Open House: Families team up as they're priced out of housing market

by Jim Woodard

With home prices remaining super high and an increasing number of families finding it difficult to qualify for a mortgage, it's understandable that shared housing is re-emerging as a trend.

The concept of two family units or friends combining their financial resources to purchase and live in a single home, or a number of families living in a cohousing development, is growing in today's market.

Cohousing, where multiple family groups share accommodations and responsibilities, first emerged in Europe, then became popular in some areas in the United States and Canada. "It offers an end to the isolation of the single-family home," it was stated in "The Cohousing Handbook," published in Canada. "Residents own their own homes and can gather in common areas to share meals and socialize.

"It addresses and alleviates many of the demands and pressures of modern life - everything from day care for the kids to aging at home. It's all easier with the help of your close neighbors."

Shared ownership is particular prevalent with second homes, or vacation properties. Prices for these residences prohibit their purchase by an increasing number of individuals and families who would like to own a dream vacation home, or at least an ownership share in one. By participating in a joint ownership arrangement with one or several others who are similarly motivated, a second home purchase can be feasible.

In some cases, people who totally own a vacation home are now selling ownership units in their property. It's a viable way to generate cash, and often they aren't sacrificing any time that they can spend at their vacation home.

When purchasing a second home jointly with others, it's common to take title with a tenancy-in-common agreement, with each owner arranging for their own mortgage financing. Some participants tap into the equity they have accumulated in their primary home to pay for their investment share in the second home.

Some lenders now offer "fractional funding" mortgages - loans tailored specifically for group ownership situations. Under one plan, everyone in the ownership group shares one mortgage loan. In another plan, each participant arranges his or her own financing. In either case, these mortgages are structured in a comparatively simple manner with special advantages for group buying participants.

If you are interested in participating in the group purchase of a vacation home and need financing, ask several local lenders if they offer a fractional mortgage-financing plan. Then compare the terms they offer.

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Q: Why are so many home remodeling projects under way?

A: It's another housing trend in today's market - homeowners investing in a major remodeling project as opposed to selling one home and purchasing another. In many cases, this can satisfy the expanding needs of the owner family while enhancing its value in a later sale.

"Remodeling is retaining its strength across the country compared to late last year," said Mike Nagel, chairman of the National Association of Home Builders' Remodelers Council. "Certainly regional economies and housing markets play an important role, but overall we see continued growth in high levels of remodeling activity.

"Though the substantial reductions in home sales and new housing production have impacted the remodeling market to some degree, we feel that remodeling of both owner-occupied and rental housing will remain strong compared to other areas of the industry. With record levels of homeowner equity available to fund remodeling projects and the constant need to upgrade the older housing stock, the remodeling outlook appears quite good for years to come."

Q: Are reverse mortgages a good deal for seniors?

A: A growing number of senior homeowners, age 62 and older, seem to think they are a good deal. They are selling at a record pace.

A reverse mortgage is a special loan that often generates a check for the borrower every month for the rest of his or her life, or until that homeowner sells or moves away from the residence. It can also be paid in a lump sum or as a line of credit.

It's a way for seniors to use the equity in their established home to supplement their income - an increasingly important necessity considering today's rising costs, particularly in the health care field.

The most popular type of reverse mortgage is the home equity conversion mortgage, insured by the Federal Housing Administration. There were 76,351 of these reverse mortgages sold last year, up from 43,131 in 2005.

The number of sales is obviously growing at a rapid clip, and a bill was passed recently by the U.S. House of Representatives that would temporarily suspend the cap of the number of HECMs that can be insured by the FHA. That cap is now 275,000 HECMs.

The key reason for the rapid growth in sales of HECMs is the dramatic increase in home values. In a very short time, equities in homes have increased substantially, making it possible for senior homeowners to access a larger flow of income from HECM payments. Also, rising costs of almost everything makes it more important to generate added income. And seeing the potential for added profits, more lenders are now offering reverse mortgages.

Before rushing out to purchase a reverse mortgage, study it carefully and shop more than one firm offering it. Terms and fees vary with different companies, and those fees can be substantial. The fees can be rolled into the loan, as reverse mortgage salesmen are quick to point out, but that doesn't eliminate the price shock. When the fees are rolled into the loan, they still must be paid and you'll be paying interest on that amount too.

Two good online sources of information about reverse mortgages are: www.aarp.org and www.reversemortgage.org.

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