Understanding Reverse Mortgages

What is a reverse mortgage?

A reverse mortgage is a loan that is designed for homeowners 55 years of age and older (if you have a spouse, the age qualification applies to both of you). A reverse mortgage is secured by the equity in the home, which is the portion of the home's value that is debt-free. It allows homeowners to obtain cash, without having to sell their home. Not all lenders offer reverse mortgages.

How does it work?

Unlike an ordinary mortgage, you don't have to make any regular or lump sum payments on a reverse mortgage. Instead, **the interest on your reverse mortgage accumulates, and the equity that you have in your home decreases with time. If you sell your house or your home is no longer your principal residence, you must repay the loan and any interest that has accumulated.**

The loan amount can be up to 50 percent of the current value of your house. However, you must pay off any outstanding loans that are secured by your home with the funds you receive from your reverse mortgage.

Advantages of a reverse mortgage

- You don't have to make any regular payments on the loan.
- You can turn some of the value of your home into cash, without having to sell it.
- The money you borrow is a tax-free source of income.
- This income does not affect the Old-Age Security (OAS) or Guaranteed Income Supplement (GIS) benefits you may be receiving.

- You maintain ownership of your home.
- You can decide how you want to receive the money. You can choose to receive:
  - a lump-sum payment
  - a loan to set up planned advances that provide you with a regular income, or
  - a combination of these options.

Disadvantages of a reverse mortgage

- Reverse mortgages are subject to higher interest rates than most other types of mortgages.
- The equity you hold in your home will decrease as the interest on your reverse mortgage accumulates over the years.
- At your death, your estate will have to repay the loan and interest in full within a limited time. The time required to settle an estate can often exceed the time allowed to repay a reverse mortgage. For full details, check with the reverse mortgage lender.
- Since the principal and interest will be repaid to the lender at your death, there will be less money in your estate to leave to your children or other heirs.
- The costs associated with a reverse mortgage are usually quite high. They can include:
  - a higher interest rate than for a traditional mortgage or line of credit,
  - a home appraisal fee, application fee or closing fee,
  - a repayment penalty for selling your house or moving out within three years of obtaining a reverse mortgage,
  - fees for independent legal advice.

Where can you get a reverse mortgage?

The Canadian Home Income Plan (CHIP), which is offered by HomEquity Bank, is the main source of most reverse mortgage products that are available in Canada. You can also speak to your financial institution about other options that may meet your needs.

How do you qualify?

To determine whether you qualify for a reverse mortgage, a lender will look at the equity you have in your home. Lenders also take into account your age, the appraised value of your home, current interest rates and where you live. Usually, the older you are, the larger the loan you will be able to get.

Tips to keep in mind

Before you make a decision, be sure you also consider:

- using your equity in your home to secure a different type of loan, such as a line of credit or a regular mortgage,
- selling your home, and
  - buying a smaller one,
  - renting, or
  - moving into "assisted living" or other alternative housing.
- talking to your lawyer about possibly selling your home to a family member or a third party, and including in the terms of the agreement a right to live there for the rest of your life.

Be sure you **fully** understand the terms and conditions of the contract **before** you sign it. By exploring all of your options, you will be better able to make the decision that best suits you.

Questions to ask about reverse mortgages

Ask all of these questions before you commit to a reverse mortgage:

- What are the fees?
- Are there any penalties if you sell your home within a certain period of time?
- If you move or die, how much time will you or your estate have to pay off the balance of the loan?
- At your death, what happens if it takes your estate longer than the stated time period to fully repay the loan?
- What happens if the amount of the loan ends up being higher than the value of the home when it's time to pay the loan back?

For more information

Contact your financial institution.

Other FCAC information of interest

Tip Sheets

- Shopping Around for a Line of Credit
- Before you Sign Any Contract: 10 Things you Need to Know

Notes

About Financial Consumer Agency of Canada (FCAC)

With educational materials and interactive tools, the Financial Consumer Agency of Canada (FCAC) provides objective information about financial products and services to help Canadians increase their financial knowledge and confidence in managing their personal finances. FCAC informs consumers about their rights and responsibilities when dealing with banks and federally regulated trust, loan and insurance companies. FCAC also makes sure that federally regulated financial institutions, payment card network operators and external complaints bodies comply with legislation and industry commitments intended to protect consumers.

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