Financial Consumer Agency of Canada
Agence de la consommation en matière financière du Canada

Shopping Around for a Reverse Mortgage

WHAT IS A REVERSE MORTGAGE?

A reverse mortgage is a loan that is designed for homeowners 60 years of age and older (the age qualification applies to both spouses). A reverse mortgage allows homeowners to turn the portion of their house that is debt-free (called “equity”) into cash, without having to sell their home. Homeowners can then use this money for any purpose they wish — such as to finance a home improvement, to supplement their retirement income or to cover their health care expenses.

How does a lender determine if you qualify for a reverse mortgage and what size of loan can you get?

To determine if you qualify for a reverse mortgage, a lender looks 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 and the more equity you have in your home, the larger the loan you will be able to get. The loan usually amounts to between 10 and 40 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.

How does a reverse mortgage work?

Reverse mortgages are quite complex, and are subject to higher interest rates than most other types of mortgages. 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. You usually don’t have to pay the loan back or make any interest payments to the lender, as long as you are living in your home. However, 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. On your death, your estate would have to repay the loan.

Where can you get a reverse mortgage?

The Canadian Home Income Plan (CHIP), which is a private company, is the main provider of most reverse mortgage products that are available in Canada. Your financial institution may also offer reverse mortgages.

What are the advantages of a reverse mortgage?

- You can take some of the value out of your house, 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.

What are the disadvantages of a reverse mortgage?

- With the accumulation of interest on your reverse mortgage over the years, your equity in your home will decrease. Since the principal and interest will be repaid to the lender upon your death, there will be less, for estate purposes, to leave to your children or other heirs.
- The costs associated with a reverse mortgage are usually quite high. They can include, but are not limited to, the following:
  - a higher interest rate than for a traditional mortgage or line of credit;
  - a home appraisal fee, an application fee, or closing fees;
  - a repayment penalty for selling your house or moving out within three years of obtaining a reverse mortgage;
  - legal costs.

Tips to help you shop around for a reverse mortgage

If you need cash and are considering taking out a reverse mortgage, make sure you check all of your options carefully before making a decision. Be sure you compare the cost and consequences of the following options:

- obtaining another, less expensive type of loan — such as a line of credit or a credit card, or a conventional mortgage on your home;
- selling your home, and
  - buying a smaller home, or
  - renting another home or apartment, 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 retaining a life estate;
- talking to your lawyer about possibly arranging a mortgage-financed life annuity.

Shop around! By exploring all of your options, you will be better able to make an informed decision.

Where to go for more information

The Financial Consumer Agency of Canada (FCAC) provides timely, objective information to help consumers choose the best banking products and services for their needs. FCAC also informs Canadians of their rights and responsibilities when dealing with financial institutions and makes sure that banks and federally regulated trust, loan and insurance companies respect the laws and agreements that protect consumers.

You can reach us by phone through our toll-free Consumer Contact Centre at 1-866-461-3222 (our TTY number is 613-947-7771 or, toll-free, 1-866-914-6097), or by visiting our Web site at **www.fcac.gc.ca**.

If you would like more information about alternative ways to borrow money, such as with a low-rate credit card or a line of credit, consult FCAC’s publication ***Credit Cards and You***. You can also view this publication on-line, on our Web site, or obtain a copy free of charge by contacting FCAC.

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