



New loan helps seniors buy homes

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Shrinking nest eggs have retirees searching for ways to stretch their money. Some are discovering a new mortgage tool that can make buying a house cheaper than renting.

"It is unbelievable. I call it a miracle myself," said Betty Swayngim, 69, of Asheville, N.C.

Swayngim said after her husband died two years ago she sold their house and rented a condominium. But, she said, the \$800 a month rent was more than half her income and to make ends meet she continued to dip into her savings.

Fearful for her future, Swayngim talked to a Wells Fargo mortgage consultant in February who told her about a way for her to buy a townhouse next door to the one she was renting. She could stop paying rent and also would not have to make a monthly mortgage payment on the new place.

She used a Home Equity Conversion Mortgage for Purchase that became available in January through the Department of Housing and Community Development.

The new tool is a variation of reverse mortgages, which for years have allowed homeowners 62 and older to refinance their homes with no need to repay the principal and interest until they move, sell or die.

While reverse mortgages originally were intended to help people afford to stay in their homes, the new variation makes it easier for seniors who do not own a house to qualify to buy one.

"They are going from renting to owning a house," said Gus Acevedo, a counselor at Springboard Nonprofit Consumer Credit Management in Riverside.

Acevedo said while some seniors have enough money in savings or a retirement account for a down payment on a house, they don't have enough income to qualify for a conventional mortgage. But they can get a reverse mortgage, for which income is not a qualification, he said. Not having to make another rent or mortgage payment provides them with a sense of security and extra money for other living expenses.

So far Springboard has counseled about five clients who obtained reverse mortgages for purchase, Acevedo said, and he expects demand to grow.

Swayngim said that although she had \$60,000 for a down payment, she would not qualify for a traditional mortgage to buy a home because she does not have the necessary income or credit.

But in April she was able to buy a two-bedroom townhouse by putting \$60,000 down toward the \$132,000 purchase price and financing the rest with a reverse mortgage.

"I pay nothing but homeowner association fees, taxes and insurance. That is a far cry from \$800 a month," she said. She added that now she has no trouble paying her bills with her Social Security check.

The reverse mortgage for purchase, which is insured by the Federal Housing Authority, also can assist those who want to sell the house they own and buy another with the aim of downsizing, moving closer to family or relocating to a retirement community.

"We all feel this is a tremendous opportunity for certain seniors who may be moving out of state to be closer to children and grandchildren or out of a house they can't afford or into a single-story home," said Dean Jones, senior loan officer with Plaza Home Mortgage in San Diego and a member of the board of directors of the National Reverse Mortgage Lenders Association.

The Department of Housing and Community Development recently said it had received 2,408 applications for the purchase loan product, and 124 loans had been completed.

Some lenders say they are just beginning to take applications.

Not FOR EVERYONE

The mortgage does not work for everyone. It requires a large down payment. The amount that can be borrowed is determined by the home's appraised value or sales price, whichever is lower, the borrower's age and the interest rate. The older the borrower, the more he or she can borrow.

Under the loan, a home loses equity each year to an expanding debt. When the homeowner sells the home or dies, the mortgage is paid off from the proceeds of the sale. The borrower or borrower's heirs will never owe more than the home's worth.

Reverse mortgages for purchase are an attractive new source of business for lenders, said Gordon Jaus, MetLife Bank's regional manager for reverse mortgages in the western United States.

Lenders do not have to wait for the mortgages to mature to get paid, Jaus said, because government-sponsored Fannie Mae, the sole investor in such mortgages, buys them after they are written.

Since closing costs for a reverse mortgage purchase are considerably higher than for a conventional home purchase, the expense makes sense only for a senior who is planning to stay a long time in the house he or she is buying.

Under government guidelines, every reverse mortgage borrower first must receive counseling from a HUD-approved agency.

A reverse mortgage can expand a senior's home purchasing power. In downsizing, for instance, sellers could retain more of the money from the sales of their original homes in retirement savings and dispose of their mortgage without having to pay all cash for another home.

A 62-year-old using a reverse mortgage could buy a house priced at roughly twice the amount of the required down payment.

The maximum price of a house that can be financed through a reverse mortgage this year was raised from \$417,000 to \$625,000.

NO MORTGAGE

Ronald Barnard, founder and chief executive of Norco-based Home Center Realty, said the new reverse mortgage for purchase could be valuable for seniors who want to sell houses near LA and move to Riverside or San Bernardino counties to be near their children.

Barnard said in moving from the higher-priced Los Angeles area, home sellers in their 70s could pocket a big chunk of money for retirement, put 25 to 30 percent down on a new place "and still get a house as nice or nicer and bigger and with no mortgage payments."

Pat Conway, 67, a real estate agent who lives in San Jose, salvaged the remaining equity from her 1,300-square-foot house, which had been losing value in California's busted housing market, and bought a condominium in the same city. By using a reverse mortgage, she was able to finance more than half the \$225,000 price of the condo and discard her monthly mortgage payment.

Conway said if she hadn't used the reverse mortgage, she would have had to move out of the area, far from her children and grandchildren, to find a condominium she could afford to buy for cash.

Although Conway knows the reverse mortgage could erode the equity in her new condo, she said she is confident that real estate will appreciate again and build back some of the lost equity.

Besides, she said, she feels safe realizing, "Even if they use up your equity, they can never kick you out of your home."

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More information

To learn more about reverse mortgages or find FHA-approved lenders and counselors, contact:

Department of Housing and Urban Development at 1-800-569-4287 or online at [www.hud.gov/offices/hsg/sfh/hecm/](http://www.hud.gov/offices/hsg/sfh/hecm/hecmhome.cfm) hecmhome.cfm

Springboard Nonprofit Consumer Credit Management: 1-800-947-3752

