Reverse Mortgage – The Line of Credit That Grows.

The **line of credit reverse mortgage** is still the most popular option for senior borrowers when choosing how to access their funds with their reverse mortgage. According to AARP, borrowers have recognized this choice at about **66%** of the time when obtaining a reverse mortgage as being the right choice for them. The credit line option allows borrowers a great deal of freedom when planning their finances. Borrowers like the fact that they can take as much as they want when the loan funds and then can take the funds only as needed from there.

But since the credit line reverse mortgage is only available in an adjustable rate, many may wonder why this option is even more popular than the fixed rate that is also available. The answer is flexibility. The fixed rate reverse mortgage option has only one way you can take your funds and that is all in a lump sum at the very beginning. This option is fine if you need all the funds at the start, for example to pay off an existing mortgage or for other purposes. However, if you want to be able to access your funds as you go, the fixed rate option will not work. The credit line gives the borrowers the option of taking as much money as they wish at initial funding, but then with the remaining funds the borrowers can access the funds as they desire.

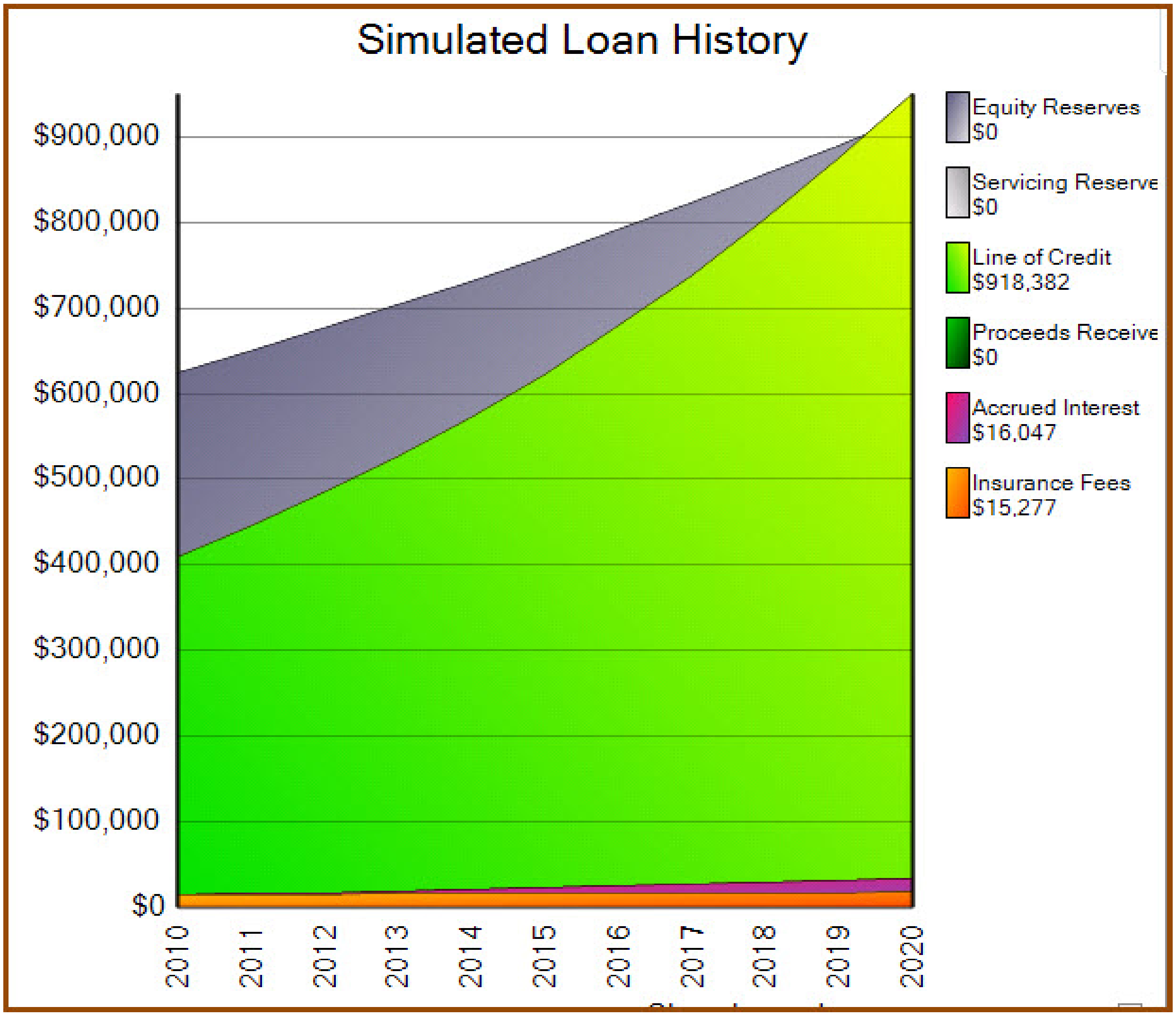
But there are other benefits to the line of credit option as well. For one, the borrower does not accrue interest on any portion of the funds that are not being used. Borrowers who do not have an immediate need for funds do not have to pay interest on the funds as long as they remain un-borrowed and available to the borrower.

The Home Equity Conversion Mortgage (HECM or "Heck-um") line of credit is the one credit line that can never be frozen or closed while the borrower still has a remaining balance left on it. How many people do you know who have had a credit line from their local bank frozen during these tough credit times? It may even have happened to you. The senior HECM borrower with the credit line option has paid their federal mortgage insurance to insure that their line of credit will always be available to them.

Another extremely important feature of the line of credit option is the credit line growth. I have often heard this mischaracterized as interest earned which it is not, but the unused portion of the credit line grows at the same rate at which the loan accrues interest **+1.250%** monthly

In other words, in today's market if the fully indexed accrual rate (index + margin) is **2.50% + 1.25% = 3.75%** actual rate. If the Available Funds of your loan is **$393,708** after the net Principal Limit and costs have been determined, and you don't use those funds then your credit line begins to grow monthly based on the interest rates. If the rate did not change for 12 months, then in the first month, you would take **$393,708 x 3.75% / 12** and your credit line would grow by over $1,200 dollars that month alone.

The next month you start with a higher loan balance so the line of credit goes up even higher. After just 5 years of this scenario, these borrowers would have available credit of over **$474,000** in their credit line, Over $600,000 if they should be lucky enough to be able to leave it there for 10! And here is a hedge against inflation, as the interest rates rise, the amount the borrowers accrue grows even faster. **This same line of credit with an expected rate of 5.25% would grow from $393,708 to $918,382 in 10years.**



Borrowers can still take advantage of the higher Principal Lending Limits of **$625,500** at least until September 30, 2011. Congress extended the temporary increase and so borrowers with home values that exceed the national limit of **$417,000** can take advantage of the extension that first took effect in early 2009.

This means that a 68 year old borrower with a **$625,500** home or greater can lock in a credit line of approximately **$393,708** (depending on what happens to reverse mortgage interest rates and margins since they also will affect the amounts for which borrowers will qualify) instead of the approximately **$253,000** that they would go back to under the limits prior to the Stimulus Bill. The only real difference in the cost is in the increased HUD insurance for the higher loan amount for benefit received. However, the ability to accrue credit line growth at such an advanced rate has certainly made it well worth it to many seniors looking for a stable future.