

# Okay, So Tell Me Why Everyone Doesn't Use a Reverse Mortgage This Way

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**T**he Home Equity Conversion Mortgage, or HECM for short, comes in various flavors. There's the reverse mortgage, the HECM for Purchase, which can be used to buy a home while conserving one's cash, and the HECM Line of Credit.

I've written about all of these variations, but right now I only want to focus on one of them... the HECM Line of Credit. I'll make my points very directly and concisely, and then someone please tell me why everyone who can, doesn't have a HECM Line of Credit.

**HECM stands for Home Equity Conversion Mortgage and it refers to a mortgage program that was created by Congress and today is regulated by HUD... and insured by the FHA... that's only available to homeowners or homebuyers over the age of 62.**

Okay, so tell me why everyone who can doesn't use a reverse mortgage this way. The HECM Line of Credit can never be cancelled, assuming the borrower remains in his or her home and can continue paying property taxes, insurance and normal maintenance.

Home Equity Lines of Credit, or HELOCs, as many learned during the meltdown of 2008-09, can be unilaterally cancelled at any time by the bank.

**1. The HECM Line of Credit is guaranteed to increase every year by whatever the interest rate is on the HECM reverse mortgage. So, if the interest rate were five percent, then your line of credit would increase by five percent every year... regardless of the value of the home. That's right... even if the value of your home goes down, your HECM Line of Credit is guaranteed to rise each year.**

That means that if you opened a \$300,000 HECM Line of Credit today at 65 years of age, and didn't touch the available funds for 20 years, that funds available to you at age 85 would be roughly \$800,000... no matter what the home is worth at that time. (Assumes an annual interest rate of five percent.)

To have access to \$800,000 or \$1 million that you don't have to make monthly payments on, and that can never be cancelled? That's not the best thing you've ever heard of related to financial security during retirement? That doesn't sound better than a Long-term Care insurance policy?

*"Because nothing else does what a Reverse Mortgage can do!"*

2. With the HECM Line of Credit in place, should at 85 you or your spouse need nursing home care, assisted living, or in-home caregivers, having access to that kind of money that you don't need to worry about paying back would seem invaluable.

3. The HECM Line of Credit does not require the borrower to make any monthly payments ever, and if that's what a borrower chooses to do, the loan will be repaid when the home is sold or upon the death of the borrower and spouse, when the home would presumably be sold or refinanced by the heirs.

4. The HELOC on the other hand, is an interest only loan for 10 years, after which time it becomes fully amortizing, meaning that the monthly payments will shoot up ten years after you got the loan. So, if you got a HELOC at 65, you'd be facing payment shock at 75, when it's likely that your income has gone down.

In addition, qualifying for a HELOC today is no easy task for people in their retirement years. It's no longer about how much equity you have, it's all about your monthly income, which is the one thing retirees generally don't have in large supply. What I'm saying is that if you've stopped getting a paycheck from work, it's unlikely that you'll even get a HELOC today.

## “Okay, so who wouldn't want such a line of credit?”

Who wouldn't want a line of credit, one that's guaranteed to increase every year even if the home's value remains flat or even goes down. There's nothing else that does what the HECM Line of Credit does... and it's a hedge against home values falling because with the HECM reverse mortgage, you can never owe more than the home is worth.

Let's say you borrowed \$800,000 from your line of credit, and then left the home to your kids upon your death. And let's just imagine that in that year, home prices fell and your home's market value was only \$600,000.

Well, your kids could either walk away and let it go back to the bank, without owing another dime... or they could buy the home for 95 percent of that current market value. So, even though you borrowed \$800,000, your heirs could purchase your home for 95 percent of \$600,000, the home's market value at that time.

There's nothing else that offers that sort of protection against being underwater either. It's incredible to me that EVERYONE who can, doesn't want to open a HECM Line of Credit today. I can't imagine what the argument would be against doing so.

*Mandelman Out.*

