

# Ways to Tap Home Equity

**By Tom Lauricella**

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It's a truism that for many people, their home is their biggest investment. Of course, when most people look at their house, they see it first as a place to live a life, maybe raise a family and fill with memories.

And that's the problem when it comes to retirement planning: Emotions often get in the way when we think about whether and when to tap the often large sums of money we have tied up in our homes.

Of course, living in a place that makes you happy is important. But would-be retirees should at least familiarize themselves with their options for getting at the equity in a home -- some of which don't require moving.

For Bob and Judy Bartlett, a 4,700-square-foot home on two acres in Durham, N.C., no longer made much sense after their two children had long since moved out. Meanwhile, the retirees were spending more time at a second, lakefront home. So several years ago, they began thinking about selling their primary house and buying something smaller. But it wasn't easy to make the break; the couple had called the Durham property home for three decades and were unhappy about the prospect of moving away from close friends.

For many older adults, walking away from a home is among the most difficult decisions in later life -- even when a move makes economic sense. In a recent survey of retirees, Fidelity Investments' Fidelity Research Institute found that 43% didn't want to cash out the equity in their home because they wanted to live where they are "comfortable." An additional 9% explicitly cited "sentimental" reasons.

"There are big emotional barriers to selling...and those barriers appear to grow as you age," says Guy Patton, who heads the Fidelity group.

## **Weighing Various Strategies**

The Fidelity Research Institute considered the outcomes from seven different strategies for a hypothetical 75-year-old couple who own a \$400,000 home and need to pull out cash. The options included major steps like selling the home and buying a smaller house, as well as less-dramatic moves, such as taking out a reverse mortgage.

Fidelity calculated that the couple could pull anywhere from \$18,000 to \$307,000 out of their home over the remainder of their lives depending on the strategy. The best option for generating the largest amount of immediate cash, Fidelity found, was a dual approach of selling and moving to a smaller house and then taking out a reverse mortgage or home-equity line of credit on the new home.

In Fidelity's example, the retirees were able to invest the profit of the house sale in an annuity and earn a higher return than if they took a reverse mortgage or a home-equity line on the existing home.

Of course, some couples are reluctant to sell the family home because they want to leave the house to heirs. Fidelity found that for a couple more concerned with leaving their house as an inheritance, it would make more sense to rent out their current home and rent a less-expensive place to live. Fidelity's study is available at [www.fidelityresearchinstitute.com](http://www.fidelityresearchinstitute.com).

For previous generations, the only real choice when it came to tapping equity was to sell, buy a cheaper home and save or invest the difference. And there are still benefits to this strategy: It raises cash but leaves room for tapping home equity again in the future on the newer house. It

also lets people retain an asset that could be passed on to heirs. The negatives: the emotional aspects of selling a beloved home and, from a practical standpoint, the potential difficulty of finding a less expensive home in the same area.

In the case of the Bartletts, they spent the better part of two years half-heartedly looking at houses, mainly outside the immediate Durham area. Nothing seemed right, says Mr. Bartlett, a 75-year-old former Duke University professor. "The fact that we didn't want to leave our friends could have, in part, been the reason we found nothing of interest," he says.

### **Finding the Right House**

Then, last year, they found a smaller house for sale in their price range just 2½ miles from their longtime home. They snatched it up. The Bartletts were able to set aside some of the profit from the sale (after paying off a home-equity loan on the old house) and also lowered their tax bills. In the end, the ability to stay in the Durham area was important, says Mr. Bartlett, but he adds, "The emotional side was balanced out by the fact that we knew from an economic standpoint that we were going to come out OK."

For people unwilling to sell, reverse mortgages and home-equity loans may be the answer. Reverse mortgages are a special type of loan taken against the equity built up in a house. Available only for those age 62 and older, reverse mortgages are growing in popularity because, unlike a home-equity loan, the loan becomes due only when the last owner moves, dies or sells the home.

However, reverse mortgages typically carry fees higher than a traditional home-equity loan. And a home-equity loan can be a better choice for people who want to pass the home to heirs, Fidelity says.

Both options have appeal for those who aren't ready to sell, such as Dave Beyersdorf, a 62-year-old retired truck driver. When it came time to help with his daughter's college bills, he and his wife looked to their house. But Mr. Beyersdorf and his wife had built their Michigan home in 1976 (his wife designed it) on land attached to a farm that has been in his family since the 1930s.

### **The Home-Equity Route**

Selling the house was a possibility, "but you have to understand -- I only live a quarter-mile from where I was born," Mr. Beyersdorf says. The solution was a home-equity loan. In the end, not only were they able to raise enough money to pay their daughter's tuition, they had some left over for her wedding.

Of course, all planning involves uncertainty, and events -- sometimes beyond your control -- may require a backup plan. Donald Rommel, a 74-year-old Metairie, La., resident had figured that his home of the past 20 years could provide a financial cushion if he ever needed to supplement his retirement savings.

Now, Mr. Rommel is unexpectedly out of a job because of an illness and is facing potentially big medical bills. Complicating the situation: Hurricane Katrina. His house wasn't damaged, but in the aftermath, he doesn't think he could sell his house for what he thinks it's worth. "I figured, I wouldn't keep the house -- it's just myself in a three-bedroom house," Mr. Rommel says. "Now I'm starting to think about a reverse mortgage."