9)	33,154
Maui	7,693	(73.9)	4,493
Hawaii	10,490	(77.2)	6,453
Statewide	80,606	(70.7)	46,696

SOURCE: Hawaii, Executive Office on Aging, Older Americans Resources and Services Multidimensional Functional Assessment Questionnaire (OARS), 1980; and City and County of Honolulu, Department of Finance, Real Property Assessment Division, "Exemptions by Exemption Code, February 22, 1983". (Computer printout.) Revised figures were certified for property tax collection purposes in May 1983; however, the detailed data used in this table were not updated. Oahu figures were corrected from records as of July 18, 1983.

Elderly Homeowners by Fee Simple and Leasehold Ownership

Although the OARS data are not broken down by ownership of fee simple or leasehold interests, this distinction may be an important one in determining the population eligible for a home equity conversion program. Lessors may have no reason to restrict lessees' participation in a program unless a lease were nearing the end of its term. Program planners, however, might wish to exclude lessees because declining property values toward the end of the lease term would prevent the program from recouping program disbursements to a leasehold participant.

Real property tax records provide an estimate of the number of homes with at least one recorded owner over 60 years of age by type of ownership as well as an estimate of the average value of the land and improvements. Table 3 shows that homes owned by the elderly in fee simple had slightly lower values than leasehold property, except on Kauai. More than 90 per cent of neighbor island elderly homeowners owned their property in fee simple, compared to only 80.3 per cent of Oahu's elderly homeowners. An important but unknown figure is the number of homes owned solely by an elderly individual or couple as opposed to the number of homes owned by an elderly person or couple with other persons.

Table 3

1983 CLAIMS FOR ELDERLY HOMEOWNER PROPERTY TAX EXEMPTIONS
BY COUNTY AND OWNERSHIP

	All Claims for Multiple Exemptions	Fee Simple Claims & Average Property Value	Percentage Fee Simple Ownership	Leasehold Claims & Average Property Value
Kauai	2,596	2,551 ($79,090)	98.3	45 ($73,285)
Oahu	33,154	26,613 ($139,581)	80.3	6,541 ($149,887)
Maui	4,493	4,246 ($108,322)	94.5	247 ($128,137)
Hawaii	6,453	6,106 ($68,319)	94.6	347 ($79,500)
Statewide	46,696	39,516 ($121,306)	84.6	7,180 ($145,257)

SOURCE: City and County of Honolulu, Department of Finance, Real Property Assessment Division, "Exemptions by Exemption Code, February 22, 1983." (Computer printout.) Revised figures were certified for tax collection purposes in May 1983; however, the detailed data used in this table were not updated. Oahu figures were corrected from current records as of July 18, 1983.

Elderly Homeowners by Income

Income is traditionally underreported in surveys; however, it must be used in narrowing the eligible population for a publicly sponsored home equity conversion program. As mentioned in chapter 3, both the Buffalo and San Francisco programs impose income limitations in determining program eligibility. The Buffalo HELP program uses an income limit of 80 per cent of median income while the San Francisco RAM program uses a more liberal limit of 120 per cent of median income. Since participants will utilize their existing equity in their homes, unless a government subsidy is involved, participation does not have to be limited by the stringent income limits of means-tested programs.

OARS data in Table 4 show that of homeowners in all age groups statewide, 10.9 per cent or an estimated 8,772 individuals had household incomes in the lowest income range $0 to $4,999, while 6.5 per cent had household incomes in the $5,000 to $6,999 range.

Table 4

OARS ESTIMATE OF ELDERLY HOMEOWNER INCOME

Income Range	OARS Estimate & % of OARS Homeowner Population
Missing	2,528 (3.1)
$ 0 - $ 4,999	8,772 (10.9)
$ 5,000 - $ 6,999	5,208 (6.5)
$ 7,000 - $ 9,999	9,241 (11.5)
$10,000 - $14,999	16,522 (20.5)
$15,000 - $19,999	11,816 (14.7)
$20,000 or more	26,511 (32.9)
Total	80,608 (100.0)

Census data from a five per cent sample of the population also provide estimates of household income for households with household heads over 60 years old. Table 5 shows that more than half of households headed by an elderly homeowner had annual household incomes over $20,000.

Table 5

CENSUS ESTIMATE OF ELDERLY HOMEOWNER INCOME

Household Income	Honolulu	Neighbor Islands	State
$ 0 - $ 4,999	1,820	1,220	3,040
5,000 - 7,999	1,980	1,400	3,380
8,000 - 9,999	1,540	1,020	2,560
10,000 - 14,999	3,360	2,020	5,380
15,000 - 19,999	2,800	1,960	4,760
20,000+	18,240	5,040	23,280
Total	29,740	12,660	42,400

SOURCE: Special tabulation from the Census of Population and Housing, 1980: Public-Use Microdata Sample Files (PUMS).

Although the 42,400 total elderly homeowning households statewide in this estimate is slightly lower than the 46,696 claims for multiple home exemptions from county real property taxes, the 1980 Census Public-Use Microdata Sample Files (PUMS) is the only known data source which allows correlation of household income with owner-estimated property value. Table 6 shows this correlation. Some elderly households with household incomes below $5,000 owned property with an estimated value over $200,000 while some households with incomes over $20,000 owned property valued at less than $30,000.

Homeowner income must be examined further against the number of persons in the household being supported by the specified income. Unfortunately, PUMS information on homeowner income cross tabulated with household size was not available. Using OARS estimates for various income groupings and the number of persons supported by the specified income and interpolating them to fit 1983 federal Department of Housing and Urban Development (HUD) very low-income guidelines for Hawaii, Table 7 shows that an estimate of 14,526 one- and two-person households is obtained.[15]

Table 6

ELDERLY OWNED HOMES BY HOUSEHOLD INCOME AND OWNER ESTIMATED PROPERTY VALUE

	Owner Estimated Property Value								
Household Income	Under $30,000	$30,000 to $49,999	$50,000 to $74,999	$75,000 to $99,999	$100,000 to $124,999	$125,000 to $149,999	$150,000 to $199,999	$200,000+	Total
Under $5,000	920	220	500	540	400	120	160	180	3,040
$5,000 - $7,999	820	420	600	400	340	280	300	220	3,380
$8,000 - $9,999	660	320	360	480	420	100	120	100	2,560
$10,000 - $14,999	1,040	560	920	940	780	360	460	320	5,380
$15,000 - $19,999	820	320	540	1,240	580	240	660	360	4,760
$20,000+	4,280	560	2,000	3,640	3,140	2,600	3,500	3,560	23,280
Total	8,540	2,400	4,920	7,240	5,660	3,700	5,200	4,740	42,400

SOURCE: Special tabulation from the Census of Population and Housing, 1980: Public-Use Microdata Sample Files.

Table 7

ESTIMATES OF POPULATION ELIGIBLE FOR
A HOME EQUITY CONVERSION PROGRAM

Household Size	OARS Estimates Interpolated to Fit *HUD* Very Low-Income Guidelines and Eligible Households as a Percentage of Population with Specified Household Size	OARS Estimates Interpolated to Fit *HUD* Low- to Moderate-Income Guidelines and Eligible Households as Percentage of Population with Specified Household Size
1	5,706 (40%)	7,956 (55%)
2	8,820 (18%)	19,615 (39%)
Total One- and Two-Person Households	14,526	27,571

As discussed earlier, households with more than two persons probably should not be considered in a home equity conversion program. Using substantially higher income guidelines for low- to moderate-income utilized by HUD in its Section 8 rental subsidy program and Community Development Block Grant program, 27,571 one- and two-person households is obtained.[16] Conservatively assuming that OARS overstated the elderly homeowning population by approximately one-half, the potential target populations using these income guidelines might number 7,250 and 13,700 elderly homeowner households. These figures could be used to estimate the universe of potentially eligible households. Other program limitations such as a limit on assets other than the home would further reduce these numbers.

Chapter 6

INTERESTED POPULATION

The previous chapter estimated the Hawaii population who would be eligible for a home equity conversion program. Universes of approximately 7,250 and 13,700 households were derived using two different household income limits. This chapter will narrow the universes to determine the percentage of persons who might be interested in a home equity conversion program modeled on the Buffalo HELP program or the Musashino program described in chapter 3.

The Legislative Reference Bureau administered a brief multiple choice questionnaire to selected elderly groups during the fall of 1983. Time and funding constraints did not permit the survey to be conducted through personal interviews, the method preferred over a written questionnaire. Surveys were mailed with a self-addressed stamped return envelope to a systematic random sample of state and county government pensioners. The other category of elderly persons surveyed was comprised of members of selected senior citizen organizations throughout the State. Senior club members did not receive their surveys in the mail but were asked to complete the survey at regular club meetings after a brief oral presentation by the author.[1] A more detailed explanation of how the survey was administered and a copy of the survey instrument are attached as Appendix D.

The major objectives of the survey were (1) to assess general interest within the elderly population in two specific home equity conversion programs; and (2) to uncover household or homeownership characteristics among those homeowners who expressed willingness to participate in the programs.

Social Acceptability and Willingness to Participate

The survey measured interest in the two specific home equity conversion programs in operation in Buffalo, New York (program A in the survey) and Musashino, Japan (program B in the survey), in two survey questions: "Do you think these programs are a good idea?" and "Would YOU, YOURSELF, participate in either one of these programs?". While the former question probed social acceptability of the programs, the second inquired as to the likelihood of the respondent choosing to participate. Responses to these questions for both homeowners and nonhomeowners in both respondent groups are shown in Tables 8 to 11.

In general, slightly more nonhomeowners than homeowners felt Program A was a good idea and slightly more homeowners than nonhomeowners felt Program B was a good idea. Between survey groups, government pensioners showed a higher degree of acceptance of both programs than senior club members. Nonhomeowner responses were not analyzed beyond these two questions. The remainder of this chapter will discuss only homeowner responses.

As expected, the percentage of people who thought either program a good idea in theory was much higher than the percentage who said they

Table 8

ACCEPTABILITY OF PROGRAM A

Do you think Program A [Buffalo model] is a good idea?

HOMEOWNERS

	Yes	Maybe	Don't Know	No	Other	Sum
Government Pensioners	55 19.5	59 20.9	21 7.5	129 45.7	18 6.4	282 100.0
Senior Club Members	28 10.9	41 15.9	23 8.9	126 48.8	40 15.5	258 100.0
Sum	83 15.4	100 18.5	44 8.2	255 47.2	58 10.7	540 100.0

NONOWNERS

	Yes	Maybe	Don't Know	No	Other	Sum
Government Pensioners	9 22.0	6 14.6	4 9.8	16 39.0	6 14.6	41 100.0
Senior Club Members	15 22.4	5 7.5	3 4.5	35 52.2	9 13.4	67 100.0
Sum	24 22.2	11 10.2	7 6.5	51 47.2	15 13.9	108 100.0

Table 9

ACCEPTABILITY OF PROGRAM B

Do you think Program B [Musashino model] is a good idea?

HOMEOWNERS

	Yes	Maybe	Don't Know	No	Other	Sum
Government Pensioners	110 39.0	65 23.1	22 7.8	75 26.6	10 3.5	282 100.0
Senior Club Members	52 20.1	41 15.9	23 8.9	85 33.0	57 22.1	258 100.0
Sum	162 30.0	106 19.6	45 8.4	160 29.6	67 12.4	540 100.0

NONOWNERS

	Yes	Maybe	Don't Know	No	Other	Sum
Government Pensioners	13 31.7	9 22.0	3 7.3	11 26.8	5 12.2	41 100.0
Senior Club Members	11 16.4	10 14.9	4 6.0	17 25.4	25 37.3	67 100.0
Sum	24 22.2	19 17.6	7 6.5	28 25.9	30 27.8	108 100.0

Table 10

WILLINGNESS TO PARTICIPATE IN PROGRAM A

Would YOU, YOURSELF, participate in Program A [Buffalo model]?

HOMEOWNERS

	Yes	Maybe	Don't Know	No	Other	Sum
Government Pensioners	8 2.8	16 5.7	12 4.2	221 78.4	25 8.9	282 100.0
Senior Club Members	8 3.1	17 6.6	17 6.6	169 65.5	47 18.2	258 100.0
Sum	16 3.0	33 6.1	29 5.4	390 72.2	72 13.3	540 100.0

NONOWNERS

	Yes	Maybe	Don't Know	No	Other	Sum
Government Pensioners	3 7.3	2 4.9	6 14.6	21 51.2	9 22.0	41 100.0
Senior Club Members	6 8.9	4 6.0	4 6.0	39 58.2	14 20.9	67 100.0
Sum	9 8.3	6 5.5	10 9.3	60 55.6	23 21.3	108 100.0

Table 11

WILLINGNESS TO PARTICIPATE IN PROGRAM B

Would YOU, YOURSELF, participate in Program B [Musashino model]?

HOMEOWNERS

	Yes	Maybe	Don't Know	No	Other	Sum
Government Pensioners	23 8.2	55 19.5	9 3.2	184 65.2	11 3.9	282 100.0
Senior Club Members	19 7.4	25 9.7	25 9.7	130 50.4	59 22.8	258 100.0
Sum	42 7.8	80 14.8	34 6.3	314 58.1	70 13.0	540 100.0

NONOWNERS

	Yes	Maybe	Don't Know	No	Other	Sum
Government Pensioners	7 17.1	2 4.9	6 14.6	21 51.2	5 12.2	41 100.0
Senior Club Members	3 4.5	8 11.9	2 3.0	28 41.8	26 38.8	67 100.0
Sum	10 9.3	10 9.2	8 7.4	49 45.4	31 28.7	108 100.0

would participate in either program. While 15.4 per cent of all owners felt Program A was a good idea, only 3.0 per cent of all owners said they themselves would actually participate in such a program. Program B was acceptable to 30.0 per cent of all owners but only 7.8 per cent said they would participate. The percentage of homeowner respondents who professed a willingness to participate in Program A or Program B, when superimposed on the universes of persons determined to be eligible for a government-sponsored home equity conversion program, as expected, produce very low numbers. Among the 7,250 one- and two-person households statewide estimated to have annual household incomes below the federal Department of Housing and Urban Development (HUD) very low-income guidelines for Hawaii, 3.0 per cent represents only 218 households while 7.8 per cent represents 566 households. Within the larger 13,700 household universe derived from a higher income guideline, 3.0 per cent and 7.8 per cent represent 411 and 1,069 households, respectively.

