Reverse Mortgages of Canada

The family guide to reverse mortgages

Plain answers for homeowners 55 and older, and for the sons and daughters helping them decide. Print it, read it together, and bring your questions.

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Written by Joe White and Cain Daniel, co-founders of Reverse Mortgages of Canada. This guide gives general information for Ontario homeowners. It is not legal, tax or financial advice for your situation.

PART 1

How it works, in one page

A reverse mortgage lets homeowners 55 and older borrow against their home without making monthly payments.

You keep the title

The home stays in your name. The lender registers a charge on the title, the same way a bank does with a regular mortgage.

You make no monthly payments

The interest is added to the loan each month. The balance grows over time instead of shrinking.

You take the money your way

You can take one lump sum, smaller amounts over time, or both. Interest is only charged on money you've actually taken.

It's paid back at the end

The loan is paid back when the last owner sells the home, moves out for good, or passes away. A move into long-term care counts as moving out.

You keep up your side

You live in the home, pay the property taxes and insurance, and keep the home in good repair. Falling far behind on these is one of the few ways a lender can call the loan early.

The estate can't owe more than the home sells for

Canadian reverse mortgages generally include this guarantee, as long as the terms were kept. Ask to see the exact clause in your contract, because conditions apply.

The money isn't income

It's a loan, so it isn't taxed. It doesn't count against Old Age Security or the Guaranteed Income Supplement.

You get your own lawyer

Before you sign, a lawyer who works only for you must go through the contract with you. This protects you, and every lender requires it.

PART 2

When it's the wrong choice

Start here. If any of these sound like you, a reverse mortgage probably isn't the answer.

You can afford payments on something cheaper

A secured line of credit or a regular mortgage costs less. If your income covers the monthly payments, choose one of those. Many people over 70 no longer qualify on income, which is often where this conversation starts.

The home will probably sell within two years

The appraisal, legal and setup costs are the same whether the loan lasts two years or twenty. Over a short time, they rarely pay off, and an early payoff penalty may apply.

Someone else is pushing for it

If a child, a caregiver or anyone else is pressing an older owner to take money out of the home, slow down. We talk with the owner alone, and the owner's own lawyer gets involved early.

Four ways to use your home's value after 55

OPTION	INTEREST RATE	MONTHLY PAYMENTS	INCOME TEST	YOU STAY HOME
Line of credit	Lowest	Yes	Yes	Yes
Regular mortgage	Low	Yes	Yes	Yes
Sell and downsize	None	No	No	No, you move
Reverse mortgage	Highest	No	No	Yes

Selling releases the most money and has no interest, but it costs you the home and the neighbourhood. On a $1 million home in Ontario, the commission, the HST on it and the land transfer tax on a $700,000 condo add up to about $67,000 before the lawyer and the movers. If staying home is the goal, paying more to stay can be a fair choice.

Downsizing example assumes a 5% commission, 13% HST on the commission, and Ontario land transfer tax outside Toronto with no first-time buyer rebate. Commissions are negotiable. Amounts vary.

PART 3

Do you qualify?

Your income and credit score matter much less than usual. Your age, your home and where it is matter most.

Every lender requires these

- Everyone on the title is 55 or older.
- It's your main home, where you live most of the year.
- The lender lends in your town. Each lender sorts towns differently.
- You get advice from your own lawyer before you sign.

The rule that surprises couples

With two owners, the younger age sets the amount. A couple usually qualifies for less than the older partner would alone.

These don't stop you

- **A low income, or no job.** You make no monthly payments, so there's no income test like a bank's.
- **Credit that isn't perfect.** Lenders care most that taxes and insurance are paid.
- **A mortgage you still owe.** It gets paid off first. Ask your bank about its penalty for paying off early.
- **Your age.** There's no upper limit. The older you are, the bigger the share of your home's value you can use.

Which homes the lenders accept

Yes **Detached or semi-detached house.** Accepted everywhere, with the largest amounts.

Usually **Townhouse.** Freehold and condo townhouses are generally fine.

Usually **Condo apartment.** Accepted at a lower amount. Some small or older buildings are turned down.

Sometimes **Rural home or acreage.** A well, septic or large lot means fewer lenders and smaller amounts.

Sometimes **Duplex, or a shop with a home above.** It depends on the lender.

Hard **Mobile home or life lease.** Usually turned down.

PART 4

Every cost, start to finish

Some costs come off the top on day one. Interest is added over time. A few costs show up when the loan ends.

WHEN	COST	WHAT TO EXPECT
Start	Home appraisal	Usually a few hundred dollars. Lenders sometimes cover it.
Start	Your own lawyer	Several hundred dollars to about a thousand. This is the one cost not worth shopping down.
Start	Lender's legal and setup fees	Title work, registration and an admin fee, often $1,000 to $2,000 in total.
Start	Paying off a mortgage you already have	Your bank may charge a penalty if you're partway through the term. Check this first.
Ongoing	Interest	Added to the balance each month. Over a long loan, this is the biggest cost by far.
Ongoing	Taxes, insurance, upkeep, condo fees	You keep paying these, as you always have.
End	Early payoff penalty	Applies if the loan ends early. Highest in the first years, and often waived when the last owner passes away.
End	Discharge and legal fees	A small fee to remove the loan from the title, plus normal legal work on the sale or estate.
Never	A debt passed to your children	The estate can't owe more than the home sells for, as long as the terms were kept.

