The Complete Guide To Reverse Mortgages in Canada

Written By:
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- **What To Watch Out For**
- **Myths & Facts**
- **Advantages & Disadvantages**
- **Honest Alternatives**
- **Frequently Asked Questions**

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No pressure. **No** obligation. Honest expert advice.

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Table of Contents

1. **Introduction** 1
2. **What Is A Reverse Mortgage?** 3
3. **The Purpose Of Reverse Mortgages** 5
4. **Qualifying For A Reverse Mortgage** 6
5. **Maintaining The Equity In Your Home** 7
6. **Reverse Mortgage Setup Fees** 8
7. **Advantages Of A Reverse Mortgage** 9
8. **Disadvantages Of A Reverse Mortgage** 11
9. **Reverse Mortgage Process** 12
10. **Frequently Asked Questions (FAQ)** 13

1. Introduction

Our website www.livewithdignity.ca is named as such because living with dignity is what we are all about. We help retirees to use the equity in their homes to remain living in their homes independently for as long as they choose to do so. We have also helped countless people experiencing financial difficulties by outlining a plan to repair their credit, consolidate high interest debt and retain their homes. We have the contacts to guide our clients and the expertise to advise them, giving them the opportunity to live comfortably and with dignity.

Purpose

This guide is intended to educate NOT SELL anyone who is contemplating a reverse mortgage. Our intention is to help people to understand what a reverse mortgage is and to help them weigh the advantages and disadvantages. We discuss the risks involved, dispel the myths, and provide **alternatives that should be considered** before getting a reverse mortgage. This guide is a must read for anyone contemplating a reverse mortgage in Canada.

Who Are We?

Our team comprises:

- Certified Reverse Mortgage Specialists
- Fully Licensed and Practicing Mortgage Agents
- Certified Financial Planners
- Former Bank Sales Manager

You can check our online reviews here: https://goo.gl/fJhFdZ.

What Do We Do?

We have helped thousands of Canadians with their mortgage needs over the past 25 years. We have built a strong reputation in the industry for truth and honesty. We believe in educating our clients and giving advice that is best for them and their families; **we never focus on what's in it for us**. We believe in building a lasting trust, not a one-off "quick sale". This has served us well to build our business through referrals. When you are honest and fair, the word spreads quickly!

How Do You Know Who To Trust?

Don't take our word for it! Please check our Google reviews here to see what other people are saying: https://goo.gl/fJhFdZ. Or preferably, you can come meet us and judge for yourself. And while you are here, you can see our overflowing box of hand written thank you cards! You can request an appointment here:

http://www.livewithdignity.ca/make-an-appointment/

Who Do We Help?

We help anyone who needs a mortgage to purchase a home or wants to use the equity in their home which, for most of us, is the biggest and most important asset we own.

People who are considering a reverse mortgage essentially wish to release the equity in their homes. They may be "house rich and cash poor" or they may wish to access the equity for other personal reasons. There are several ways of doing this which is why it is important to make an informed decision which is the purpose of this guide.

Enjoy!

So we hope that you enjoy reading this free guide and more importantly, that you learn something you may not have known and that it helps you to make an informed decision.

2. What Is A Reverse Mortgage?

Reverse Mortgage vs. "Regular" Mortgage

If you are reading this guide, you have likely had a mortgage in the past or you may still have one. The best way to describe a reverse mortgage is compare it to a "regular" mortgage:

Table 1: Comparison of "Regular" vs. Reverse Mortgage

"Regular" Mortgage	Reverse Mortgage
It is a loan.	It is a loan.
Uses your home as security.	Uses your home as security.
Charges an interest rate.	Charges a slightly higher rate.
Term usually 5 years.	Term usually 5 years.
Amortized usually over 25 years.	No amortization.
Principle and interest payments.	No payments.
Income and credit qualification.	Qualified on home value and age.

