Pineapple

Reverse Mortgages Guide

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Introduction

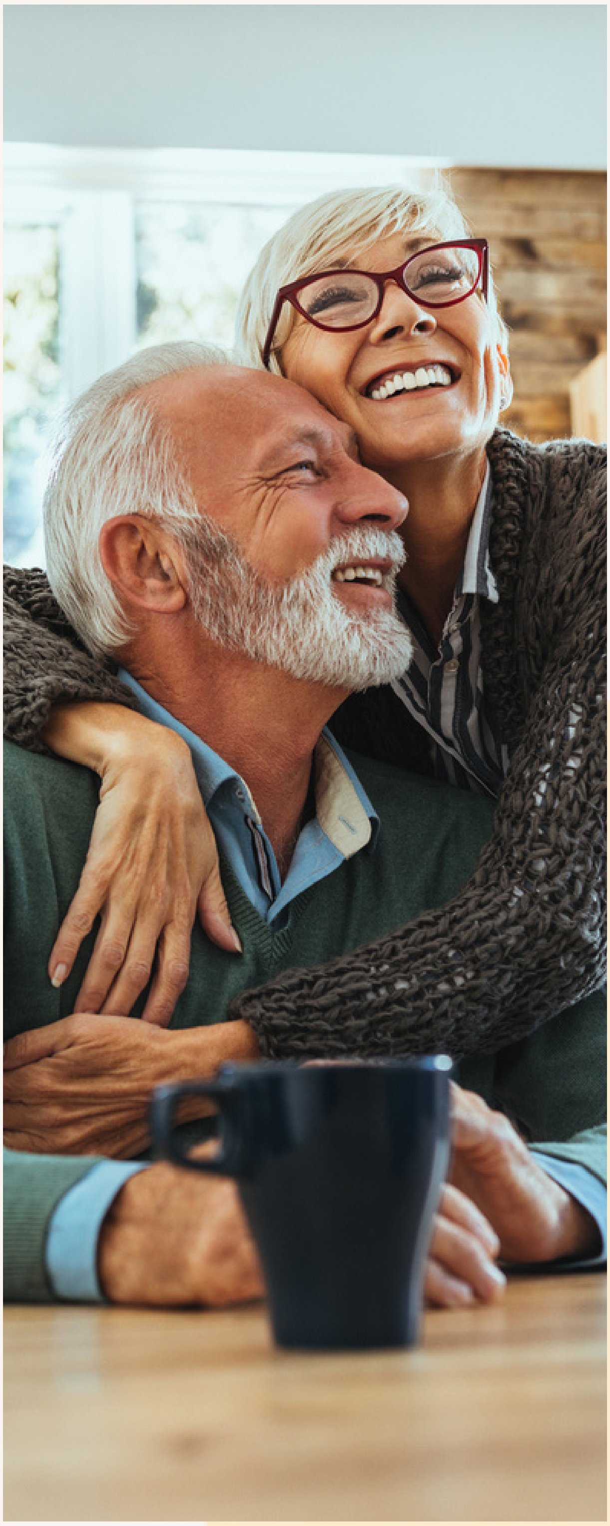
Reverse Mortgages have been in Canada since 1986, and since that time they have been helping Canadian homeowners access their home value in a way that a typical mortgage does not.

Reverse mortgages have the reputation and stability that homeowners want so that they can be comfortable knowing that their home equity is being put to good use.

For the vast majority of people, your credit score and income are not a factor in the decision, and most importantly, you maintain ownership and control of your home. That's right. You will never be forced to sell your home.

Reverse Mortgages have been a huge success in Canada and with more Canadians reaching the age of retirement, they will continue to grow in popularity as a great way for older Canadians to utilize the equity they have built up in their home.

Background on Reverse Mortgages



Who Are Reverse Mortgages A Good Fit For?

People who have built up their home equity through the years and who are now approaching retirement or are already retired.

If you find yourself with insufficient funds to make your day-to-day costs, let alone take that trip, make home renovations, pay medical bills, or help your family out like you were looking forward to – then reverse mortgages might be a good fit for you too.

The good news is that a reverse mortgage is an option that is available to homeowners aged 55 and over, and is a great way to achieve all the above.

By using a reverse mortgage, you can access your home equity without the month-to-month payments you would find on a typical loan, such as a Home Equity Line of Credit (HELOC) or a refinance. With a reverse mortgage, you don't have to make any monthly re-payments at all. You won't need to worry about losing your home either.

With our independent and objective advice, we will make sure that you are knowledgeable about this great product and you are completely comfortable that this is the right decision for you.

