

NOTE: RTO/ERO NEITHER ENDORSES NOR SUPPORTS THE CONCEPT OF REVERSE MORTGAGES

A. INTRODUCTION

Members' individual financial considerations are quite complex. If you have questions regarding your personal situation, you should speak with a tax/financial advisor. RTO/ERO's Fact Sheets are not substitutes for seeking professional advice.

This Fact Sheet is provided for information only.

B. PREAMBLE

Average Canadian seniors have 80% of their assets tied up in their houses. With a reverse mortgage you get a lump sum and make no monthly payments. It is a way to tap into the equity you've accumulated in your home and have cash in a lump sum, or a stream of income, and still be the owner of your home. The principal remains unpaid and interest accumulates. The debt is repaid only when you sell your house or you die.

C. OVERVIEW

Reverse mortgages for Canadians are offered by The Canadian Home Income Plan (CHIP); 1.866.518.2447 or visit www.chipmoney.ca.

Reverse mortgages are based on the following elements:

- You can borrow up to 40% of the value of your home.
- The money you receive is tax-free.
- You can take the money in a lump sum or convenient monthly amounts.
- You must be 60 years or over to qualify.
- You cannot be forced to move or give up your home.
- Your estate will never have to pay back more than your home's value.
- If you decide to move for any reason, then the full amount of the loan plus years of interest becomes due.

D. CAUTIONS

CHIP charges a very high interest rate on the loan, and it is compounded semi-annually with the interest payments rolled into the amount you owe. At current rates, your debt balloons quickly and doubles approximately every eight to nine years. As an example, the debt for a \$200,000 reverse mortgage would become more than \$650,000 in 15 years. This could easily match or exceed the value of your home.

Reverse mortgages are a permanent commitment. If after 15 years your health deteriorates and you have to sell your house and move into a nursing home, you may find yourself faced with a staggering debt and little left over to pay for health care.

Annual health care costs for some cancer drugs can reach \$30,000, while long-term care in a nursing home may be between \$18,000 and \$24,000 annually.

E. ALTERNATIVES

- A home equity loan from your bank may be a better solution. It is true that payment of interest every month would be required, but you can just borrow a bit more than you need and pay the interest with borrowed money as you go.
- Another alternative source of income may be to downsize your residence.
- A professional financial advisor may offer other alternatives.

F. SUMMARY

- A reverse mortgage can allow you to stay in the home you love, but it can rapidly eat up the home equity you invested years building.
- Since each reverse mortgage has different terms and conditions, make sure you check out all details before you sign, even if you are arranging a private reverse mortgage.