In addition to more "yes" responses for Program B, the percentage of "maybe" responses was higher for Program B than for Program A. As discussed earlier, whether the "yes" and "maybe" respondents would actually participate will have to await detailed specification of costs, benefits, and program conditions and a long period of consumer education. Many respondents indicated that they were presently financially secure but that financial difficulties in the future might make them think more seriously about an option such as that offered by Program B. The difference between the willingness to participate in Program A and Program B probably can be explained by the difference in retention of homeownership. While Program A involves transfer of one's entire property to the program operator upon the homeowner's death, Program B allows the homeowner to retain a portion of the home equity while utilizing the remainder as collateral for a loan which would be repaid upon the homeowner's death. Many senior club members expressed loud opposition to Program A for this reason.

Respondents' Household and Homeownership Characteristics

The two groups of responding homeowners were further analyzed by household and homeownership characteristics.

Mortgage status. Participation in a home equity conversion program appropriately may be limited to homeowners with no outstanding mortgage balance. Indeed, House Resolution No. 19 addresses itself to such homeowners. Nationally 80 per cent of elderly homeowners over 65 own their homes free and clear of any mortgage or lien.[2] A comparable percentage for Hawaii cannot be ascertained from this survey because the survey was not restricted to those over 65. Appendix E-1 shows that among government pensioners, 59.6 per cent had paid off their mortgages while 39.0 per cent had not. Among senior club member homeowners, 68.2 per cent had paid off their mortgages, more closely approaching the national norm. This difference between the two groups might be attributed to age and mobility differences. Those homeowners with outstanding mortgages tended to have substantial remaining mortgage terms with almost half, 48.5 per cent, of this group having more than ten years remaining and 27.2 per cent with four to ten years remaining on their mortgages. See Appendix E-2.

Living arrangement. Living arrangement is generally an important determinant of participation in home equity conversion programs. Most participants in the Buffalo, Musashino, and RAM programs reside in their homes alone or only with a spouse. Responding homeowners' living arrangements are shown in Appendix F-1. Among government pensioners, 61.7 per cent of responding homeowner households were comprised of an elderly homeowner living alone or only with a spouse while the corresponding figure for senior club members was 59.7 per cent. When comparing living situation with willingness to participate in a specific program, favorable living situations did not necessarily correspond with a greater degree of willingness to participate in Program A or Program B as shown in Appendices F-2 to F-5.

Household income. Income might be expected to be a major determinant of interest in home equity conversion; however, a Wisconsin survey revealed that the persons most likely to need additional income, widows 75 or older living alone with annual incomes below $5,000, were the least likely to be interested in home equity conversion plans.[3] Hawaii survey results showed a surprisingly high household income among homeowner respondents, even adjusted for household size. Almost 59 per cent of government pensioners had gross annual household incomes over $20,000. Only 17.4 per cent of senior club members were in this income category although a significant number of senior club members either did not respond to this question or claimed they did not know what their household income was. Responding homeowners' income is shown in Appendix G-1.

Willingness to participate in Program A and Program B is shown by income grouping in Appendices G-2 to G-5. Echoing the findings of earlier surveys in other parts of the United States, lower income households although perhaps in greater need of additional income, were just as reluctant as higher income groups, and often more reluctant, to use their home equity to gain additional income.

This is significant because while the intent of a government-sponsored home equity conversion program might be to assist homeowners with low incomes, the "cash-poor but house-rich" target group, the target group does not appear interested in this method of assistance. Education and counseling might increase the number of persons willing to participate; however, several years of such efforts will be required before a significant change in attitude occurs.

Ownership. The survey probed homeownership arrangements to determine whether a high degree of shared ownership with someone other than a spouse, and therefore inability to liquidate the home equity by oneself, might explain low interest in home equity conversion. A large majority of homeowners owned their homes alone or only with a spouse. Only 8.5 per cent of government pensioners and 15.1 per cent of senior club members owned their homes with someone other than their spouse. Homeownership characteristics are shown in Appendix H.

Desire to bequeath. The desire to bequeath a home to children or other heirs is recognized as a strong inhibiting factor in home equity conversion surveys. The question, "Is it more important to you to leave your house and money to your children or heirs, or to have more money to live on right now?", attempted to measure the strength of the desire to bequeath. Responses are shown in Appendix I-1. Roughly 60 per cent of all homeowners expressed a preference to leave their property to heirs rather than have more money while still living.[4] Many homeowners indicated that they had sufficient income for their needs and thus these persons would not respond that it was important to have more money for themselves. Appendices I-2 to I-5 compare responses to this question with willingness to participate in a home equity conversion program. Approximately 70 per cent of all homeowners who said they would not participate in Program A and Program B believed it was more important to leave something to their heirs. As expected, those homeowners who believed that it was more important to have more money to live on than to leave something to their children indicated a greater willingness to participate in both programs.

Desired benefits. One might expect that higher dollar benefits might influence respondents to switch from being unwilling to participate in a home equity conversion program to being willing to participate. The question, "How much money would you have to receive each month for you to participate in a program like Program A or Program B?", attempted to find this transition point. Responses are shown in Appendix J.

The response "no amount would make me interested" was intended to test the strength of respondents' unwillingness to participate. This response was selected by 58.5 per cent of government pensioners and 38.8 per cent of senior club members. Lower percentages of 20.6 per cent and 18.6 per cent of pensioners and senior club members, respectively, responded that they required more than $500 per month to consider participation. While one respondent noted that the phrasing of the question would elicit greedy reactions from people who would select the highest amount possible, such responses also might be explained by the feeling that expectations of high monthly benefits were justified by high home values. Chapter 2 explains how interest in a reverse mortgage loan easily may consume half of total home equity, depending on loan terms. It can be expected that such high interest costs would deter an even higher number of homeowners from participating in a home equity conversion program.

Other characteristics. The survey obtained information on the age, sex, and island of residence of respondents. Differences in these characteristics did not correspond with significant variations in respondents' willingness to participate in either program, particularly since the number who did express a willingness to participate was so small.

Respondents' Comments

A number of respondents added written comments which provided greater insight into their attitudes and values. Government pensioners had more time to respond to the survey and thus many more wrote detailed comments. Distrust of a home equity conversion program was a common theme in comments such as these below:

> What a rip off.
>
> Sounds like a Bishop, Baldwin, Rewald, Dillingham & Wong [a recent Hawaii investment fraud scheme]--deal. It stinks.

I think the program is a sham. For someone to make a fast buck on property that someone has worked all their life for.

To me A and B programs would not benefit the elderly homeowner in his life span. The corporation and city would be the winners. A little more graft to ruin the living condition of the elderly.

One respondent was more thoughtful in discussing the potential for abuse and defrauding the elderly of their biggest single asset:

I believe that neither one of the proposals could be beneficial unless there is scrupulous government supervision and auditing for safeguards against fraud, abuse, and inefficiency. RE Program A: The elderly homeowner may have only ten or twenty years to live. If property tax, fire, and liability insurance, and maintenance and repairs amount to \$1500 a year, and income supplement to \$2400, and the homeowner dies after 15 years, the total expended would amount to about \$58,500. Even a modest home today is worth \$100,000 on the market. Even allowing for the cost of services rendered (management and clerical) your nonprofit corporation would become a profit corporation. The "gain" would be far more than "loss" on the average. RE Program B: I assume that corporation could be a profit corporation. If so, what is there to prevent padding of bills, and services selected for its greatest profit? Already there is a lot of abuse in Medicare and some rest home programs. Unless all details are spelled out, and enough safeguards are provided by the government to ensure the welfare of the homeowner, the plan could turn out to be a calamity rather than a blessing. I hope the government would make a thorough study of any plan before sponsoring any for adoption. There are some elderly homeowners who may easily fall prey to some unscrupulous corporation.

P.S. What if the corporation goes bankrupt? That would be a dilemma for a lot of old people.

Others refused to reply or conditioned their responses on receipt of additional information on the proposed programs because of lack of specificity in the survey. The lack of specificity was recognized as a problem in obtaining responses; however, it was believed that the alternative of a very detailed survey would have elicited an even lower rate of response. Moreover, while dollar amounts for costs and benefits might have been provided in the survey, actual program provisions would have to await policy decisions by those deciding to implement a home equity conversion program.

Several respondents stated that government should not involve itself in this kind of program, with one respondent explaining why:

Make it advantageous to be a have-not, and they will forever strive to be have-nots.

Few nonhomeowners provided written comments, but one made it clear that he did not favor the program:

Even if we owned and not rented, we would not consider these plans.

Many persons confirmed the previously discussed pattern of responses to questions 1 and 2, believing that the programs could benefit other households, but certainly not they, themselves:

> Those who have no way to turn need this program.
>
> Program B sounds promising for those who need it.
>
> I'm sure many elderly owners will benefit from the programs.
>
> I like this program for some of our seniors who are in poverty now even if they own their own homes.
>
> I am not interested in these proposed programs personally. However, I feel program B could be a life-saver for many elderly homeowners. Have negative feeling about program A.
>
> Program A would be good for someone who has no heirs.
>
> For myself I feel I want to pass something on of value to my children, let it be their decision what to do with it. Something of this sort (above) is needed for many people in this state and done fairly for the elderly and their children and not the politicians.
>
> I would not be interested in such a program because I feel I have sufficient income to live a fairly comfortable old age life.
>
> It may be alright for some people but not for us.

Some persons believed other methods of helping the elderly were preferable to implementation of either program. Alternative means for assistance suggested included property tax relief, lower charges for home repair services provided by electricians, carpenters, and plumbers, and assistance with medical costs. One respondent even made a plea for government assistance in stopping her hillside home from sliding.

Many persons cited their desire to leave their homes to their children, particularly because of the high cost of housing.

A few respondents used the survey to express their feelings about the state legislature. One respondent wrote:

> Good luck to our legislators for their concern of the elderly population of Hawaii. May our Heavenly Father guide you all in your decisions and choices and may our elderly population prove worthy of your concerns.

Other Factors Affecting Participation

Pride. Researchers have found that pride has a great impact on elderly participation in government benefit programs such as Supplemental Security Income (SSI). While many elderly persons may be eligible for SSI and other means-tested program, they may not apply for benefits and instead will "make-do" with their existing resources. Home equity conversion thus has been discussed as a major departure from other government assistance programs in that elderly homeowning households would be assisted in utilizing their resources that were not previously in liquid form. A publicly sponsored program to the extent that it receives public funding or subsidies might still be seen as a government handout.

Eligibility for other programs. As discussed in chapter 4, participation in a home equity conversion program will also be affected by eligibility standards for existing assistance programs and by the treatment of loan or sale proceeds in determining program eligibility. Federal policy in this area has not yet been determined. If an assistance program places no limit on an applicant's home equity as in the SSI, food stamp, and Medicaid programs, qualifying elderly homeowners have no incentive to liquidate their home equity through a home equity conversion program. Those homeowners who receive assistance reluctantly because there is no alternative might willingly use their home equity as an alternative to participation in an assistance program. Program planners would have no means of determining the interactive effects of existing programs and an equity conversion program until a program is established and other program policies determined.

Program eligibility for the Hawaii medical assistance program might be seen as going counter to a policy of encouraging people to use their own resources. The program formerly imposed a $40,000 limit on home equity in determining an applicant's eligibility; however, this limit was removed effective November 1, 1983 to conform with federal rules.[5] As discussed elsewhere, future federal and state actions to curb assistance expenditures particularly in the Medicaid program might determine levels of homeowner participation in assistance programs and home equity conversion programs.

Cultural attitudes and the high cost of housing in Hawaii. Hawaii's mix of ethnic groups might hold attitudes toward debt and bequests that are very different from mainland elderly homeowners who appear to be more receptive to the home equity conversion concept in recent surveys. In addition, the high cost of housing in Hawaii, as indicated in some respondents' comments to the Bureau's survey, will affect some elderly homeowners in deciding whether or not to participate in home equity conversion programs.

Other Indicators of Possible Interest

The City and County of Honolulu, like many other cities in the country, currently operates a low-interest rehabilitation loan program. Depending on the applicant's income, an applicant might obtain a rehabilitation loan with interest ranging from 0 to 12 per cent. Households meeting the lowest income standard may obtain deferred payment loans which do not have to be repaid until the property is transferred. City officials indicate that while it has been difficult to stimulate interest in the program among all households, elderly homeowners tend to be even more reluctant to participate, possibly because they do not want a lien on their homes.[6]

Another way of estimating potential interest in a home equity conversion program is through a comparison of the total elderly population of Hawaii with those of Buffalo, New York; Musashino City, Japan; and San Francisco, California. Hawaii's over-65 population of 76,150 in 1980 was less than one-half of Buffalo's 65+ population of 153,000 and slightly more than one-fifth the size of San Francisco's elderly population of 363,000.[7] Although the HELP and RAM programs initially were targeted to smaller areas within the cities of Buffalo and San Francisco, the universes of eligible participants in those cities are much larger than in Honolulu.