We start with this guide, but we have a team of mortgage professionals and certified reverse mortgage specialists who will work with you the entire way to answer any questions you have.

What Can You Use A Reverse Mortgage For?

In short – anything you want really. No conditions or requirements as to how you will spend the money are included with a reverse mortgage.

What do people use it for?

Here are the most common reasons in Canada:

- Pay off your existing mortgage to free up cash
- Pay off other debts (like a line of credit or a loan)
- Renovate or make your home more accessible
- Help your family – from your children to your grandchildren (early inheritance or down payment gifts)
- Improve your day-to-day standard of living
- Take a trip or make a special purchase to celebrate retirement
- Medical bills or health care
- Additional income to supplement your pension during your retirement years

You put your reverse mortgage towards what matters most to you.

It is yours to use how you see fit.

Qualifying For A Reverse Mortgage

Reverse mortgages are designed exclusively for Canadian homeowners aged 55+.

Here are the eligibility requirements:

- You and anyone on the title to the home (including your spouse if you are married) must be 55 years of age or over
- The property must be your principal residence
- Any existing mortgages, or loans secured against your home, must be paid off using the reverse

How much you qualify for will be dependent upon 4 key factors:

Your age, The home location, The property type, and The home valuation.

However, as a general rule of thumb, reverse mortgages are not issued for more than 55% of the home value – it's usually much less than this.

You qualify for up to 55% depending on the factors listed above. The phrase 'up to' is very important, as this means you should not expect to always get the full 55%. The percentage does vary – depending on the factors listed above.

If you'd like to find out how much you qualify for, you can get a free assessment and quote, contact me today!

A Key Secret:
Keeping Your Home Equity

"Is it true that I can lose the home or the equity in the home with a reverse mortgage?"

No, the truth is:

1. The amount of money you owe can never be more than what your home is worth. This is an important safeguard on a Canadian reverse mortgage.

2. It is rare for people to lose equity in today's market. In fact, 99% of people who take out a reverse mortgage will still have equity left in their home after they have paid the reverse mortgage back. Many borrowers are left with over 50% of their equity remaining in their home even after the sale - thanks to appreciation

Let's look at an example:

- In this example, you are taking out a reverse mortgage for $250,000 on your $500,000 home
- The interest rate on the reverse mortgage is 5% (note: for illustration purposes only)
- How would the reverse mortgage impact your home equity?

Your home only needs to grow at 2.5% (half the interest rate of the reverse mortgage) for you to not lose any equity. Here are the exact calculations showing this:

- Annual interest on a $250,000 reverse mortgage at 5% = $250,0000 x 5% = $12,500
- Annual growth in equity on a $500,000 home at 2.5% = $500,000 x 2.5% = $12,500

As you can clearly see, all your home equity needs to do is grow at half the rate of the reverse mortgage (in this case 2.5% being half of 5%) and you don't lose a single dollar of home equity.

A Key Secret: Keeping Your Home Equity

And, of course, this rule applies to all reverse mortgage amounts:

If you take out a reverse mortgage for one-quarter of your home value, your home only needs to grow at one-quarter of the reverse mortgage rate for you not to lose any equity

If you take out a reverse mortgage for one-third of your home value, your home only needs to grow at one-third of the reverse mortgage rate for you to not lose any equity.

This is why - at present - the vast majority of people in Canada are actually still increasing their home equity whilst having a reverse mortgage.

How is this? The Canadian Housing Market has averaged around 6% yearly appreciation over the past 15-years.

At these growth rates, assuming you took a reverse mortgage for as much as half of your home, as long as the interest rate of your reverse mortgage was below approximately 12% you would be gaining equity.

If you took out a reverse mortgage for one-third of your home, the reverse mortgage rate would have to be above 12% for you to be losing home equity at these growth rates.

Of course, reverse mortgage rates are nowhere near this high – so people are finding that they are actually still increasing their home equity through home value appreciation, despite having a reverse mortgage. This is why 99% of people who have taken out a reverse mortgage in Canada still have equity in their home at the point their home is sold and the reverse mortgage is paid off.

As shown above, most Canadians are actually gaining equity in their homes just now – even with a reverse mortgage. So, next time someone mentions you losing your home equity with a reverse mortgage, you should note it is not quite as simple as this and you might want to send them this information.

The Benefits Of A Reverse Mortgage

Before making any decision, it is common for people to make a list of pros and cons. Let's do the same for reverse mortgages.

