

“Reversals’ big payback; Mortgage option allows seniors to borrow, not repay”

By Adam Geller, The Associated Press, September 2004, The Sun Herald

When Koula Chumley and her husband paid \$25,000 for a four-bedroom split-level 35 years ago, it was an investment in family. Buy Chumley’s children have families of their own now, she’s widowed and is counting on that same house – worth much more – to ease life in retirement.

Chumley, however, is not selling. She’s one of a small but growing number of older homeowners opting for a reverse mortgage, an arrangement that allows seniors to borrow against the equity in their homes. It gives seniors ready access to money without having to make monthly payments, and the loan doesn’t have to be repaid as long as they continue to live in the house.

“I thought now is the time,” said Chumley, 78, who is using the arrangement to pay off the remainder of the old mortgage on her Odenton, MD home, help with monthly bills, update a bathroom and make plans for travel to Europe. “So far, so good. Life is good, and I hope to stay healthy to enjoy some of it.”

Gaining popularity **Reverse mortgages** are still largely unknown to many seniors, but they are gaining in popularity. And lenders are eyeing the potential for an even larger market as millions of baby boomers, less skeptical than their parents about relying on debt, approach their 60s.

The number of federally insured **reverse mortgages** has risen from fewer than 8,200 in 2001 to 21,600 last year. At the current pace, the number should almost double this year to nearly 40,000, industry executives estimate.

Reverse mortgages can be difficult to understand, and the arrangements vary widely. But all stem from Congress’ 1987 vote to start a government-backed loan program to let older homeowners more easily tap the equity in their homes. Borrowers must be 62 to participate.

Private lenders structure the loans almost like annuities – estimating how long a person is likely to live in their homes to calculate how much cash a homeowner can obtain and how much of the home’s equity must be reserved as interest. When the homeowner moves out, the combination of borrowed principal and interest must be repaid.

The loans are not for everyone. They require borrowers to shoulder substantial fees, which are not always readily visible since they’re built into the loan itself. The amount of cash available to homeowners can also vary greatly, depending on their age, the value of their home, where they live and fluctuations in interest rates.

But with careful consideration and advice from a counselor – a free service – they can be quite valuable and their appeal to homeowners in a variety of situations is broadening, consumer advocates say.

“These loans can really dramatically improve the quality of life for many, many peoples,” said Bronwyn Belling, a reverse mortgage specialist for the AARP Foundations, the tax-exempt affiliate of the advocacy group for older Americans. “But they need to go into the transaction wit their eyes open.”

Federally insured **reverse mortgages**, which account for the overwhelming share of the market, have been around since 1989. But they’ve taken a long time to catch on among a senior population wary of being scammed, fearful that such a loan might mean forfeiting their homes, and reluctant to depend too much on borrowed cash.

That has started to change, though, partly because of positive word-of-mouth among seniors, and with the economic uncertainties of the past few years providing particularly strong incentives.

“You’ve had a strong housing market and a faltering stock market that leaves people with more of their wealth tied up in their home,” said Greg McBride, a senior financial analyst wit Bankrate.com, a personal finance Web site. “At the same time, low interest rates have slashed the income that they (seniors) get on their interest bearing accounts. And **reverse mortgages** really work to solve many of those problems for retirees.”

Tapping the market there are some signs the market is already starting to broaden. The typical reverse mortgage customer has long been a widow in her late 70’s.

But the past few years of very low interest rates have begun drawing in somewhat younger borrowers, including more single men and couples, lenders say.

In a bid to tap the market, reverse mortgage lenders have stepped up advertising on talk radio, the Weather Channel and elsewhere on cable television and magazines geared to older readers. Lenders continue to make the rounds of senior centers and other community groups to talk up the advantages of **reverse mortgages**.

“We have barely scratched the surface of the number of seniors who are out there who have equity in their homes and who could be taking advantage of this program,” said John Lucas, a vice president and branch manager of Anaheim, CA based Pacific Republic Mortgage Corp.

Most homeowners who secure a reverse mortgage take it in the form of a credit line, with only about one in 10 also choosing to draw a monthly advance. In theory, a homeowner who lives much longer than expected and stays in the home could pocket payments exceeding the value of the home. Even in such a case, the homeowner keeps the home. But when the owner dies or moves, there would be no remaining equity left in the home, and the loan would be satisfied when it was sold.

Bob Pepper, 78, of Mill Valley, CA, was having trouble paying his bills. But the retired artist who now gets by doing odd jobs was skeptical even after he heard a lending officer speak about **reverse mortgages** at a local community center. It was only after asking plenty of questions that he was able to put to rest fears that taking out such a loan might mean giving up his home.

“If I happen to live to 103, it will still be my house,” se said.

Pepper used part of the proceeds for a \$55,000 renovation of his home, and a monthly check to supplement Social Security and other income. He’s drawing down on a credit line to pay for travel, and is considering buying a boat.

Seniors considering a federally insured reverse loan, called a Home Equity Conversion Mortgage, are required to talk it over with a counselor. The U.S. Department of Housing and Urban Development maintains a list of all counselors, and AARP has its own list.

For more information on Reverse Mortgages, or to inquire about application, contact Jon Rutter at (515) 237-2863 or toll-free at (866) 317-1923.



Jon Rutter
Reverse Mortgage Specialist
Wells Fargo Home Mortgage
4505 Douglas Avenue
Des Moines, Iowa 50310
Toll-Free: (866) 317-1923
Office: (515) 237-2863

E-Mail: jon.a.rutter@wellsfargo.com