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Retirees Who Opt to Keep Mortgage Payments

Some retirees say it makes more sense to continue making house payments rather than dipping into investments to be debt free

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The game-changers: low interest rates and high stock-market returns. Older Americans may come out ahead by keeping 401(k)s and other holdings invested rather than cashing out to make a house payment, says Tom Wind, executive vice president of home lending at Jacksonville, Fla.-based EverBank.

Improved health care and life expectancy also play a role, says Ken Dychtwald, president and CEO of Age Wave, a consultancy focusing on aging trends. “Today when people reach 60 or 65, they come to realize they may have decades of life in front of them,” he says. “When their mom and dad reached retirement, they felt they were in the last inning and needed to pick the safe path.”

Reflecting that more active, long-range perspective, 64% of today’s retirees say they are likely to move at least once, according to a study released in February by Merrill Lynch and Age Wave. Of these, 37% have already moved and 27% anticipate doing so.

They also aren’t necessarily downsizing, either. In fact, 30% of moving retirees relocated to larger homes, the Merrill Lynch/Age Wave study found. Top reasons for a larger home included enough room for family members to visit (33%) and a “boomerang” child living with them (16%). The results are based on the responses of 3,638 participants age 21 and older in a survey conducted in August.

Many older home buyers have the means to pay all cash, but either on the advice of their financial adviser or their own decision, they choose to take out a loan, says Peter Grabel, managing director of Stamford, Conn.-based Luxury Mortgage.

Typically when someone 70 years old calls him for financing, it’s an investment choice, Mr. Grabel says.

The biggest challenge for prospective retiree borrowers is that underwriting rules favor income over assets, Mr. Wind says. In other words, they need to show they can make monthly payments without cashing out investments.

Some retirees head off the income issue with sufficient pension payments and by scheduling distributions of their retirement assets, Mr. Wind says. In some cases, a lender may qualify a borrower based on assets amortized over the lifetime of the loan, he adds

But a rising number have job income as well from second careers that may begin over 50, Mr. Dychtwald says.

“We often think of entrepreneurs being that young tech whiz, but more often it’s a 60-year-old taking that idea and investing in it.”

While the math might seem to favor borrowing, retirees should still keep in mind that the risks of carrying debt multiply for older borrowers, says Michael Abbott, CFO of the Abbott Bennett Group, a Concord, N.H.-based financial adviser. While the stock market has been on a bull run for the past five years, that run won’t last forever, he adds.

“If you have the income coming in to make your mortgage payment, then you could potentially weather the storm,” Mr. Abbott says. “But if you are using your asset to pay down the mortgage and that asset has a downturn, you may need to sell your house to pay down the mortgage.”

If a stock market drop is coupled with a health or other high-cost emergency, the financial hit can be even harder, he adds.

Here are a few more things retirees may want to know when weighing a mortgage:

• Put more down. Like all home buyers, retirees want the best interest rates. Since they have cash and assets, many are often willing to make a larger down payment to get a low rate, Mr. Grabel says.

The 30-year, fixed-rate jumbo had an average interest rate of 3.89%, and the five-year, adjustable-rate jumbo averaged 2.88% for the week ending May 1, according to HSH.com, a mortgage website.

• No age restrictions. If a borrower can show the income to qualify for a mortgage, lenders aren’t permitted by federal law to consider either age or health status in the qualification process, Mr. Grabel says. He just had an 89-year-old client approved for a 30-year, fixed rate mortgage, for example. Unfortunately, that borrower died before the closing, he adds.

• Not just math. Retirees should weigh not just returns but their risk comfort level, says Christopher M. Bennett, CEO of the Abbot Bennett Group. “There’s still something about that good old-fashioned American dream,” he adds. “Making sure the money is there and paying off the house is very rewarding to many people.”

Most retirees still prefer to own their home debt-free. Of Americans age 65 and over, 72% of homeowners have fully paid off their mortgage, according to the U.S. Bureau of Labor Statistics. However, a decade ago, 79% were home debt-free.

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