We'll start with the benefits. We have already outlined many of them, here is a quick summary with a few others too:

- You can get the money whenever you need it, as long as you qualify.
- Reverse mortgage cash is 100% tax-free.
- You can spend the money however you wish.
- Stay in your home. Forever. No exceptions.
- No payments are required at all unless you chose to move or sell.
- You can never owe more than what your home is worth.
- Simple qualification process.

Ok, let's look at the other side of the coin...

The Disadvantages Of A Reverse Mortgage

We work as objective and independent mortgage professionals – we don't work for any bank or lender – this applies to reverse mortgages too.

So, what that said, we wouldn't be doing our job if we didn't discuss the downsides of a reverse mortgage with you. You should make your decision knowing that – like almost every single other financial product there is – reverse mortgages have a downside too. Here are the key ones:

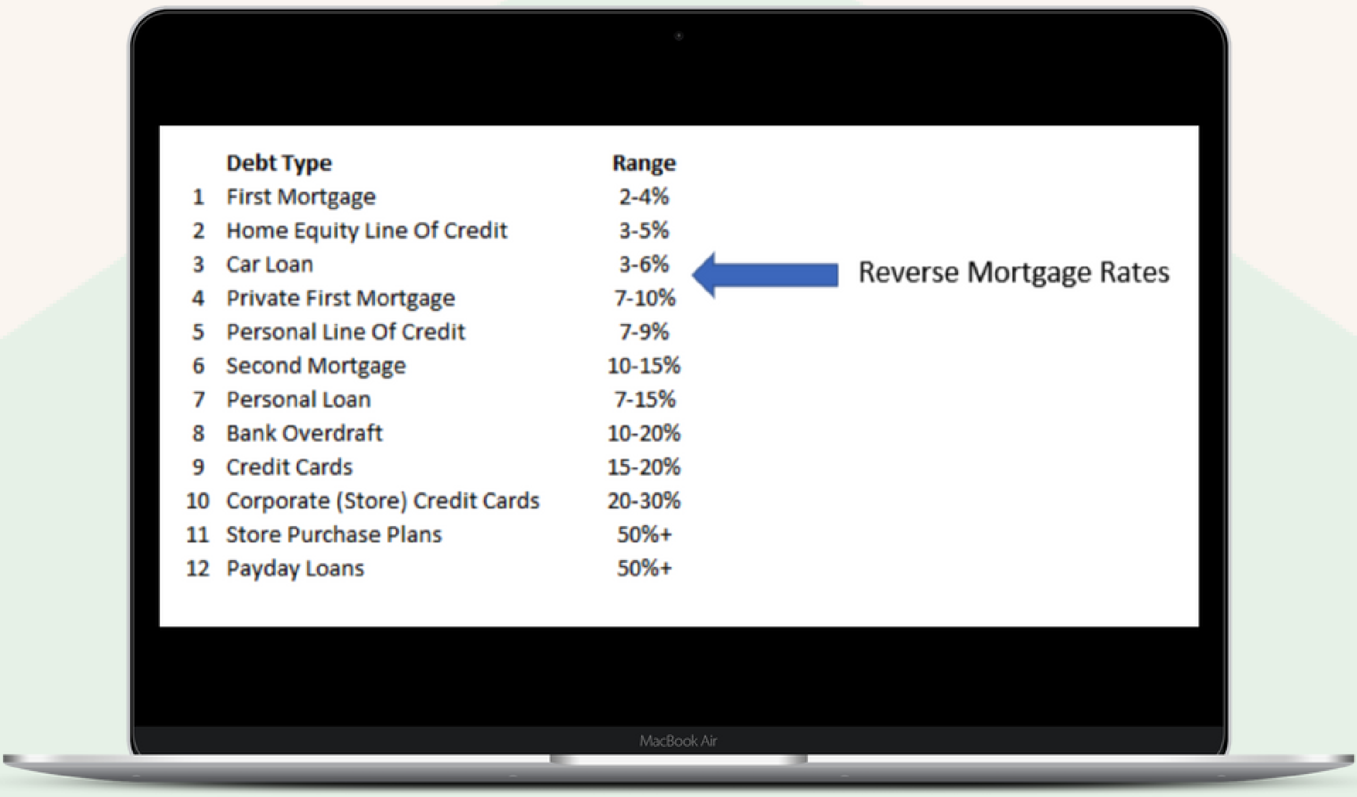
1. Moving Out Of Your Home Is Harder

The ironic thing is that many people think that they'll 'lose their home' but the exact opposite is true – a disadvantage of a reverse mortgage is that it makes it harder to leave your home. You now have to discharge a mortgage as part of that process. Reverse mortgages – just exactly like a HELOC or normal mortgage – make this a little harder.

