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# Reverse mortgages can brighten golden years

## *Older borrowers use the loans to cash in equity*

**By JONATHAN PETERSON**
**Los Angeles Times**

Like millions of Americans, Bill and Helen Bluett's greatest financial asset is their home, a Spanish-style dwelling just one-quarter of a mile from the ocean in San Clemente.

Selling the place and buying a less expensive one elsewhere could have brought the couple hundreds of thousands of dollars in extra money for their retirement years. But there was one problem with that idea.

"We love our home," said Bill Bluett, 67, a retired mechanical engineer. "We love our neighborhood. As long as we're physically able, we want to stay right where we are."

So this year, the Bluetts signed up for a reverse mortgage, a type of loan that allows older borrowers to tap their home equity without making payments as long as they live in the house.

With the money, the Bluetts are more than able to take on projects like remodeling the kitchen and bathrooms. More important, the reverse mortgage makes them financially prepared, Bill Bluett said, for "any emergency - whether it's medical or whatever - that might come up."

"My wife and I decided it would give us a lot of peace of mind," he said.

Reverse mortgages have been criticized for high up-front costs. Lenders may charge 2 percent of the loan amount in origination fees - as much as $7,256 in California - and most borrowers also pay 2 percent for mortgage insurance, along with

other fees that can far exceed those in conventional home loans.

Loan amounts often are subject to strict limits, and many financial planners are still not familiar enough with reverse mortgages to guide their clients.

But in an era when legions of older homeowners are sitting on vast amounts of untapped equity, reverse mortgages seem to be catching on. Competition has started to push down costs, and lenders are beginning to offer loans on unlimited amounts, a noteworthy shift in an industry that mostly has relied on federally insured mortgages with strict caps.

In recent months, Countrywide Financial Corp., Bank of America Corp. and BNY Mortgage Co. all have scaled up their efforts in the growing field.

After years on the sidelines, Wall Street has entered the game, with investment banks for the first time purchasing such loans in a "secondary market" that further could stir innovation and encourage more lenders to offer reverse mortgages. At the current rate, lenders could sell more than 100,000 reverse mortgages this year - more than double the number from 2005.

"The significant thing in the last several months is that the big boys are coming in," said Bart Johnson, president of Irvine-based Financial Freedom Senior Funding Corp., a leading provider of reverse mortgages. "The last six months to a year have been incredible."

## Must be at least 62 years old

U.S. Housing and Urban Development Secretary Alphonso Jackson has described reverse mortgages as "the bright spot in today's housing market," adding, "Their significance will only increase as more baby boomers reach retirement."

In a conventional mortgage, the lender loans you money to buy a house and you gradually pay down the debt - and build up equity - as you make monthly payments.

In a reverse mortgage, the lender gives you the money - as a lump sum, in monthly installments or as a line of credit - and takes your home equity as payment.

Typically, reverse mortgages don't have to be paid back until you sell your home, move or die. People must be at least 62 to qualify for a reverse mortgage. In California, borrowers must receive counseling on the implications of these loans (which also is required for all federally insured reverse mortgages).

As with all loans, reverse mortgages have fees and charge interest. For example, a 78-year-old borrower whose home is worth $200,000 might end up with a reverse mortgage of $123,000, based on his age, interest rate and other factors.

In this case, the borrower might pay about $13,000 in upfront fees - including a $4,000 loan origination fee, $4,000 in mortgage insurance and a $4,000 "set-aside" to cover servicing costs for the life of the loan, according to Fannie Mae, the federally chartered lender.

Based on recent interest rates, such a loan might come with an adjustable interest rate of about 6 percent, with interest charges compounding during the life of the mortgage.

Given that, homeowners should weigh their options carefully, experts say.

## Equity pays for health care

Home equity loans can be a less expensive way to come up with cash for people willing and able to make payments in retirement. Selling the house and downsizing to a less expensive dwelling is another alternative, depending on the borrower's priorities.

If the goal is simply home repair, seniors should explore whether their communities have low-cost loans available for that purpose, said John Rother, director of policy and strategy for AARP.

"It's good to have the option," Rother said of reverse mortgages. "But it's not an option appropriate for everyone."

But for people who are long on home equity and short on cash, the reverse mortgage offers a key advantage: Borrowers don't have to pay back the loan as long as they stay in the house. Indeed, a reverse mortgage might be the only way that some people can afford to stay in their own home.

"People who are using them, by and large, have a huge degree of satisfaction," said Peter H. Bell, president of the National Reverse Mortgage Lenders Association, whose membership has more than doubled over the last few years to 540 companies. "For a senior with a fixed income, taking on a loan with monthly payments doesn't make a lot of sense."

Most reverse mortgages are insured by the Federal Housing Administration, but loans insured by the agency are capped at $362,790 in higher-cost regions, such as Southern California. In lower-cost areas, the cap is as low as $200,160.

In some cases, older borrowers seek reverse mortgages to gird for future medical bills.

Malcolm Greenhill, a financial planner in San Francisco, recalled a 72-year-old client with emphysema who feared his health would decline further but lacked the income to pay for in-home care. The man's home was worth $1.2 million.

"I put his mind at rest and said there's a way here that you can tap into your equity," Greenhill said. "A reverse mortgage would be a good option for somebody like that."