Reverse Mortgages

What is a reverse mortgage?

A reverse mortgage (also known as a Home Equity Conversion Mortgage or HECM) is a loan that is designed for homeowners 60 years of age and older (the age qualification applies to both spouses). While this type of loan has been available in the United States for some time, it is relatively new in Canada.

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. Between $20,000 and $500,000 can be accessed tax-free. 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. In most situations, there are no payments required on the loan until the home is sold or owners move out or pass away.

The information on this sheet is adapted with permission from The Financial Consumer Agency of Canada. The original tip sheet is available at http://www.fcac-acfc.gc.ca/eng/publications/tipsheets/tsshoprmort-eng.asp
What are some advantages and disadvantages of reverse mortgages?*

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most reverse mortgages don’t require you to make any payments on principal for as long as you live in your home.</td>
<td>When you and your spouse die or sell the home, all loans must be repaid in full with interest. This includes any fees or charges that have accumulated.</td>
</tr>
<tr>
<td>You can convert some of the equity of your home into cash for income, home repairs, or emergencies. *</td>
<td>Since you are not making any payments, your equity will steadily decrease for as long as you have the reverse mortgage.</td>
</tr>
<tr>
<td>You will continue to be the owner of your home.</td>
<td>As long as you are the owner of your home, you will remain responsible for all repairs and taxes.</td>
</tr>
<tr>
<td>The money that you get from your reverse mortgage is not taxable.*</td>
<td>Reverse mortgages are relatively expensive. There are substantial upfront charges.*</td>
</tr>
<tr>
<td>This income does not affect the Old-Age Security (OAS) or Guaranteed Income Supplement (GIS) benefits you may be receiving.**</td>
<td>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; and • legal fees.**</td>
</tr>
</tbody>
</table>


What laws in Alberta relate to reverse mortgages?

There are few laws in Alberta that relate directly to reverse mortgages. Reverse mortgages are required to adhere to the cost of credit disclosure requirements, as per the Fair Trading Act. This means that the terms, conditions and costs of the reverse mortgage must be clearly disclosed before the mortgage is finalized and an obligation exists. Depending on your circumstances, other laws may relate to your situation. For more information on these laws, please see the ‘Relevant Alberta Laws’ section at the end of this booklet.

How much equity am I allowed to borrow on my home?

Generally, homeowners can access between 10% and 40% of the equity in their homes while continuing to live there. The amount will depend on many variables, such as the age of the homeowner, the value that the house is appraised at, and so forth.

How much money is available to me as a homeowner?

The amount available to the homeowner is based on the appraised value of the home, the age and gender of the homeowners, marital status, property type, and location.

Are there any extra fees with reverse mortgages?

An application fee usually includes the cost of an appraisal and a credit report. Other loan costs typically include closing costs, insurance, and a monthly servicing fee.

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

To determine if you qualify for a reverse mortgage, a lender

For more information on the laws that may relate to reverse mortgages, see the ‘Relevant Alberta Laws’ section at the end of this booklet.
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. In general, 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% 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 reduces the equity that you have in your home. 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 I get a reverse mortgage?

The Canadian Home Income Plan (CHIP), which is offered by Home Equity Bank, is the main source of reverse mortgage products that are available in Canada. Your financial institution may also offer reverse mortgages. For more information, see the ‘Contacts’ section at the end of this booklet.

Where can I get more information on reverse mortgages?

The Financial Consumer Agency of Canada (FCAC) 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. For more information, see the ‘Contacts’ section at the end of this booklet.

Tips:

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. You may want to consider other options.

- Obtain a different type of loan, such as:
  - a line of credit;
  - a home equity line of credit;
  - personal loan through your bank; or
  - credit card for short-term, emergency situations.

- Sell your home and:
  - buy a smaller home or condo; or
  - rent another home or apartment; or
  - move into “assisted living” or other alternative housing.

- Other options which could be discussed with your lawyer are:
  - sell your home (to a family member or a third party) and retain a life estate; or
  - arrange for a mortgage-financed life annuity.

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

Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization</td>
<td>The total amount of time that is calculated for a buyer to pay off their mortgage.</td>
</tr>
<tr>
<td>Appraisal</td>
<td>Having a professional evaluate a property to determine its market value.</td>
</tr>
<tr>
<td>Home equity</td>
<td>The total value of a home, minus any debts that are associated with it (e.g., an existing mortgage).</td>
</tr>
<tr>
<td>Line of credit</td>
<td>A fixed amount of money that is set aside for a borrower from a financial institution, and the borrower can withdraw money from the amount.</td>
</tr>
<tr>
<td>Mortgage</td>
<td>A legal document making a home available to a lender to repay a debt.</td>
</tr>
</tbody>
</table>
Law of Property Act
This Act governs the transfer of property ownership in Alberta. This law covers property-related matters such as mortgages, foreclosures, mineral titles, and joint ownership.

Alberta Mortgage and Housing Corporation Loan Regulation

Seniors Benefit Act General Regulation

Contacts:
Information, Advice, and Assistance

Canadian Home Income Plan (CHIP)
Offered by Home Equity Bank, who is the main source of most reverse mortgage products that are available in Canada. Your financial institution may also offer reverse mortgages.
Website: www.chip.ca

Financial Consumer Agency of Canada (FCAC)
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.
Phone Toll Free: 1-866-461-3222
TTY Toll Free: 1-866-914-6097
Website: www.fcac.gc.ca

Service Alberta’s Consumer Contact Centre
Provides landlord and tenant information that relates to living situations only covered by the RTA, and is a useful resource for more general information and referrals relating to landlord and tenant information.
Phone: 780-427-4088
Toll Free: 1-877-427-4088
Website: www.servicealberta.ca/Consumer_Info.cfm

Money Mentors
Website: www.moneymentors.ca

Centre for Public Legal Education Alberta

CPLEA gratefully acknowledges the support of

• Alberta Real Estate Foundation
• Alberta Law Foundation
• Money Mentors
• Service Alberta
• Alberta Seniors & Community Supports
• Justice Canada

This booklet is part of a series on seniors’ housing. The series includes:
• Life Leases
• Renting a Condominium
• Renting out a Room in Your Home
• Reverse Mortgages

You should not rely on this booklet for legal advice. It provides general information on Alberta law only.

September 2010