DAILY JOURNAL
SECTION E
Real Estate
Your guide to homes, property and apartments in Johnson County

BUYING

Builders cater to empty nesters with features for ‘active adult market’

CLIPART.COM PHOTO
Builders are recognizing the need for upscale homes for baby boomers who want to enjoy free time and low maintenance living.

By Jennifer Hurtubise
METROPOLITAN INDIANAPOLIS BOARD OF REALTORS

Many builders are beginning to recognize the increased number of Baby Boomers entering the “empty nest” phase of their lives. Empty nesters are becoming a large and significant piece of the home-buying market.

“This market of empty nesters is generally referred to as the “active adult” market,” said Jon Houghtalen, director of marketing for Adams & Marshall Homes, Inc. “A lot of traditional family home homebuilders are retooling to serve this market segment.”

Adams & Marshall Homes recognized the need for affordable, upscale homes geared toward the growing active adult market: empty nesters who were becoming less interested in caring for high-maintenance homes and more interested in enjoying their free time.

Identifying a need, Adams & Marshall began building smaller customized homes in maintained communities, providing residents comfort, convenience and value. Adams & Marshall Homes has 11 communities surrounding Indianapolis.

“The front edge of the baby boomer wave is reaching the retirement or empty nest stage of life,” said Houghtalen. “They are ready for a move from the four-bedroom, 2½-bath home where they raised their family, into something more manageable that frees them from a lot of upkeep.”

The active adult market is looking for luxury and practical features in a home that include the master bedroom located on the main level, separate vanities in the master bath, spacious shower, spare bedrooms on the upper levels and ample storage space.

> **“The front edge of the baby boomer wave is reaching the retirement or emply nest stage of life. They are ready for a move from the four bedroom, 2 1/2 bath home where they raised their family, into something more manageable that frees them from a lot of upkeep.”**
>
> Jon Houghtalen
> Adams & Marshall Home, Inc.

Bonding spaces in the home are also an important factor when serving the active adult market.

“We build a lot of sunrooms, which encourage conversation and can provide quiet reflective time, and kitchens that blend with the social spaces of the home,” Houghtalen said.

The empty nester couple tends to be very comfortable with each other. They often give each other lots of space to do what each likes to do.

“While it is understood that the empty nester will have met their personal aesthetic needs, most are looking for a comfortable, livable space with a low maintenance yard and high resale attractiveness,” said Blanca Houston, a Realtor with Gunn Homes.

That is why more and more empty nesters are placing importance on how a home or neighborhood fits the buyer’s lifestyle needs and not how big of a house or yard the buyer can afford.

“First- and second-time homebuyers may continue to focus on space over features, but I think that segment of the market is leveling off,” Houghtalen said.

When deciding to build or buy an empty nester home, find a community that best fits your needs and wants.

The Internet continues to play a large role when it comes to home buying and searching for a neighborhood. A large percentage of people who are preparing to buy a home will do research on the Internet before going to even look at homes or properties.

“Many of our buyers, who are generally over 45, are doing online research as part of their home buying process,” Houghtalen said.

Research is the best way to compare homes and neighborhoods. Not only should you research on the Internet, but you should also research the neighborhoods by talking to homeowners who have recently purchased a home from the builder and see what their experience was like.

Talking to homeowners will allow you to obtain valuable information. Finding out as much information about the home and neighborhoods you are interested in will improve your chances of finding the perfect home and community that matches your lifestyle.

“If you can find a home for sale in a similar neighborhood that the builder has constructed, find out what sort of interest there is in the resale market for that home and if the home has appreciated in value,” Houghtalen said.

REFINANCING

The devil is in the details: Look at bottom line before refinancing at lower interest rate

Bankrate.com

Whenever rates are low, refinancing tempts homeowners. Refinancing can make sense to lots of people who bought houses when rates were higher or who want to consolidate their bills.

Not everyone would benefit from refinancing, though. Some homeowners with second mortgages, a lot of debt or trouble paying bills on time might find that they would pay more by refinancing than by sticking with the loan they already have.

Equity and credit

“The first thing that comes to mind is, ‘Is there enough equity in the property?’” said Paul Tobin, market manager for the mortgage arm of Fleet Financial Group Inc. A homeowner who borrowed 90 percent of the house’s value three years ago hasn’t increased the equity stake very much since then. It doesn’t make sense to refinance such a loan, especially if closing costs are rolled in.

“A second thing,” Tobin said, “would be the borrower’s own personal qualifications, and that goes back to standard credit underwriting.”

If borrowers expect to save money, he added, “They need to maintain a positive credit history and maintain a relationship between their debt level and their income level.”

The relation between income and debt is strained for many people. Lots of homeowners have taken out second liens in the form of home equity loans and lines of credit. Others have taken advantage of recent looseness in credit to borrow more than their houses are worth. These folks will have trouble finding a lender that will refinance their mortgage at reasonable rates.

SCRIPPS HOWARD PHOTO
Crunch your numbers before refinancing. Even a much lower interest rate, when coupled with other fees, might not save you money.

Refinancing customers receive the same scrutiny they got when they took out their original mortgages. They’re evaluated as to whether they meet credit and debt-to-income standards. That spells trouble to a once-stellar customer who has made a few late payments or whose credit card balances have skyrocketed or whose income has fallen.

