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Reverse mortgages are good choice for some, but not for everyone

East Bay Business Times - by [Mavis Scanlon](#)

Reverse mortgages, already on the rise in recent years, are expected to surge as millions of Americans hit retirement age.

With almost 4 million people 65 and older, California has the largest senior population in the country, and is expected to be fertile ground for reverse-mortgage sales.

The loans provide an extra income stream, a boon for those who may not have saved enough for retirement or who have run up big medical bills. Interest rates have come down on the loans, which could boost demand. But the loans, which have strings attached and are quite pricey, are not for everyone.

For the wealthy, they may serve as a useful wealth-management tool. For those on the opposite end of the income spectrum, they may be one of just a few options, in spite of the big upfront fees attached to the loans.

A reverse mortgage allows homeowners who are at least 62 to tap into their home equity and receive a monthly payment, a line of credit or a lump sum (or some combination) from a lender without taking out a home equity loan.

In a conventional reverse mortgage, one that is insured by the federal government, the amount of money a homeowner can borrow is limited, depending on the county of residence. No payments are due until the homeowner dies or moves out of the home, at which time the loan plus all the accrued interest must be repaid.

The loan is typically repaid through the sale of the home, with any remaining equity going to the heirs, but if the loan can be repaid another way or refinanced, the home can stay in the family.

Lenders originated 74,412 reverse mortgages in 2006, according to the Federal Housing Authority, up from just 6,640 in 2000, and the pace has quickened this year. The FHA endorsed a record 8,824 reverse mortgages during the month of January, a 59 percent increase over January 2006. So far this year, the FHA has endorsed 32,845 loans, according to statistics



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Celia Mason says most people use reverse mortgage money for health care.

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from the National Reverse Mortgage Lenders Association, compared with 20,320 during the same period last year.

Banks, including **Wells Fargo & Co.**, the largest seller of reverse mortgages, have trimmed interest rates on adjustable-rate reverse mortgages, and some are introducing fixed-rate reverse mortgage products that could spur interest as wariness about adjustable-rate mortgages increases.

Celia Mason, a reverse mortgage consultant at **BWC Mortgage Services** in San Ramon, said although the loans can be used in creative ways for wealth management, most people she sees applying for reverse mortgages are doing it because they need to.

"Most people actually do spend the money for health care," she said.

There are no income requirements or credit checks with a reverse mortgage, although a homeowner cannot be in bankruptcy. In the conventional reverse mortgage that is insured by the Federal Housing Authority, before an application is processed, the homeowner must meet with a counselor (at no charge) to ensure the homeowner understands his options.

The amount of money that can be borrowed is based on the current interest rate, the appraised value of the home or the county lending limit, and the person's age. The older you are the more money you can get, because your life expectancy is shorter. "It's a calculation on how soon the bank gets paid back," Mason said.

As Mason points out, fees are the big negative. With origination, appraisal and closing fees, plus a mortgage insurance premium that's equal to 2 percent of the loan amount, upfront fees, typically tacked onto the loan principal, can be upwards of \$20,000.

Despite the onerous fees, the reverse mortgage was an option for a Richmond homeowner who was on the verge of losing her house. More than a year ago, when Betty Morris was 61, she was in default on her mortgage, and with little income from welfare and babysitting jobs, did not have enough money to bring her mortgage and other accounts up to date.

She answered a solicitation from **Peregrine Lending Co.** in Walnut Creek, which works with troubled homeowners on credit problems. In January 2006, Peregrine principals Luke Currier and Ed Jeffry arranged a \$186,000 short-term mortgage loan for Morris; she was able to repay her previous, subprime mortgage, stop the foreclosure, pay off some other debts, and make repairs to her house so she would be eligible to obtain a reverse mortgage.

Currier and Jeffry, who worked with Morris on a pro bono basis, also referred her to a CPA who helped her set up a budget. When she got her reverse mortgage funded, through Mason at BWC, she repaid the short-term loan, but was left with just a few thousand dollars out of the proceeds.

Morris' reverse mortgage lender made an exception and made the loan at the new, lower rate for reverse mortgages after talking with Peregrine. Morris "was one monthly payment away from losing her house," he added. "If we had done (the higher interest-rate loan) there would not have been enough money to pay off everything she owed."

If Morris' story is extreme, so was the story of a client of Henry Gannett, who owns Park Place Real Estate in Orinda. In the case of his 96-year-old client who was terminally ill, the reverse mortgage was a wealth-management tool to reduce the size of his estate. He took out a \$2 million jumbo reverse mortgage (a type of reverse mortgage not insured by the FHA) and with it bought a \$2 million life insurance policy. When he passed away, his heirs inherited the \$2 million in life insurance, and his estate was \$2 million smaller, which meant a lower estate tax.

"There are some real instances where it can be the solution," Gannett said, but for someone who's comfortable managing their own finances, they may be better off with a home equity line of credit.

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