HECM, reverse mortgage, social security, tenure payment, term payment, HECM credit line

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Explore Your Reverse Mortgage Options

When to Reject a HECM Reverse Mortgage, and When to Consider One

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Some seniors don't qualify for a reverse mortgage, either because they are not old enough (you must be at least 62), or because the difference between the value of their home and the balance of the existing standard mortgage on the home (their "home equity") is too small. Such seniors won't waste much time on the effort. Any loan provider they contact will give them the bad news immediately, since they don't want to waste their time on deals that can't be done.

Seniors Who Should Say "No"

There is another group of seniors who can qualify for a reverse mortgage but shouldn't take one because it is inconsistent with their other goals. The loan provider may point out the inconsistency if they become aware of it, but in many cases the senior won't bring it up. It is a painful subject because it involves their own mortality.

Here are some possible objectives a senior might have that would be endangered by a reverse mortgage.

You want to pass on a debt-free house to your estate. A reverse mortgage builds up debt and the beneficiaries of your estate must pay it off if they want the house after you pass on.

You want those now living with you in your home -- spouse, companion, child -- to be able to continue to live there after you pass. If they are not covered by the HECM contract, because they are too young or for other reasons -- they must leave the house after you die.

Seniors Who Should Consider a Reverse Mortgage

Senior homeowners who would not endanger their goals might improve their lives by taking a HECM reverse mortgage. Such seniors include the following:

Those Whose Incomes Drop on Retirement While Their Mortgage Payments Continue: They are retiring, sometimes voluntarily sometimes not, while they are still paying on a mortgage. Cash drawn under a HECM reverse mortgage may allow them to pay off the old mortgage, eliminating the required monthly payment.

Those Retiring Before 65 Who Want to Wait Until They Are 65 Before Going on Social Security. The social security payment is larger when it is deferred until age 65. Drawing a term monthly payment under a HECM reverse mortgage for the period until age 65 can provide a temporary source of income.

Those Living on Social Security or Small Pensions Who Want to Supplement Their Incomes indefinitely: Drawing a tenure payment under a HECM reverse mortgage will give them a specified amount every month as long as they live in the house.

Those Living in Retirement on a Nest Egg, or Planning to Do So, Who Are Fearful That Their Money Might Run Out: While the rate at which they draw down their assets may be calculated conservatively to minimize the risk, even a small probability of running out of money can be a source of continued anxiety. A HECM credit line, allowed to grow untouched so long as it is not needed, provides protection against this hazard.

Those Seeking Protection Against a Sudden Drop in Their Income. This could happen from the termination of a pension following the death of a spouse. It could also occur from a default by the entity providing the pension payment. A HECM credit line would protect against this hazard as well.

Those Who Want to Buy a House, But Don't Want a Monthly Payment: They may want to become homeowners for the first time, or they may already own a home and want to move, perhaps to a better climate or to be closer to family. Whatever the reason, they do not want a monthly payment and do want to minimize the depletion of their financial assets. These seniors may raise the funds required for the purchase by drawing cash under a HECM reverse mortgage.

Those Seeking an Effective Way to Manage Fluctuating Incomes. Seniors with fluctuating incomes can draw on a HECM credit line when income drops, then repay the line when income recovers. The difference between using a HECM and using a bank deposit is that credit line repayments earn interest at the mortgage rate rather than the much lower deposit rate._

Those Who Need a Way to Meet Occasional Expenses. Some seniors have enough income to meet routine recurring expenses, but have no financial reserves. A HECM credit line provides such a reserve.

Those Planning to Sell Their Homes Within 3-7 Years or So, But Need to Supplement Their Income in the Meantime. They can do this with a HECM reverse mortgage by drawing a monthly payment over a specified term._

Those With Multiple Needs That Require Multiple Payment Options. Many seniors have more than one financial need, which may be met by employing multiple HERCM options. Since larger draws on one option reduce the draws available on other options, the challenge to such seniors is to find the best combination available. The HECM calculator on my web site is designed to make this as easy as possible.