Boomers Have Many Mortgage Options

Boomers Must Consider Themselves, Children In Housing Decisions

Shiloh Woolman, Staff Writer
October 7th, 2008

Baby boomers -- 70 million strong -- are taking a new look at housing. They need less space, more options and many hope to use the equity in their homes as retirement income or hope to pass on the family's home to a child.

The National Association of Home Builders presented research in 2006 that showed that more than half of all boomers expect to purchase some form of retirement, investment or vacation property within five years, according to Realty Times. NAHB found that as boomers become empty nesters, 60 percent said they want less space with more amenities.

That's exactly what real estate agent Sven Sandnes found when he started working recently with an Omaha couple. Their kids are at college and their multi-level home that backs up to a park no longer fits their needs.

"They have pretty much no loan on the house," Sandnes said. "They're building a ranch house. Everything is on one level."

Sandnes said single-level ranch homes appeal to boomers who understand they need less space now, and someday they won't want to climb the stairs to do laundry anymore.

The U.S. Census Bureau's Net Worth and the Assets of Households report for 2002 showed that 90 percent of the wealth of families aged 45-54 was held in equity. The figure is 93 percent for those 55-64. So protecting the house and its value is of utmost importance for people who are beginning to think about retirement.

Omaha, Neb., financial adviser Jon Kubler said the first thing boomers have to do before they start building a housing strategy that will sustain them into retirement is get an accurate read on how much their property is worth.

"You want to look at how much equity you have considering today's true values -- not just assessed values," Kubler said. "Two or three years ago, seniors thought they'd built a lot of wealth in their homes, but we've been through a housing depression. Get an appraisal."

Once you know the home's worth compared with your equity, you can make better decisions. Do you want to stay put or move on? Can you put the equity to work for you or does it make more sense to downsize?

According to AARP, more than 84 percent of people age 50 and older want to stay in their homes as they age. But, Kubler said, boomers have an element of long-term financial planning that many of their parents didn't -- long life.

"There's a good chance people will need home health care or nursing care," Kubler said. "If you've got half your net worth in a property, there are things you can do to protect the house from a nursing home."

Nat Clement is an estate planning attorney specializing in property transfers in Chapel Hill, N.C. He recommends a long-term care insurance policy to protect property from health-care expenses late in life.

"Long-term care insurance protects the home and whatever financial assets you have -- IRAs and 401(k)s -- so those can be used for their intended purpose; retirement income," Clement said.

For couples whose entire retirement wealth is in the value of their home, there are ways to make the home into retirement income. One approach is to refinance equity to more favorable payment terms for the borrower. If you hold 80 percent equity in your home and refinance just 20 percent over a new 15- or 30-year mortgage, monthly payments will be comparatively small.

Another option is the reverse mortgage. "Reverse mortgages are for people aged at least 62," according to the industry group. "The loans, which lenders charge fees equal to as much as 6 percent of a home's value, allow borrowers to use their home equity to get cash tax free. After the borrowers die, or move, the lenders are repaid when the house is sold."

Kubler said there are definite upsides to reverse mortgages, but he's also talked a few clients out of using them.

"The pro to a reverse mortgage is that it promises the homeowner that they'll get money on that equity -- they get a paycheck forever," he said. "The downside of a reverse mortgage is that once you're dead, the company owns the house and it will be sold. (Another) con is the fees associated with it. There are often large upfront fees to just close the deal."

That's about to change. The Housing and Economic Recovery Act of 2008 reduced the maximum fee to 2 percent on the initial $200,000 of the home's value and 1 percent on the balance thereafter, with a cap of $6,000.

The details of exactly how the new law will affect reverse mortgage prices are yet unclear.

There's some chance your children want the house they grew up in. An essential part of setting goals is talking to your children, Kubler said.

"I've seen a lot of sibling rivalry from the family farm down to grandma's jewelry," Kubler said. "People get emotional for different reasons. If it's not clearly defined ahead of time as to which child is going to get the house, the house will go into the estate with all the other assets and they'll have to reappraise that house as they're splitting the assets."

Clement said the best way to give the house to a child is to first create a Family Trust so that the surviving spouse gets the property without paying estate taxes. Then, a will should spell out which child gets the house.

Some parents put the child's name on the title of the property to transfer ownership, but that comes with downsides. First, the child named on the title or deed could face a gift tax because suddenly the property is half his or hers. Second, the child could be liable for property taxes, liens or lawsuits filed against the property. Third, the child could appear too wealthy on paper for the grandchildren to qualify for federal student aid.

And finally, "Do parents want to have to go to children any time you have to refinance the house or do a reverse mortgage?" Clement asked.

Another way to get the house into the interested child's hands -- and to get mom and dad out of the big house they no longer need -- is for the boomers to become their child's mortgage broker, according to certified public accountant Lisa R. Featherngill, the director of financial and estate planning with Winston-Salem, N.C.'s Calibre.

"If a child wants the house, you could sell it to the kid and take back the mortgage note if you felt comfortable with that. That can be an income source," Featherngill said.

Finally, to protect your equity asset, Clement and Featherngill said umbrella liability insurance is imperative. It covers claims beyond your homeowner's insurance in case someone falls off the deck at a party then files a lawsuit. Featherngill said $2 million worth of coverage can be had for just a couple hundred dollars a year.