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In the News...

**FINANCIAL
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FANews

Reverse Mortgages Expected To Grow

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While still a very small share of the borrowing market, reverse mortgages are expected to grow significantly in coming decades as baby boomers use home equity to fund retirement.

As the name implies, reverse mortgages enable a person 62 or older to convert home equity into cash without selling a house. A big drawback is that only a limited number of the loans are available, and they have high origination and ongoing fees.

"They're a growing share of the market, and we expect it to continue to grow," said Mike Fratantoni, a senior economist at the Mortgage Bankers Association.

Reverse mortgages have only been around since the late 1980s. While some "jumbo" loans are available, 90% to 95% of the loans are through the Home Equity Conversion Mortgage, or HECM.

"It's about the only way you can get money out of your home without monthly payments or without having to sell and move," said Ken Scholen, director of the AARP's Reverse Mortgage Education Project.

That's going to be especially important for baby boomers, many of whom haven't saved enough for retirement but who have benefited from the real estate boom.

Indicative of this trend, a recent study by MainStay Investments, a division of New York Life Investment Management LLC, found that many investors don't expect to sell their homes, but they may have no choice because they haven't yet saved enough for retirement.

"People are looking for ways to increase additional income," said Jeff Taylor, vice president senior products group at Wells Fargo in Greensboro, N.C., which provides about 30% of the HECM loans.

Unlike a home-equity line of credit, consumers don't need to have an income to apply for a reverse mortgage, but they must own all or almost all of their home. The amount of money from the reverse mortgage depends on the person's age, appraised value of the home, current interest rates and lending limit in an area. Jumbo loans with slightly different rules are available for more expensive homes.

Consumers generally could receive the money in a lump sum, fixed monthly payments, as a line of credit or a combination. The loan isn't repaid until the person dies, sells the home or moves out permanently.

The older a person and the more valuable the home, the more money they could borrow. A person must also receive mandatory counseling before applying for the loan to ensure that they consider other options such as selling their home.

The number of HECM loans jumped from 18,097 in 2003 to 37,829 in 2004 and 43,131 in 2005. It is expected to reach 56,000 in 2006.

Consumers, Taylor said, like that they could borrow the money without relinquishing ownership of their homes. They also like that there are no restrictions on how the money is used.

About 25% to 30% of the borrowers use the extra money to pay off their original mortgages and free up monthly cash. Taylor's mother did that six years ago. She paid off the mortgage on her Denver condominium. Two years later, she used some of the money to replace the furnace.

While some consumers are using the loans out of necessity, affluent consumers also are using the jumbo loans as a financial planning tool, said Bart Johnson, president of Financial Freedom Senior Funding Corp. in Irvine, Calif.

Wealthy homeowners are taking cash from their homes and using it for everything from a second home to an insurance policy because there is no restriction on how it is spent.

Housing, he said, has "become the dominant asset of many seniors."

But consumers, Taylor said, shouldn't use a reverse mortgage unless they are going to be in their homes for at least two years.

That's because, even though the interest on the loans is similar to that on conventional mortgages, the up-front costs are much higher. Someone could expect to pay \$15,000 or more in up-front fees and then additional monthly costs as well as the interest.

Despite the fees, the mortgages are right for some people and likely will increase in popularity as baby boomers reach retirement age.

Charles Ziegenhorn, of Kansas City, Missouri, plans to get one of the loans to pay for home repairs he couldn't otherwise afford.

"All my retirement money has gone for health care," he said.

William R. Coart, 74, decided several years ago to get a reverse mortgage for a renovation of his Sherman Oaks, Calif., home.

A benefit of staying in the house, he said, is that its value has climbed from \$586,000 in 2001 to \$900,000 today. Coart or his heirs will receive the difference between what he owes on the loan and the profit from the home sale when he dies or sells.

"I have a lot of piece of mind," said Coart. "I didn't even use all the income so I have a line of credit for potential income."

—Dow Jones Newswires



OFG: The American Dream is to own a home free and clear. However, with no mortgage payment and nearing retirement, many retirees find themselves “house rich” and cash poor. By following traditional wisdom, a reverse mortgage forces you to rely on the equity you’ve exhaustively spent the last 30 years paying off to now fund your retirement on the banks terms.

But what if during those 30 years your equity was separate and secure in a safe, liquid side account earning a reasonable rate of return that would grow to an amount that could pay off your mortgage many times over, while maximizing your tax deductions, and fund your retirement without fear of outliving your income?

This article clearly validates the myth-conceptions behind traditional financial wisdom and the need for alternative strategies like those illustrated in the *Missed Fortune* book series by Douglas Andrew. To learn more about these alternatives, please register for one of our upcoming seminars at www.oganfinancialgroup.com