It could be surmised that a home equity conversion program in Hawaii may not be able to attract even the small numbers currently participating in the Buffalo (34) and San Francisco (45) programs. Musashino City, Japan, on the other hand, has an over-65 population of 12,249, which is much smaller than Hawaii's comparable population. There are currently 10 program clients paying for services with their home equity.[8]

Chapter 7

PROGRAM ADMINISTRATION

Program Operation

This chapter will discuss administrative and financing issues in a home equity conversion program in Hawaii. Although other types of programs have been discussed in this report, this chapter primarily will be limited to the two program types outlined in House Resolution No. 19: (1) a program using the Buffalo HELP model involving housing services and cash supplements; and (2) a program based on the Musashino model involving health and social services and optional cash supplements.

A program conforming to the Buffalo HELP program in structure would not require the provision of actual services to the homeowner except for periodic home maintenance and repair. Such housing management services and more administrative services such as property appraisal and disbursement of various payments are relatively easy and probably more cost efficient to subcontract rather than having program staff perform these functions. Instead, as in the Buffalo HELP program, trained program staff would provide initial screening and counseling to interested homeowners and oversee the subcontracting. The HELP program is currently operating with one and one-half positions, with other services subcontracted and utilized as needed. Interestingly, the San Francisco RAM program which provides only counseling assistance to elderly homeowners has a much larger staff of five persons although the program is serving only a slightly larger participant population. In addition to direct counseling, however, RAM staff are involved in research and development activities.

Although homeowners have used their cash disbursements from reverse mortgages or sale-leasebacks to purchase health and social services from private providers, a program that directly provides health and social services as well as cash in exchange for home equity has not been attempted in the United States. Indeed, researchers are only beginning to probe this area and no preliminary information is yet available.[1] Such a program is operating in Japan; however, important differences between Hawaii and Musashino prevent the wholesale replication of the Musashino program here. Outside of the program, Musashino's elderly residents have access to a much wider range of government-provided health and social services than elderly persons in Hawaii. Thus, the Musashino program does not have to provide some services which are already being provided by the government. Moreover, the cost of government provision of the services is substantially lower than it would be in Hawaii.[2] The Musashino program has a full-time staff of eight, several of whom are health care professionals, and a large pool of volunteers who are paid minimal wages for periodic assistance. Staffing requirements for a health and social service program would depend on the types and range of services to be offered, and whether actual service provision would be cheaper to subcontract to an existing provider.

House Resolution No. 19 requested a determination of the types of services which might be offered by a home equity conversion program. Since the vast majority of elderly persons in Hawaii have Medicare benefits, the determination may be based on a desire to complement rather than duplicate

Medicare-covered services.[3] This is not as easy as it sounds. In the area of home health care, Medicare covers "medically oriented" care such as skilled nursing, physical therapy, occupational therapy, speech therapy, home health aide assistance, and medical supplies and appliances provided in the home.[4] However, this limited home health care coverage is restricted further by requirements relating to the person's condition. In order to qualify for Medicare coverage of home health services, a person must be homebound, be under a physician's care, and need skilled nursing, physical, occupational, or speech therapy on a part-time or intermittent basis. Thus, services that are covered by Medicare for some persons are not covered for many others. The U. S. Health Care Financing Administration explains the reason for these requirements:[5]

> Policymakers have been reluctant to abandon the medical model [of need] because of its usefulness as a budgetary control mechanism. Since the potential unmet need is so large, many fear that expenditures would increase dramatically if Medicaid or Medicare paid for supportive nonmedical services.

A home equity conversion program might provide the home health services above for those who cannot meet the requirements for Medicare coverage although those services are relatively expensive. The program should provide services not necessarily related to acute health care such as homemaker, chore, personal care, financial management, senior companion, medical and social transportation, and escort services. Although these services are not related to health maintenance in the strictest sense, they are often essential in enabling elderly persons to live independently.

Since the home is usually a homeowner's most valuable asset and since elderly persons might fall prey to consumer fraud, either type of program must be placed under the strict supervision of an agency or group of community leaders beyond reproach. The Buffalo HELP program, the Musashino program, and the San Francisco RAM program are all overseen by boards of directors and administered by nonprofit corporations. In San Francisco's case, the nonprofit corporation has been involved in conducting short-term demonstration programs in the field of housing and community development for 20 years.[6] A home equity conversion program in Hawaii based on the Buffalo model might be governed by a board and administered by a nonprofit organization or the program might be administered by a government agency. The Hawaii Housing Authority (HHA) is experienced in counseling low- and moderate-income families about homeownership responsibilities and also provides counseling to delinquent mortgagors. The Authority also has had experience in administering a housing revenue bond program which might be a potential means of financing an equity conversion program, as well as experience in structuring and administering several loan programs. A program providing health and social services more appropriately would be administered by the Department of Social Services and Housing (DSSH) or a nonprofit agency involved in providing such services. In either case, unless existing personnel can be used, administration by a nonprofit corporation would probably be cheaper than administration by a government agency because of the significant difference in overhead and employee benefits.

Self-sustaining Program Design

A state-sponsored home equity conversion program based on the HELP model should be designed to become eventually self-sustaining as has been done in the Buffalo program. The program should not require continuous infusions of funds. As discussed in chapter 3, $1.3 million of Buffalo's Community Development Block Grant funds provided the start-up capital for the HELP program. After this initial endowment:[7]

> [the program's] only source of future revenues are those generated by the program itself: the sales proceeds on acquired houses and interest on its capital. The initial capital must provide sufficient impetus to allow the program to operate forever.

The self-sustaining nature of the program was built into the computer model which projects HELP program cash flow.[8] A negative cash flow is expected during the early years of the program because of expenditures on program start-up and monthly payments to homeowners. As participants die and title to their property is transferred to the corporation and as earnings on the investment capital accrue, the cash flow becomes positive. Program developers expect this to occur sometime between the fourth and twelfth year of the program; the exact time will depend on participants' mortality.[9] Program developers also anticipate requiring a monitoring model that would include the transactions with individual program participants. The monitoring model would show whether the program payments to the homeowners are too large or too small in relation to the goal of assuring a self-sustaining program. The corporation then could adjust annuities in new contracts made or adjust the scale of the program temporarily through the number of homes in the program or the allowable property value.[10]

A completely new cash flow model was developed for the HELP program. A similar program in Hawaii could utilize the same model to determine an applicant's monthly payments, given the applicant's age and property value. Of course, the Buffalo model's values for certain variables would have to be adjusted particularly for higher property values in Hawaii. Values for other variables also would require adjustment. The important consideration is that adjustments to the model can be made if a program with the same limitations were to be established locally. Any change in basic program provisions would require development of a new model.

The Musashino program model presents a different picture. It is unknown whether the Musashino program has established any limitations on the dollar amount of home equity that may be drawn upon within a given time period. In contrast, the HELP program has definite limits to the cash that will be disbursed for the remainder of a participant's life. The same type of dollar limitation could be applied to a health and social service program in two ways. First, the program could make monthly cash disbursements and participants would spend the money as they wish. This method would entail less program accounting. The second method, which would involve substantial accounting costs, would allow participants to draw upon an account for different services or cash as desired up to a specified monthly maximum amount. The situation becomes complicated when a sudden, but not to be unexpected, illness occurs and the temptation to disregard the dollar limitation arises. If this is allowed to occur and large amounts of equity were drawn upon prematurely, there is no assurance that there will be remaining equity for expenses in later years. The Musashino program was designed to cease provision of services when the allowable debt, up to 90 per cent of home equity at fair market value, was incurred. Although the participant would be allowed to continue living in the home, the participant could only take advantage of other services normally provided by the government.[11]

Cost Estimates

A gross estimate of the expected cost of a home equity conversion program in Hawaii modeled on the Buffalo program cannot be obtained without preliminary policy decisions. The developer of Buffalo's program model stated that the following must be provided before an estimate of program costs can be made:[12]

1. Average property value of units entering the program;

2. The size of annuities to be paid persons of given mortality (e.g., single females age 70) expressed as a per cent of initial property value;

3. Rehabilitation costs per unit in the early years of the program;

4. Taxes, insurance, and maintenance expenses, expressed as a percentage of market value, or absolute initial amounts; and

5. Expected administration expenses expressed as flat dollar amounts for specified periods, or as a percentage of annuity payments.

If these figures were available and no basic changes in the model were required, Guttentag indicated that for $1,050 he could calculate the program capital required.[13] For illustrative purposes, some very simple cost comparisons are attached as Appendix K. One way of deriving a "ballpark" estimate of the capital required to initiate the HELP split equity program is to multiply the number of households expected to participate by the average property value.[14] Under this method, a Hawaii program for 20 households with average property values of $100,000 would require capital of at least $2 million. A New Jersey group discussing a HELP type program estimated that capital of $13 million would be required to convert $2.5 million of initial equity, or 50 homes worth $50,000 each, using tax-exempt revenue bonds as a means of financing.[15]

The cost of a home equity program that provided health and social services is much harder to estimate. If the program were designed to impose a maximum on the monthly cash and services consumed in the same manner as the Buffalo program, perhaps the same cost estimate could be used. Depending on the services to be offered and the staff required to provide the services, however, administrative overhead might consume an excessive portion of the monthly allotments and a policy decision would be required as to whether subsidization of overhead costs would be desirable in order to prolong the participants' home equity.

Funding Sources

Funding for a home equity program may come from several sources including general revenues, general obligation bonds, revenue bonds, and taxable bonds.

Perhaps the easiest means of financing a home equity conversion program would be general obligation (G.O.) bonds which are used to finance most long-term government debt. General obligation bonds backed by the full faith and credit of the State of Hawaii are sold, repaid, and retired in accordance with well-established administrative procedures. A G.O. bond authorization, however, would be counted against the constitutionally established state spending limit. The past few years of tight fiscal contraints have resulted in budget cuts for existing programs and services. Moreover, the level of state grants-in-aid to private, nonprofit social service agencies who provide important services not provided by the state government has been drastically reduced. This situation does not bode well for approval of G.O. bond financing of a home equity conversion program in the near future.

Revenue bonds are obligations issued to finance a revenue producing enterprise and payable as to both principal and interest exclusively from the revenues of the enterprise. Revenue bond financing is an administratively more complicated means of financing than G.O. bonds. Since bonds are backed by revenues from an undertaking rather than the full faith and credit of the state government, the bonds are not counted toward the state spending limit. This user fee method of financing, however, may not be suitable for a home equity conversion program, particularly in its early stages because repayment depends on participants dying. Costs of administering the revenue bond program and funds needed to maintain an adequate reserve fund might be prohibitive relative to the benefits that may be enjoyed by the participating homeowners. The International City Managers Association cautions:[16]

> Revenue bond financing places [a] project in the straitjacket of being strictly a self-supporting business. This may be a desirable objective, but on the other hand it may limit the project's adaptability to the general good of the community.

Federal constraints on the issuance by state and local governments of both revenue bonds and general obligation bonds for single-family home mortgage programs are currently awaiting congressional action. The Mortgage Subsidy Bond Tax Act of 1980 (MSBTA) disallows the issuance by state and local governments of tax-exempt mortgage bonds which provide lower cost funds to lenders for single-family home mortgages effective December 31, 1983 despite broad interest in extending the program beyond that date. The Act also precluded the use of general obligation bonds for such mortgages through its definition of mortgage subsidy bond as "any obligation which is issued as part of an issue a significant portion of the proceeds of which are to be used directly or indirectly for mortgages on owner-occupied residences".[17]

Taxable bonds are another alternative financing method. Taxable bond issues are not backed by the full faith and credit of the issuer and would not affect the state spending limit. However, selling the bonds to investors would be very difficult because investors do not enjoy tax benefits from such investment. In addition, such bonds would be even more difficult to sell because of the lack of experience with home equity conversion instruments.

A Hawaii precedent for a program that, like Buffalo's HELP program, utilizes proceeds from the investment of capital for program operating costs was established by the Legislature in 1981. The rental assistance fund created by Act 111 required the long-term investment of any program funds with interest earned on the investment used to subsidize rents for low- and moderate-income persons in designated rental projects. Act 111 specifically prohibited the diminution of the capital. This differs from the HELP program where the initial investment can be drawn upon during the program's early years of negative cash flow. A financing mechanism like the rental assistance fund requires a large amount of capital in order to generate meaningful interest income.

Chapter 8

FINDINGS AND RECOMMENDATIONS

Part I. Findings

House Resolution No. 19 called for an exploration of the feasibility of replicating two specific home equity conversion programs in operation in Buffalo, New York, and Musashino City, Tokyo, Japan, in Hawaii. The Bureau found examples of other types of home equity conversion programs also worthy of scrutiny. These alternatives include reverse mortgage loans offered by private lending institutions as a community service and sale-leasebacks which have the potential for generating high lifetime income to the senior homeowner with lower risk than a split-equity program modeled on Buffalo's HELP program.

Although national interest in developing home equity conversion programs is great, only small numbers of elderly homeowners are currently participating in such programs. Because the programs have been in operation for a short term, long-term experience with homeowner, lender, and investor satisfaction; default; and instrument effectiveness will be unavailable for several years. Later programs will undoubtedly benefit from the lessons of the programs now in operation.

The Bureau found that most of elderly homeowners surveyed were not familiar with the concept of home equity conversion. Elderly homeowners must be informed and made aware that home equity conversion exists as a viable means of supplementing income before they can become effective demanders in the marketplace. The development of home equity conversion instruments will depend on demand which will depend on instrument availability. Both the development of home equity conversion instruments and demand in Hawaii need to be stimulated through educational efforts. Educational efforts might lead some elderly homeowners to participate in home equity conversion programs; however, other unmeasurable factors might have greater influence on a homeowner's decision to participate. These factors include cultural attitudes toward bequests, the homeowner's children's inability to purchase housing in Hawaii because of high costs, and the uncertainty of changes in eligibility standards for government assistance programs such as Medicaid.

