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From the Los Angeles Times

## HOUSING SCENE

### Reverse mortgage variation is aimed at seniors looking to downsize

**Borrowers may sell their current residence and use a reverse mortgage to buy a new one in a single transaction.**

By Lew Sichelman

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Reporting from Washington — That Ralph and Plum Smith bought a house last month in Brookings, Ore., is not terribly remarkable, at least not until you learn that he's 84 and she's 77. But what is even more noteworthy is that the couple didn't pay cash for their new \$240,000 home, yet they will have no mortgage payments.

The Smiths are among the first seniors in the country to close on a Home Equity Conversion Mortgage (HECM) for Purchase, a form of federally insured reverse mortgage authorized in the Housing and Economic Recovery Act of 2008. The law took effect Jan. 1.

The program is aimed largely at persons 62 years or older who want to move down the housing ladder. The idea is to allow them to sell their current residence and use a reverse mortgage to buy a new one, all in a single transaction that eliminates the need for two sets of expensive closing costs.

The Smiths don't exactly fit that profile. But then Monte Howard, director of affinity marketing for Generation Mortgage, the Smiths' lender, believes it will be the nation's burgeoning legion of seniors, not the lending community, "who are going to teach us how this product really works."

The Smiths sold their house last May and moved into an apartment to mark time until they decided what they wanted to do with the rest of their lives. But when their real estate broker showed them they would have paid \$68,000 in rent in six years and "have nothing to show for it," they decided to rejoin the ranks of owners.

The Oregon couple used proceeds of the sale of their old house as a down payment for the new one, and took out a reverse mortgage for the rest. They still had to cover the expenses for two closings but, except for a review of their financial obligations, they didn't have to meet any income, credit or asset qualifications for their new loan.

Better yet, they'll have no monthly payments because the loan doesn't have to be paid back until they leave their new home.

"We're just delighted," says Plum Smith. "We accomplished what we wanted to do, and that was downsize."

The loans are called reverse mortgages because, instead of you paying the lender, the lender pays you. The amount you receive is based on the age of the youngest borrower, the value and location of the home and current interest rates. You can take the proceeds in a lump sum, as the Smiths did to pay for their new house; as a line of credit to be tapped as needed; in monthly installments; or in any combination of the three.

Interest and mortgage-insurance premiums accrue on the borrowed amount, but no payments are necessary until the home is no longer occupied or owned by the borrower. In other words, a reverse mortgage need not be repaid until you sell, move out or pass away.

And since these are nonrecourse loans, you'll never owe more than the value of the property. You'll owe the sum of the amount you borrowed plus the accrued interest and insurance. If the house is worth more than that when you leave, you or your heirs will receive the difference. And if it is worth less, the lender eats the difference, not you or your estate.

About the only eligibility requirements are that you must be at least 62 and the home must be your primary residence and held in your name. Cooperatives, second homes, vacation properties and some manufactured houses are not eligible.

There is a limit on how much you can borrow: \$625,500 until the end of the year, when it falls back to \$417,000 unless Congress decides otherwise.

Instead of allowing seniors to unlock the equity they have in their current residences without having to move, the Home Equity Conversion Mortgage for Purchase is designed for older owners who want to scale down their housing, perhaps to a place that's not just smaller but also meets their changing physical needs, has a better climate or is closer to their children.

"Since the product is brand new, there really isn't a typical scenario just yet," Howard of Generation Mortgage says. "But one of the most exciting is that seniors like the Smiths who have been out of the housing market will be able to come back and consider homeownership again. This is their chance, especially with prices as low as they are."

However you choose to use your Home Equity Conversion Mortgage for Purchase, you don't have to use all your borrowing power to buy another place. If the house costs less than you can borrow, you can use the difference for other purposes. Or, like a regular reverse mortgage, you can take the rest as a line of credit.

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