OPENING A LINE OF CREDIT

Financial writers and advisors are touting the benefits of establishing a line of credit through the HECM program to homeowners whether they need access to the money immediately or not. The flexibility in how the line of credit can be used as a need arises is a tremendous benefit to the borrower.

Chairwoman of the Funding Longevity Task Force, Shelley Giordano, suggests setting up a reverse mortgage line of credit as a way of protecting retirement funds from fluctuations in the financial markets:

"Homeowners may be able to borrow funds as needed through the line of credit rather than withdrawing money from their investment portfolios. The FHA program means your line will never be cancelled or closed if you keep your reverse mortgage in good standing."

"This line of credit may also be used as a source of income for those who want to delay applying for Social Security benefits and so increase their monthly payout when they do start taking benefits," Ms. Giordano says. "After you apply for Social Security, you can stop taking money from the line of credit and, if you want, pay the loan back."

A Home Equity Conversion Mortgage Line of Credit (HECM LOC) is similar to a traditional Home Equity Line of Credit (HELOC). They are both a line of credit secured against your home; however some differences are making the HECM line of credit an increasingly popular choice for many.

The HECM line of credit will stay open and is available to the borrower for when a need arises, where as traditional HELOCs are subject to being decreased or even closed altogether.

One of the most attractive features on the HECM line of credit is that re-payment is required only after the last borrower leaves the home, providing the borrower is in compliance with all loan terms such as continuing to pay taxes and insurance.

With a traditional HELOC, monthly payments of principal and interest are required to be made upon the accessing of funds. The HECM line of credit provides financial flexibility. You only owe interest on the amount you actually borrow and monthly payback is not a requirement.

With the HECM, the unused line of credit grows* at current expected interest rates; therefore, taking a HECM at age 62 gives your line of credit time to grow. This is especially relevant if the reverse mortgage interest rates are expected to increase over time. As your Trusted Broker, we recommend you consult with your individual tax professional and financial advisor for advice regarding your particular financial situation.

*Line of Credit Growth - The unused portion of the line of credit grows at the "credit line growth rate," which is equal to the compounding rate. This is the same rate at which the principal limit and the loan balance grow, which is the current interest rate plus 0.5 percent. Therefore, the amount of funds available to the borrower from a line of credit grows larger each month for as long as any funds remain.