



Why It Doesn't Pay To Wait To Set Up a Reverse Mortgage Loan

A Home Equity Conversion Mortgage (or HECM, commonly known as a reverse mortgage) loan allows homeowners 62 and older to convert a portion of their home equity into cash. The borrower can defer repayment of the loan for as long as they live in the home as their primary residence, maintain it and pay property tax and insurance.

Many people have been led to believe a reverse mortgage should only be pursued as a loan of last resort (a tool to set up when seniors want to stay in their homes but have no other viable options left to do so). Based on findings in academic research by Barry Sacks, Wade Pfau, John Salter and others, there is a more optimal use for reverse mortgages—setting up a reverse mortgage at the earliest possible age and strategically using it as part of a comprehensive retirement plan.*



Here are some reasons not to wait to set up a HECM reverse mortgage:

- **Waiting sacrifices compounding line-of-credit (LOC) growth.** As a borrower, you have the option to receive your reverse mortgage proceeds via a line of credit. If you don't fully draw the reverse mortgage loan, the unused portion of the credit line grows at the same compounding rate as the loan balance (independent of swings in the value of the home), giving you access to more funds over time. The LOC growth is maximized by obtaining the reverse mortgage early and letting time do its work.
- **There is no guarantee one will qualify in the future.** Financial assessment** has made it harder to obtain a reverse mortgage at a time when you're more likely to need it. Also, there is no guarantee that the HECM reverse mortgage program won't change in the future in a way that makes it less advantageous for you to set up a reverse mortgage—as compared to establishing one today.

- **Lock in your home's value.** While it's true that home values tend to rise over time, there is no guarantee that your home will hold its current value in the short to medium term. The amount of home equity you're eligible to access with a reverse mortgage is based on the age of the youngest borrower (or eligible non-borrowing spouse, if applicable), the interest rate on the loan and the value of your home up to the FHA principal limit.

Other than your age, the most critical factor in determining how much money you can borrow with a reverse mortgage is the value of your home. Even in today's rising interest environment (the higher the expected interest rate, the smaller the percentage of home equity you can access via a reverse mortgage), you may still be able to access more equity from your home today than you could have a few years ago (when interest rates were lower) because home values in most markets have soared.

- **Give yourself greater flexibility in managing your retirement.** By establishing a reverse mortgage sooner rather than later and using it as part of a comprehensive retirement plan, you could potentially make all your investments and productive assets last longer.* For example, if you were to use the line of credit for your cash flow needs during down years in the market, it could give your portfolio time to recover—which may help you increase your net worth over time.*

Research shows that waiting for a HECM reverse mortgage generally isn't optimal. Now may be the best time to obtain one.

*This advertisement does not constitute financial advice. Please consult a financial advisor regarding your specific situation

**Although applicants don't have to go through a traditional loan application process based on their credit scores and histories, they do have to undergo a financial "assessment" to verify their assets and liabilities and determine if the borrowers' current financial situation is sustainable for the foreseeable future. The home in question must also be in reasonably good shape, and any urgent major repairs must be completed before the homeowner can receive the net reverse mortgage proceeds.



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