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Robin Buckson / The Detroit News

Thanks to a reverse mortgage that allows her to keep living in her Taylor home, Sylvia Szelag, 67, can live close to her granddaughters, Carly Roberts, 8, left, and Chelsea Roberts, 11.

More seniors have their homes pay them back

With reverse mortgages, retirees tap into their equity to pay living expenses.

By Karen Dybis / The Detroit News

This summer, Bill Wagar makes his second trip to France. Only this time, the World War II veteran is traveling on his own dime.

Wagar, 82, is paying for the trip with a reverse mortgage, a loan available to people age 62 and older that converts their home equity into cash. Wagar, a recent widower and [General Motors Corp.](#) retiree, said he plans on retracing the steps he took on Omaha Beach while serving in the Army.

"I've been retired for 20 years and living on a fixed income. I do all right, but I wanted to do some things I didn't have the cash to do," the Livonia man said. "I don't plan on remarrying, and I have no plans to move out. For me, this works out well."

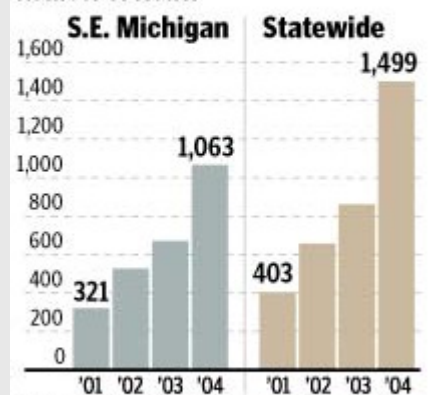
A growing number of Metro Detroiters are using money from reverse mortgages to pay property taxes, medical bills or daily living expenses. Some, like Wagar, use the equity their homes have generated to make their golden years more enjoyable, through vacations and home improvements.

With a reverse mortgage, lenders pay homeowners, based on the equity they've accumulated in their homes. Wagar opted for a line of credit, but borrowers also can choose a lump sum or monthly payments. Over time, equity decreases and the loan balance grows, although the amount owed cannot exceed the home's value. The loan

Reverse mortgage

Southeast Michigan ranks 8th in the nation.

Number of loans:



Source: National Reverse Mortgage Lenders Association

The Detroit News

Reverse mortgages

Reverse mortgages are known as a rising debt, falling equity loan.

generally doesn't have to be repaid until the homeowner moves, sells or dies.

Younger seniors are beginning to take advantage of these loans. Take Patricia Thomas, for example. The 62-year-old retired social worker used a lump-sum reverse mortgage to improve her Detroit home, adding a new roof and furnace, painting her home's interior and garage as well as renovating her basement.

"I'm sitting pretty," Thomas said. "A lot of people, especially senior citizens, can't afford to pay the house note and make repairs. They try to hold on to the house while watching it go steadily down. ... It freed up a lot of money for me (and) I made some much-needed repairs."

Southeast Michigan ranked eighth in the nation last year for new reverse mortgages. Lenders made 1,063 reverse mortgages in the area in 2004, compared with 668 the year before, according to the National Reverse Mortgage Lenders Association, a nonprofit trade group in Washington, D.C. Statewide, homeowners took out 1,499 reverse mortgages in 2004, a 75 percent increase over the previous year.

Nationally, hot real estate markets in states like California, New York and Florida boosted reverse mortgage rates dramatically. There were 37,830 home equity conversion mortgages in fiscal 2004 -- the most common type of reverse mortgage -- compared with 18,093 in 2003, according to the U.S. Department of Housing and Urban Development, which insures the loans.

Years ago, the average borrower was a 76-year-old widow. Today's borrower is 74 years old, and women represent 48 percent of the market, compared with 57 percent in 1990, HUD said. Couples account for 36 percent of all reverse mortgages, compared with 30 percent in 1990.

As reverse mortgages become more popular, senior groups such as the AARP warn homeowners to check into the advantages and drawbacks of the loans. AARP has rallied for things like mandatory counseling for loan applicants and a set fee structure to ensure lenders don't overcharge a sometimes-vulnerable population.

"It's probably the biggest decision you're ever going to make about your home equity once, so take your time," said Ken Scholen, director of AARP's Home Equity Information Center and founding director of the National Center for Home Equity Conversion, a nonprofit consumer group in St. Paul, Minn.