As you can see, reverse mortgages and "regular" mortgages share one main thing in common: they are both mortgages! This only means that they both involve the bank lending you money using your home as the security on the loan (using your home as "collateral"). This is where the similarities end. Why? The main difference between a reverse mortgage and a "regular" mortgage is that the intention with a regular

mortgage is to pay it off slowly over time. A portion of a regular mortgage payment is allocated towards interest and the other portion goes towards paying DOWN the mortgage (principle amount). In the case of a reverse mortgage, no payments are made, but rather the interest accrues. **You are essentially letting the equity in your home make your mortgage payments for you**.

Why Reverse Mortgages Are Not Scary Or Risky

So, reverse mortgages are not as scary or shady as you may think. **This is Canada – not the United States**. We have strict regulations that forbid the bank from overcharging you or forcing you out of your home. The loan is backed by a very reputable bank, HomEquity Bank, which is strictly regulated by the Canadian government like all other banks. The bank is simply charging you an interest rate on the amount borrowed, and it is simply taking the payments from the equity in your home thereby leaving more money in your pocket each month.

What's In It For The Bank?

Why would the bank want to do this? Because they understand the value in your home and they are gambling that they will be repaid in full when you sell your home. They are willing to wait (a very long time) to be paid back and that does come at a cost to you. The cost is a slightly higher interest rate. If you remain in your home longer than expected – that is the bank's risk. **They can never force you to sell and they can never take your home.** That is why they will only lend up to a maximum of 55% of your home to give them that buffer. They also anticipate that the value of your home will continue to increase with time.

3. The Purpose Of Reverse Mortgages

The main purpose of a reverse mortgage is to release equity that is otherwise "trapped" in your home. Are there other ways of releasing the equity in your home? Of course! You could get a regular mortgage. That would require you to make interest and principle payments with the intention of paying off the mortgage over a period of time. You could get also get a home equity line of credit. This would require you to at least make interest payments.

The only option that does not require regular payments is a reverse mortgage. Thus, reverse mortgages are generally appropriate for retirees who are living on a fixed pension and are having difficulties making ends meet, but they own their home and have little or no existing mortgage. In other words; people who are "house rich and cash poor".

But those are not the only people where reverse mortgages are suitable. Retirees who are doing quite well managing their bills may wish to release some equity in a lump sum as a gift to help a grandchild or even to invest!

Common Uses Of Reverse Mortgage Funds

We like to split the uses into 2 main categories: "needs" and "wants". Some retirees on a fixed pension need some extra income in order to continue living in their homes. They are "house rich and cash poor". That would be considered a need. But there are many other uses of reverse mortgage funds. Some examples are:

- Down Payment: helping a child or grandchild purchase a home
- Education: helping a child or grandchild to pay for their education
- Investment: tax free strategy to actually create wealth

- Travel: check off that bucket list!
- Business: help a child or grandchild start a business

Everybody has their own reasons for releasing the equity in their homes and those reasons remain personal.

4. Qualifying For A Reverse Mortgage

In order to qualify for a "regular" mortgage, the borrower is subjected to rigorous scrutiny (especially with the new Canadian Government rules) and extensive documentation to prove their income, employment history, down payment, credit, income taxes and the list goes on. Why? Because the bank (and the Canadian Government) wants the borrower to prove that they can afford to **pay down** this mortgage now and in the future.

With a reverse mortgage, the qualification criteria are much less strict because you are **not expected to pay down** the mortgage. The lender is mainly looking at your age (to estimate statistically how long you will likely remain in your home) and the value of your home (so they can give themselves a buffer of equity). Those are the 2 main factors that allow us to estimate the amount that you can qualify for. In fact, you can receive an immediate estimate by following this link and entering those few pieces of information:

http://www.livewithdignity.ca/free-online-assessment/

If you remain in your home longer than the lender estimated, that is their problem, not yours. **You will never be forced out of your home and you will never be forced to sell your home.**

5. Maintaining The Equity In Your Home

It is a common misconception that once you get a reverse mortgage, you have essentially sold your home to the bank. This is false. It is also a common misconception that you will lose at least some if not all of the equity in your home. This is misleading. While there is a chance that you will "eat into" the equity of your home when you take out a reverse mortgage, it is not a sure thing. The reason why and the fact that many people miss is that **the bank expects your home to appreciate** in value over time. The bank takes this into consideration when they evaluate their risk. In fact, based on historical values, the appreciation of your home will likely equal or exceed the interest rate of the reverse mortgage!

