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Why to Take Out a Mortgage in Retirement

Rather than pay off their homes, some seniors are finding that their money can work harder elsewhere

By ANYA MARTIN

Conventional wisdom says homeowners should pay off their home loans before retirement. But for some affluent seniors, a mortgage may be a better financial decision.

With interest rates so low, Jorge Padilla, a financial adviser with Miami-based Lubitz Financial Group, often tells clients to consider refinancing a jumbo loan to get the lowest possible rate and keep their savings in investments, where their money may earn a higher return.

Other seniors are converting a primary home into a rental property and obtaining financing for a second retirement home, he added. "For high-end borrowers that usually have other assets accumulated at retirement, being debt-free is more of a matter of choice," Mr. Padilla said.

33%

Percentage of all Americans aged 65 and older who have a mortgage or home-equity loan.

Another strategy has been purchasing a retirement home long before retirement. That second home lets borrowers take advantage not just of low interest rates but

of still-reduced prices for high-end properties, said Katherine Dean, managing director of wealth planning for Wells Fargo Private Bank. One of her California clients recently bought a luxury mountain home in Colorado for this reason, she added.

The interest rate for a 30-year fixed jumbo mortgage was 3.79% on May 3, according to the Mortgage Bankers Association. Income qualifications for jumbo loans may be easier to meet before retirement, although wealthy retirees should be able to qualify

if the lender considers a complete portfolio, including holdings in 401(k) plans, pensions, K-1 partnership income, if applicable, and other assets, Ms. Dean said.

While no data are available specifically for jumbos, one-third of all Americans aged 65 and older have a mortgage or home-equity loan, according to the 2011 American Housing Survey conducted by the U.S. Census Bureau. Mortgage debt for families with heads of household aged 60 and older grew by about 80% between 2000 and 2008, the largest increase for any age group, a 2013 Federal Reserve Bank of St. Louis study reported.

Still, many wealthy seniors like paying off their home loans to lessen their financial concerns, said Guy Cecala, publisher of Inside Mortgage Finance.

Fay Gold spent 18 years living in a distinctive 6,500-square-foot modernist house on a hill in Buckhead, an Atlanta neighborhood sometimes called the "Beverly Hills of the South." "It was very Bauhaus, built in the 1950s," said Mrs. Gold, 81, who owned and directed the Fay Gold Gallery from 1980 to 2009. "My husband and I extended the living room and the bedroom, put in a black concrete floor and filled the house with contemporary art."

When her husband, Donald Gold, died three years ago, Mrs. Gold decided she no longer wanted to manage the considerable upkeep of a large home on 2½ acres. She sold the house in June for \$1.5 million, paid off its jumbo mortgage, and purchased a 2,200-square-foot condominium for \$487,580 in the Brookwood, a luxury high-rise that is not a retirement property but has become popular among Atlanta's affluent active seniors. She also is selling her vacation home in Highlands, N.C.

"I just want to make my life simpler," Mrs. Gold said, adding that she is enjoying the hotel-like atmosphere, swimming pool, dog-walking paths next to the property and being able to walk to restaurants.

Should retirees pay off their jumbo? Here are some things to consider:

- **Monthly payments.** Borrowers need to consider whether they have the cash flow not only to make mortgage payments but also to cover unexpected events, such as a health emergency, Mr. Padilla said. Although Mrs. Gold doesn't make mortgage payments, she still has homeowners-association fees and property taxes.

- **Consider retirement goals.** Seniors should also calculate the cash they expect to need for retirement lifestyle choices, such as travel or college tuition for lifelong learning, Ms. Dean said. Some seniors may want cash available for gifts to family members, such as funding 529 Savings Plans to help cover their grandchildren's college costs, she added.

• **Trust your gut.** Knowing that the mortgage is paid off just gives some people peace of mind, Ms. Dean said. "I always tell my clients, don't underestimate the value of a good night's sleep in making a financial decision."

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