

Reforming Reverse Mortgages: A Preliminary Analysis of the Role of Homeowner Race

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Abstract

The literature frequently laments the obstacles faced by minority *home buyers*. For instance, the evidence suggests that minority home buyers are too often steered by their real estate agents away from white neighborhoods to minority neighborhoods. Worse still, once they find a home and are ready to borrow money to make a home purchase, minority home buyers are frequently gulled into entering costly, high-risk mortgages. Yet, save for a few exceptions, the obstacles confronted by minority *homeowners*, those who already own their own home, are less often debated. This is serious lacuna in the literature, since the home is the largest investment many Americans will make in their lifetimes.

This Article considers reverse mortgages, a way for elderly homeowners to tap their built-up home equity. Reverse mortgages have been touted as a cure to many of the problems of old age, like high medical expenses, paltry retirement incomes, and deteriorating family homes. Supporters argue that the proceeds a reverse mortgage can be used by seniors to pay for good, decent long-term care when they can no longer are able to live alone, or supplement a modest retirement income, or help repair a dilapidated family home. However, reverse mortgage products might be a more dangerous option for some elderly homeowners. Using data from the most recent Residential Finance Survey in 2000 and 2001, this Article presents findings that suggest that elderly minority homeowners might be in an untenable position, between the proverbial rock and a hard place. As will be shown, elderly minority homeowners often live in poverty, have somewhat higher levels of indebtedness, and low incomes, all characteristics that make the reverse mortgage not necessarily the best option for these owners, just the only one. Based on this data, the Article argues that the potential for abuse of desperate, elderly minority homeowners is more acute.

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