

## **Tom Kelly, Jan 24, 2010 article: Reverse Mortgage Store helps save home from foreclosure**

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**When bank takes small loss it helps owner and itself.**

**By Tom Kelly**

In a recent column, we explored some of the steps suggested by longtime housing experts that would allow traditional forces to return to the market. While the initial moves are not easy, they are somewhat logical:

- Scrutinize the loan-qualifying process.
- Subsidize those who would be temporarily displaced from the homes they could never afford to begin with.
- Instruct lenders to reduce principal loan balances for qualified borrowers.

The amount of the reduction probably would be dictated by the borrower's current equity position and income. The goal is to eliminate some of the inflated appreciation brought by years of cheap money and overheated demand. Some lenders are already seeing the writing on the wall — especially where the present value for a home is far greater than what the market would realistically bear. They want to continue in the home-lending business, not the home-owning business. The costs of repairing, maintaining and selling a vacant home can be expensive, not to mention the legal preparation and the actual foreclosure process.

The financial haircut taken by the lender to reduce the loan principal may outweigh its cost and internal labor and anxiety of finding another buyer.

For example, Joyce Lennon, 71, has a little home of about 1,000 square feet. The place was built in 1910 and has a two-garage with a small rental unit on the 5,000-square-foot parcel of land.

The property was appraised at \$285,000 and its drive-by condition was fair at best.

"Joyce's problems started when she injured her arm late last year and lost her job," said Maggie O'Connell, reverse mortgage specialist for The Reverse Mortgage Store. "She didn't make mortgage payments for all of 2009."

In an attempt to lower her monthly payments, Lennon first investigated the various loan modification programs offered by government incentive programs. Not one of them proved helpful. She then looked into the possibility of a reverse mortgage but the combination of her age and property value proved to be a challenge. And, borrowers are not allowed to refinance a loan or acquire subordinate financing, simply to acquire a reverse mortgage.

A reverse mortgage historically has enabled senior homeowners to convert a portion of the equity in their homes into tax-free income without having to immediately sell the home, give up title, or take on a new monthly mortgage payment. Reverse mortgages are available to individuals 62 or older who own their home. Funds obtained from the reverse mortgage are tax-free.

A year ago, the government backed a program to help older homeowners purchase a new home using a reverse mortgage. This new program can be particularly helpful for older people seeking a way to purchase a home closer to an adult child or grandchildren or a smaller home in a nearby

community. The move allows older homeowners to make a large down payment on a new home and then utilize the reverse mortgage as permanent financing.

Reverse mortgage fees also have been reduced. The maximum loan fee is 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. Previously, fees were capped at 2 percent of the home's value or the county lending limit, whichever was lower.

"I had worked with her a few years ago, trying to get the numbers to work," O'Connell said. "I knew quite a bit about her situation. This time, we were able to work with the lender so that she could stay in her home with no payments for the rest of her life. They could have forced the sale and collected the full payment, but chose to work it out."

Deutsche Bank, the huge international financial agency, had purchased Lennon's loan. The bank reduced the amount it was owed to the level where a reverse mortgage would work. O'Connell also eliminated her commission to help matters and estimates the bank took an \$85,000 loss on a home it did not want on its books, which allowed Joyce to stay put. The bank received its money in cash from the proceeds of the new reverse mortgage in the same fashion as a conventional refinance.

"This turned out to be a godsend," Lennon said. "I did not want to move but I knew I might have to because I couldn't make those payments. Now, I don't have to make any payments."

Joyce is required to keep all taxes and insurance current on her home — but it is still hers.

*Tom Kelly's book "Cashing In on a Second Home in Mexico: How to Buy, Rent and Profit from Property South of the Border" was written with Mitch Creekmore, senior vice president of Houston-based Stewart International. The book is available in retail stores, on Amazon.com and on tomkelly.com.*