What you pay us

Nothing. The lender pays us when a loan closes, so we earn money when a deal happens. Weigh our advice knowing that. It's also why we tell you to take a line of credit whenever you can.

Ranges are typical for Ontario, not quotes. Ask for the full cost on your file, in writing.

PART 5

Rates, and how the loan grows

The rate is higher than a regular mortgage. Here's why, and how to keep the cost down.

The lender waits to be paid

Nothing comes back until the home is sold, in two years or twenty-five.

The lender takes a risk for your family

If the loan ever grows past the home's value, the lender covers the difference.

There's no income test

The lender relies on your home and age, and that costs a bit more.

Fixed, longer term

Locked rate and a predictable balance. Higher rate, and leaving early costs more.

Fixed, shorter term

Lower rate. At renewal you can switch or pay off with no penalty.

Variable

Usually the lowest start and the cheapest to leave. The balance grows faster if rates rise.

How a $200,000 lump sum grows with no payments

AFTER	OWED ON THE LOAN	HOME VALUE	FAMILY STILL HAS
5 years	$283,525	$1,216,653	$933,128
10 years	$401,932	$1,480,244	$1,078,312
15 years	$569,789	$1,800,944	$1,231,154

Three ways to keep the cost down. Borrow what you need instead of the most you qualify for. Take money in stages, because interest only starts on money you've taken. Ask whether you can pay down part of the balance each year with no penalty.

Example only. Assumes 7% interest compounded monthly and 4% yearly home growth. Amounts vary. Not tax advice. Starting home value $1,000,000, paid off.

PART 6

What the family still has

This is the question adult children ask most. Here's one example with every step shown.

Say your parents' home is paid off and worth $1,000,000. They use a reverse mortgage to pay for care at home, $3,000 a month for ten years.

Total borrowed over 10 years ($3,000 × 120 months)	$360,000
Interest added at 7%	$159,254
Owed after 10 years	$519,254
Home value after 10 years at 4% a year	$1,480,244
Your family still has about	**$960,990**

And if the home never went up a single dollar, the family would still have about **$480,746**.

Helping with a first home

Borrow $100,000 once for a grandchild's down payment. After 10 years, about $200,966 is owed, and the family still has about $1.28 million.

A big trip, or a new roof

Borrow $40,000 once. After 10 years, about $80,386 is owed, and the family still has about $1.4 million.

The family can sell the home and keep the rest, or pay off the loan and keep the home. Some of the inheritance arrives earlier, while your parents are here to see it.

Example only. Assumes 7% interest compounded monthly and 4% yearly home growth. Amounts vary. Not tax advice. Monthly care amounts are taken at the end of each month.

PART 7

Choosing a lender

Lenders value homes differently, lend in different towns and charge different penalties. The rate is only one part of it.

Six questions that point to the right lender

- Do you need one lump sum, or smaller amounts over time?
- How old is each owner?
- What type of home is it, and what town is it in?
- How long do you plan to stay?
- What should happen if one of you needs care?
- How much do you want to leave to your family?

What to read in every offer

- How the early payoff penalty is worked out, year by year, and when it's waived.
- Whether you can take money in stages, and what that costs.
- What happens if one owner moves into care and the other stays.
- Whether the loan can move with you to a new home.
- How long the estate has to settle the loan.
- The clause that says the estate can't owe more than the home sells for.

Why your age matters here

Around age 70, offers from different lenders tend to land close together. In your mid fifties, the gap between lenders is widest, so comparing them matters most.

What we promise

We'll name the lenders we can place your file with. If the best fit is one we can't reach, we'll tell you. When we recommend a lender, you'll hear which terms decided it and what you give up by not taking the other.

PART 8

Questions to ask, and next steps

Take this page to the kitchen table, then to any broker you talk to, including us.

- [ ] What's the full cost on our file, including everything that comes off the top?
- [ ] What would leaving cost in year one, year three and year five?
- [ ] Is the penalty waived if the last owner passes away, or moves into care?
- [ ] What's the projected balance at five, ten and fifteen years?
- [ ] Can we take the money in stages instead of all at once?
- [ ] Would a line of credit or a regular mortgage work instead?
- [ ] Where in the contract does it say the estate can't owe more than the home sells for?
- [ ] Who is our lawyer, and do they work only for us?

Talking about it as a family

Start with what your parent wants, which is usually to stay home and live well. Ask the questions above together. Let the homeowner make the final call, with their own lawyer, in their own time.

Get your free estimate, or call and ask anything.

1-416-878-9448

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