JUMBO JUNGLE

Senior Homeowners Give Reverse Jumbo Mortgages New Life

Such real-estate loans have a bad reputation but may be a good fit for older Americans who want to supplement incomes without taking on more debt

By Robyn A. Friedman
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It's time to let the reverse jumbo mortgage out of the doghouse.

The loan option got a lot of negative publicity in the past—often for good reason. “There was a big problem with them about 10 years ago,” says Ira Rheingold, executive director of the National Association of Consumer Advocates, a Washington, D.C.-based nonprofit. “There were all sorts of scandals.”

Many of the troublesome products were hybrids, with annuities built into them, he adds, and due to the complicated structure, some borrowers found themselves facing high costs and fees and less income than anticipated.

But many of those issues have been addressed. Today, for the right borrower—a senior homeowner who wants to age in place, for example—jumbo reverse mortgages can be useful.

“We live in a world where people don’t have pensions any more, and the cost of home health care is really expensive,” Mr. Rheingold says. “The reality is that jumbo reverse mortgages are something that can work for a small percentage of people who fully understand what they’re getting into—and for whom there isn’t a better option.”

Homeowners sitting on significant equity due to rising home values or because they’ve paid off their mortgage could be a good fit. They can, of course, unlock that equity by selling their properties or getting home-equity loans or lines of credit. But for older Americans who want to stay in their home or supplement their income without assuming additional debt, a better
option might be the jumbo reverse mortgage.

With a reverse mortgage, as long as the borrower lives in the home, he or she isn’t required to make monthly mortgage payments. Instead, when the borrower dies or moves, the loan becomes due. Should the property value fall over time, the bank is on the hook, not the homeowner.

Borrowers must pay closing costs associated with the reverse mortgage, and are responsible for expenses related to maintaining the property, plus taxes and insurance.

The majority of reverse mortgages originating in the U.S. are Home Equity Conversion Mortgages (HECM), insured by the U.S. government. These loans, for homeowners 62 or older, allow seniors to withdraw up to $679,650 in equity, depending on their age, the appraised value of the home and the current interest rate.

San Diego-based One Reverse Mortgage, a wholly owned subsidiary of Quicken Loans, recently introduced a jumbo reverse mortgage product called the Home Equity Loan Optimizer, or HELO, which offers loan amounts up to $4 million. They especially appeal to homeowners in states like California, where property values have rapidly increased.

Borrowers need a minimum 640 credit score, at least one appraisal and must demonstrate they have regularly paid their property taxes and
maintained homeowners insurance.

Gregg Smith, chief executive officer of One Reverse Mortgage, says that a "pretty wide spectrum" of borrowers are using the HELO program, including homeowners who own property free of a mortgage and want to tap their equity, and people trying to increase their cash flow. "Instead of dipping into your retirement savings if you’ve had health-care expense or whatever, you can access the equity in your home" he says.

In September, Peter Detrick, 74, and his wife, Kathleen, 73, closed on an $840,000 jumbo reverse mortgage on their $2 million home in Belmont, Calif. They have no children and considered downsizing but couldn’t find a home they liked. So, they decided to age in place. "A jumbo reverse mortgage was perfect for us," Mr. Detrick says. "It liquefied our assets, yet we could continue to live in and enjoy our house."

Mr. Detrick plans to use the money for home improvements, travel and philanthropy. He is investing the funds he doesn't use in long-term certificates of deposit to ensure the money is there if he needs it for maintenance costs or in-home care as they age.
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The interest rate on One Reverse Mortgage's HELO currently ranges from 6% to 7.375%. Fees vary but average $3,000 to $5,000 in upfront costs for a $1 million loan on a $2 million home value. Mr. Smith says the program will be available in nearly all states in the first quarter of 2019.

Here are some things to consider when looking at a jumbo reverse mortgage.

• Consult a financial professional. Reverse mortgages, whether the traditional HECM or jumbo products, aren't right for everyone, such as homeowners who would like to bequeath their property to heirs. Talk to a financial professional about options.

• Look for the best deal for you. Jumbo reverse mortgages are proprietary loans, and the terms vary widely depending on the investor that plans to purchase the loan. “Shop around,” says Daniel Marske, sales manager at Mutual of Omaha Mortgage in Carlsbad, Calif. “While most of the terms are set in stone by secondary investors, terms, closing costs and time frames for closing vary.”

• Be objective. “Don’t think of jumbo reverse mortgages as a harmful product,” says Jamie Hopkins, professor of retirement planning at the American College of Financial Services. “It’s really just another mortgage option... except that you’re paying a higher interest rate for the ability to not have to make monthly payments.”