



# IS A **REVERSE MORTGAGE** RIGHT FOR YOU?

**A** recent survey by Forum Research Inc. showed that 47 per cent of Canadian homeowners are mortgage free and that more than one in five British Columbians have less than 10 years left on their mortgage.

For such homeowners who are age 55 and over, the possibility exists to draw immediate cash from their home via a reverse mortgage. This can be up to 40 per cent of the home's value, and the owner doesn't have to pay this loan off until he or she sells the home.

Sounds good? Reverse mortgages work well for some older homeowners, but there are also drawbacks.

The five main advantages of a reverse mortgage, according to the Investor Education Fund, are:

1. Frees up cash that can be used for investments, for example buying an annuity to create monthly income, or the funds can be used to cover expenses.
2. Reduces cost of borrowing – You pay no tax on the money you borrow and make no loan repayments

as long as you stay in your home.

3. Creates tax break – You can deduct the interest on the loan from your taxes if you invest the money you borrow. This deduction may offset any tax you may pay on unsheltered investments.

4. Allows you to stay in your home – You can maintain your lifestyle in a home you love in an area you like.

5. Keeps equity – You have equity in an asset that may go up in value, and add to your estate

The five main disadvantages to taking out a reverse mortgage are:

1. Reduces home equity – You may use up most or all of your equity in your home to pay back the loan. This will leave less for your family or estate.
2. Does not eliminate costs – You still have to pay property taxes, maintenance costs and home insurance.
3. Builds up debt – You pay interest on the interest,

and you have to pay the loan back when you sell.

4. Adds costs – To get the loan, you have to pay appraisal fees, application fees, legal fees and closing fees.

5. Charges higher interest rates – Reverse mortgages have higher interest rates than regular mortgages.

For some, reverse mortgages are ideal way to fund retirement and, if invested well, could actually earn money. But it can also lead to family squabbles because there will be less inheritance to pass on to the next generation. If you are considering a reverse mortgage, talk to a financial advisor, a real estate expert - and your family.

**A reverse mortgage allows older homeowners to draw cash from the house – but at a cost, including less inheritance for children.**