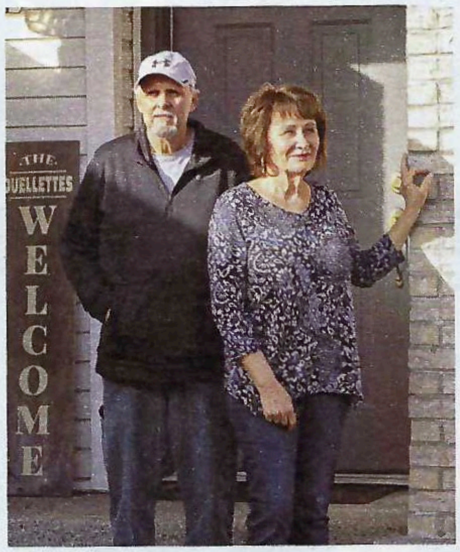
Jean Chatzky
TO THE RESCUE

Torn Between Two Mortgages

A careful couple find themselves short on cash. They're ready to borrow against their home's value ... but how?

THE PROBLEM

The subject line in an email I received from Chris Ouellette, 71, a medical assistant, and her husband, Bob, 72, a retired cement contractor, read "House Poor." But they shouldn't have been. They had made smart financial decisions and held $150,000 in retirement savings. They received $2,500 a month in Social Security. Chris still earned about $3,000 a month. And they lived modestly—no credit card debt and a car payment of just $200. The albatross? Their $1,500 mortgage payment. And they needed about $50,000 in renovations to age in place. What to do? "Bankers tell us to refinance," they wrote. "A reverse mortgage company will try to sway us toward a reverse mortgage. Please help."



Rebecca Stumpf

THE ADVICE

Listening to Chris and Bob, I was sure that they faced another issue along with their question about borrowing: cash-flow management. Over the years, I've done a number of what TV producers call "money makeovers," which often revolve around helping people spend less, save more and pay down debt. So I start with a direct order: Track your spending—every penny—for a month.

In our first call, Chris and Bob laid out their spending in incredible detail: $30 a month on a dental policy, for example, $80 on water and sewer, and $15 on the newspaper. But the modest spending they described seemed out of sync with the straits they were in. So I told them to track.

Within two weeks, Chris had the "aha!" moment I've seen before. "I have been tracking expenditures and it's amazing to see how some of them just seem to get forgotten! 😉," she wrote. The culprits were common ones: food ("We take our grandsons out to eat") and online shopping. Just being conscious of these spending leaks, I explained, would help the couple shut them down.

That brought us to their house, which they valued at about $425,000. Refinancing their $210,000 mortgage and pulling out cash was possible, and would even trim their monthly payment by about $150 a month, thanks to low interest rates. But they'd still be left with the mortgage payment that was dragging them down. A reverse mortgage would eliminate the payment. They were wary of a reverse mortgage; closing costs would run nearly $20,000. But they decided to apply for one and go through the independent counseling process mandated by HUD.

"The counselor went over everything in detail," Chris said. The couple would still have to pay taxes and insurance, and if they fell behind, they could well lose their home. And the loan would have to be repaid if they moved out for more than a year. "It's more counseling than when you buy an actual home," she said.

THE OUTCOME

The couple decided to go with a reverse mortgage. Their timing was good: Their home appraised for $600,000, and then-low interest rates helped boost their loan amount. Out of the $336,000 reverse mortgage proceeds, $210,000 paid off their conventional mortgage and $18,000 covered their closing costs, leaving them with a $108,000 line of credit, some of which they'll use to renovate the kitchen. The biggest relief, Chris explained, is not having a mortgage payment. (The bank gets paid in full, plus interest, when the house is sold.) They'll still have to pay property tax and home insurance bills, however.

As for tracking expenses, it's a habit they're keeping—especially as Chris looks to retire soon. "The everyday expenses—telephone, television, gas, work clothes—I've even played out how those things are going to change when I'm not commuting 45 miles a day," she says. "We feel pretty secure." ■

Want Jean Chatzky's help in sorting out a financial problem? Send an email to rescue@aarp.org.