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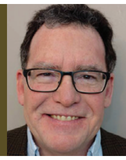

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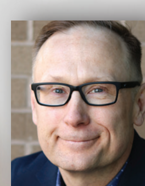

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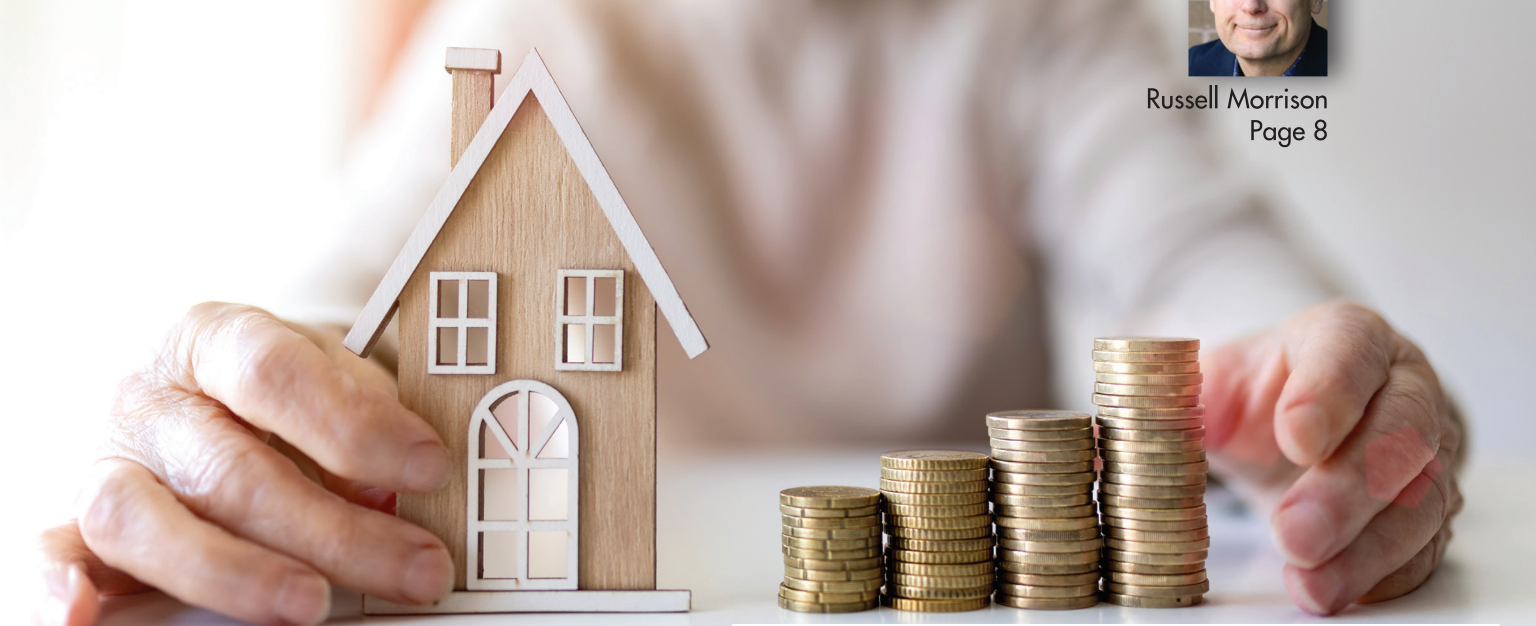

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REVERSE MORTGAGE Is Not A Bad Word

Russell Morrison

My experience when speaking with clients about reverse mortgages always seems to be similar: "No, no, no, I would never take or want to have a mortgage like this. I hear they are bad to have and should be, at all costs, avoided." It seems there is a negative stigma about them.

After being in the mortgage industry for over two decades, you begin to understand that every lender has a niche, and there are mortgage product intricacies that suit a wide variety of needs for Canadian consumers, which is why there are so many lenders to choose from. There is a large population of Canadians that can benefit from these types of mortgages, and they don't even know it.

The mortgage lending cycle of mortgage consumers changes as they age, and so do their financial and personal needs. It is no surprise that whatever situation you may be in, whether you're facing some challenging times or not, in almost all cases, there is a mortgage available to help you. In Canada, as homeowners learn more about this type of mortgage, the stigma is becoming more one that is positive versus negative as they learn the intricacies of this product and how it can benefit them, their families, and, most importantly, their well-being.

What Is A Reverse Mortgage?

A reverse mortgage is a loan charge secured against your primary residence so you can access the equity within it. This sounds pretty much the same as any type of mortgage, but what's different about it is the limit you're able to borrow only depends on your age (55+), where you live, and the location, condition, and appraised value of your property. The key to this is the word "only", whereas more traditional types of lenders want to see all the above in addition to income verification, credit worthiness, and a somewhat established net worth. In Canada, there are two providers of reverse mortgages: HomeEquity Bank (aka CHIP) and Equitable Bank.

How Does A Reverse Mortgage Work?

A reverse mortgage works very similarly to a traditional mortgage, but the main difference is that there is no requirement to make payments until you leave the home. With a traditional mortgage, your payments include principal and interest, which means you're paying down your mortgage over a period of time called the amortization period. With a reverse mortgage, since you do not have to make any payments, the interest cost is added to the amount that you owe. You can utilize a reverse mortgage by way of a lump sum payment of your home equity all at one time, a steady drip of payments over a period of time (similar to an annuity), or a combination of both. The amount of equity available to access will depend on the borrower's age and the home's appraised value. This mortgage needs to be repaid when you sell your home. You move out of your home (so it is no longer your primary residence), the last borrower dies, or default on your loan (i.e. use reverse mortgage funds for something illegal, falsifying your mortgage application, letting your home become unattractive to the real estate market, not following the condition of your contract).