Let's look at a simple example to illustrate. Let's say that your home is valued at $500K and you are currently mortgage free. You decide to take out a $250K reverse mortgage at 5% interest. You will accrue 5% interest on that mortgage (5% of $250K = $12,500). So after 1 year, your reverse mortgage balance is at $250K + $12,500 = $262,500.

In that same year, your home appreciates in value by 2.5% (seems like a reasonable increase – it also keeps the numbers simple). ☺ That means your home is now worth $500K + 2.5% = $512,500.

Conclusion: after 1 year, you have accrued $12,500 in interest and your home has increased in value by $12,500! The appreciation of your home has just completely offset the interest thereby leaving you with exactly the same amount of equity as you started AND remember, you received $250K of tax-free money with no payments.

This is not uncommon. In fact, in places like Vancouver where the housing market has skyrocketed, the appreciation of homes actually greatly exceeded the interest rate.

In the example above, the interest rate was 5% and the appreciation rate was half that amount at 2.5%. This rate of 2.5% is very modest considering that the appreciation of home prices in Canada's 11 major cities has followed this trend:

Table 2: Annual House Price Change in Canada's 11 Major Cities

Year	% Increase
2012	3.08
2013	3.81
2014	4.95
2015	6.19
2016	12.34
2017	9.07

Of course, past performance does not guarantee future performance which is why in our office we always air on the side of caution. We did not want to just throw the last inflated numbers at you to mislead you! But you can see that even in the worst recent year, the appreciation rate was at 3.08%.

6. Reverse Mortgage Setup Fees

There are 3 main fees involved in a reverse mortgage. The lender will need an official valuation of your home by an accredited appraiser and this usually costs the borrower $400-500. To protect yourself you need legal representation and so does the bank. Those legal fees will be deducted from the proceeds of the reverse mortgage so they are not paid up front. Your legal fees will generally cost around $750 depending on how much work they have to do. The lender's legal and administrative fees usually amount to $1795.

7. Advantages Of A Reverse Mortgage

No Payments

The main advantage of a reverse mortgage is the fact that you don't have interest payments and you don't have to pay down the principle amount of the mortgage. This is a critical point for some retirees on a fixed pension who are having difficulty making ends meet but are "house rich". All other mortgage products like "regular" mortgages and Home Equity Lines of Credit (HELOCs) require you to either pay interest or the interest and the principle. Some second mortgages require interest only payments but those expect to be paid out in a relatively short period of time AND the interest rates and fees are usually not very attractive.

Low Cost to Set Up

Legally you need to protect yourself and so does the lender so both parties will incur legal fees. Those legal fees are deducted from the proceeds of the loan. The only expense of a reverse mortgage that is paid up front is the appraisal. The bank will need an accredited appraisal to check the value of the home. This usually costs in the range of $400-500.

Simple Qualification

The decision of whether you qualify for a reverse mortgage and for how much is very simple compared to a regular mortgage or home equity line of credit. They are mainly checking your age and the value of your home. There is no lengthy income or credit qualification or dictating how the money is spent. You can get a quick estimate here by answering 3 short questions:

http://www.livewithdignity.ca/free-online-assessment/

Reasonable Rates

Considering that there is no risk to you and the bank is agreeing to wait for 5-20 years or more before ever seeing a return on their investment, the interest rate charged is very reasonable at ~1.5% higher than current mortgage rates.

Tax-Free

Unlike other income sources like cashing investments, you do not pay income tax on the funds received from a reverse mortgage. You are essentially only shifting the equity in your home to usable cash.

You Can Never Lose Or Be Forced Out Of Your Home!

And best of all is that our service is COMPLETELY FREE!

8. Disadvantages Of A Reverse Mortgage

Premium Rate

As discussed above, due to the fact that the bank needs to wait a relatively long time without receiving any payments, they do charge a premium interest rate but it is not unreasonable. It varies around ~1.5% higher than "regular" mortgage rates.