2. It Is Still A Loan (Even If There Are No Repayments)

Yes, you won't lose your home. No, you don't have to repay a penny. But, of course, a reverse mortgage is still a mortgage loan subject to interest. If you refer to the pages above, we showed you how home equity growth can easily offset this interest but it is something to be aware of.

If you look at the top 12 lending products in Canada, reverse mortgage rates would be about 4th best:



	Debt Type	Range
1	First Mortgage	2-4%
2	Home Equity Line Of Credit	3-5%
3	Car Loan	3-6%
4	Private First Mortgage	7-10%
5	Personal Line Of Credit	7-9%
6	Second Mortgage	10-15%
7	Personal Loan	7-15%
8	Bank Overdraft	10-20%
9	Credit Cards	15-20%
10	Corporate (Store) Credit Cards	20-30%
11	Store Purchase Plans	50%+
12	Payday Loans	50%+

The Disadvantages Of A Reverse Mortgage

As you can see, reverse mortgage rates tend to be above that of a Home Equity Line of Credit (HELOC) or the current 'top' mortgage rates available today – but well below an unsecured Line of Credit or Loan rate and the vast majority of other products Canadians take out.

Of course, a reverse mortgage is the only one of these products that don't require repayment. So, this makes it a little different and therefore hard to compare on rate alone.

3. Reduction Of Your Estate Size

A reverse mortgage reduces the size of your estate and thus the inheritance that you would leave your family. This is of course assuming that you spend all the cash you take out – if you didn't spend it all, there would be a limited reduction itoyour estate.

As we mentioned, 99% of Canadians who took out a reverse mortgage still had equity when they sold their home. So, it is very unlikely that you would be reducing your estate to $0.

Now, it goes without saying that your estate and your home is yours to do with whatever you see fit. However, you might want to have a discussion with your family and anyone who might be impacted before making this decision. This is completely up to you, of course. This is a very personal decision that differs from family to family.

A Reverse Mortgage VS. Home Equity Line of Credit (HELOC)

A Home Equity Line of Credit (HELOC) is a loan that is registered against your home. That means that there is a risk of losing your home with a HELOC if you cannot make payments. On top of this, a HELOC is a traditional loan that requires monthly payments (of at least the interest due), whereas a reverse mortgage does not.

A HELOC also requires you to qualify for it – most likely this will involve income verification and a credit check. A reverse mortgage does not require the same level of qualification.

Furthermore, you could make voluntary monthly payments of the interest and effectively turn a reverse mortgage into a HELOC with none of the downsides. What we trying to say is that if you pay the monthly interest each month on your reverse mortgage, you have created exactly the same situation as you have with a HELOC – except that you can't lose your home for missing payments (as your reverse mortgage payments would be voluntary not mandatory) and all the other negative down-sides of a HELOC do not apply.

When Is A Home Equity Line Of Credit HELOC) A Better Option?

A HELOC is the best option if you don't need smaller amounts of cash or short term funds. For instance, if you need to have an emergency fund or credit you can tap into on a temporary basis, then a HELOC fulfills this perfectly. .

To help you decide what option would be best for you, the table on the following page shows a detailed comparison between a Reverse Mortgage and HELOC:

A Reverse Mortgage VS. Home Equity Line of Credit (HELOC)

Reverse Mortgage And HELOC Comparison Table

Reverse Mortgage vs HELOC - A Summary		
	Reverse Mortgage	**Home Equity Line Of Credit (HELOC)**
Monthly Payments	Voluntary - can pay interest only or nothing	Mandatory - must pay the interest charge every month
Can You Lose Your Home?	Never, under any circumstances	Yes, if you fail to keep up with payments
Can The Balance Owed Be Greater Than The Value Of Your Home?	No, the contract specifically outlines that you can never owe more than the value of your home	Yes - the balance owed is not capped or reduced under any circumstances other than repayment
Do You Need Strong Income And A Good Credit Score To Qualify?	No, you and any spouse living in the home must be over 55. Income and credit score are not as important	Yes - HELOCs are assessed on your income and credit score - you are required to qualify for one.
Can You Repay The Outstanding Balance?	Yes - up to 10%. If you want to pay more than 10%, there is a penalty in the first 5 years, no penalty at the term end	Yes - can be repaid at any time

How Does The Reverse Mortgage Process Work?

If you are ready to proceed, we're here to help.