On the plus side, seniors who are house-rich but cash-poor get money to supplement their income while holding on to their homes. There are no credit or income requirements. The money, which can be used for any purpose, is tax-free. Homeowners don't have to repay the loan until they sell or leave the house, and can even refinance their loans if their home's value grows.

The drawbacks include the high up-front costs, which make the loans expensive in their first years, or for short terms. A reverse mortgage also could take all or most of the equity in a home, so it may not be an option for people who hope to leave the house to their children. However, federal protections ensure seniors never owe more than their house is worth.

"It's pretty much a super home-equity loan," said Tim Burns, a

- The loan's purpose is to get cash from your home without having to sell it and move.

- During the loan, the borrower receives money from the lender but makes no payments

- At the loan's end, the borrower owes a substantial amount and has little or no equity left in the home

- The loan proceeds are available in a lump sum, monthly installments or a line of credit

Source: AARP

Loan options

Here are the options available to reverse mortgage applicants. The estimate is based on a 70-year-old borrower who owns a \$200,000 home in Wayne County. Actual rates depend on when the loan is closed. They all include up-front costs of \$11,000 for fees, mortgage insurance and closing costs.

- A single lump-sum advance of \$120,936

- A credit line of \$120,936, which grows at an annual rate of 5.07 percent

- A monthly check for \$726 for as long as the borrower lives in the home

Source: ReverseMortgage.org

Typical costs

Reverse mortgages are costly because many fees are paid up front and are not spread throughout the loan's life.

- **Origination fee:** This fee typically covers a lender's operating expenses. Range: \$2,000-\$5,800

- **Mortgage insurance premium:** It guarantees your loan is covered if the loan company goes out of business and you will never owe more than the value of your house. Range: 2 percent of a home's value.

- **Appraisal fee:** An appraiser assigns a current market value to your home. Range: \$300-\$400

- **Closing costs:** These include title insurance, escrow, survey, pest inspection and fees for a credit report, flood certification, document preparation, recording and courier service. Range: \$700-\$1,500

Source: ReverseMortgage.org

spokesman for the Better Business Bureau of Eastern Michigan in Southfield. "Interest payments continue to grow, draining much of the equity. It's not just free money."

Experts say the reverse mortgage market is sizable. Most elderly own their homes, and many are living on a fixed income. Of the nearly 28 million American households age 62 or older, about half are good candidates for these loans, according to a recent study by the National Council on the Aging. Borrowers could receive an average of \$72,128 from a reverse mortgage to cover costs like home repair and other services like in-home long-term care, the council said.

Michigan is a prime area for reverse mortgages because of its aging population, said Mike Gruley, president of First Financial Mortgage Corp. in Northville, which offers them to seniors.

"We're only seeing the tip of the iceberg, demographically," Gruley said. "For most seniors, it's a quality-of-life issue. It's a product that allows them to age in place."

Sylvia Szelag agrees. The 67-year-old bank teller has lived in her Taylor home for more than 50 years, and it is only 6 miles away from her daughter and grandchildren. Yet the home was starting to feel like a burden, especially because its blacktop driveway was crumbling.

Szelag's arthritis has progressively grown worse, so she has been on medical leave for two years now and is living on Social Security. That leaves little leftover money to pay for repairs.

She got her reverse mortgage in October. Since then, Szelag has used the lump sum to fix the driveway and plans on getting it sealed annually. She could live in her three-bedroom brick ranch until she's 100.

"I've got peace of mind," Szelag said. "I could never live in an apartment or a retirement community. I need my own home."

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Consumer help

For more information on reverse mortgages, consumers can check out these resources.

- AARP, www.aarp.org/revmort/list, (800) 424-3410
 - The National Center for Home Equity Conversion, www.reverse.org, (651) 222-6775
 - U.S. Department of Housing and Urban Development, www.hud.gov, (888) 466-3487
 - Federal Trade Commission, www.ftc.gov, (877) 382-4357
 - National Reverse Mortgage Lenders Association, www.reversemortgage.org
- Source: *Detroit News* research
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Bill Wagar will use his Livonia home to fund a trip to France. The loans, available to those 62 and older, often don't have to be repaid until the homeowner moves, sells the house or dies.