Penalties

Like any other mortgage, if you decide to pay out the mortgage prematurely, that is, before the 5 year term, you will be subject to a penalty. The penalty will depend largely on how early it is paid off.

Loss of Equity

Although the appreciation of your home can offset the interest, there is a chance that some equity will have been lost when you finally decide to sell your home. But statistically speaking, 99% of Canadians still have equity in the home when they sell it and, unlike the United States, **in Canada you can never owe the bank more than the value of your home.** That is the bank's risk – not yours.

9. Reverse Mortgage Process

If you are thinking about getting a reverse mortgage, our first recommendation would be to read this guide fully to understand the pros, cons, reasons and alternatives. Next, you can get a very rough estimate of how much you would qualify for by filling out this short questionnaire:

http://www.livewithdignity.ca/free-online-assessment/

Or by making an appointment and meeting us in person. You can request an appointment here:

http://www.livewithdignity.ca/make-an-appointment/

Once you have done your research and you feel comfortable with moving forward, we would invite you to meet with us in person, call us, or fill out a secure online application form here:

https://application.malink.ca:8112/App/MARC/FLORISR/en-ca/1896/d

Once we have an approval, we will arrange an appraisal to verify the value of your home and the next step will be meeting with the lawyer to sign and receive the funds.

10. Frequently Asked Questions (FAQ)

Why would anyone want to do this? Isn't it expensive?

If you need to supplement your income or you need a lump sum of money for some other purpose (like a grandchild's education for example) and you can't afford mortgage payments or you would prefer not to make mortgage payments, this would be an ideal product. Of course there may be cheaper ways of borrowing money like refinancing your home, but then the goal of a regular mortgage would be to pay it down and this will reduce your cash flow. So you may pay a slightly higher rate, but you enjoy the freedom of not making payments.

How much do I qualify for?

That depends on your age, the value of your home and the location of your home. You can get a free estimate here: http://www.livewithdignity.ca/free-online-assessment/. Generally speaking, the older you are and the more value you have in your home, the more you will qualify for. The minimum age is 55 and the maximum amount you can borrow is 55% of the value of your home.

How do I know how much my home is worth?

One of the first steps of the reverse mortgage will be to have your home appraised by a professional and certified appraiser. If you need help estimating the value of your home, you can contact us and we will help you. http://www.livewithdignity.ca/contact-us/

What if I have an existing mortgage on my home?

Your existing mortgage can be paid off from the proceeds of the reverse mortgage. There are rare instances where both a regular and a reverse mortgage will exist on the same property.

Do I need to have good credit or income to qualify for a reverse mortgage?

When qualifying for a reverse mortgage, they mainly look at the value of your home. However, they will consider your credit if you have had a previous bankruptcy for example. They will check to see if you have some tax arrears which can usually be paid off from the proceeds of the reverse mortgage. They will also check if you have a sufficient income source or savings to cover ongoing expenses such as property taxes.

What are the costs involved?

Of course, when you move or sell the home, you will need to pay the bank back the amount that you borrowed plus the interest that accrued during the period of the loan. There are also some costs up front to set up the loan in the first place:

1. Appraisal: the bank needs to check the value of the home. The appraisal will cost you usually around $400-500. This must be paid up front.

2. Your lawyer: you will need a lawyer to represent you which usually costs around $750 depending on how much work they need to do. This cost is usually deducted from proceeds of the reverse mortgage.

3. Lender's legal and administrative fees: $1795 which is also deducted from the proceeds of the loan.

What is the minimum amount I can borrow?

The minimum amount that can be advanced to you is $25,000. You can withdraw money in $5000 increments thereafter but there is an administration charge of $50 so many small withdrawals should be avoided, if possible.

How will I receive the money?

Like any other mortgage, when the mortgage is set up, the bank requires a VOID cheque to set up your account information. The funds will be deposited into your account directly. If you require additional funds, you will call the lender and make the request. It usually takes 2-3 business days to receive additional funds.