

living the good life for baby boomers and beyond

HOME FINANCING OPTIONS FOR RETIREES

LOAN



A Conversation between Monica Lenches, Seniors Real Estate Specialist and Liz Heitmann, Senior Mortgage Advisor of Wintrust Mortgage



ML: If income from employment is not available, what are the compensating factors you take into consideration when approving a retiree for a loan?

LH: The first step would be to determine all sources of cash flow for a prospective borrower. For instance, if a potential borrower owns 25% or more of a partnership or other business entity, there may be no cash flow from the K-1 to the personal return, but the borrower may have taken distributions that are reported on the K-1 in a way that might be missed by a less experienced mortgage professional. I recently had to point this out on a file that was originally being recommended for a decline but was able to turn it around for approval once I was able to provide clarity and back up. Thus, an experienced mortgage professional may find a way to keep a loan in the traditional track for approval, rather than needing to look to alternative programs.

ML: Can you say more about what you mean by “alternative programs”?

LH: Alternative programs, also referred to as portfolio loans or “non-QM” (non-Qualified Mortgages), typically have a slightly higher rate due to the fact they are not as readily sold in the secondary market and require the lender to hold more capital in reserves, but allow for more creative calculation of cash flow.

If one does need to turn to alternative programs, one product is known as “asset depletion” or “asset dissipation” is quite effective for retired persons with significant liquid investments, but

no regular cash flow. Each investor we work with has a slight variation on the calculation used, which can mean the difference between approval and denial. Calculations typically amortize assets over a term of 10–20 years. If this approach doesn’t work, the borrower may be allowed to set up ongoing distributions from a retirement account and this would require only enough reserves to provide three years continuance of this distribution after the close of escrow.

For instance, if a borrower has \$2 million in assets and an investor is using a minimum of 15 years to amortize those assets with a one-year T-Bill Rate of 2.43, this would provide an additional \$13,392 in qualifying monthly cash flow. If they allow a 10-year amortization and a 4% standard rate of return, then the monthly cash flow used for qualifying would be \$20,249.

Another program that is helpful for complex borrowers is our bank statement program, which allows cash flow calculation from either personal or business bank statements over 12 months, but typically requires two years of self-employment history, which obviously would not apply to retired individuals.

If a borrower wants to buy an investment property, and if they have owned at least one investment property during the last two years, they may qualify for a newer program that doesn’t require borrower qualifications... it is solely based on the cash flow of the property. This used to be available only on true commercial

property or multi-family/apartments with five or more units, but is finally an option for one to four units as well.

ML: What if a senior would like to purchase a new home but has not yet closed escrow on their current residence?

LH: We have a great program called a cross-collateralization loan ideal for clients in this situation if they have significant equity in their current home. This program allows up to 100% of the price of the new home, but the deed of trust is secured on both the departing residence and the new home in order to provide sufficient security for the loan.

As you can see, there are many creative options for unconventional financing for retirees or individuals with more complex asset portfolios. If you would like to learn more about your options, we are happy to provide a complimentary consultation to determine the best possible approach given your goals and circumstances.

Liz Heitmann is a Senior Mortgage Advisor with Wintrust Mortgage. She has been lending for more than three decades and is particularly skilled at finding solutions for complex jumbo loans. She can be reached at (805) 455-0772 or by email at liz@lizheitmann.com.

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