

Home Equity Is Putting Gold Into the Golden Years

More owners over 62 are supplementing retirement income with reverse mortgages. They are especially hot in Southern California.

By Catherine Saillant, Times Staff Writer

Prompted by skyrocketing home prices and low interest rates, elderly homeowners in Southern California are among the heaviest users of reverse mortgage loans in the nation, according to the U.S. Department of Housing and Urban Development.

Of the 10 HUD offices reporting the highest reverse mortgage volumes, three are in Southern California: Los Angeles topped the list, with Santa Ana second and San Diego fifth. San Francisco was fourth.

Across the country, reverse mortgage volume was up 112% during the most recent five-month reporting period, which ended in February, according to the National Reverse Mortgage Lenders Assn.. The mortgages allow homeowners who are at least 62 to tap their home equity and don't have to be repaid until the borrower moves out, sells the home or dies.

It can be a good option for seniors who want to supplement their retirement income but don't want to sell their home to get it, experts say.

The lender pays the homeowner a monthly amount or a lump sum upfront, and the money can be used any way the borrower wishes.

"People in California may love their cars, but they love their homes too," said James Mahoney, chief executive of Irvine-based Financial Freedom, one of the largest providers of reverse mortgages in the nation. "They want to stay put."

House-rich elderly Southern California homeowners — eager to improve their retirement lifestyles a notch or two — are following that logic with increasing fervor.

Kenneth and Lynne Younger have seen big changes in their Lafayette Square neighborhood, and it's not only in the ever-shifting ethnic mix. The value of their Los Angeles home has gone through the roof in the 46 years the Youngers have lived there. The house that Kenneth Younger, 75, built himself in 1958 for \$16,444 is now worth \$750,000.

Cashing in on their gold strike, the couple took out a reverse mortgage that will allow them to complete \$150,000 of long-delayed renovations. They plan to add a large room and give Lynne Younger a kitchen worthy of the home makeover TV shows she loves.

"It was just sitting there waiting for me to do something with it," Kenneth Younger said of the home's mounting equity. "Because of the market conditions and the rate of interest, it made sense."

Home equity loans in one form or another have been around a long time. Congress in 1988, however, created a federally insured reverse mortgage program to help seniors increase their retirement income and stay at home in their final years.

Federal HUD statistics show the program is becoming more popular as seniors learn about it. And with its high real estate prices and large population, California leads the nation in reverse mortgages.

During the five-month reporting period that ended in February, the Los Angeles HUD office logged 819 loans, compared with 298 for the same period last year; the Santa Ana office had 620 loans, compared with 234; and San Diego reported 395, compared with 138. In San Francisco, there were 457 loans, up from 197.

Other HUD offices in the top 10 include New York at No. 3; Denver, sixth; Detroit, seventh; Boston, eighth; Minneapolis, St. Paul, ninth; and Coral Gables, Fla., 10th.

Nationwide, about 18,000 reverse mortgages were taken out last year, statistics show. Those numbers do not take into account reverse mortgages that are not federally insured, although HUD-backed loans make up 90% of the market, industry experts said.

Seniors typically use the money to make home improvements or to pay rising medical and prescription costs, said Peter H. Bell, president of the National Reverse Mortgage Lenders Assn. But in California, home values are rising so fast that seniors are starting to view their equity as a personal piggy bank.

Bell said he's heard of one grandmother who used the money to buy a sidecar for her husband's Harley-Davidson. An elderly man bought a build-it-yourself airplane kit, he said.

"The lifestyle borrower is the biggest growing group," Bell said. "They are living OK, but they want to add travel, gifts for the family or maybe a new RV."

Peter Paxton fits into that group. Paxton, 75, said he plans to use his extra cash to take a trip to Hawaii with his girlfriend. A confirmed bachelor, Paxton calls himself a "musician-jock" who loves to windsurf, hike in the mountains and play drums in his jazz trio.

Though he's owned his Carmel home for only three years, the value has risen \$400,000, Paxton said. The reverse mortgage he took out will give him the freedom to pursue his varied interests, he said.

"It freed up about 20 grand a year, and I like that," he said. "The house's value is going up pretty fast so it felt safe."

Consumer advocates say the loans can make good financial sense — as long as borrowers learn how they work and read the fine print. Years ago, some of the mortgages contained provisions that allowed the lender to share in the home's equity gains, in addition to standard interest and loan fees.

That led, in one egregious example, to a lender demanding more than \$765,000 from the deceased homeowner's family after paying out only \$58,000. That New York case and several

others were settled last year through a class-action lawsuit brought by the heirs of the deceased homeowners.

Bell said lenders no longer include that provision. All of the lenders in his association sign a code of conduct pledging to abide by guidelines for ethics and fairness, he said.

HUD requires counseling by an independent third party before it will approve a loan. (Call (800) 569-4287 to find the closest HUD counseling office. The service is free.)

Still, seniors should be on the alert whenever they are making major financial decisions, said prosecutor Benjamin Diehl, a fraud specialist in the state attorney general's office. Scam artists view seniors as easy targets because they are often isolated and naïve about financial matters, Diehl said.

Though his office has not seen a lot of fraud involving reverse mortgages recently, Diehl said it does not mean there are no unscrupulous operators.

"For some seniors a reverse mortgage can be a salvation," he said. "But it's a complicated transaction. Consumers need to be careful when they shop for them."

Estella Lopez's husband was so leery of reverse mortgages that he initially refused to consider one. Even after one of their sons investigated the loans and urged the Hancock Park couple to proceed, her husband was sure that loan collectors would one day show up and demand to take the house, said Estella, 85.

They finally took out a \$26,000 line of credit to make some repairs to their modest, 80-year-old home.

After her husband, a retired upholsterer, died, Lopez took out another \$26,000 to paint their three-bedroom home inside and out and replace the plumbing.

Lopez said she has informed her eight children that the loan balance will have to be repaid if they want to keep the family home after she dies. One of her sons has indicated he would like to take on the mortgage and the home, the great-grandmother said.

It was important to her to not to have to sell the home and move into a convalescent home if she grows infirm, Lopez said. The home has for 32 years been the site of large family celebrations, she said.

After upcoming cataract surgery, Lopez plans to take a trip she has put off for too long. It's something she probably would not have considered before building a small cash reserve to supplement her monthly Social Security checks, Lopez said.

"A retirement home?" she said. "That's not me."