Part II. Recommendations

1. The Bureau believes that it is premature at this time to recommend a pilot program for home equity conversion in Hawaii. It is evident that before it can be ascertained whether there is a genuine potential for a home equity program among the elderly, much has to be done in educating elderly homeowners as to what home equity conversion can provide for a particular individual or couple. The Executive Office on Aging in its role as advocate for the elderly should coordinate educational efforts in home equity conversion and provide training and resources to the county area agencies on aging or other interested organizations.

2. The legislature should direct the Hawaii Housing Authority (HHA) and the Executive Office on Aging (EOA) to explore with private lenders the possibility of establishing reverse mortgage loan programs. A loan program could possibly include counseling by a nonprofit organization funded by private foundation grants or counseling by volunteer organizations. The San Francisco RAM program or other loan programs of independent lenders could serve as useful models. Moreover, the RAM program offers a training package to community groups interested in providing counseling once private lenders have made commitments to make reverse mortgage loans.

In order to indicate state interest and to assist HHA and EOA in interesting private lenders, the legislature could establish a state mortgage guarantee program for reverse mortgages made by private lenders similar to the existing guarantee program for certain single-family and multi-family units purchased by eligible low- and moderate-income households and authorize the investment of Employees' Retirement System funds in reverse mortgages made by private lenders.

In the area of sale-leasebacks, the HHA and EOA should encourage the Hawaii Bar Association to utilize model sale-leaseback contracts being developed by the National Center for Home Equity Conversion and others.

While educational efforts are being undertaken and private sector programs being explored, and upon congressional approval of any successor program to or extension of the Mortgage Subsidy Bond Tax Act of 1980, the HHA with the State's bond counsel actively should explore means of providing long-term financing for a home equity conversion program.

3. If educational efforts prove, and failure to interest the private sector require, that a state-sponsored home equity conversion program is desirable in the future, the HHA and the EOA should consider the following in designing such a program:

A. The program should be limited to providing cash disbursements. Health and social services should not be provided. Participants may choose to spend their cash disbursements on health and social services from private providers.

B. Because of survey respondents' strong opposition to the HELP program provision that the participant's home be turned over to HELP, Inc., upon the homeowner's death, serious consideration should be given in structuring a pilot program to one that would allow a homeowner's heirs to repay the debt incurred by the homeowner plus compound interest in order to retain title to the property. This provision is incorporated in the Musashino program although it is too early to evaluate the program's experience with the provision. This design would require computer analysis to determine whether such a provision would prevent a program from being self-supporting.

FOOTNOTES

Chapter 1

1. U.S. Department of Commerce, Bureau of Census, *Statistical Abstract of the United States 1982-83*, 103rd edition (Washington: 1982), Table No. 27, p. 25, and Table No. 6, p. 8.

2. U.S., Congress, House, Select Committee on Aging, *Every Ninth American*, 1982 ed., 97th Cong., 2d Sess., 1982, p. 2.

3. Hawaii, Executive Office on Aging and Commission on Population and the Hawaiian Future, *The Elderly in Hawaii: A Data Digest of Persons 60 and Over* (Honolulu, 1982), Table 1, p. 10; and Hawaii, Department of Planning and Economic Development, *State of Hawaii Data Book 1982* (Honolulu: 1982), Table 11, p. 35.

4. Joseph A. Califano, Jr., "The Aging of America: Questions for the Four-Generation Society", *The Annals*, Vol. 438, July 1978, p. 98.

5. *Ibid.*, p. 99.

6. Ken Scholen and Yung-Ping Chen (eds.), *Unlocking Home Equity for the Elderly* (Cambridge, Mass.: Ballinger Publishing Company, 1980), p. 27.

7. *Ibid.*

8. Bruce Jacobs, *National Potential for Home Equity Conversion* (Madison: National Center for Home Equity Conversion), p. 5.

9. U.S. President's Commission on Housing, *Report of the...* (Washington: 1982), p. 54.

Chapter 2

1. Ken Scholen and Yung-Ping Chen (eds.), *Unlocking Home Equity for the Elderly* (Cambridge, Mass.: Ballinger Publishing Company, 1980) was the primary source for this overview of home equity conversion models.

2. Jack M. Guttentag, "Creating New Financial Instruments for the Aged", *The Bulletin*, Bulletin 1975-5 (New York: New York University Graduate School of Business Administration, 1975), p. 8.

   Although line-of-credit loans traditionally have not been considered for the elderly as potential home equity conversion instruments, Kaplan, Smith & Associates, Inc., describes how self-styled line of credit loans could indeed be used in this manner. See Kaplan, Smith & Associates, Inc., *Special Study on Reverse Annuity Mortgages, Final Report* (San Francisco: San Francisco Development Fund, 1981), p. 9.

3. Kaplan, Smith & Associates, Inc., *Special Study on Reverse Annuity Mortgages, Final Report* (San Francisco: San Francisco Development Fund, 1981), p. 3.

4. Scholen and Chen, p. 138.

5. "Home Made Pension Plans: Converting Home Equity into Retirement Income" (Madison: National Center for Home Equity Conversion). (Four-page handout.)

6. Kaplan, Smith & Associates, Inc., p. 3.

7. *Ibid.*, p. 59.

8. *Ibid.*, p. 91.

9. Scholen and Chen, p. 73.

10. Interview with Parker Cooper, Executive Vice President, Hawaii League of Savings Institutions and Berg Fujimoto, Senior Vice President, Hawaii Division, American Savings, July 7, 1983; and interview with Stanley Baird, Vice President, Residential Loan Administration, Bank of Hawaii, November 15, 1983.

11. Bank of Hawaii, *Construction in Hawaii 1983* (Honolulu: 1983).

12. Ronald H. Timms and James M. Mataya, *The Reverse Mortgage Loan* (U.S. League of Savings Associations, 1979), p. 38.

13. U.S., Congress, Senate, Special Committee on Aging, *Turning Home Equity into Income for Older Homeowners*, 97th Cong., 2d Sess., 1982, p. 4.

14. Home Equity Conversion Project and Wisconsin Bureau of Aging, Wisconsin Department of Health and Social Services, *Final Report of the Home Equity Conversion Project to the Administration on Aging, U.S. Department of Health and Human Services* (Madison: 1982), p. 25.

15. Kaplan, Smith & Associates, Inc., p. 107.

16. Chen testified before congressional committees in 1967 and 1969 on his housing annuity plan. At the time he envisioned a program which combined the sale of the home with an assurance of lifetime tenure and the purchase of an annuity. The homeowner would place the home in escrow to convey the property title to the insurer, which could be an insurance company, pension fund, or other source of funds, upon the homeowner's death. The annuity amount would depend on the interest rate; rate of property appreciation; rate of house depreciation; percentage of property value attributable to the land; the homeowner's sex, age, and marital status; net equity in the property; and expense loading. Chen designed his plan to provide the homeowner with mobility, by allowing for (1) sale of the home to a third party, in which case the homeowner would repay the total payments received plus interest; or (2) early conveyance of title to the insurer, in which case the homeowner would receive additional payments from the insurer. He addressed potential changes in property value, both upwards and downwards, by proposing a variable annuity or renegotiable annuity

arrangement. He also foresaw a role for the Federal Housing Administration in guaranteeing the property value over its economic life for a premium, thus preventing a situation where the annuitant would receive reduced annuities because of property depreciation. Yung-Ping Chen, "How to Have Your Cake and Eat It Too; the Case of Homeownership by the Elderly" in U.S., Congress, Senate, Hearings, Special Committee on Aging, Subcommittee on Housing for the Elderly, *Economics of Aging: Toward a Full Share in Abundance; Part 4--Homeownership Aspects*, 91st Cong., 1st Sess., 1969, pp. 828, 829.

17. Scholen and Chen, p. 124.

18. *Ibid.*, p. 126.

19. Reverse Mortgage Study Project, Wisconsin Bureau of Aging, *Unlocking Home Equity, New Ideas for Homeowners, Conference Proceedings, May 21 and 22, 1979*, advance edition (Madison: the McCahan Foundation for Research in Economic Security, 1979), p. 80.

20. Timms and Mataya, p. 23.

Chapter 3

1. Unless otherwise specified, discussion on the HELP, Inc., program was obtained from HELP brochures and handouts.

2. Robert Garnett and Jack Guttentag, *Modeling the Buffalo Plan* (Madison: National Center for Home Equity Conversion, 1981), p. 1.

3. Telephone conversation with Donna Guillaume, Director, HELP, Inc., Buffalo, New York, July 12, 1983.

4. *Ibid.*

5. Telephone conversation with Donna Guillaume, Director, HELP, Inc., Buffalo, New York, January 24, 1984.

6. U.S., Congress, Senate, Special Committee on Aging, *Turning Home Equity into Income for Older Homeowners*, 97th Cong., 2d Sess. 1982, p. 6.

7. Telephone conversation with Donna Guillaume, Director, HELP, Inc., Buffalo, New York, July 12, 1983.

8. Discussion of the Musashino program is based upon information translated from Japanese documents and generously shared with the Bureau by Cullen Hayashida, Ph.D. Cullen Hayashida, Ph.D. and Harumi Sasaki, M.P.H., "The Musashino Plan; A Report of Japan's Home Equity Conversion Program for Social, Health and Financial Services", unpublished manuscript.

9. Senate Bill No. 377, Session of 1983, General Assembly of Pennsylvania.

10. Discussion of the RAM Program is taken from RAM Program brochures and handouts.

11. Telephone conversation with Bronwyn Belling, Associate Director, RAM Program, San Francisco, August 2, 1983.

12. Reverse Annuity Mortgage Program of the San Francisco Development Fund, *Rampages*, Vol. 1, No. 2, March 1982, p. 1.

13. Data in this section is from Kaplan, Smith & Associates, Inc., "Evaluation of the Reverse Annuity Mortgage Program of the San Francisco Development Fund, Marin County, California, March 1, 1980-March 1, 1982" (August 31, 1982).

14. Telephone conversation with Bronwyn Belling, Associate Director, RAM Program, San Francisco, August 2, 1983 and Reverse Annuity Mortgage Program of the San Francisco Development Fund, *Rampages*, Vol. 2, No. 1, December 1983, p. 1.

15. Telephone conversation with Bronwyn Belling, Associate Director, RAM Program, San Francisco, August 2, 1983.

16. Discussion from letter from Pat West, County of San Mateo Department of Environmental Management, Housing and Community Development Division, California, to Gail Kaito, August 5, 1983.

17. Reverse Annuity Mortgage Program of the San Francisco Development Fund, *Rampages*, Vol. 2, No. 1, December 1983, p. 2.

18. Discussion based on information from Ken Scholen and Yung-Ping Chen (eds.), *Unlocking Home Equity for the Elderly* (Cambridge, Mass.: Ballinger Publishing Company, 1980), p. 115. Deering Savings did not respond to a follow-up letter requesting more specific information for this study.

19. Jane Bryant Quinn, "On Reverse Mortgages", *Newsweek*, Vol. 97, No. 13, March 30, 1981, and "A Model for Home Equity Conversion Through Linkages Between the Public and Private Sectors" (Maine, Department of Human Services, Bureau of Maine's Elderly, August 25, 1982, application for funding to federal Department of Health and Human Services), p. 6.

20. "Equi-Pay" (Broadview Savings and Loan, June 1979). (Brochure.)

21. Discussion based on a Boilings Springs Savings and Loan Association introductory letter for the "Home Plus" program. Boiling Springs did not respond to a follow-up letter requesting more specific information for this study.

22. Discussion based on "Home-Made Pension Plans, Converting Home Equity Into Retirement Income" (Madison: National Center for Home Equity Conversion). American Homestead did not respond to a written request for information on the Century Plan.

23. Linda Hubbard, "The Key to Security: How to Unlock that Equity in Your Home", *Modern Maturity*, Vol. 25, October-November 1982, p. 31.

24. National Center for Home Equity Conversion, *Home Equity News*, April 1983, p. 7.

25. Telephone conversation with G. Robert Henry, President, the Fouratt Corporation, Carmel, California, September 15, 1983.

26. "The Fouratt Senior Citizen Equity Plan developed by the Fouratt Corporation" (Carmel, Calif.: The Fouratt Corporation, Rev., 1983). (Brochure.)

27. Kaplan, Smith & Associates, Inc., *Special Study on Reverse Annuity Mortgages, Final Report* (San Francisco: San Francisco Development Fund, 1981), p. 108.

28. *Ibid.*, p. 69.

29. *Ibid.*

30. Telephone conversation with Bronwyn Belling, Associate Director, RAM Program, San Francisco, August 2, 1983 and Reverse Annuity Mortgage Program of the San Francisco Development Fund, *Rampages*, Vol. 2, No. 1, December 1983, p. 1.

31. Greater Essex Community Foundation, *The Case for a Home Equity Conversion Program for Senior Homeowners in Essex County, N.J.* (Orange, New Jersey: 1982), p. 22.

32. Discussion based on Diana Shaman, "New Hope for the Elderly: Home Equity Conversion", *Real Estate Today*, Vol. 15, May 1982, p. 39. First Senior did not respond to a request for verification of this information and further details.

33. Discussion taken from Greater Essex Community Foundation.

34. *Ibid.*, p. xii.

35. Discussion taken from "A Model for Home Equity Conversion Through Linkages Between the Private and Public Sectors" (Maine, Department of Human Services, Bureau of Maine's Elderly, August 25, 1982, application for funding to federal Department of Health and Human Services).

36. *Ibid.*, p. 17.

Chapter 4

1. U.S., Congress, Senate, Special Committee on Aging, *Turning Home Equity into Income for Older Homeowners*, 97th Cong., 2d Sess., 1982, p. 12 and Home Equity Conversion Project & Wisconsin Bureau of Aging, *Final Report of the Home Equity Conversion Project to the Administration on Aging, U.S. Department of Health and Human Services* (Madison: 1982), p. 26.

