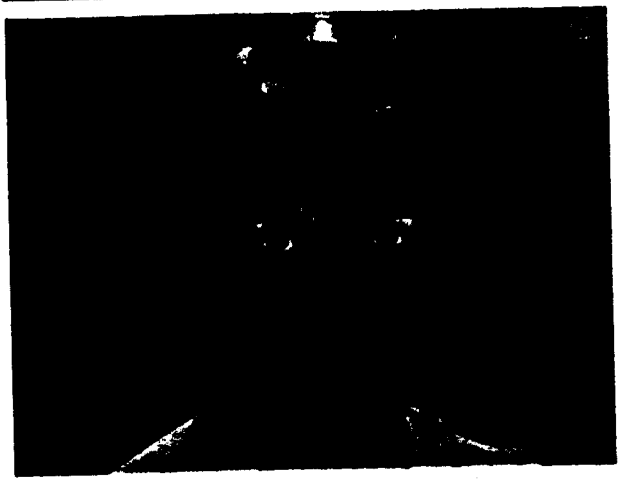

On Reverse Mortgages

Inflation makes retirees asset rich but cash poor. The value of their houses may be rising sharply. Yet their cash incomes often fall behind the rising cost of fuel, property taxes and other expenses.

Among people 65 or older heading households, 72 per cent own their own homes, more than 80 per cent of which are mortgage free. Yet older widows or retirees have no easy way of tapping their home equities for money to pay their bills. It's like living in a bank vault, dead broke.

For everyone's sake the home equities of elderly Americans ought to be unfrozen, and soon. Retirees represent one of the country's fastest-growing interest groups, and their interests are plain: they want higher incomes and greater security. Their demands might be met through bigger tax breaks, more government aid and higher social-security benefits—all of which run the risk of laying more taxes (or more inflation) on the public at large. A better approach would be to help older people provide for themselves, by putting at their service the tens of thousands of dollars they've accumulated in their houses.

Structured Income: The most popular concept among people working on this problem is the reverse-annuity mortgage. Under this plan, a bank gives you a mortgage loan whose proceeds you pass on to an insurance company in return for a lifetime income structured to cover your mortgage-interest payments and leave you something extra to live on. Sadly, the pure reverse annuity is already dead. Mortgage rates have risen so much faster than annuity payments that in most instances it's no longer possible to make this concept work.

Some lenders are trying reverse mortgages without an annuity, which work like this: you borrow a fixed sum, which the bank pays in installments over five to ten years. Then the loan reverses itself, and you repay the bank in monthly installments. If you can't make the payments and it's not practicable to renegotiate the loan, you have to sell your house, pay off the mortgage and use the balance to make other living arrangements.

Older people have thousands of dollars tied up in their homes, which should be used to ease their lives.

The repayment problem may make reverse mortgages unaffordable for middle-income people who really want to stay in their homes for life. But if you expect to move within a few years, it's a different story. A new widow, for example, might tap her home equities for ready cash while making a decision on what she ought to do next. Yung-Ping Chen, co-author of "Unlocking Home Equity for the Elderly," says: "If I had to wager, I'd say that most elderly homeowners move within five to seven years—either to be closer to their children, to try condominiums or because of health." So short-term reverse mortgages might suit their purposes very well.

The nonprofit San Francisco Development Fund starts an experimental reverse-mortgage program April 1. It's offering fixed-payment, graduated-payment and renegotiable-rate mortgages for low-to-moderate-income homeowners in Marin County whose houses, thanks to California's housing inflation, may be worth quite a bit of money. Five other communities are trying to get similar projects started.

But if reverse mortgages don't get going pretty soon, inflation may also knock them out of the box. Mortgage rates are now so high that most reverse-loan proceeds are eaten up by interest payments. Lenders here and there are still making these loans, but the two pioneers in the field—Broadview S&L near Cleveland and Deering S&L in Portland, Maine—have temporarily suspended their programs.

Lifetime Occupancy: One plan for tapping home equities while letting you stay in your house for life is the sale/leaseback, now being sold locally by the Fouratt Corp. in Carmel, Calif. A homeowner sells his house to an investor for up to 30 per cent less than market value. The investor puts 10 per cent down with the rest payable over ten to fifteen years. He also buys a deferred annuity, to assure lifetime payments to the seller after the mortgage is paid off. The seller may stay in the house as long as he likes, at a rent guaranteed to rise more slowly than his retirement income. In effect, the seller gives up the future appreciation of the property in return for lifetime occupancy at an affordable rent. The investor pays the rising taxes and most maintenance costs in return for a bargain price and the hope of high capital gains. Fouratt is awaiting some technical IRS rulings; if all is well, the plan will spread.

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