

THE DIFFERENCES

This chart compares some of the main points that distinguish HECMs from HELOCs and should be considered before a decision is made to choose either.

	HECM	HELOC
MONTHLY PAYMENTS	NONE No monthly payments are required for the life of the loan.	YES Monthly payments are required, usually interest-only for an initial drawn-down period then increase to amortize the loan balance to the maturity date.
UPFRONT CLOSING COSTS 	VARIABLE Closing costs include a premium for FHA insurance based on the amount of the initial disbursement. Total costs vary depending on individual factors, including program and rate options. Individual quotes are needed for accurate estimates. Costs are typically paid from loan proceeds, and may include no cost options depending on origination source and individual circumstances.	VARIABLE Not FHA-insured, so no premium is required. Upfront costs vary by lender, but generally feature low or no costs depending on individual lender promotions and borrower circumstances.
CREDIT LINE GROWTH GUARANTEED	YES Undrawn credit line balance compounds monthly at the same rate (interest plus FHA insurance premium) charged on balance owed. Credit line growth is guaranteed and could potentially exceed future property value, effectively providing a hedge against property value declines and interest rate increases.	NO Credit line amount does not grow.
MANDATORY PAY-OFF DATE (MATURITY)	NONE No maturity date; repayment not required as long as a borrower continues to reside in the property and the loan remains in good standing.	YES Maturity date is usually 30 years or less. First seven to 10 years only provide access to funds. In the remaining years there is no access to funds. Payments are reset and increased to pay off the balance by the maturity date.
LIMITATION ON ACCESS TO FUNDS	NONE Funds can be accessed any time for the life of the loan as long as the loan remains in good standing.	YES Access to funds is limited to the initial drawn-down period, normally the first seven to 10 years only.
LENDER OPTION TO FREEZE FUNDS	NONE Lender cannot freeze access to funds for loans in good standing for the life of the loan.	YES Most HELOCs enable lenders to freeze access to funds with notice.
PERSONAL LIABILITY 	NONE Non-recourse loan; neither borrower nor heirs have any personal liability. Balance owed can never exceed property value at time of repayment.	YES Borrower is personally liable for any deficiency plus legal and collection costs.
LENDER FAILURE ELIMINATES FUNDING	NO If the lender fails or goes out of business, access to funds and servicing of the loan is not interrupted. FHA will assume responsibility for continued performance.	YES If lender fails or goes out of business, access to further funding will cease, unless or until another lender assumes responsibility.



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