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# SENIOR REAL ESTATE JOURNAL

SENIORS REAL ESTATE INSTITUTE

Staff Writer

## Retirees Choose Mortgages Over Cash

When Ed and Sharon Taggart found themselves in a big two-story house after retirement, they made the decision that their next home would be their forever home. It would be one level and have the amenities they needed as they grew older. The only hitch was that home prices in the area where they wanted to live were higher than expected.

"We were looking for a way to buy a one story home in a newer area of town without spending all our cash reserves," said Taggart. "It had always been our belief that paying cash for a house made the most sense, but at this stage of our life we didn't want to tie up all our money in a home or have a mortgage payment. We wanted to have some cash on hand."

The couple opted for an FHA home equity conversion mortgage (HECM). Only available to those 62 and older, this type of loan can be used to tap into equity in a current home, or like the Taggarts, to purchase a new one.

"It just made sense for us," said Taggart. "We spent a fair amount of time getting educated, asking questions, weighing the options, and considering the long-term implications. Now, we're in the right house and actually enjoying home ownership again."

Oklahoma City based real estate broker and certified senior downsizing coach, Dr. Nikki Buckelew, has an idea as to why more people don't take advantage of the HECM. "Retirees who could benefit from mortgages that don't require a strict monthly payment may avoid them because they're misinformed or working off of old information," says Buckelew.



"They cite articles or anecdotal stories from friends that are outdated or simply inaccurate."

Most of the attention given to home equity conversion mortgages has been about refinancing current homes due to financial hardships or crises. Not as widely publicized are the ways in which these loans can be strategically used for financial and estate planning purposes, or to purchase a home that is more suitable for aging in place longterm.

## Types of home equity conversion mortgages

There are different types of mortgage loans. Some are conventional and are backed by the companies offering them. There are also federally-insured mortgages backed by the U.S. Department of Housing and Urban Development (HUD). These are called home equity conversion mortgages (HECM). Pronounced heck-um.

The type of HECM that can be used to purchase a home is the H4P. People may utilize these loans for a variety of reasons, most notably are the ones listed below:

- Build a new customized home for aging in place
- Relocate closer to friends and family members
- Purchase a home in a 55+ community
- Downsize to a smaller, easier-to-maintain home
- Move into a newer home with modern amenities

## Education is key

"The education process should begin early. It's best to involve trusted advisors and any family members who may ultimately be affected by the decision or called upon later to manage finances," said Buckelew. "Big financial decisions, especially complex ones, require more time and thoughtful consideration. Making such decisions when finances are tight or during a crisis may result in decision-fatigue, regrets, or unfortunate misunderstandings."

Mandatory education can be done either in person, via video conferencing, or by phone. Most experts agree that in-person meetings are preferred.

Borrowers can get to know the lender, ask questions, and better understand the terms of the loan.

## How much can be borrowed?

Loan amounts depend on a variety of factors including those listed below:

- The age of the borrower / homeowner
- Type of loan
- Appraised value of the property
- Current interest rates
- Ability to pay for annual property taxes, homeowner's insurance, and property upkeep

All lenders are required to provide detailed information in writing about loan amounts, interest rates, and terms of the loan.

## Family matters

Don was living in a 2 bedroom home with only one bathroom when he began providing full time care for his young granddaughters. Having just retired and relying only on a fixed income, he was concerned about buying another house and having a mortgage payment. He opted for a HECM for purchase as a way to provide a more comfortable home for his family.

"Without a mortgage payment, I'm able to use my money to provide a better life for my grandkids," said Don. "Now the girls have their own rooms and I have a bathroom to myself. It was the best possible scenario and I couldn't have afforded it any other way."

## No more stairs

Martha and Tom lived in a large two story home with all 4 bedrooms upstairs. Mobility challenges made navigating the stairs not only difficult, but also a safety concern. Their kids encouraged them to purchase a smaller home near them with yard maintenance included.

"We never thought we could afford a home we would be happy with because our kids live in a high-end part of town," said Tom. "The loan we got allowed us to pay more for a nicer home without the burden of a high mortgage payment. Now I can honestly say that I have a happy wife and a happy life."

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**To learn more about whether a HECM is right for you, contact us for a referral to a trusted local lender.**

[Karena Stipp, MA, Realtor, SRES, CSHP](#)  
[919-473-3676](tel:919-473-3676)  
[karenastipprealtor@gmail.com](mailto:karenastipprealtor@gmail.com)  
[Real Broker, LLC](#)  
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