2. Linda Hubbard, "The Key to Security: How to Unlock that Equity in Your Home", *Modern Maturity*, Vol. 25, October-November 1982, p. 30.

3. The U.S. Senate Committee on Taxation and Debt Management held committee hearings on S. 831 sponsored by Senator Arlen Specter on October 28, 1983, according to Jenny Okano of U.S. Senator Daniel K. Inouye's Hawaii Office, in a telephone conversation, November 4, 1983.

4. Pub. L. No. 320, 97th Cong., 2d Sess., sec. 403 (Oct. 15, 1982).

5. U.S., Congress, Senate, Special Committee on Aging, *Opportunities in Home Equity Conversion for the Elderly*, 97th Cong., 2d Sess., 1982, p. 58.

6. Pub. L. No. 320, 97th Cong., 2d Sess., sec. 403 (Oct. 15, 1982).

7. Max Kummerow, "A Federal Role in Reverse Annuity Mortgage Development" (Madison: Home Equity Conversion Project, November 25, 1981), p. 8.

8. S. 1338 was reported out of the Senate Committee on Banking, Housing, and Urban Affairs, on May 23, 1983 (Report No. 98-142); however, its provisions were not incorporated in the housing authorization measure passed by the Congress in late 1983. S. 1338 would have authorized the Secretary of Housing and Urban Development (HUD) to insure 1,000 reverse mortgages for statutorily limited loan amounts. The program which would have terminated on September 30, 1986 would have required HUD to evaluate loan data "to determine the extent of the need and demand among elderly homeowners for insured and uninsured home equity mortgages; the types of home equity conversion mortgages which best serve the needs and interests of elderly homeowners, the Federal Government and lenders; and the appropriate scope and nature of participation by the Secretary [of HUD] in connection with home equity conversion mortgages for elderly homeowners." U.S., Congress, Senate, Committee on Banking, Housing, and Urban Affairs, Report No. 98-142 on S. 1338, 98th Cong., 1st Sess., 1983, pp. 170-171.

9. U.S., Congress, Senate, Special Committee on Aging, *Opportunities*, p. 28.

10. *Ibid.*, p. 9.

11. Kummerow, p. 7.

12. National Center for Home Equity Conversion, *Home Equity News*, June 1983, p. 4.

13. U.S., Congress, Senate, Special Committee on Aging, *Opportunities*, p. 50.

14. *Ibid.*, p. 17.

15. Kaplan, Smith & Associates, Inc., *Special Study on Reverse Annuity Mortgages, Final Report* (San Francisco: San Francisco Development Fund, 1981), p. 75.

16. U.S., Congress, Senate, Special Committee on Aging, *Opportunities*, pp. 17, 41.

17. *Ibid.*, p. 35.

18. *Ibid.*, pp. 45, 46.

19. *Ibid.*, pp. 19, 53.

20. *Ibid.*, p. 3.

21. Ken Scholen and Yung-Ping Chen (eds.), *Unlocking Home Equity for the Elderly* (Cambridge, Mass.: Ballinger Publishing Co., 1980), p. 223.

22. Pub. L. No. 248, 97th Cong., 2d Sess., sec. 132 (Sept. 3, 1982).

23. 1978 Haw. Sess. Laws, Act 139.

24. Hawaii, Department of Commerce and Consumer Affairs, Administrative Rules 16-39-24 to 16-30-29.

25. Scholen and Chen, p. 69.

26. 1983 Haw. Sess. Laws, Act 105.

27. Home Equity Conversion Project and Wisconsin Bureau of Aging, *Final Report of the Home Equity Conversion Project to the Administration on Aging, U.S. Department of Health and Human Services*, (Madison: 1982), p. 31.

Chapter 5

1. Bruce Jacobs, *National Potential for Home Equity Conversion* (Madison: National Center for Home Equity Conversion, 1982), pp. 2, 3.

2. *Ibid.*, pp. 2, 4.

3. *Ibid.*, p. 5.

4. *Ibid.*, p. 7.

5. *Ibid.*

6. *Ibid.*, pp. 30, 32.

7. *Ibid.*, p. 32.

8. *Ibid.*, p. 47.

9. *Ibid.*, p. 52.

10. Actual consumer interest in home equity conversion plans was explored as early as 1970 when Dr. Yung-Ping Chen, then of the University of California at Los Angeles, conducted a federal Department of Housing and Urban Development (HUD)-sponsored pilot survey of Los Angeles county homeowners between the ages of 55 and 75. Only nine per cent of the survey population showed interest in the idea of using home equity to purchase an annuity. [Ken Scholen and Yung-Ping Chen (eds.), *Unlocking Home Equity for the Elderly* (Cambridge, Mass.: Ballinger Publishing Company, 1980), p. 14.] A 1974 Cornell University survey modeled on Chen's survey, except that only those 65 and over were surveyed, found that 31 per cent of those surveyed in Ithaca, New York, were interested in a housing annuity plan [Scholen and Chen, p. 15]. A national telephone survey conducted for the Federal Home Loan Bank Board's Alternative Mortgage Instruments Research Study (AMIRS) in 1976-1977 included a question to persons over 50 years of age about the reverse annuity concept. While 48 per cent felt it was a "good idea", 27 per cent said that if the mortgage were offered at the time they would be interested in the plan. [Kent W. Colton and others, "The National Borrower Study", *Alternative Mortgage Instruments Research Study*, Vol. I (Washington: Federal Home Loan Bank Board, 1978), pp. III-68, III-71.] Sixty-two per cent said they would not be interested and 10 per cent were uncertain. Finally, a 1980 statewide telephone survey in Wisconsin inquired about interest in four different equity conversion plans: a reverse mortgage, a reverse mortgage with an annuity purchased from an insurance company, a sale/leaseback, and property tax postponement. Forty-four per cent of the respondents were "interested" or "very interested" in at least one of the four instruments [Scholen and Chen, p. 17]. When asked to indicate which one of the four they would favor, 18.9 per cent chose property tax deferral; 12.4 per cent selected the sale/leaseback; 6.7 per cent selected a reverse mortgage, and 6.2 per cent chose the reverse mortgage with annuity [Scholen and Chen, p. 17].

11. U.S., Bureau of the Census, *Census of Population: 1980, General Population Characteristics, Hawaii*, PC80-1-B13 (1982), Table 19, p. 20 and Hawaii, Department of Planning and Economic Development, *State of Hawaii Data Book 1982* (Honolulu: 1982), Table 12, p. 36.

12. Hawaii, Executive Office on Aging, *A Statewide Needs Assessment Survey of Individuals Age 60 and Over* (Honolulu: 1983), p. 3.

13. Interview with Carswell Ross, Program Specialist, Executive Office on Aging, June 8, 1983.

14. Hawaii, City & County of Honolulu, Department of Finance, Real Property Assessment Division, "Exemptions by Exemption Code, February 22, 1983". (Computer printout.)

15. Federal Department of Housing and Urban Development (HUD) income guidelines for July 1979 are used here because the data in this study are based on the 1980 Census taken in 1979. Respondents to the Older Americans Resources and Services Multidimensional Functional Assessment Questionnaire (OARS) who did not indicate income or how many persons were supported by that income are not included in the estimates in Table 7.

Family Size	July 1979 HUD Very Low-Income Guidelines (50% of Median Income)	July 1979 HUD Low- to Moderate-Income Guidelines (80% of Median Income)
1	$7,250	$11,600
2	8,300	13,250

16. *Ibid.*

Chapter 6

1. The response rates for government retirees and the senior clubs were 40.4 per cent and 50.4 per cent, respectively. Determination of the response rate for the senior clubs excluded Maui because it was unknown how many questionnaires were distributed. Among all respondents, approximately 83.3 per cent were homeowners. Homeownership among responding

government pensioners was 87.3 per cent; among senior club members it was 79.4 per cent.

2. U.S., Congress, Senate, Special Committee on Aging, *Opportunities in Home Equity Conversion for the Elderly*, 97th Cong., 2d Sess., 1982, p. 1.

3. Ken Scholen and Yung-Ping Chen (eds.), *Unlocking Home Equity for the Elderly* (Cambridge, Mass.: Ballinger Publishing Company, 1980), p. 19.

4. Surveys in Wisconsin and Essex County, New Jersey, asked elderly homeowners, "If you had to choose, would it be more important to you to leave an estate to your heirs or to have a better standard of living now?" Sixty-eight per cent of Essex County respondents and 43.9 per cent of Wisconsin respondents selected the better standard of living. Greater Essex Community Foundation, *The Case for a Home Equity Conversion Program in Essex County, N.J.* (Orange, New Jersey: 1982), p. 11.

5. Interview with Earl Motooka, Medical Care Administrator, Department of Social Services and Housing, December 13, 1983.

6. Interview with Robin Foster, Planner, City and County of Honolulu, Department of Housing and Community Development, June 15, 1983.

7. Hawaii, Department of Planning and Economic Development, *The State of Hawaii Data Book 1982* (Honolulu: 1982), Table 12, p. 36; and U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States 1982-83*, 103rd edition (Washington: 1982), Table 21, p. 20.

8. Cullen T. Hayashida, Ph.D. and Harumi Sasaki, M.P.H., "The Musashino Plan; A Report of Japan's Home Equity Conversion Program for Social, Health and Financial Services", unpublished manuscript.

Chapter 7

1. According to newsletters of the National Center on Home Equity Conversion, there are at least two current endeavors in this area. A private foundation in Saint Paul, Minnesota and General Mills Corp., are embarking on a five-year, $5.3 million project to explore in-home health care. Home equity conversion will be explored as one financing mechanism. National Center for Home Equity Conversion, *Home Equity News*, April 1983, p. 8. In addition, the Robert Wood Johnson Foundation recently awarded a $76,000 research and development grant to the Urban Institute to study home equity financing for health care and a separate grant to Jack Guttentag to model financing mechanisms. National Center for Home Equity Conversion, *Home Equity News*, June 1983, p. 2.

2. Interview with Cullen Hayashida, Ph.D., Senior Research Associate, Kuakini Medical Center, November 11, 1983.

3. As of July 1, 1982, 81,429 persons 65 years old and over had Medicare hospital insurance (Medicare A) or supplemental medical insurance (Medicare B), or both. U.S. Bureau of the Census, Population Division, Local Area Population Estimates Branch, memorandum dated May 12, 1983.

4. U.S. Health Care Financing Administration, *Long Term Care: Background and Future Directions* (Washington: 1981), p. 19.

5. *Ibid.*, p. 26.

6. "Origin and Programs of the San Francisco Development Fund" (San Francisco Development Fund, 1979). (Handout.)

7. Robert Garnett and Jack Guttentag, *Modeling the Buffalo Plan* (Madison: National Center for Home Equity Conversion, 1981), p. 1.

8. The computer model which projects program cash flow was designed around many variables. The empirical variables include: (1) expected expenses of rehabilitation; (2) expected administration expenses; (3) expected mortality; (4) expected expenses of maintenance, insurance and taxes; (5) initial level of property value per dwelling unit; (6) expected interest rates; (7) expected rate of property value appreciation; and (8) expected rate of expense appreciation. The four policy variables were (1) program scale; (2) payments for a given mortality; (3) initial capital endowment; and (4) rate of return to the corporation. [Garnett and Guttentag, pp. 3, 4]

9. *Ibid.*, p. 9.

10. *Ibid.*, p. 15.

11. Interview with Cullen Hayashida, Ph.D., Senior Research Associate, Kuakini Medical Center, November 11, 1983.

12. Letter from Jack M. Guttentag to Gail M. Kaito, December 13, 1983.

13. *Ibid.*

14. Garnett and Guttentag discuss the HELP program as involving $1.3 million to capitalize 80 homes with an average value of $20,000. The HELP program has been scaled down, however.

15. Greater Essex Community Foundation, *The Case for a Home Equity Conversion Program for Senior Homeowners in Essex County, N.J.* (Orange, New Jersey, 1982), p. 45. This study includes estimates for different cost components as well as a description of program cash flow.

16. *Municipal Finance Administration*, 6th ed. (Chicago: International City Managers' Association, 1962), pp. 315-316.

17. Pub. L. No. 499, 96th Cong., 2d Sess., sec. 1101 (Dec. 5, 1980).

HOUSE RESOLUTION

REQUESTING A STUDY OF THE FEASIBILITY OF ALLOWING ELDERLY PERSONS WITH LOW INCOMES TO USE THEIR EQUITY IN THEIR HOMES TO OBTAIN HEALTH AND SOCIAL SERVICES, FINANCIAL PAYMENTS, OR BOTH, FROM THE STATE.

