

AP

Reverse Mortgages Help Cure Bad Loans

Monday September 10, 4:16 pm ET

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Some Seniors Turn to Reverse Mortgages to Escape Toxic Home Loans and Lines of Credit

Using a home equity line of credit, David Casey and his wife Joyce made some much-needed improvements around their house. New carpet. Updated plumbing. But the credit line's interest kept jumping, pushing their monthly payment to nearly \$1,000 from \$600.

A \$239,000 reverse mortgage from Generation Mortgage Co. rescued the retired couple from the adjustable-rate credit line and provided enough money to pay off the original mortgage with some left over.

Typically used to finance retirement or pay unexpected medical bills, the reverse mortgage now is helping some seniors escape tight spots created by risky mortgages and home equity lines of credit.

Now Casey has a new roof, a new Cadillac, and no mortgage debt. The 71-year-old is even going back to school to finish his bachelor's degree.

"It's nice to have a little jingle in the jeans," Casey said, referring to the money he saves each month by not shelling out a loan payment.

Unlike a traditional mortgage, the reverse mortgage allows homeowners over age 62 to take money out of their home to help fund their retirement or obtain cash.

But instead of paying back a mortgage, the lender pays part of the equity in the home to the senior in cash, either in a lump sum, regular payments or some combination. The lender takes some of equity as payment. The contract ends once the home is sold, usually after the homeowner sells the home or dies.

Some experts caution that if a senior elects to receive monthly payments over a fixed period of time, however, the homeowner could outlive the payments and still be liable for property taxes, upkeep of the property and other expenses.

The reverse mortgage business is just a sliver of the overall mortgage industry, even though the concept has been around for nearly two decades. Just over 300,000 reverse mortgages have been originated in total, representing less than 1 percent penetration, according to the National Reverse Mortgage Lenders Association.

But recent statistics show the industry is growing. Issuance of these loans rose to 85,639 in 2006, up from 48,493 the year before, according to data compiled by the trade group from federal government statistics.

Several large financial institutions are getting into the business through acquisitions. In the past four months, Genworth Financial Inc. agreed to buy Liberty Reverse Mortgage Inc. and Bank of America Corp. acquired the reverse-mortgage business of Seattle Mortgage Co.

By chance, the reverse mortgage has emerged as a salve for a more immediate crisis: Seniors stuck in unmanageable payments following the housing boom.

"Very often the reverse mortgage is an antidote to a burdensome mortgage that seniors have gotten themselves into," said Peter Ball, the president of the National Reverse Mortgage Lenders Association. "As more people work through loans that are resetting to higher payments, this will become that much more critical of a tool."

A reverse mortgage from Generation Mortgage saved the Pinkhams in Monterey, Calif., from an adjustable-rate home loan. Tapping their home equity to supplement their retirement funds, the couple in 2004 refinanced their four-bedroom condo using an adjustable rate mortgage, or ARM. They expected the fixed-rate period to last five years.

"We thought it was going to be a better deal than it turned out to be," Fred Pinkham, 87, said.

Two years later, their lender told them the monthly payment was scheduled to increase to \$2,400 from \$1,650, well beyond what they could pay. The pair considered refinancing into another ARM to avoid the higher payments, but decided on a reverse mortgage after speaking at length with a financial counselor, as required by law for every reverse mortgage.

"We realized that the last time was a mistake," Helen Pinkham, 85, said of the ARM. "We didn't want to repeat it."

Their condo was appraised for \$960,000 and they qualified for a lump sum payment of \$531,000 from the reverse mortgage that paid off the ARM.

"It took a big worry off our shoulders. Everything is set until we pass away," Mr. Pinkham said.

Like the Pinkhams, nearly 2 million homeowners are expected to see their adjustable-rate mortgages reset at higher rates by the end of 2008. Unfortunately, the reverse mortgage can help only a small percentage of those homeowners, said Generation Mortgage Chairman Jeffrey Lewis.

Applicants must be over age 62, as stipulated by law, and they must have a substantial amount of equity in the home to cover any debt against it. The latter stipulation shrinks the pool of qualified borrowers considerably, Lewis said.

"There may be a few more cases out there than there used to be. It's still worth trying to find them," he said.