




REVERSE MORTGAGE

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What Will I Present to you Today

Today I will try to give an idea about one of the mortgage types that is considered a Supplementary product to what Mr. Mohamed Kababj seminar “Risk of retirement plan” introduced on Nov 24, 2020.

We will be starting with an idea about:

- What is Mortgage and how it will work in general?
- Introduction and Background of Reverse Mortgage
- What can you use a Reverse Mortgage for?
- Qualifying for a Reverse Mortgage and how it works.
- Pros and Cons of a Reverse Mortgage.

What is Mortgage and how will it work in general?

In a simple definition, mortgage is a lending contract secured by the Collateral of specified real estate property, that the borrower is Obligated to pay back with a Predetermined set of payments.



Introduction and Background of Reverse Mortgage

- Reverse Mortgages has been in Canada since 1986, where there are owners finding themselves “**cash poor but house rich**” and are looking for additional cash but with an intent to stay in their home and not sell it. For this group, reverse mortgages might be a good fit.
- For the vast majority of people, your credit score and income are not a factor in the decision, just **collateral** and most importantly, that you maintain ownership and control of your home. In Canada, you will never be forced to sell your home.



What can 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:

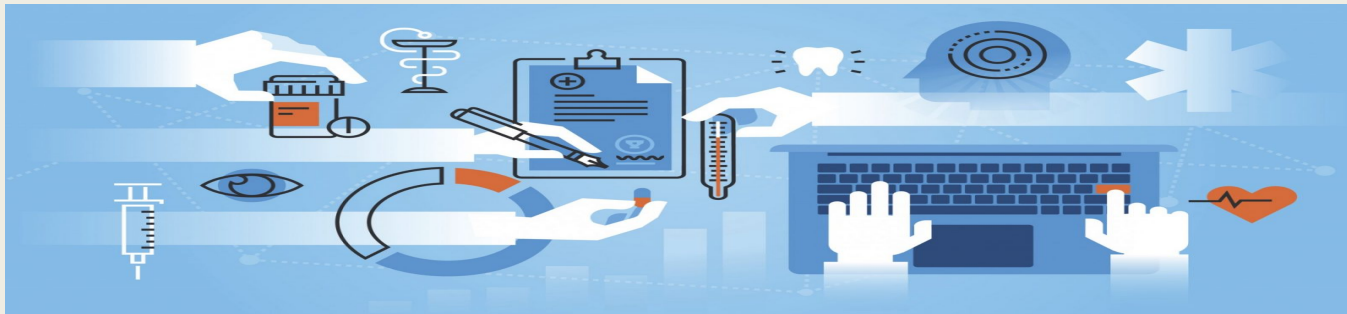
- *Pay off your existing mortgage to free up cash*
- *Pay off other debts (like a line of credit or a loan)*
- *Renovate or make your home more accessible*
- *Help your family – from your children to your grandchildren (early inheritance or gifts)*
- *Improve your day-to-day standard of living*
- *Take 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*

Qualifying for a Reverse Mortgage and how it Works

- ✓ Owner(s) are 55 or over.
- ✓ On principal residence only.
- ✓ Any existing mortgage, loans, or secured against principal resident must be paid by the process.

How much will you qualify for?

- ❖ Will depend on 4 key factors (**Age**, home **location**, property **type** and **value**).
- ❖ As a rule of thumb, reverse mortgages cannot exceed more than 55% of the current home value.



Example

- Home value \$500K reverse mortgage amount \$250K “Use 50% of the home value”
- Interest rate on reverse mortgage 5% “As example”
 - *Annual interest on a \$250,000 reverse mortgage at 5%*
 $= \$250,000 \times 5\% = \$12,500$
 - *Annual growth in equity on a \$500,000 home at 2.5%*
 $= \$500,000 \times 2.5\% = \$12,500$
- Need the grow of home value half of the interest rate to maintain the equity

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.

Pros of a Reverse Mortgage

We'll start with the benefits that already outlined many of them, here is a quick summary with a few other too;

- *Stay in your home. Forever. No exceptions.*
- *You can get the money whenever you need it, as long as you qualify*
- *You can spend the money however you wish.*
- *Reverse mortgage cash is 100% tax free.*
- *Do not affect any government benefits you may be receiving, including but not limited to Old Age Security, or Canadian Pension Plan.*
- *No payments are required at all, unless you chose to move or sell.*
- *You can never owe more than what your home is worth.*

Cons of a Reverse Mortgage

- ❖ *Moving out of your home is harder.*
- ❖ *It is still a loan (even though there are no repayments).*
- ❖ *Be aware of interest rates and how is compound.*

Higher Interest Rates	<ul style="list-style-type: none">• Personal Loan• Business Loan• Unsecured Line of Credit
Lower Interest Rates	<ul style="list-style-type: none">• Reverse Mortgage• Home Equity LOC “Secured”• Mortgage

Cons of a Reverse Mortgage

- ❖ *Penalties might apply with repay a reverse mortgage*
- ❖ *Reduction of your Estate size*



Thank you

Feel free to contact me for any mortgage related questions

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