HECM vs HELOC: What's the Difference?

Are you a homeowner 62+ years old looking for a Home Equity Line of Credit (HELOC)? If so, you may want to compare a Home Equity Conversion Mortgage (HECM), also known as a reverse mortgage, against a HELOC. The HECM Line of Credit and HELOC both allow borrowers to draw against their home equity as needed, and both products have an adjustable rate.

HECM Defined

A Home Equity Conversion Mortgage (HECM), commonly known as a reverse mortgage, is a Federal Housing Administration (FHA)[1] insured loan available to homeowners 62+ years of age. A HECM enables borrowers to access a portion of the equity in their home without having to make monthly mortgage payments for as long as they continue to occupy the home as their primary residence and meet loan obligations.[2] Borrowers can receive the loan proceeds in a lump sum[3], monthly payments, or as a line of credit.

HELOC Defined

A Home Equity Line of Credit (HELOC) is a loan against the home equity that acts like a credit card: it has a credit limit that one can borrow against. The borrower must pay all or part of the balance in order to borrow again up to the credit limit. The draw period for a HELOC usually lasts 5 to 10 years, during which time the borrower is only required to pay interest on money withdrawn. At the end of the draw period, the repayment period begins and is usually about 10 to 20 years. During the repayment period, the borrower must pay both principal and interest to pay off the entire loan balance, either through installments or a single payment.

Both products have their pros and cons, so choosing the product that's right for you depends on your particular situation and your financial goals. For example, are you planning to pay off the loan balance in the near future? Would having a monthly payment cause a financial hardship in the future? Do you intend to live in your current home long term? What features are important to you? These are just a few of the questions that you should consider as you assess your options.

HELOC vs. HECM Line of Credit

	HECM	HELOC
Rate Type	Adjustable interest rate only.	Adjustable interest rate only.
Repayment Term	No repayment for as long as the borrower continues to meet the loan obligations[2]	Repayment of the line of credit principal and interest is required within 10-20 years. Monthly payments increase once the repayment period is entered into.
Line of credit accessibility	Line of credit stays open and available regardless of the housing market conditions and/or deterioration of the borrower's credit.	The lender reserves the right to freeze the line of credit when adverse information emerges about the borrower's credit or the market conditions deteriorate.
Growth Rate	Unused funds in the line of credit grow over time[4] allowing the borrower to have more borrowing capacity.	Borrower must request a line of credit increase. Generally a review of the property value and the borrower's credit and financials is required.
Age Restriction	Available for homeowners age 62+	No age restriction.
Other Eligibility Requirements	Requires equity in the home. The borrower must meet financial eligibility criteria as established by HUD.	Requires equity in the home, good credit, and enough income to make monthly payments.
Best Use	May be best for long-term borrowing	May be best for short-term borrowing.

We encourage you to speak with a licensed reverse mortgage advisor and get the facts you need to determine if a reverse mortgage line of credit is a good fit for you.

Call Today:

(800)-288-5851

IMPORTANT DISCLOSURES

1. Federal Housing Administration (FHA) mortgage insurance premiums (MIP) will accrue on your loan balance. You will be charged an initial MIP at closing. The initial MIP will be 2% of the home value but not to exceed $13,583. Over the life of the loan, you will be charged an annual MIP that equals .5% of the outstanding mortgage balance.
2. You must live in the home as your primary residence, continue to pay required property taxes, homeowners insurance, and maintain the home according to FHA requirements. Failure to meet these requirements can trigger a loan default that may result in foreclosure.
3. The funds available to the borrower may be restricted for the first 12 months after loan closing, due to HECM reverse mortgage requirements. In addition, the borrower may need to set aside additional funds from the loan proceeds to pay for taxes and insurance
4. The reverse mortgage loan balance grows at the same rate as the available line of credit. Line of credit growth occurs and is only a benefit when a portion of the line of credit is not used. The unused line of credit grows over time and more funds become available during the life of the loan.