The form of payment a homeowner chooses depends on what their needs are, for example:

■ Lump-sum Payment

This could be used to pay off an existing mortgage, pay off high-interest debts, help kids/grandkids pay for their first home, maintain health, or use for surgery, vacations, home improvements, provide an early inheritance to family, and so on.

Payments Received Over Time

This could be used to increase cash flow, pay for in-home care, keep your investments untouched, make payments on a second home/vacation property, health, and wellness memberships, and so on.

Where Does The Negative Stigma About Reverse Mortgages Come From?

I think most people are so conditioned, when searching for a mortgage, only to focus on how low an interest rate they can get and how quickly they can pay it off. With so many lenders to choose from in Canada, every one of them is wanting and trying to satisfy a need of a certain niche portion of the population and not just provide a niche product to them but specialize in it. It is true that rates are higher with reverse mortgages, but if the benefits outweigh the negatives, then put the rate aside and go with what will help your overall well-being.

Another common and notable concern when considering this type of mortgage is that it will eat away all my equity, and I will be left with nothing to leave for my kids and family members. With a reverse mortgage, you do not have to make payments, so the interest is added to the amount that you owe, so yes, this will diminish your equity over time. Reverse mortgage lenders will only give you access to a certain amount of equity, so there will always be enough equity in the property to keep their investment as secure as possible, which also allows you to keep a certain amount of equity as well.

So, we have determined that reverse mortgages will diminish your equity over time, but let's now consider another view on this. As the amount of your mortgage owing increases over time, which, yes, does leave a bad taste in your mouth, but because we are psychologically accustomed to paying off a mortgage and how good of a feeling it gives us to see an amount owing go down and down and down, there is an important aspect that we have not addressed yet. As Canadians, we all know that one of our biggest assets is our homes, and we have experienced significant increases in property values that far exceed the growth of a reverse mortgage. My experience tells me that having debt can almost always be justified and be used in positive ways. You just need to find your purpose and be ok with it.

Who Is An Ideal Candidate For A Reverse Mortgage?

Lifestyle plays a large part in whether a reverse mortgage is an ideal product for a homeowner. There is a large population of Canadians that can benefit from these types of mortgages. So let's have a closer look at who these people are or could be at some point during their housing tenure.

An ideal candidate:

- Would have a large enough amount of equity in their home,
- Would be 55 years of age or older,
- Have had or are having some income and credit challenges,
- Does not have enough currently invested assets or income support to sustain a healthy and happy lifestyle during their retirement years (important to note that you do not have to be retired to find benefits in this product since you can be working and supplementing your cash flow with a reverse mortgage),
- Does not qualify for a traditional mortgage (i.e. challenged credit and income),
- May have health challenges where current income is not able to support their medical needs,
- Wants to help their family, second or third generation, financially and does not want to bear the responsibility of making mortgage or line of credit payments,
- Prefers to stay in their home vs. residing in a care facility,
- Has concerns that their spouse will outlive them, and if they die, then their surviving spouse will need to leave their home. With reverse mortgages the surviving spouse can continue to live in the home,
- Access equity for renovations or pay off high-interest debts,
- Buy a second property.

These are just some of the needs that an ideal candidate would have, and there are so many more that can be mentioned, but I feel it mainly comes down to what helps them have their ideal lifestyle and gives them their best sense of well-being.

An Alternative To A Reverse Mortgage

We've learned that reverse mortgages are unique and beneficial in their own way and are contrary to the traditional mortgage we are accustomed to but are there other options that could be considered?

There is an option that a bank in Canada offers that has a similar offering but is not technically a reverse mortgage. Manulife offers their Manulife One product that comes in the form of a home equity line of credit (HELOC). A HELOC allows you to access home equity in a similar way to what a credit card would, but without the high rate, so you have the freedom to draw and pay down funds as long as you do not exceed your approved borrowing limit. Interest-only payments are only made on what you have borrowed, which are drawn from your available equity, so they are essentially added to the amount that you borrow, and this can continue as long as you do not exceed your approved borrowing limit.

When I speak with clients that are heading into retirement, both the reverse mortgage and Manulife One are discussed to see which one, if either, can be beneficial to them. Remember that because this product is offered through a traditional banking channel, we do need to be able to show, in addition to the requirements of a reverse mortgage: income verification, credit worthiness, and a somewhat established net worth. With this being said, Manulife does have an equity-type program that may come in handy for qualifying for those who have a high net worth in the form of liquid assets but not a whole lot of income to show.

In addition to the above, the Manulife One product comes with a lower rate when compared to a reverse mortgage, no penalty to exit (for HELOCs), and also acts as a bank account, so you're able to set up all of your income to be deposited into this account and also have your expenses paid from it so you can benefit from the interest being calculated on a daily basis. Once this product is organized and you understand how it works, it becomes very low maintenance but comes with the caveat that if your income exceeds your expenses, over a period of time, your available borrowing limit will diminish, similar to a reverse mortgage. Important to note, for estate planning purposes, this product right of survivorship can be utilized.

There Are Options

Based on the above, you can see these are two very different types of lending products, yet they have some similarities, which is the ability to provide niche lending for homeowners. With the many lenders in Canada, there is always one that will suit your needs and wants and help you use your home equity one way or another. It is important, before choosing a lender and their product, that you have professional guidance to make sure you are narrowing down your choice(s) because with many lenders in Canada, once you have committed to a product, there can be some very expensive exit costs if you want to get out of a product and try another.

Russell Morrison AMP, is a Senior Mortgage Broker based in the Vancouver/Fraser Valley area, who has been actively working in the mortgage industry since 1999. He prides himself on being able to help homeowners with more than just finding a low rate, but also educating and showing them how to best utilize the numerous options available in today's mortgage industry.