Open House: Check around before considering a reserve mortgage loan

by Jim_Woodard

Major changes are taking place in the reverse mortgage industry. And with its rapid growth during the past year or so, it certainly has become an industry.

First the basic definition: A reverse mortgage is a loan against the equity in the home owned by a senior individual or couple. In most cases the owner(s) must be at least 62 years of age. The loan provides monthly income for the owners, usually for the rest of their lives, or until they sell or move from the property. It can also be taken as a lump sum, line of credit or combination of those options.

For years there have been three primary reverse mortgage plans available - Federal Housing Administration's Home Equity Conversion Mortgage (HECM), Fannie Mae's Home Keeper plan, and the Financial Freedom Cash Account. The plan's concept has become more popular in recent months and years with senior homeowners. This has motivated many of the nation's large banks and mortgage lenders to start offering reverse mortgage products.

Some of those lenders are trying to edge out competitors by lowering their fees and increasing their payouts. This will probably upset some borrowers that have already committed themselves to more costly programs.

One lender has reduced the minimum age requirement to 60. Others are making loans on second homes, and are offering "jumbo" reverse mortgages for high-end homes valued up to $10 million.

The key reasons for the growing activity in this area are twofold. First, cost of living that continues to grow while seniors are often living on fixed incomes. They need the extra monthly income to meet their rising financial needs. Also there is a growing number of senior homeowners, with "baby boomers" now reaching retirement age.

These factors raise the antennas of banks and lender firms. They see it as an opportunity for a new and lucrative profit center - one that will undoubtedly grow in coming years.

One of the problems created by all the new firms jumping on the reverse mortgage wagon is more confusion for prospective borrowers. It was puzzling enough before the recent developments, but now it can be downright frustrating to seniors studying the various plans and trying to determine the one that would best meet their personal needs.

The reverse mortgage plans always look great when discussing it with a representative of a firm. One point those reps don't like to focus on more than necessary is the fees, normally paid upfront. They can be very high, often 5 percent of the home's current value or more. They can, of course, be rolled into the loan amount; however, the fees will ultimately have to be paid, with interest if it's part of the loan.

Before you start calling in representatives of firms selling reverse mortgages, discuss it with a friend, attorney or a trusted financial adviser. Be sure it's the right step for you.

Q: When will it be a good time to buy real estate again?

A: The next 18 months will be a particularly good time to buy real estate, according to Jim Wagner, an attorney specializing in real estate investments and retirement planning issues. He notes the following reasons:

Home construction starts are now at the lowest volume in the past 14 years. Foreclosures are on the rise, providing many good buying opportunities. Inventories of available homes are at a high volume. And housing prices are declining in most markets.

He also noted that mortgage interest rates remain at historically low levels, and could go a bit lower. Many banks now offer non-recourse loans.

He recommends the use of a self-directed retirement plan to generate capital for investing in real estate.

"The ability to access IRA monies to purchase foreclosed homes or other properties, or to offer private loans when credit is tight, puts the self-directed IRA holder ahead of the game," Wagner said.

Q: What can be done to simplify mortgage closings?

A: Mortgage closings can be confusing and inconsistent from company to company. The nation's leading mortgage bankers group, title insurance and escrow associations have teamed up to structure a uniform set of mortgage closing instructions.

Participating in the project are the Mortgage Bankers Association, American Land Title Association and

American Escrow Association.

Their objective is to improve efficiencies and lower costs to the industry and consumers by replacing countless sets of instructions with two standard sets, a spokesman for the group announced. The instructions will also help stem mortgage fraud and facilitate automated mortgage origination.

The new general instructions will detail the requirements for all transactions and the specific instructions will provide a standard format for the details of each individual transaction, such as names, property address, loan type, etc. When these instructions are finalized they will not be required to be used by lenders, but they are likely to be widely accepted, it was reported.

The new instructions will be discussed during an online workshop in early December. This session will provide input for finalizing the set of instructions.

"It's critical that companies across the industry understand the instructions and provide useful comments so we can move forward to finalize the project for industry use," said Ken Markison, MBA's senior director and regulatory counsel.

For more information about the project, visit: www.campusmba.org or phone 800-348-8653.

Send inquiries to Jim Woodard, P.O. Box 120190, San Diego, CA 92112-0190. Questions may be used in future columns; personal responses should not be expected.