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# Is a reverse Mortgage a Good Idea for you?

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In recent years an increasing number of seniors have been using “reverse mortgages” as a source of income. Seniors who can be described as “house rich, but cash poor” may find this option very attractive. However, if you or a loved one is a senior and is considering taking out a “reverse mortgage” there are a number of things to consider.

### What is a Reverse Mortgage?

Normally with a mortgage, you borrow a certain amount of money and pay it back over a period of time through monthly payments. With a reverse mortgage the lender gives you a lump sum of money, or an agreed upon amount in intervals, but you make no payments. The interest is added to the balance of the loan and the loan grows steadily. When the homeowner dies or sells their home, the loan must be repaid from the proceeds of the sale of the home.

### Advantages and disadvantages of a reverse mortgage

On first glance it seems like this is a great way to access cash as a senior, especially if you have inadequate retirement savings or income and find yourself cash strapped. There are no regular payments, you do not need to sell your home and can continue to live in it. Additionally, the income is tax free and does not affect Old Age Security (OAS) or Guaranteed Income Supplement (GIS) benefits. However, there are some drawbacks that must be considered.

First, the costs of a reverse mortgage are much higher when compared to other types of mortgages. Additionally, the homeowner must pay for a home appraisal fee, application fee, and a closing fee. There is also a penalty if you sell your house or move out within three years of getting the reverse mortgage. Finally, you must pay the fees for independent legal advice.

An example of the high costs of a reverse mortgage is if you borrow \$150,000 after 10 years you could owe almost \$270,000. This is just the cost of the interest and does not include the additional fees mentioned.

You should also keep in mind that if the reverse mortgage is outstanding at your death your estate must pay the balance, leaving much less money for your children or other heirs.

## Alternative Options

If you or a loved one is considering a reverse mortgage, you should be sure you understand the consequences and options. What may seem like an attractive choice at first reveals itself to be far more expensive and provides less flexibility than the alternatives. If you own your home a secured line of credit may provide a much lower cost of borrowing and also give you greater flexibility in repayment. There is also the option to sell the home and downsize to a smaller residence freeing up much needed cash.

More Information:

[www.fcac-acfc.gc.ca/eng/resources/publications/mortgages/Pages/Understa-Comprend.aspx](http://www.fcac-acfc.gc.ca/eng/resources/publications/mortgages/Pages/Understa-Comprend.aspx)

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