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Should seniors get a home loan during retirement? Here's what experts think



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Buying a home with a mortgage loan is possible as a senior, but should you? Here's what the experts say.

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Mortgage interest rates are hovering above 7% on average for conventional 30-year mortgage loans right now. That's significantly higher than what mortgage rates were during the early years of the pandemic – and nearly three times as high as rates were when they hit a new record low of 2.65% in January 2021. And, while people are still buying homes with rates elevated, home purchases are closing at nearly the same pace they were the last few years.

But buying a home is already a big investment, whether rates are at record lows or are hovering

above it like they are today. And, while making that move might make sense for some, that does mean that buying a home with a home loan is the right move for every senior. Here's what the experts think about whether seniors should buy a home with a mortgage loan during retirement.

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Should seniors get a home loan during retirement? Here's what experts think

Legally, seniors are free to buy a home with a mortgage loan if they so choose – and lenders are allowed to discriminate against them, as the Equal Credit Opportunity Act prohibits lenders from discriminating against applicants based on race, sex, religion, age, marital status and other factors. Because of this, seniors and other groups can apply for a mortgage without worrying about if they get denied based on their age.

"Financially stable retirees who can count on a consistent income source may choose to take out a home loan," Jones says. "Many retirees are selling a home and can utilize the earnings to either take out cash or take out a smaller home loan, both of which would reduce ongoing living expenses."

And, age isn't a determining factor in whether you can repay your mortgage, Michele Albohn, a certified mortgage advisor at Compass Mortgage, says.

"There is no reason why a senior cannot apply for a mortgage," Albohn says. "You do not have to worry that you will live 30 years to pay off the mortgage. [But] whether or not a senior should take out a mortgage is an individual decision."

What does matter, however, is that you have a provable source of income and can show how you are able to repay your home loan, which are important factors in terms of qualifying for a mortgage. Your income is more than just your pay stub.

"Income is an important consideration in getting approved for a loan, but this income doesn't necessarily have to come via employment," Jones says. "Retirement accounts, pension payments, other income sources would all be considered in a loan application."

You can use a number of income sources during the mortgage application process, whether it's a part-time job, Social Security, disability, investment income, alimony or something else entirely. Because of this, you don't need to work a full-time job to buy a home. But you will generally need to meet certain requirements.

"Lenders consider retiree borrowers using the same set of considerations as working borrowers," Hannah Jones, a Senior Economic Research Analyst at Realtor.com. "Credit score, outstanding debts, assets and income are all considered for loan approval."

Lenders also look at your debt-to-income ratio, or DTI ratio, to determine whether you'd be a good candidate for a mortgage. Your DTI is determined by adding up all of your monthly debt, which is then divided by your gross monthly income.

While lenders have different DTI requirements, the lower your DTI, the less risky you typically are to lenders. So, it can help to keep your DTI below 50% (but 43% or less is preferable) and have a decent chunk of savings or an exceptional credit score to show your financial responsibility.

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Why a home loan might not be the best move for every senior

Buying a home in retirement might be a good idea in some situations, but that doesn't mean it's the right move for everyone.

"Seniors should avoid home loans significantly affecting their savings if their retirement income comfortably cover the payments," Mindy Price, a real estate broker at eXp Realty. "It's crucial to be careful and avoid excessive debt, especially considering the possibility of unforeseen health or financial changes."

But even if you have a steady income during retirement, it's important to ensure that you can afford a home loan and the regular payments tied to it.

"Retirees shouldn't stretch themselves financially to take on a home loan," Jones says. "Many retirees no longer hold a mortgage on their existing home, so they should consider the lifestyle impact of a new monthly housing payment."

The bottom line

Buying a home with a mortgage loan is possible as a senior in retirement, but what makes sense for one borrower may not make sense for the next. So, be sure to weigh all of your potential options and determine what, if any, route makes the most sense for you.

And, if you take this route, it's important to calculate all your potential retirement income, Albo says, to make sure you're able to repay the home loan. You may also want to talk to a mortgage lender or advisor who can help you determine whether taking out a home loan during retirement is a good fit.

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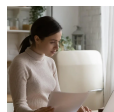
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