Where the devil is

Experts point out that none of this will exclude someone from refinancing entirely. Almost any borrower can find a willing lender. The devil is in the details: Borrowers with smudged credit or other problems — “nonconforming” is the term used in the trade — may find the rates they qualify for today are either higher than the rates they already have or not low enough to make refinancing worthwhile.

Even borrowers with good credit records have to watch out for a couple of things that could turn refinancing into a bad deal. They should beware private mortgage insurance and stretching out a loan for way too long.

Most people who borrow more than 80 percent of a home’s value pay private mortgage insurance, which protects the lender in case of default. Let’s say the owner of a $150,000 home who wants to combine a $110,000 first mortgage with a $20,000 home equity loan. The combined, refinanced loan would be for more than 80 percent of the home’s value, so the borrower would have to pay PMI. Such a borrower would have to consider the PMI payment when deciding whether refinancing would save money.

Refinancing might be a bad deal for a homeowner who has been paying the same mortgage for many years. If you have been paying for 20 years on a 30-year mortgage, refinancing for another 30 years might result in a lower monthly payment. But you would be making those payments for 30 more years instead of 10.

The bottom line is that you have to look at the bottom line: figure out the costs of refinancing and compare those with your existing payment and calculate how long it would take to recoup the costs. If you don’t plan to stay in the house to make it worthwhile, stick with your existing mortgage.

REAL ESTATE WATCH

Riskier loans result when seller provides down payment for strapped homebuyer

Holden Lewis
Real Estate Watch

Most lenders don’t allow home sellers to give down payment money to buyers, even indirectly, because those mortgages are deemed risky.

But there’s an exception.

The Federal Housing Administration, or FHA, will insure home loans in which the seller provides the down payment — as long as the money passes through a nonprofit agency first.

Now a federal inspector concludes that such loans indeed are riskier and shouldn’t be allowed. But the FHA clings to a narrow legal interpretation that allows indirect down payments by the seller, even as it acknowledges that such loans carry more risk of default and foreclosure.

Nonprofit down payment assistance providers play the middleman in 30 percent of FHA-insured mortgage transactions. That means three in 10 FHA-insured mortgages are structured in a way that private insurers won’t touch. The cost is borne by borrowers who pay FHA insurance premiums, but taxpayers ultimately bear the risk.

The FHA insures mortgages for people with flawed credit who don’t have a lot of money for a down payment.

The agency requires buyers to make down payments of at least 3 percent, but some or all of that money can come in the form of a gift from a relative, employer, government or nonprofit agency.

The down payment can’t come directly from the seller. But the FHA will let a nonprofit agency give down payment money to a buyer, then immediately collect a “contribution” of the same amount — plus a service fee — from the seller. The Nehemiah Program was the first nonprofit to use this loophole and many competitors have sprung up, including Neighborhood Gold and AmeriDream.

Since 2000, three studies have looked at down payment assistance. This year’s study was done by the Government Accountability Office at the request of Rep. Bob Ney, R-Ohio, chairman of House’s subcommittee on housing and community opportunity. The 99-page report concludes that when home sellers indirectly give down payment money to buyers, they jack up prices by about the same amount, causing buyers to overpay. Such loans have higher default and foreclosure rates.

The GAO recommends that the FHA track these loans better, require lenders to inform appraisers when the seller is indirectly providing down payment money and to close the loophole that allows the practice.

Brian Montgomery, the federal housing commissioner who supervises the FHA, acknowledges that seller-funded down payments make for riskier loans. But he says the FHA’s goal is to encourage homeownership among “the population that FHA was established to serve, families who are otherwise underserved by the private sector.”

“Because of this fact,” Montgomery writes in a reply to the GAO, “FHA has determined that additional requirements or restrictions that would prevent these borrowers from obtaining FHA financing would not be beneficial, leaving this population with financing options that are more costly and riskier than FHA.”

In other words, it’s better for a homebuyer to get down payment assistance and an FHA loan than to get a high-rate subprime loan that would have an even higher likelihood of ending up in foreclosure.

The FHA wants Congress to approve a zero-down-payment program that is, in Montgomery’s words, “designed to address the concerns that GAO raises in the report — that buyers using seller-funded gifts are paying too much for their homes and putting themselves in a risky position.”

Citing an opinion from the housing department’s attorneys, Montgomery denies that seller-funded down payments are an “inducement to purchase,” which would make them unallowable.

The way the FHA sees it, money is given to the buyer out of the nonprofit’s general fund and the seller’s contribution is made a few minutes or hours later to that same general fund. Therefore, the money can’t be traced directly from the seller to the buyer.

For their part, the nonprofit middlemen have always challenged assertions that loans with seller-funded down payments are riskier or that the sellers raise their prices by the down payment amount.

Even if the loans are risky, the benefits for FHA homebuyers outweigh the costs to those buyers who end up losing their homes to foreclosure, the nonprofits say.

FHA homebuyers are, by definition, at higher risk of foreclosure, “but they are still deserving of an opportunity for homeownership,” said Ann Ashburn, president of AmeriDream.

She proposes a partnership between the FHA and down payment providers in which the nonprofits would adhere to a code of conduct.

Ashburn envisions a joint effort where the government and nonprofits provide homeownership education for first-time buyers and loss mitigation to help people keep their homes after they have fallen behind on payments.