Using Housing Wealth to Facilitate Asset Division in "Silver Divorce"

Here's a startling fact: While the rate of divorce among American couples in most age groups is decreasing, the divorce rate among older Americans is actually *increasing.* Sociologists and psychologists have recognized this phenomenon, and have even given it a name: "Silver Divorce."

An article in *The Washington Post* cites a study by academic sociologists Susan I. Brown and I-Fen Lin, which states:
"Since 1990, the divorce rate for Americans over the age of 50 has doubled, and more than doubled for those over age 65. At a time when divorce rates for other age groups have stabilized or dropped, fully one out of four people experiencing divorce in the United States is 50 or older, and nearly one in 10 is 65 or older. . . "

Divorcing couples age 50 and older are particularly vulnerable financially. Failing to understand and correctly advise them regarding two key economic concerns can potentially be financially devastating and leave them without enough time to recover.

Accumulated Wealth. In Silver Divorce, the strategic division of key assets that have been accumulated over time often has a far greater impact than it does on couples who divorce earlier in life.

By age 50 many people have accumulated some wealth, primarily some home equity (typically representing 60-80% of their net worth), along with some retirement savings (401k, pension, IRA's). Deciding how these assets are to be divided between the divorcing spouses can have profound long-term consequences —especially by age 65 when assets may have appreciated and become more valuable.

Housing Wealth. Obviously, when a couple divorces, they are choosing not to live together any longer. Therefore, a second home will need to be established for one spouse.

Without careful consideration, the re-establishment of homeownership can significantly weaken both spouses' cash flow and liquidity, and undermine their financial security in retirement.

Can a reverse mortgage help?
In many situations, the answer is "yes."

A reverse mortgage is a unique financial tool. It can do what no conventional mortgage or HELOC can:

- Facilitate both parties in a Silver Divorce to remain homeowners
- Enable both parties to live comfortably with no monthly mortgage payment being due for the duration of the loan (up to age 150 if loan terms are met)
- Save either party from having to withdraw money from retirement accounts prematurely in order to buy out the others' interest in the residence, thereby preserving income and cash flow
- Allow both parties to retain their interest in separate appreciating assets, and never pay rent

The following scenario is simple but will clearly demonstrate the point made above.

Meet divorcing couple, Joe and Laura

Age: Mid-70s

Most significant asset: The vastly appreciated home they have occupied for decades

Current Market Value: $800,000

Mortgage amount: No mortgage remaining; home is owned free and clear of all debt

Agreed division of these assets: Joe has agreed that Laura will keep the home; Laura will buy out Joe's 50% interest in the community assets for $400,000. Joe will use a **HECM for Purchase** (a.k.a. reverse mortgage purchase loan, to buy a new home, thereby never paying rent, or a monthly mortgage payment.

How a reverse mortgage can help them

1. Laura uses a reverse mortgage to buy out Joe's 50% interest in the home.
To buy out Joe's interest in the home, Laura obtains a cash out refinance with an FHA-insured Home Equity Conversion Mortgage (**HECM**) loan, the revamped version of the former reverse mortgage, in the amount of $400,000, secured by the current home, where she will continue to live.

This $400,000 in cash is transferred to Joe to purchase his half of the equity. The HECM is particularly well suited to Laura due to its minimal credit and income requirements.

2. Joe uses a reverse mortgage to buy a new home
Joe purchases a new home for $700,000.

He uses $325,000 of the $400,000 he has received from Laura in the divorce settlement as a down payment. He also obtains a HECM for Purchase (**H4P**) loan to complete the new home purchase. The HECM-(**H4P**) allows him to borrow $375,000. Minimal credit and income requirements make this loan easily attainable even though he is living on retirement income. And by never owing a monthly loan payment, Joe has protected his earning power on his investments, his cash flow, and his liquidity throughout his golden years. Joe still has cash left over of $50,000 to spend or invest.

3. A reverse mortgage benefits both parties

- Both parties remain homeowners, not renters
- Neither party takes on the financial burden of a monthly mortgage payment obligations or rent
- No capital gain taxes were incurred
- Laura's property tax has not increased

Reverse mortgage Facts at a Glance

- All HECM and HomeSafe loans are non-recourse
- Loan proceeds are non-taxable*
- No monthly loan repayment required as long as loan terms are met
- Minimal credit and income requirements make it perfect for those age 60 and above
- Maximum loan amount for proprietary HomeSafe Jumbo Reverse Mortgages is $4 million
- 1-4-unit properties are acceptable; One unit must be owner occupied
- All future appreciation/remaining equity goes to estate/heirs
- Borrower can sell or refinance to get more money as available
- Loan balance is due when last borrower vacates home, or if loan terms are violated

Visit www.MaryJoLafaye.com to read all disclosures for reverse mortgages
To set up an appointment with Mary Jo call 415-259-4979