Reverse mortgages take a big leap forward

By Andre Mouchard

LAGUNA NIGUEL, Calif. — In 68 years of marriage, Clara and Frank Marino have faced plenty of tough times together.

But nothing, not the Depression nor the eight or so recessions that have come after it, ever caused the kind of financial panic the couple felt in 1990. That's when the economic factors that squeeze so many older Americans seemed about to push the Marinos out of their Laguna Niguel home.

"We had a fixed income," Clara said. "And we had inflation."

Inflation almost won.

Clara and Frank, ages 88 and 89, respectively, had been retired for more than 20 years. Their savings were depleted. And their combined income from Social Security was no longer enough to meet their monthly bills, which were growing because of Frank's medical problems.

So the Marinos took out a reverse mortgage — a type of loan that allows homeowners age 62 and older to collect monthly income based on their home equity.

As a result of their decision, the Marinos have been able to stay in their home. And though Clara says the couple is far from wealthy, they "can breathe a little" at the end of the month.

"So far, it's been wonderful. We're able to live and not worry all the time," Clara said.

In the past two years, reverse mortgages, once considered nothing more than a quirky and sometimes shady financial tool, have become a hot ticket in the home-finance business. A law allowing their use in Illinois went into effect this year.

Today, about 160,000 people have reverse mortgages, nearly double the number in 1990, according to the American Association of Retired Persons.

The number of lenders offering reverse mortgages also is up.

"Reverse mortgages are our department's whole business right now. We're becoming experts in it, and it's our plan to continue doing so," said Debbie Ries, an office supervisor with Director's Mortgage, a Riverside, Calif.-based loan company that recently has expanded into the reverse-mortgage business.

Reverse mortgages have been relatively obscure, in part because they've had an image problem. The concern may stem from problems associated with one of the three basic types of reverse mortgage.

Two of the three basic varieties of reverse mortgages have caused few if any economic calamities. One type, called a tenure mortgage, pays borrowers a check every month until they move or die. The Marinos have a tenure mortgage. Another type gives the borrower a line of credit, which can be tapped at any time during a set number of years.

But the third type of reverse mortgage — called a term mortgage — has gained an unsavory image.

The term loan gives the borrower money in either a lump sum or regular monthly payments over a specific period of time, usually five or 10 years. When that term is over, the borrower must pay back the money, plus interest, usually by selling the house.

Such terms have caused financial and emotional hardship for some older borrowers who have taken out a loan while healthy and still gaining some income from savings, but who have run into financial trouble through ill health or lack of funds at the time the loan payment is due.

The process is no picnic for honest lenders, either.

"From a public relations standpoint and, frankly, from any standpoint, foreclosing on a 76-year-old widow is not a very good thing," said William Texido, president of Providential Corp., a San Francisco-based company that specializes in reverse mortgages.

In 1986, an AARP survey showed that 86 percent of homeowners aged 75 years and older said their top priority was being able to stay in their house until death.

But many people — even those who champion reverse mortgages — say borrowers should study the idea long and hard before making a decision. The government apparently agrees. Any borrower who takes out a HUD-approved reverse mortgage must first meet with a government-certified loan counselor before taking out the loan.

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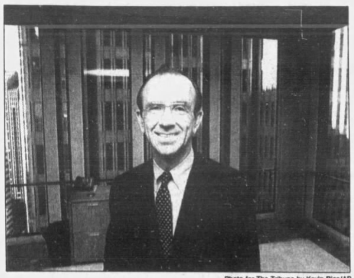

Photo for The Tribune by Kevin Rice/AP

William Texido is the president of Providential Corp., a San Francisco-based company that specializes in reverse mortgages.