Understanding Reverse Mortgages

As house prices have climbed over the last few years and the baby boomers have begun to retire, an increasing number of people have been looking to reverse mortgages as a way to make use of the equity in their home and increase the size of their pocketbook for retirement. Although reverse mortgages may appear quite promising at first blush, they aren't necessarily for everyone and it is important to fully understand some the finer points before you sign on the dotted line.

These mortgages differ in a couple of important respects from a traditional mortgage. Firstly, they are available only to those aged 55 and older, and if you have a spouse, both you and your spouse have to meet the age requirement. Secondly, there are no monthly payments of principal or interest required to pay back the mortgage, and finally, the mortgage only comes due when you die, sell your house, or move out permanently.

One of the more appealing features of a reverse mortgage is that the money advanced by the lender is tax-free, and therefore doesn't affect entitlement to Old Age Security or the Guaranteed Income Supplement payment. However, bear in mind that if you decide to sell your house or you pass away, the loan plus the interest, will have to be repaid. This can mean less money to count on if you have to sell your house to pay for long term care, or, if you pass away, less money left in your estate to leave to your loved ones.

Further, while the benefit of no monthly payments is appealing, the downside of not making payments is that the interest accrued is added to the balance of the loan, meaning the mortgage grows over time, leaving you with less equity in your home. It's also worth noting that the interest rates on reverse mortgages are higher than those on conventional mortgages, making these loans more expensive.

However, this isn't to say that a reverse mortgage is never the solution. For those who cannot bear the thought of leaving their homes, paying a little more to ensure that they never have to move during their lifetime can be worth the added cost (even if it may be more expensive than the alternative of selling and downsizing). For those who are a little more risk tolerant, they can also be a way to cash in on the appreciation of their home's value without having to go through the hassle of selling, allowing an individual to take advantage of their home's equity at the peak of the market, and hedge against a drop in real estate values.

Like all types of loans, it pays to understand the fine print. Before making any decisions, a chat with your lawyer and your financial advisor about the options available in your specific situation will be time well spent.

NIXON WENGER LLP
LAWYERS

Johnathan Clark, Associate
Nixon Wenger LLP
301-2706 30th Avenue
Vernon, BC V1T 2B6
www.nixonwenger.com
250.542.5353 | 1.800.243.5353