4 Reasons Seniors get a Reverse Mortgage Even if they are Millionaires

Why half of all reverse mortgages are made to homeowners who don't need the money today.

Reverse Mortgage Equity Lines

IRVINE, CA, UNITED STATES, November 27, 2020 /EINPresswire.com/ -- A reverse mortgage is just a loan. It also is just a line of credit. It is just a way for senior homeowners (Age 60 plus) to live a more comfortable retirement. As a line of credit, a reverse mortgage equity line operates as a “stand by” cash reserve, a “just in case” fund for aging homeowners to access in case unexpected life events occur later on.

Here are four things to know about Reverse Mortgage Lines of Credit (with emphasis on the government insured Reverse Mortgage Equity Line:

1. A Reverse Mortgage Line of Credit typically increases every year. The “credit line limit” on a reverse mortgage grows each month based on how much of the credit line is not used. This unused amount grows at whatever the interest rate is on the government-insured reverse mortgage (or at 1.5% for Jumbo Reverse Mortgage Credit Lines). As an example, on the FHA insured reverse mortgage, if the interest rate were 4% on the loan, then your line of credit would increase by the matching and offsetting 4% every year regardless of the value of the home. That's right... even if the value of your home goes down, your REVERSE MORTGAGE Line of Credit is guaranteed to rise each year. This means that if you opened a $200,000 reverse mortgage credit line today at age 62, and did not touch the

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> *Rick McKinley, Prudential*

unused line of credit for 20 years, the credit line would more than double. It gets bigger on the unused portion. It grows if you do not need the money, which is why so many homeowners get the reverse mortgage line of credit.

Paul Scheper, CRMP, CSA, MBA

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2. A Reverse Mortgage Line of Credit Limit grows on the unused balance. This allows many seniors to get a reverse mortgage at the young, ripe age of only 62 years old, and let it sit and grow (based on the unused balance) to have a reserve account “just in case” life events require more money. Most seniors tap this unused line of credit in case unexpected home repairs pop up, or a spouse might need nursing home care, assisted living, or in-home caregivers, having access to a huge chunk of money (via the credit line growing for all of those years), it helps seniors be prepared and ready in case unexpected “life events” turn up.”

3. A Reverse Mortgage 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, or when the home would presumably be sold or refinanced by the heirs. The interest on a reverse mortgage can be paid either monthly, or at the end of the loan, or at any amounts chosen by the homeowner.

4. A Reverse Mortgage Line of Credit does not recast like a traditional equity line. A traditional home equity line of credit 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 regular HELOC at 62, you'd be facing payment shock at 72, when it's likely that your income has gone down. On a reverse mortgage equity line, there is no frightening

“payment shock.”

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. With real estate home values high, and interest rates so low, now might be the time to get a reverse equity line, even if you don’t need the money today. It’s a good thing to have, just in case you need the money down the road. Rick McKinley, of a Financial Planner with Prudential has some sage advice about looking into reverse mortgages. Says McKinley, “It’s better to have the equity line and not need it than to need it and not have it, in case you might need it down the road."

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