Best Time
to Obtain a Reverse Mortgage?

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I have been in the reverse mortgage business for 13 years and have been asked thousands of questions. One common question I get is: "When is the best time to obtain a reverse mortgage?" My answer often surprises people. My answer is "When you don't need it."

Why do I believe this?

Well, the primary reason you should obtain the reverse mortgage "when you don't need it" is you can gain access to more and more of your home equity as you age– when you choose the "standby line of credit" strategy.

I want to stress that this reverse mortgage strategy does not work for everyone. It works best if your home is owned free and clear or has a loan balance of less than 20% of home value. And you must be age 62 or older. So how does it work? A reverse mortgage is a home-secured loan that allows the borrower to convert a portion of their home equity into cash, monthly advances or a line of credit (LOC). The borrower is responsible for property taxes, homeowners insurance, and property maintenance. A HECM is home-secured debt payable upon default or a maturity event. A maturity event occurs when the borrower sells or permanently leaves the home.

(Note: LOCs are only available on adjustable rate loans.) In this case, let's say we're going to convert your home equity into a reverse mortgage LOC which has the following characteristics. So long as the borrower does not draw down the LOC, the amount under the LOC remains available and:

1. **Is not considered borrowed and therefore, does not have to be repaid**
2. **Does not accrue interest**
3. **Remains as equity in the home**
4. **GROWS AT THE RATE OF INTEREST CHARGED**

So what does that mean, "GROWS AT THE RATE OF INTEREST CHARGED?" To explain this, let's make some assumptions for the sake of illustration. Hypothetically, let's assume our borrower is age 62, lives in California and owns a $600,000 home free and clear. At this age and home value, with an initial, adjustable interest rate of 4.93%, a qualified borrower would be eligible for a line of credit of about $303,000. So the starting balance in the LOC on day one would be approximately $303,000. At this point, the unused LOC balance will begin growing at the rate of interest charged, which in this example is 4.93%.

This means that at the end of year one, assuming no withdrawals have been made and prevailing interest rates don't change, the amount of funds available to be borrowed under the LOC will have grown by 4.93% to about $323,000. At this rate, 10 years down the road, the borrower will be able to borrow almost $573,000 and 20 years later, almost $1,085,000.

This hypothetical example is, of course, for illustrative purposes only. The actual amount that can be borrowed depends on a variety of factors including the borrower's age, home value, state of residence, prevailing interest rates and loan product.

And this LOC growth is guaranteed by contract (the deed of trust and note). The LOC can never be reduced or taken away provided you abide by the terms of the agreement which includes making required payments for taxes, insurance and maintaining the property. Finally, the growth rate on the LOC is independent of home's value.

The funds in the LOC can be borrowed at any time, can be converted to monthly installments at any point in the future, and if drawn, can be repaid to regenerate your LOC. I have clients who are using this strategy to gain access to emergency funds, access to long-term-care medical funds and hedge against the unknown. By taking the money "when you don't need it" and placing it in the LOC, you are putting your home equity to work in a growth strategy that can almost triple your available funds in 20 years, if you do not borrow any money along the way.

Please call me at 650.533.2349 to explore your reverse mortgage LOC options or ask me any other question about reverse mortgages. As a licensed reverse mortgage loan officer serving the San Francisco Bay Area, I will be pleased to help you learn more.

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