Here are the steps involved:

1. Get a Free Reverse Mortgage Assessment from a PIneapple mortgage expert and they will answer all of your questions.

2. There's more than one lender in Canada who offers the reverse mortgage program. HomeEquity and Equitable Bank are the leaders in this space, but there are also a number of other lenders who have started offering a range of reverse programs too. We'll make sure you are placed with the right one for your specific needs based on your initial assessment.

3. If you decide to proceed, we'll send you the full information on how much you qualify for and what is required to complete the deal.

4. At this point an appraisal of your home is usually necessary, to get a correct valuation. This is the only out-of-pocket cost you will incur during the process.

5. We collect the required paperwork – including identity verification, pulling your credit score, information about your income, and sometimes additional paperwork. While your credit score and income are not usually a factor in most cases, it is required to show that we at least considered them - because of mortgage rules and regulations in Canada.

6. Finally, before making a commitment, we will require that you get independent legal advice from a lawyer and will even speak to family members if you wish

7. You receive your money! You can set up your reverse mortgage to be one lump sum payment or continual monthly withdrawals.

Frequently Asked Questions (FAQ)

Here are some of the most frequent questions we get about reverse mortgages.

Can I use a reverse mortgage to pay off an existing mortgage?
Absolutely you can. In fact, this is one of the most common uses of a reverse mortgage. The only catch is that the reverse mortgage funds must pay off the existing mortgage before any remaining balance left-over is yours to do what you please with.

How much will I qualify for?
The amount you are eligible for depends on a number of things, including your age, the age of your spouse, your home value, type of property, and the location of your home. To get this amount, simply apply for a free assessment.

Do I have to make any payments?
The answer is simply that no payments are required until you move or sell your home. That includes any interest accrued during the lifetime of the reverse mortgage. You can voluntarily make payments though and thus turn a Reverse Mortgage into something similar to a Home Equity Line Of Credit (HELOC).

Can I lose my home?
You remain the owner and have full control of your home. You will never be asked to move or sell your home. You and your spouse can stay in your home as long as you wish.

Can I keep the equity left in my home if I sell?
Over 99% of homeowners have money left over when their reverse mortgage is repaid. And, on average, the amount left over is over 50% of the value of the home. You maintain the equity that is earned on the home during the lifetime of the reverse mortgage.

Frequently Asked Questions (FAQ)

Will government benefits be affected?
Reverse mortgages do not affect any government benefits you may be receiving, including but not limited to Old Age Security, or the Canadian Pension Plan.

What penalties are there if I repay a reverse mortgage?
Like a conventional mortgage, reverse mortgages do have penalties if you repay the balance in full. However, unlike a conventional mortgage, these fees only apply during the first 5 years – beyond this, there are no penalties. Furthermore, the penalty amount declines the closer you get to the 5 year cut off.

What if my spouse is under 55?
If your spouse is under 55 and on the title to the home, you will not qualify for a reverse mortgage.

Does the interest compound?
Yes, it does but – like almost all mortgages in Canada – it compounds semi-annually (twice a year). A Home Equity Line of Credit, on the other hand, actually compounds monthly.

What hidden fees do I need to know about?
Common fees include an administration fee, and a closing fee that is added together to determine the annual percentage rate (APR). All fees will be provided to you up front before you agree to the terms.

How many lenders are there?
There are currently two primary lenders of a reverse mortgage in Canada – Home Equity Bank and Equitable Bank. Home Equity Bank is the most established lender of this product of the two, having been in the reverse mortgage business for many years. Equitable just launched its product in 2018. Bloom Financial is a new lender in the space with specialized offerings. We'll help you decide which lender is right for you based on your initial assessment and future goals.

Is A Reverse Mortgage Right For You?

For seniors on a fixed budget, there has been no better time to take out some of the equity in their home to help secure their retirement than today.

With nearly half of all Canadians household assets sitting in real estate, a reverse mortgage option is an excellent way to put some of that wealth to good use.

Remember, your retirement is not just about covering your costs it's about enjoying your golden years.

Even if you're between the ages of 50-65, it's important to start looking at your retirement plan now to see if you have enough money saved to live comfortably. If you find you're going to be short on funds, now's the time to start looking at how a reverse mortgage can fill those gaps and securely position you into retirement.

If you're ready to learn more, our free and simple mortgage assessment will help guide you in the right direction.

There are many benefits to a reverse mortgage, but it's always wise to weigh the pros and cons before deciding what is right for you and your family. Our Pineapple brokers are here to help answer any of your questions, navigate through the process, and provide you with all the possibilities available for meeting your financial needs today and years down the road.

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