WHEREAS, many elderly persons own their homes clear of mortgages or liens, but have fixed incomes which are inadequate for comfortable living; and

WHEREAS, two programs are currently in operation which utilize the equity of the elderly persons in their homes to obtain health and social services or financial payments; and

WHEREAS, basically, both programs allow elderly persons to trade the equity in their homes for services or financial payments provided by third parties; and

WHEREAS, the elderly persons are allowed to live in their homes for the remainder of their lives, but, upon death, the homes are liquidated and the proceeds are kept by the providers of services; and

WHEREAS, one program is the Musashino Plan, operated by the local government in Musashino City, Japan; and

WHEREAS, under the Musashino Plan, elderly persons receive social services, homemaker and chore services, nursing services, and financial payments, and

WHEREAS, the elderly persons pay for the services and financial payments with assignment to the local government of the appropriate portion of their equity; and

WHEREAS, under the Home Equity Living Plan (H.E.L.P.) of Buffalo, New York, elderly persons with low incomes assign the entire equity in the homes to a nonprofit, private corporation; and

WHEREAS, in return, the elderly persons are allowed to live in the homes rent free, receive free maintenance, have no real property tax obligations, and receive periodic financial payments; and

WHEREAS, although both programs have been only recently established, indications are that they are working well; and

WHEREAS, a similar program in Hawaii may be desirable since, theoretically, it would benefit elderly persons who need assistance and would not require the use of tax dollars other than initial seed moneys; now, therefore,

BE IT RESOLVED by the House of Representatives of the Twelfth Legislature of the State of Hawaii, Regular Session of 1983, that the Legislative Reference Bureau is requested to conduct a study of the feasibility of allowing elderly persons with low incomes to use the equity in their homes to obtain health and social services, financial payments, or both, from the State; and

BE IT FURTHER RESOLVED that the study be conducted under the following parameter:

(1) The State shall be responsible for the program;

(2) Only elderly persons with low incomes who own their homes clear of any mortgage or lien are qualified for the program;

(3) Title to the homes shall be retained by the elderly persons and they shall be entitled to live in their homes rent free until death;

(4) Services, financial payments, or both, which are provided to elderly persons shall represent the monetary value of the equity received, to the extent possible;

(5) No persons shall be disqualified from the program if the persons's equity is exhaused before the person dies; and

(6) Heirs or beneficiaries of the deceased elderly may purchase the equity assigned to the State at market value; and

(7) Proceeds from the liquidation of equity by the State shall remain in the program;

and

BE IT FURTHER RESOLVED that the study include, but not be limited to, examination of the cost to the State in initial seed money; number of elderly persons eligible for such a program; number of elderly persons who will participate; and the types of services, financial payments, or both, which should be provided; and

BE IT FURTHER RESOLVED that the study be submitted to the Legislature at least thirty days prior to the convening of the Regular Session of 1984; and

BE IT FURTHER RESOLVED that a certified copy of this Resolution be transmitted to the Director of the Legislative Reference Bureau.

Appendix B-1

TYPES AND COST OF SERVICES PROVIDED BY THE MUSASHINO PLAN

I. BASIC SERVICES	FREQUENCY	COST	CONTENT
1. Visitation by Counselor	1-4x/month	fixed	Professional Counselling
2. Visitation by Nurse	1-3x/month	at $45.00	Assistance in Health Maintenance
3. Emergency Call Service	As needed	per month	On-call Emergency Response
4. Other	Occasionally (No Fixed Frequency)		Participation in Recreational Activities; Classes in Homemaking, etc.

II. INDIVIDUALIZED SERVICES	FREQUENCY	COST	CONTENT
1. Homemaker/Homechore	2-3x/week limited	$2.70-$4.50 per hour	Meal preparation; laundry; housecleaning; shopping; companion; transport to hospital
2. Homemaker/Nursing	1x/week no limit	$3.20-$6.80 per hour	Meal preparation; laundry; housecleaning; shopping; bathing and other personal care
3. Meal Preparation (A)	7x/week lunch	$3.20/meal	Delivery of nutritious, balanced lunch
4. Meal Preparation (B)	7x/week dinner	$3.60/meal	Delivery of nutritious, balanced dinner
5. Nursing Service (A)	2-3x/week limited time	$4.10-$5.45 hour	Meal preparation; bathing assistance; personal care services; assist in ADLs
6. Nursing Service (B)	1x/week no limit	$4.55-$6.80 hour	Bathing assistance; personal care services; assist in ADLs; attendant during hospitalization
7. Nursing Service (C)		$6.80-$9.10 hour	Nursing for patients with contagious diseases who require night attendance; bathing; incontinence assistance; attendant during hozpitalization; assist with ADL/ personal care

II. INDIVIDUALIZED SERVICES	FREQUENCY	COST	CONTENT
8. Laundry		Cost	Delivery and pick up of dirty laundry to shop payment as required
9. Escort	1x/week	$2.50/hour	Escorted walks; escorted shopping and other trips
10. Heavy Labor	1x/week no limit	$2.50-$4.55 hour	Yard work; other heavy labor tasks
11. Travel Service		Cost	Planning, escort and supervision of elder group tours
12. Funeral/Cemetery Maintenance		Cost	Funeral and related arrangements; cemetery plot maintenance (special contract)
13. Other		Cost	Other services as required/requested

III. FINANCIAL ASSISTANCE	AMOUNT	CONTENT
1. Living Expenses	$365/month maximum	Requires an application of 3 months prior to request
2. Medical Expenses	$3,200/month maximum	Requires an application one month prior to request
3. Home Renovations	$4,500/month maximum (1x only)	Home renovations; re-modelling
4. Other	Cost	Other instances when financial assistance is essential

Source: Cullen T. Hayashida, Ph.D., and Harumi Sasaki, M.P.H., "The Musashino Plan; a Report of Japan's Home Equity Conversion Program for Social, Health and Financial Services", unpublished manuscript.

Appendix B-2

MUSASHINO PLAN - LOANS ALLOCATED BY TYPES OF SERVICES
APRIL 1981 TO MARCH 1982)
(Fiscal Year 1981)

	Users		Type of Service			
	Households	Individuals	Basic Services	Individualized Services	Payment Services	Total
1981						
April	-	-	$ -	$ -	$ -	$ -
May	5	6	-	-	-	-
June	8	10	212	296	8,081	8,588
July	9	12	-	-	-	-
August	9	12	-	-	-	-
Sept.	10	14	1,102	4,099	12,358	17,559
Oct.	12	17	-	-	-	-
Nov.	13	19	-	-	-	-
Dec.	13	19	1,356	4,444	12,375	18,173
1982						
Jan.	13	19	-	-	-	-
Feb.	13	19	-	-	-	-
March	14	20	1,780	5,080	30,163	37,023
TOTAL			$ 4,450	$13,919	$62,975	$81,343

Note: Figures based on Y236=$1.00

Source: Cullen T. Hayashida, Ph.D., and Harumi Sasaki, M.P.H., "The Musashino Plan; a Report of Japan's Home Equity Conversion Program for Social, Health and Financial Services", Table 14, unpublished manuscript.

RAM PROGRAM

Appendix C-1

RAM LOAN EXAMPLES

A $150,000 home has a maximum loan amount of $120,000 (80%). At 14% interest, each of the RAM loan options would produce the following income to the senior:

Type I - Simple Reverse Mortgage

*Fixed interest rate *Fixed term *Monthly payments do not change

For a ten year loan, the monthly income would be $463. With an initial disbursement of $5,000 (i.e.to pay off an existing mortgage or for rehab work), the monthly payment would be reduced to $386. For a five year loan, the senior receives $1,392 monthly. An initial disbursement of $5,000 would reduce the monthly payment to $1,276.

Type II - Graduated Payment RAM

*Fixed interest rate *Fixed term *Graduated monthly payments (6% annual increase)

Over a ten year term, the monthly income would start at $375 and increase to $632 by year 10. With a $5,000 initial disbursement, the income would start at $312 and increase to $527 in year ten.

A five year Type II loan would produce $1,255 per month to start, and $1,584 per month by year five. A $5,000 initial disbursement would change the monthly income to $1,150 to start and $1,452 at year five.

Type III - Renegotiable RAM

Similar to Type II, but offering an optional loan modification after 3 years, based on renegotiated interest rate and change in property value.

Type III is not available at this time, pending additional regulatory and statutory approval.

OPTIONAL DEFERRED ANNUITY

This will provide income when the loan terminates, and may be recommended after staff review. It is purchased with an initial disbursement and would have the effect of reducing the monthly income during the RAM loan. It will not pay off the RAM loan or assure life tenure in the home.

Loan Conditions

Lenders participating in the RAM program have placed a $150,000 ceiling on the loan amount, which also cannot exceed eighty percent of the property's appraised value. Up to 25 percent of the loan can be paid to the borrower for an initial disbursement for selected purposes. Fees and charges are limited to one percent of the loan amount, the appraisal cost ($100-150), plus normal closing costs including escrow and title insurance fees.

At the end of the loan term, the total amount ($120,000 in the examples) becomes due and payable. This probably will require that the house be sold, or some other method found to pay off the obligation.

At this time, reverse mortgages must be first mortgages, i.e., all other secured loans must be paid off. Applicants must, therefore, have nominal existing mortgage balances for the program to be of assistance.

THE FOURATT CORPORATION

SALE & LEASEBACK EXAMPLES

The following examples will serve to show how the Fouratt Senior Citizen Equity Plan works with different ages and prices.

A 79 year old widow has a house which is independently appraised at $80,000. She sells it at a discount of 21%, that is, for a price of $63,200. She recieves a ten percent down payment of $6,320 and a twelve year promissory note for the balance of $56,880. She collects a monthly payment of $679, including interest at ten percent per annum, and after paying $285 for rent, she has $394 a month left over. If she lives beyond the twelve year payout period, the annuity purchased by the Buyer will maintain the $679 monthly payments for the rest of her life.

A 77 year old widow with a $105,000 house sells it at a 23.75% discount. She receives monthly payments of $873, including interest at 11%, which leaves her $548 a month after deducting $328 for rent. If she lives beyond the 12 year 11 month payout period, the annuity purchased by the Buyer would maintain the $873 monthly payment to the Senior for life.

A 70 year old widower with a $95,000 house sells it at a 25% discount. He receives monthly payments of $805, including interest at 11%, leaving him $505 a month after deducting $300 for rent. If he lives beyond the 13 year 4 month payout period the annuity purchased by the Buyer maintains the $805 monthly payment to the Senior for life.

A 80 year old widower with a $150,000 house sells it at a 15% discount. He receives monthly payments of $1,613.33, incluing interest at 11.5%, leaving him $1,013.33 a month after deducting $600.00 for rent. If he lives beyond the 10 year payout period the annuity purchased by the Buyer maintains the $1,613.33 monthly payment to the Senior for life.

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Appendix D

SURVEY

The tables in this report were derived from responses to a written questionnaire administered by the Bureau during the fall of 1983. The questionnaire was designed to be as short and simple as possible in order to elicit the highest possible response. Multiple choice questions in large type were arranged on a one page survey attached to a cover letter explaining the purpose of the survey and where a respondent could call with questions. The questionnaire was administered in two ways to two broad groups of potentially eligible persons statewide. The questionnaire was mailed to a systematic random sample of 800 government retirees receiving pension checks statewide in hopes of eliciting 400 responses for a response rate of 50 per cent; however, only 323 usable surveys were returned by government pensioners. A sample of 400 would have limited sampling error to ± 5.0 per cent but the lower response resulted in sampling error of ± 5.4 per cent. That is, if the answers to one survey question showed that 50 per cent of respondents answered "yes" and 50 per cent responded "no", the worst case situation, the true (unknown) value is inside the interval 44.6 to 55.4, 95 per cent of the time. The Bureau intended to obtain only a very rough indication of interest in two home equity conversion instruments and the response levels obtained were determined to be adequate for the study's purposes.

The questionnaires were also administered to eight senior citizen organizations in the state at their regular club meetings. The author made a brief presentation explaining the Buffalo HELP program and the Musashino program and offered to answer questions before distributing the questionnaire. The clubs were selected on the basis of recommendations by county senior program advisors who were asked to recommend groups who would agree to participate in the survey in addition to including high percentages of homeowners. A club meeting on Maui was canceled and the survey was distributed to members in several different senior clubs by senior program staff.

Nonowners were not excluded from the survey, although many chose not to respond as they felt the survey did not relate to them. At the club meetings it was explained that the Bureau wanted the reaction of nonowners as well as homeowners to the proposed programs. Government pensioners who called the Bureau to indicate that they were not homeowners were requested to complete and return the survey.

Couples at club meetings were requested to complete only one survey per household. The overlap between the pensioners and the senior club members is believed to have been minimal as only one person indicated that she had already completed the survey received through the mail.

Tables which cross tabulate responses to two questions are read as follows. The three values in each cell represent (1) the raw score, or the actual number of survey responses (RAW); (2) the raw score as a percentage of the row responses (RPR); and (3) the raw score as a percentage of the column responses (RPC).

Samuel B. K. Chang
Director

LEGISLATIVE REFERENCE BUREAU
State of Hawaii
State Capitol
Honolulu, Hawaii 96813
Phone (808) 548-6237

September 12, 1983

2587-A

Dear Retiree:

The Legislature has asked the Legislative Reference Bureau to conduct a study on the possibility of starting a new program in Hawaii to assist elderly homeowners who need more income. An important part of the study involves finding out the opinions of eligible homeowners toward the proposed program. You were chosen as a respondent to this survey through a random sampling process. If you have any questions about this survey, please call Ms. Gail Kaito or myself, Samuel B. K. Chang, in Honolulu at 548-6237.

The survey is short and will take only a few minutes to complete. The results will be kept completely confidential and no one will be able to connect your answers with your name. Your help in completing this survey will be greatly appreciated.

Thank you very much for your time and kokua.

Very truly yours,

Samuel BK Chang

Samuel B. K. Chang
Director

SBKC:ctn
Enclosures

HOME EQUITY CONVERSION SURVEY

THE IDEA. Home equity conversion is a new idea to help elderly households who are "house-rich, but cash-poor", households that own a house worth a lot of money but which do not have enough income for daily needs. Two types of home equity conversion programs are described below, followed by a few short questions.

