More relying on loans to stave off foreclosure

By Emmet Pierce
UNION-TRIBUNE STAFF WRITER
November 30, 2008

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(John Karavas)
Tele: 800-290-3521 ext 504

Seniors traditionally have used reverse mortgages to maintain their standard of living in retirement by tapping into their home equity, but older homeowners increasingly are using the loans to avoid sliding into foreclosure.

CHARLIE NEUMAN / Union-Tribune
Betty Falling is among a growing number of seniors using a reverse mortgage to avoid foreclosure. "I was in a bind," Falling said.

Rather than making mortgage payments, reverse borrowers typically get cash back, allowing debt to grow until the house is sold or the homeowner dies. Now lenders and senior advocates across the country see older homeowners using such loans as a lifeline.

While analysts are happy that these seniors can avoid foreclosure, some find it disturbing that the elderly must rely on creative lending to keep a roof over their heads. Not long ago, it was a common goal for Americans to own their homes free and clear in retirement and hand them down to their heirs.

Although seniors are more debt-averse than baby boomers and Gen-Xers, many with adjustable-rate loans are caught in the mortgage-market meltdown that has sent foreclosure rates soaring in formerly hot housing markets such as San Diego County.

With seniors often living on fixed incomes, rising mortgage payments are weakening their spending power just as their property values and stock-market holdings plummet.

“It is clear we are getting more calls from people who are facing foreclosure and are looking at reverse mortgages as part of the solution,” said Bronwyn Belling, a reverse-mortgage specialist for AARP, an advocacy group for people ages 50 and older. “If the numbers work, if you can pay off this bad mortgage that you have, sometimes it can be a real lifesaver.”

During the real estate boom – in which home prices in San Diego County doubled between 2000 and 2005 – many seniors refinanced their fixed-rate mortgages with risky, adjustable-rate loans. When low, introductory interest rates adjusted upward after two or three years, they began to miss mortgage payments.

At Oakland-based Golden Gateway Financial, the percentage of reverse-mortgage inquiries that involve foreclosures has grown from 25 percent to 40 percent in recent months. A recent study by AARP's Public Policy Institute found that people 50 and older represent about 28 percent of all home-mortgage delinquencies and foreclosures.

It may not be what they were designed for, but reverse mortgages seem tailor-made for many seniors who are defaulting on their home loans, reverse-mortgage brokers say.

Reverse loans sometimes are called the mirror image of traditional mortgages. With typical “forward” loans, homeowners use their income to repay debt, creating home equity over time. With a reverse loan, homeowners are taking the equity out in cash so that debt gradually increases. After the loan is repaid, any remaining equity goes to the homeowners or their heirs.

With the support of her adult children, Betty Falling, 68, of Escondido is using a reverse mortgage to avoid foreclosure.

Falling lost her position as a receptionist last year, just as the adjustable-rate loan on her three-bedroom house was about to reset, raising her monthly mortgage payments from $1,250 to $1,800. She thought she was going to lose the house to foreclosure.

"I was in a bind," Falling said. "Everything happened so fast. I only had a month before my next payment was due. I didn't have any way to make my payments. I didn't have a job."

Although Falling's mortgage was more than she could afford, she had enough equity remaining in her home to qualify for a reverse loan. She agreed to a plan that gave her $10,000 in cash to pay bills and a guarantee that she would no longer have to make mortgage payments.

"I was told I can stay in the house until I die," Falling said. "It is up to me to keep up the house. I have to pay the yearly taxes and insurance. It gives me the independence of living alone."

More than 90 percent of reverse mortgages are insured by the Federal Housing Administration through the Home Equity Conversion Mortgage program. The lending limit for such loans, which took effect Nov. 6, is $417,000, except for parts of Hawaii, where it is slightly higher.

The size of a reverse loan is determined by a formula that takes into consideration the borrower's age and the value of the home. Credit scores are not a factor. Generally, the older the homeowner is, the more he or she can borrow, but each loan is different.

The key to qualifying for a reverse mortgage is having adequate home equity. Generally, using today's interest rates, a 70-year-old borrower can get a loan equal to 62 percent of the value of the home, up to the $417,000 lending limit, Garcia said.

That would allow a maximum reverse loan of a little under $259,000, including any previous mortgages, back taxes and liens that needed to be packaged into the loan and paid off from the proceeds. If the borrower owes more than that amount, the loan can't be made unless he or she pays the shortfall.

While most seniors have enough equity to qualify for reverse loans, many wait too long to seek help. Garcia said the hardest thing he does is say "no" to people who are trying to avoid foreclosure.

The reasons seniors fall behind on their mortgages vary widely.

"Maybe they wanted to help their kids," said Liliane Choney, executive director of the nonprofit ReVisions Resources, a senior support and education organization in San Diego. "Maybe they wanted to do home repairs. Maybe they wanted to have a little extra security for the future."

A reverse mortgage can be a lifeline, but it isn't for everyone, said Dean Jones, a senior loan officer at American Sterling Bank in San Diego. High upfront costs, such as mortgage insurance fees, origination fees, appraisal fees and title insurance, usually exceed $16,000 on a home valued at $417,000 or more. That makes reverse loans a poor choice for people who plan to remain in their homes only for a few years.

As the housing market continues its slide, analysts expect seniors to increasingly rely on reverse mortgages to remain solvent. In the past fiscal year, the federal government endorsed 112,000 loans under the Home Equity Conversion Mortgage program, according to a program spokesman. In the current year, the program expects 210,000 such loans.

"Even the best-laid plans are being disturbed by stock-market corrections, Enrons and job losses," said Barbara Stucki of the National Council on Aging. "There is so much financial and economic uncertainty. Reverse mortgages may be their only way out."