

Reverse Mortgages Are Hot

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*This story was written by **Jonathan P. Decker***

As the Bush administration pushes to reform Social Security, many seniors are discovering a novel way to increase their retirement income on their own. As a result, thousands of older Americans are no longer "house rich, cash poor."

Their technique: a reverse mortgage. And for a vast majority of borrowers, it has literally changed their lives and their lifestyles.

"I went from not being able to afford a manicure to the point where I've gone on a wonderful seven-day cruise to the Caribbean, a vacation to Paris and Brittany with a friend, and have even traveled to California on a whim for a birthday party," says Durfee Bedsole, a septuagenarian in Marshall, Texas. "I never would have done any of these things without the reverse mortgage I got two years ago. It's one of the best things I ever did."

Ms. Bedsole's situation is a common predicament for older Americans whose homes have appreciated in value while their incomes have failed to keep up with rising healthcare costs, property taxes, and other expenses.

Rather than sell their homes, many are taking out reverse mortgages, which allow homeowners age 62 and older to borrow against the equity in their homes. In return for signing on the dotted line, reverse-mortgage holders can receive a lump sum, regular monthly payments, or, most commonly, a line of credit.

No payments - monthly or otherwise - are required as long as they live in the home. The mortgage gets paid back with interest when the borrower dies, sells the house, or permanently moves out.

"It's for anybody who has a significant portion of their wealth tied up in their homes, but could use the money for other purposes - whether it's for paying bills, healthcare costs, or just lifestyle needs," says Peter Bell, the president of the National Reverse Mortgage Lenders Association (NRMLA) in Washington, D.C.

Contrary to widespread belief, the reverse mortgage lender does not own title to the residence. But just as with a traditional mortgage, the lender does have a first mortgage security interest in the property.

Lenders also like this increasingly popular type of mortgage, according to the NRMLA. The trade group says there have been very few cases of fraud in which someone attempts to keep signing the monthly checks after the owner dies. Nor have there been many problems in probate after the death of a reverse-mortgage holder. The reason is that a reverse mortgage is treated no differently than a regular mortgage in the event of death. Heirs are simply presented with a payable demand.

In fact, although reverse mortgages still represent a small fraction of the mortgage market, the number of loans originated in 2004 (less than 38,000) was more than double what it was the previous year.

"As more older Americans learn about their benefits, demand for reverse mortgages has increased exponentially," says Bronwyn Belling, a reverse mortgage specialist for the AARP Foundation. "Despite their growing popularity, the AARP still recommends that people receive counseling and learn more about this type of mortgage before signing on the dotted line. They are not for everyone."

Financial counselors caution that reverse mortgages (currently offered nationally by three lenders: the Federal Housing Administration, Fannie Mae, and Financial Freedom Senior Funding Corp.) are not for seniors who aren't sure how long they are going to be in their home.

"If it's only for two years, it's not the best thing to do," says Ric Edelman, president of Edelman Financial Services in Fairfax, Va. "The high closing costs and presumed interest rates make these type of mortgages not ideal."

Closing costs, which include fees paid into a government-run insurance fund, title insurance, appraisal, bank, and recording fees, can easily add up to \$10,000 for a \$200,000 loan limit, regardless of how long you keep the loan or how much you borrow.

"If you don't hold the loan for five or 10 years, you're going to pay a lot of money for it," admits James Mahoney, CEO of Financial Freedom, one of the nation's largest providers of reverse mortgages. "Generally, this is not a loan you would want for the short term."

Reverse mortgages, therefore, may not be the best alternative for younger retirees - people in their 60s.

"The money you get from a reverse mortgage at that age will not necessarily be enough to pay for your expenses once you're in your late 70s or 80s," says David Dondero, a certified financial planner in Alexandria, Va. "Even for someone who could use the extra income to pay for increased health costs or living expenses, I would not advise them to jump into a reverse mortgage as a first alternative."

Instead, Mr. Dondero suggests that it may make more sense to downsize - sell your single-family home, move to a smaller house or apartment, and invest the difference.

If you own a home that has appreciated substantially, you can sell your expensive house and buy something cheaper with lower taxes, he says. You can then invest the difference to generate a stream of income. On a \$200,000 nest egg, that could mean \$10,000 a year in income if you invest only in municipal bonds and high-quality corporate bonds that pay 5 percent a year in interest.

But for 67-year-old Sylvia Szelag, a bank teller from Taylor, Mich., who closed on her reverse mortgage in October of 2004, selling her home was not an option.

"I need my home," says Ms. Szelag. "I've lived in it for more than 50 years and it's only six miles away from my daughter and grandchildren. Plus, I like my yard and I love my garden."

For Szelag, her reverse mortgage was "a necessity."

Health problems forced her to take medical leave from her job - and her Social Security income left very little money to live on after covering her monthly mortgage payment.

The reverse mortgage "gives me piece of mind," says Szelag. "It relieves all the pressure. I can now live comfortably."