PROGRAM A. Program A is sponsored by a city government and operated by a non-profit corporation. Elderly homeowners are eligible if they have paid off their mortgage, have low income, and live alone or with a spouse only. The non-profit corporation pays all property taxes, insurance, and maintenance and repair costs for the participating homeowner. In addition, the homeowner receives a monthly income supplement for the remainder of his or her life. The amount of the monthly payment depends on the homeowner's age and the property value. In return for this, the elderly homeowner turns over his property to the non-profit corporation upon the homeowner's death. **The homeowner cannot leave the property to children or other heirs.**

PROGRAM B. This program is also sponsored by a city government and run by a corporation. Elderly homeowners who live alone or with a spouse only are eligible for this program. There are no income limits. The corporation provides a wide range of health services and also provides cash payments. The elderly homeowner does not have to repay the corporation for the health services and cash payments received until the homeowner's death. At that time, the debt is repaid from the homeowner's estate and the remainder, if any, goes to the homeowner's heirs. The homeowner's heirs may repay the full amount of the debt if they want to keep the homeowner's property.

1) Do you think these programs are a good idea? Please check one answer for Program A and one for Program B.

PROGRAM A		PROGRAM B	
a[ ] Yes	c[ ] Maybe	e[ ] Yes	g[ ] Maybe
b[ ] No	d[ ] Don't Know	f[ ] No	h[ ] Don't Know

2) Would YOU, YOURSELF, participate in either one of these programs? Check one answer for Program A and one answer for Program B.

PROGRAM A		PROGRAM B	
i[ ] Yes	k[ ] Maybe	m[ ] Yes	o[ ] Maybe
j[ ] No	l[ ] Don't know	n[ ] No	p[ ] Don't Know

3) How much money would you have to receive each month for you to participate in a program like Program A or Program B? Check one.

q[ ] $100 - $199 t[ ] $400 - $499

r[ ] $200 - $299 u[ ] More than $500

s[ ] $300 - $399 v[ ] No amount could make me interested

4) Do you or your spouse own your home (is your name in the deed)?

w[ ] Yes x[ ] No y[ ] Don't know

5) Is the mortgage on your home paid off? Check one.

z[ ] Yes a[ ] No b[ ] Don't know

6) <u>If your mortgage is not paid off</u>, in how many years will it be paid off? Check one.

c[ ] 1-3 yrs e[ ] More than 10 yrs

d[ ] 4-10 yrs f[ ] Don't know

Please turn over

7) Do you (and your spouse) own your home by yourself or are there other owners? Check one.

g[ ] Own by self or with spouse only

h[ ] Own with person(s) other than spouse

i[ ] Don't own my home

j[ ] Don't know

8) Who do you plan to leave your home to? Check as many as apply.

k[ ] Spouse

l[ ] Children

m[ ] Don't know

n[ ] Others (specify) ______________________________

9) Is it more important to you to leave your house or money to your children or heirs, or to have more money to live on right now? Check one.

o[ ] Leave something to children or heirs

p[ ] Have more money to live on now

q[ ] Don't know

10) Are you male or female? r[ ] Male s[ ] Female

11) How old are you and your spouse if you have a spouse? Please check one under Self and one under Spouse.

SELF		SPOUSE	
t[ ] Under 55	w[ ] 75-84	y[ ] None	b[ ] 65-74
u[ ] 55-64	x[ ] 85 and over	z[ ] Under 55	c[ ] 75-84
v[ ] 65-74		a[ ] 55-64	d[ ] 85 and over

12) Who lives in your house right now besides you? Check as many as apply.

e[ ] Live alone

f[ ] Spouse

g[ ] Other family member(s)

h[ ] Non-family member(s)

13) What island do you live on? Check one.

i[ ] Oahu

j[ ] Kauai

k[ ] Maui

l[ ] Molokai

m[ ] Lanai

n[ ] Hawaii

14) What would you say is the total income of everyone living in your house before taxes, in one year?

o[ ] Less than $5,000

p[ ] $5,000 - $6,999

q[ ] $7,000 - $9,999

r[ ] $10,000 - $14,999

s[ ] $15,000 - $19,999

t[ ] $20,000 or more

u[ ] Don't know

15) If you have any comments or thoughts about the proposed programs or this survey, please use this space.

THANK YOU FOR YOUR KOKUA!!!

Appendix E-1

MORTGAGE STATUS

Question: Is the mortgage on your home paid off?

	Yes	No	Don't Know	Other	Sum
Government Pensioners	168 59.6	110 39.0	2 0.7	2 0.7	282 100.0
Senior Club Members	176 68.2	63 24.4	4 1.6	15 5.8	258 100.0
Sum	344 63.7	173 32.0	6 1.1	17 3.2	540 100.0

Appendix E-2

HOMEOWNERS WITH REMAINING MORTGAGE TERMS

Question: If your mortgage is not paid off, in how many years will it be paid off?

	1-3 Yrs.	4-10 Yrs.	More Than 10 Yrs.	Don't Know	Other	Sum
Government Pensioners and Senior Club Members	26 15.0	47 27.2	84 48.5	15 8.7	1 0.6	173 100.0

Appendix F-1

LIVING ARRANGEMENT: ALL HOMEOWNERS

Question: Who lives in your house right now besides you?

	Alone	Spouse Only		Spouse & Family	Family Only	Nonfamily Only	Other	Sum
Government	39	135	(174)	80	21	1	6	282
Pensioners	13.8	47.9	(61.7)	28.4	7.4	0.4	2.1	100.0
Senior Club	33	121	(154)	50	37	2	15	258
Members	12.8	46.9	(59.7)	19.4	14.3	0.8	5.8	100.0
Sum	72	256	(328)	130	58	3	21	540
	13.3	47.4	(60.7)	24.1	10.7	0.6	3.9	100.0

Appendix F-2

LIVING ARRANGEMENT AND PROGRAM A PARTICIPATION: GOVERNMENT PENSIONERS

Questions: Would YOU, YOURSELF, participate in Program A?

Who lives in your house right now besides you?

Living Arrangement	Yes	Maybe	Don't Know	No	Other	Sum	
Alone		2	2	27	8	39	RAW
		5.1	5.1	69.3	20.5	100.0	RPR
		12.5	16.7	12.2	32.0	13.8	RPC
Spouse Only	3	8	4	108	12	135	
	2.2	5.9	3.0	80.0	8.9	100.0	
	37.5	50.0	33.3	48.9	48.0	47.9	
Spouse & Family	5	5	3	62	5	80	
	6.2	6.2	3.8	77.5	6.3	100.0	
	62.5	31.3	25.0	28.0	20.0	28.4	
Family Members Only		1	1	19		21	
		4.8	4.7	90.5		100.0	
		6.2	8.3	8.6		7.4	
Nonmembers Only			1			1	
			100.0			100.0	
			8.4			0.4	
Other			1	5		6	
			16.7	83.3		100.0	
			8.3	2.3		2.1	
Sum	8	16	12	221	25	282	RAW
	2.8	5.7	4.2	78.4	8.9	100.0	RPR
	100.0	100.0	100.0	100.0	100.0	100.0	RPC

Appendix F-3

LIVING ARRANGEMENT AND PROGRAM A PARTICIPATION: SENIOR CLUB MEMBERS

Questions: Would YOU, YOURSELF, participate in Program A?

Who lives in your house right now besides you?

Living Arrangement	Yes	Maybe	Don't Know	No	Other	Sum	
Alone	1	3	4	18	7	33	RAW
	3.0	9.1	12.1	54.6	21.2	100.0	RPR
	12.5	17.6	23.5	10.7	14.9	12.8	RPC
Spouse Only	5	8	4	84	20	121	
	4.2	6.6	3.3	69.4	16.5	100.0	
	62.5	47.1	23.6	49.7	42.6	46.9	
Spouse & Family	2	4	4	31	9	50	
	4.0	8.0	8.0	62.0	18.0	100.0	
	25.0	23.5	23.5	18.3	19.1	19.4	
Family Members Only		2	4	27	4	37	
		5.4	10.8	73.0	10.8	100.0	
		11.8	23.5	16.0	8.5	14.3	
Nonmembers Only				2		2	
				100.0		100.0	
				1.2		0.8	
Other			1	7	7	15	
			6.7	46.7	46.6	100.0	
			5.9	4.1	14.9	5.8	
Sum	8	17	17	169	47	258	RAW
	3.1	6.6	6.6	65.5	18.2	100.0	RPR
	100.0	100.0	100.0	100.0	100.0	100.0	RPC

Appendix F-4

LIVING ARRANGEMENT AND PROGRAM B PARTICIPATION: GOVERNMENT PENSIONERS

Questions: Would YOU, YOURSELF, participate in Program B?

Who lives in your house right now besides you?

Living Arrangement	Yes	Maybe	Don't Know	No	Other	Sum	
Alone	2	9	1	25	2	39	RAW
	5.1	23.1	2.6	64.1	5.1	100.0	RPR
	8.7	16.4	11.1	13.6	18.2	13.8	RPC
Spouse	12	23	3	88	9	135	
Only	8.9	17.0	2.2	65.2	6.7	100.0	
	52.2	41.8	33.4	47.8	81.8	47.9	
Spouse &	7	18	2	53		80	
Family	8.8	22.5	2.5	66.2		100.0	
	30.4	32.7	22.2	28.8		28.4	
Family	2	3	1	15		21	
Members	9.5	14.3	4.8	71.4		100.0	
Only	8.7	5.5	11.1	8.2		7.4	
Nonmembers			1			1	
Only			100.0			100.0	
			11.1			0.4	
Other		2	1	3		6	
		33.3	16.7	50.0		100.0	
		3.6	11.1	1.6		2.1	
Sum	23	55	9	184	11	282	RAW
	8.2	19.5	3.2	65.2	3.9	100.0	RPR
	100.0	100.0	100.0	100.0	100.0	100.0	RPC

Appendix F-5

LIVING ARRANGEMENT AND PROGRAM B PARTICIPATION: SENIOR CLUB MEMBERS

Questions: Would YOU, YOURSELF, participate in Program B?

Who lives in your house right now besides you?

Living Arrangement	Yes	Maybe	Don't Know	No	Other	Sum	
Alone	2	6	3	12	10	33	RAW
	6.1	18.2	9.1	36.3	30.3	100.0	RPR
	10.5	24.0	12.0	9.2	16.9	12.8	RPC
Spouse	10	15	9	62	25	121	
Only	8.3	12.4	7.4	51.2	20.7	100.0	
	52.7	60.0	36.0	47.8	42.4	46.9	
Spouse &	3	3	5	25	14	50	
Family	6.0	6.0	10.0	50.0	28.0	100.0	
	15.8	12.0	20.0	19.2	23.7	19.4	
Family	2	1	6	23	5	37	
Members	5.4	2.7	16.2	62.2	13.5	100.0	
Only	10.5	4.0	24.0	17.7	8.5	14.3	
Nonmembers				2		2	
Only				100.0		100.0	
				1.5		0.8	
Other	2		2	6	5	15	
	13.3		13.3	40.0	33.4	100.0	
	10.5		8.0	4.6	8.5	5.8	
Sum	19	25	25	130	59	258	RAW
	7.3	9.7	9.7	50.4	22.9	100.0	RPR
	100.0	100.0	100.0	100.0	100.0	100.0	RPC

Appendix G-1

HOUSEHOLD INCOME: ALL HOMEOWNERS

Question: What would you say is the total income of everyone living in your house, before taxes, in one year?

Income Range	Government Pensioner Homeowners		Senior Club Member Homeowners	
Below $5,000	1 0.4		16 6.2	
5,000 - 6,999	1 0.4		14 5.4	
7,000 - 9,999	9 3.2	31.6%	24 9.3	50.1%
10,000 - 14,999	33 11.7		42 16.3	
15,000 - 19,999	45 15.9		33 12.9	
20,000 and over	166 58.9		45 17.4	
Don't Know	19 6.7		39 15.1	
Other	8 2.8		45 17.4	
Total	282 100.0		258 100.0	

Appendix G-2

HOUSEHOLD INCOME AND PROGRAM A PARTICIPATION: GOVERNMENT PENSIONERS

Questions: Would YOU, YOURSELF, participate in Program A?

What would you say is the total income of everyone living in your house before taxes, in one year?

Gross Household Income Range	Yes	Maybe	Don't Know	No	Other	Sum	
Less than $5,000	1 100.0 12.5					1 100.0 0.4	RAW RPR RPC
5,000-6,999					1 100.0 4.0	1 100.0 0.3	
7,000-9,999	1 11.1 12.5			8 88.9 3.6		9 100.0 3.2	
10,000-14,999	2 6.1 25.0	4 12.1 25.0	3 9.1 25.0	18 54.5 8.1	6 18.2 24.0	33 100.0 11.7	
15,000-19,999	1 2.2 12.5	1 2.2 6.3	1 2.2 8.3	35 77.8 15.8	7 15.6 28.0	45 100.0 16.0	
20,000 and over	2 1.2 25.0	10 6.0 62.5	5 3.0 41.7	139 83.8 63.0	10 6.0 40.0	166 100.0 58.9	
Don't Know	1 5.3 12.5	1 5.3 6.2	3 15.8 25.0	13 68.4 5.9	1 5.2 4.0	19 100.0 6.7	
Other				8 100.0 3.6		8 100.0 2.8	
Sum	8 2.8 100.0	16 5.7 100.0	12 4.2 100.0	221 78.4 100.0	25 8.9 100.0	282 100.0 100.0	RAW RPR RPC

Appendix G-3

HOUSEHOLD INCOME AND PROGRAM A PARTICIPATION: SENIOR CLUB MEMBERS

Questions: Would YOU, YOURSELF, participate in Program A?

What would you say is the total income of everyone living in your house before taxes, in one year?

Gross Household Income Range	Yes	Maybe	Don't Know	No	Other	Sum	
Less than	1	2	2	6	5	16	RAW
$5,000	6.2	12.5	12.5	37.5	31.3	100.0	RPR
	12.5	11.8	11.7	3.6	10.6	6.2	RPC
5,000-		1	2	10	1	14	
6,999		7.2	14.3	71.4	7.1	100.0	
		5.9	11.8	5.9	2.1	5.4	
7,000-	1	3		19	1	24	
9,999	4.1	12.5		79.2	4.2	100.0	
	12.5	17.6		11.2	2.1	9.3	
10,000-	3	4	4	23	8	42	
14,999	7.1	9.5	9.5	54.8	19.1	100.0	
	37.5	23.5	23.5	13.6	17.0	16.3	
15,000-	1	3	2	22	5	33	
19,999	3.0	9.1	6.1	66.7	15.1	100.0	
	12.5	17.6	11.8	13.0	10.7	12.9	
20,000	2	1	2	31	9	45	
and over	4.5	2.2	4.4	68.9	20.0	100.0	
	25.0	5.9	11.8	18.3	19.2	17.4	
Don't Know		1	3	30	5	39	
		2.6	7.7	76.9	12.8	100.0	
		5.9	17.6	17.8	10.6	15.1	
Other		2	2	28	13	45	
		4.5	4.4	62.2	28.9	100.0	
		11.8	11.8	16.6	27.7	17.4	
Sum	8	17	17	169	47	258	RAW
	3.1	6.6	6.6	65.5	18.2	100.0	RPR
	100.0	100.0	100.0	100.0	100.0	100.0	RPC

Appendix G-4

HOUSEHOLD INCOME AND PROGRAM B PARTICIPATION: GOVERNMENT PENSIONERS

Questions: Would YOU, YOURSELF, participate in Program B?

What would you say is the total income of everyone living in your house before taxes, in one year?

Gross Household Income Range	Yes	Maybe	Don't Know	No	Other	Sum	
Less than $5,000					1	1	RAW
					100.0	100.0	RPR
					9.1	0.4	RPC
5,000-6,999	1					1	
	100.0					100.0	
	4.3					0.3	
7,000-9,999	2			7		9	
	22.2			77.8		100.0	
	8.7			3.8		3.2	
10,000-14,999	4	7	2	18	2	33	
	12.1	21.2	6.1	54.5	6.1	100.0	
	17.4	12.7	22.2	9.8	18.2	11.7	
15,000-19,999	4	8	1	32		45	
	8.9	17.8	2.2	71.1		100.0	
	17.4	14.6	11.1	17.4		16.0	
20,000 and over	10	37	3	109	7	166	
	6.0	22.3	1.8	65.7	4.2	100.0	
	43.5	67.3	33.3	59.2	63.6	58.9	
Don't Know	2	2	3	12		19	
	10.5	10.5	15.8	63.2		100.0	
	8.7	3.6	33.4	6.5		6.7	
Other		1		6	1	8	
		12.5		75.0	12.5	100.0	
		1.8		3.3	9.1	2.8	
Sum	23	55	9	184	11	282	RAW
	8.2	19.5	3.2	65.2	3.9	100.0	RPR
	100.0	100.0	100.0	100.0	100.0	100.0	RPC

Appendix G-5

HOUSEHOLD INCOME AND PROGRAM B PARTICIPATION: SENIOR CLUB MEMBERS

Questions: Would YOU, YOURSELF, participate in Program B?

What would you say is the total income of everyone living in your house before taxes, in one year?

Gross Household Income Range	Yes	Maybe	Don't Know	No	Other	Sum	
Less than	2	3	2	5	4	16	RAW
$5,000	12.5	18.8	12.5	31.2	25.0	100.0	RPR
	10.5	12.0	8.0	3.9	6.8	6.2	RPC
5,000-		1	3	5	5	14	
6,999		7.2	21.4	35.7	35.7	100.0	
		4.0	12.0	3.9	8.5	5.4	
7,000-	3	3		10	8	24	
9,999	12.5	12.5		41.7	33.3	100.0	
	15.8	12.0		7.7	13.5	9.3	
10,000-	4	5	7	15	11	42	
14,999	9.5	11.9	16.7	35.7	26.2	100.0	
	21.0	20.0	28.0	11.5	18.6	16.3	
15,000-	3	6	4	15	5	33	
19,999	9.1	18.2	12.1	45.5	15.1	100.0	
	15.8	24.0	16.0	11.5	8.5	12.9	
20,000	6	3	3	27	6	45	
and over	13.3	6.7	6.7	60.0	13.3	100.0	
	31.6	12.0	12.0	20.8	10.2	17.4	
Don't Know		3	3	28	5	39	
		7.7	7.7	71.8	12.8	100.0	
		12.0	12.0	21.5	8.5	15.1	
Other	1	1	3	25	15	45	
	2.2	2.2	6.7	55.6	33.3	100.0	
	5.3	4.0	12.0	19.2	25.4	17.4	
Sum	19	25	25	130	59	258	RAW
	7.3	9.7	9.7	50.4	22.9	100.0	RPR
	100.0	100.0	100.0	100.0	100.0	100.0	RPC

Appendix H

OWNERSHIP ARRANGEMENT: ALL HOMEOWNERS

Question: Do you (and your spouse) own your home by yourself or are there other owners?

	Self or Spouse Only	Persons Other than Spouse	Don't Know	Other	Sum
Government Pensioners	256 90.8	24 8.5	1 0.3	1 0.4	282 100.0
Senior Club Members	210 81.4	39 15.1		9 3.5	258 100.0
Sum	466 86.3	63 11.7	1 0.2	10 1.8	540 100.0

Appendix I-1

DESIRE TO BEQUEST: ALL HOMEOWNERS

Question: Is it more important to leave your house and money to your children or heirs, or to have more money to live on right now?

	Heirs	Self	Don't Know	Other	Sum
Government Pensioners	174	76	18	14	282
	61.7	26.9	6.4	5.0	100.0
Senior Club Members	154	55	17	32	258
	59.7	21.3	6.6	12.4	100.0
Sum	328	131	35	46	540
	60.7	24.3	6.5	8.5	100.0

Appendix I-2

DESIRE TO BEQUEST AND PROGRAM A PARTICIPATION: GOVERNMENT PENSIONERS

Questions: Would YOU, YOURSELF, participate in a program like Program A?

Is it more important to leave your house and money to your children or heirs, or to have more money to live on right now?

	Yes	Maybe	Don't Know	No	Other	Sum	
Heirs	2	4	6	155	7	174	RAW
	1.2	2.3	3.4	89.1	4.0	100.0	RPR
	25.0	25.0	50.0	70.1	28.0	61.7	RPC
Self	6	10	4	40	16	76	
	7.9	13.2	5.3	52.6	21.0	100.0	
	75.0	62.5	33.3	18.1	64.0	26.9	
Don't Know		2	1	15		18	
		11.1	5.6	83.3		100.0	
		12.5	8.3	6.8		6.4	
Other			1	11	2	14	
			7.1	78.6	14.3	100.0	
			8.4	5.0	8.0	5.0	
Sum	8	16	12	221	25	282	RAW
	2.8	5.7	4.2	78.4	8.9	100.0	RPR
	100.0	100.0	100.0	100.0	100.0	100.0	RPC

Appendix I-3

DESIRE TO BEQUEST AND PROGRAM A PARTICIPATION: SENIOR CLUB MEMBERS

Questions: Would YOU, YOURSELF, participate in a program like Program A?

Is it more important to leave your house and money to your children or heirs, or to have more money to live on right now?

	Yes	Maybe	Don't Know	No	Other	Sum	
Heirs	3	8	7	115	21	154	RAW
	1.9	5.2	4.6	74.7	13.6	100.0	RPR
	37.5	47.1	41.2	68.0	44.7	59.7	RPC
Self	5	6	4	28	12	55	
	9.1	10.9	7.3	50.9	21.8	100.0	
	62.5	35.3	23.5	16.6	25.5	21.3	
Don't Know			1	9	7	17	
			5.9	52.9	41.2	100.0	
			5.9	5.3	14.9	6.6	
Other		3	5	17	7	32	
		9.4	15.6	53.1	21.9	100.0	
		17.6	29.4	10.1	14.9	12.4	
Sum	8	17	17	169	47	258	RAW
	3.1	6.6	6.6	65.5	18.2	100.0	RPR
	100.0	100.0	100.0	100.0	100.0	100.0	RPC

Appendix I-4

DESIRE TO BEQUEST AND PROGRAM B PARTICIPATION: GOVERNMENT PENSIONERS

Questions: Would YOU, YOURSELF, participate in a program like Program B?

Is it more important to leave your house and money to your children or heirs, or to have more money to live on right now?

	Yes	Maybe	Don't Know	No	Other	Sum	
Heirs	6	27	4	133	4	174	RAW
	3.5	15.5	2.3	76.4	2.3	100.0	RPR
	26.1	49.1	44.5	72.3	36.4	61.7	RPC
Self	15	20	3	32	6	76	
	19.7	26.3	4.0	42.1	7.9	100.0	
	65.2	36.4	33.3	17.4	54.5	27.0	
Don't Know	2	5	1	10		18	
	11.1	27.8	5.6	55.5		100.0	
	8.7	9.1	11.1	5.4		6.4	
Other		3	1	9	1	14	
		21.5	7.1	64.3	7.1	100.0	
		5.4	11.1	4.9	9.1	4.9	
Sum	23	55	9	184	11	282	RAW
	8.2	19.5	3.2	65.2	3.9	100.0	RPR
	100.0	100.0	100.0	100.0	100.0	100.0	RPC

Appendix I-5

DESIRE TO BEQUEST AND PROGRAM B PARTICIPATION: SENIOR CLUB MEMBERS

Questions: Would YOU, YOURSELF, participate in a program like Program B?

Is it more important to leave your house and money to your children or heirs, or to have more money to live on right now?

	Yes	Maybe	Don't Know	No	Other	Sum	
Heirs	6	11	14	90	33	154	RAW
	3.9	7.2	9.1	58.4	21.4	100.0	RPR
	31.6	44.0	56.0	69.2	55.9	59.7	RPC
Self	11	8	5	18	13	55	
	20.0	14.6	9.1	32.7	23.6	100.0	
	57.9	32.0	20.0	13.8	22.0	21.3	
Don't Know		1	2	8	6	17	
		5.9	11.8	47.0	35.3	100.0	
		4.0	8.0	6.2	10.2	6.6	
Other	2	5	4	14	7	32	
	6.2	15.6	12.5	43.8	21.9	100.0	
	10.5	20.0	16.0	10.8	11.9	12.4	
Sum	19	25	25	130	59	258	RAW
	7.4	9.7	9.7	50.4	22.8	100.0	RPR
	100.0	100.0	100.0	100.0	100.0	100.0	RPC

Appendix J

MONEY NEEDED TO PARTICIPATE: ALL HOMEOWNERS

Question: How much money would you have to receive each month for you to participate in a program like Program A or Program B?

	$100 199	$200 299	$300 399	$400 499	Over $500	No Amount	Other	Sum
Government Pensioners		5 1.8	7 2.5	13 4.6	58 20.6	165 58.5	34 12.0	282 100.0
Senior Club Members	2 0.8	3 1.1	8 3.1	14 5.4	48 18.6	100 38.8	83 32.2	258 100.0
Sum	2 0.3	8 1.5	15 2.8	27 5.0	106 19.6	265 49.1	117 21.7	540 100.0

Appendix K

COMPARISON OF HELP COST COMPONENTS AND POSSIBLE COSTS IN HAWAII

For illustrative purposes, and where possible, some very simple cost comparisons between Buffalo and Hawaii are presented here.

Average property value of units entering the program. The average property value in the early stages of the HELP program was $20,000, although the citywide program now includes units ranging in value from $15,000 to $45,000 [Telephone conversation with Donna Guillaume, Director, Buffalo HELP program, 1/24/84.] Data displayed in Table 6 on the property value of elderly owned homes in Hawaii show a median property value slightly below $100,000. Garnet and Guttentag note that self-selection has to be monitored as homes in greater disrepair might be disproportionately represented in the program. [Robert Garnet and Jack Guttentag, Modeling the Buffalo Plan (Madison: National Center for Home Equity Conversion, 1981), p. 17]

Size of annuities. The size of annuities in Buffalo are typically less than $100 a month, although specific dollar amounts were not revealed. A Hawaii participant of the same age would probably receive a higher annuity based on substantially higher property value; however, a policy decision would be required to determine the approximate amount for a person of a given age. In the Bureau's survey of elderly homeowners in Hawaii, many respondents indicated that monthly payments over $500 would be required before they would consider participating. See Appendix J.

Initial rehabilitation costs. The HELP program allocates an initial $2,500 for rehabilitation costs, roughly the cost of a new roof in Buffalo. Actual expenditures for rehabilitation of some homes have been as much as $13,000. [Telephone conversation with Donna Guillaume, Director, Buffalo HELP program, 1/24/84] A comparable roof is not common in Hawaii and costs for different roof types vary. A shake roof in Hawaii may cost anywhere between $5,000 and $12,000.

Property taxes. Property taxes in the Buffalo program at the reduced rate for senior homeowners ranged from $600-$1,000. [Telephone conversation with Donna Guillaume, Director, Buffalo HELP program, 1/24/84] The property tax for a $100,000 home in Honolulu at the 1983 rate of $7.05 per $1,000 assessed valuation and 100 per cent of valuation, was $423 for a homeowner between 60 and 69 years of age and only $352.50 for a homeowner 70 years and over.

Homeowner's insurance. Annual fire and casualty insurance costs for the Buffalo homes were approximately $167. [Telephone conversation with Donna Guillaume, Director, Buffalo HELP program, 1/24/84] Liability insurance cost $39 while fire insurance cost $5.12 per $1,000 of insured value, with insured value being 25% more than assessed value. For a $20,000 house fire insurance would cost $128.

Administration expenses. Total administration expenses in Buffalo were set at $40,000 for each of the first three years of the program, or only three per cent of the total market value of all homes in the program. [Garnet and Guttentag, p. 8]

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