



# Reverse Mortgages



Cover Photo by David McBee from Pexels

The contents of this publication are provided as general information only. **It is not legal advice.** If you have a legal problem, you should consult a lawyer.

The information contained in this publication was correct at the time it was produced. Be aware that there may have been subsequent changes which make the information outdated at the time you are reading it. The Legal Resource Centre of Alberta will not be responsible for any loss arising from reliance on or action taken (or not taken) as a result of this information.

We would like to thank the **Alberta Real Estate Foundation** for generously funding the Residential Tenancies Legal Information Program.



We would like to thank the **Alberta Law Foundation** and the **Department of Justice Canada** for providing operational funding, which makes publications like this possible.



Department of Justice  
Canada

Ministère de la Justice  
Canada

© 2020

**Legal Resource Centre of Alberta Ltd.**, Edmonton, Alberta

Operating as: **Centre for Public Legal Education Alberta**

The Legal Resource Centre of Alberta Ltd., operating as the Centre for Public Legal Education Alberta, is a non-profit organization whose mission is to help people understand the law as it affects their everyday lives. We develop plain language booklets, presentations, and other learning materials to help people recognize and respond to their legal rights and responsibilities. We have a variety of programs, and provide legal information and referrals on many legal topics.

For more information, please visit [www.cplea.ca](http://www.cplea.ca)







# Reverse Mortgages

## What is a reverse mortgage?

A reverse mortgage is a loan that is designed for homeowners 55 years of age and older (the age qualification applies to both spouses on title).

A reverse mortgage allows homeowners to turn the portion of their house that is debt-free (called “equity”) into cash without having to sell their home. Homeowners can then use this money for any purpose they wish — such as to finance a home improvement, to supplement their retirement income or to cover their health care expenses. In most situations, there are no payments required on the loan until the home is sold or owners move out or pass away.

The information in this publication is adapted from The Financial Consumer Agency of Canada webpage on Reverse Mortgages. For more information, go to their website: <https://www.canada.ca/en/financial-consumer-agency/services/mortgages/reverse-mortgages.html>



### What are some advantages and disadvantages of reverse mortgages?

#### ADVANTAGES

- Most reverse mortgages don't require you to make any payments on principal for as long as you live in your home.
- You can convert some of the equity of your home into cash.
- You will continue to be the owner of your home.
- The money that you get from your reverse mortgage is not taxable.
- This income does not affect the Old Age Security (OAS) or Guaranteed Income Supplement (GIS) benefits you may be receiving.

#### DISADVANTAGES

- When you and your spouse die or sell the home, all loans must be repaid in full with interest, including any accumulated fees or charges.
- Since you are not making any payments, your equity will steadily decrease for as long as you have the reverse mortgage.
- As long as you are the owner of your home, you will remain responsible for all repairs and taxes.
- The costs associated with a reverse mortgage can be high compared to other types of lending arrangements. For example, they can include the following:
  - a higher interest rate than for a traditional mortgage or line of credit
  - a home appraisal fee
  - an application fee and/or setup fee
  - a prepayment penalty (if you pay off the reverse mortgage before it is due)
  - legal fees

## What laws in Alberta relate to reverse mortgages?

There are few laws in Alberta that relate directly to reverse mortgages. Reverse mortgages must follow the cost of credit disclosure requirements under the *Consumer Protection Act*. This means that the credit grantor must clearly disclose the terms, conditions and costs of the reverse mortgage before the borrower enters into the credit agreement or makes any payment in connection with the credit agreement. Depending on your circumstances, other laws may relate to your situation. Before obtaining a reverse mortgage, you should speak to a lawyer about relevant laws that may apply to your situation.



## How much equity am I allowed to borrow on my home?

Generally, homeowners can access up to 55% of the equity in their homes while continuing to live there. The amount will depend on many variables, such as the age of the homeowner and the value that the house is appraised at.

## How much money is available to me as a homeowner?

The amount available to the homeowner is based on the appraised value of the home, the age of the homeowners, marital status, property type, condition, and location.

## How does a lender determine if I qualify for a reverse mortgage and what size of loan can I get?

To determine if you qualify for a reverse mortgage, a lender looks at the equity you have in your home. Lenders also take into account:

- your age
- where you live
- the condition, type and appraised value of your home

In general, the older you are and the more equity you have in your home, the larger the loan you will be able to get. The loan amount can be up to 55% of the current value of your house. You must pay off any outstanding loans that are secured by your home with the funds you receive from your reverse mortgage.

## How does a reverse mortgage work?

Reverse mortgages are quite complex, and involve higher interest rates than most other types of mortgages. Unlike an ordinary mortgage, you don't have to make any regular or lump sum payments on a reverse mortgage. Instead, the interest on your reverse mortgage accumulates, and reduces the equity that you have in your home. You usually don't have to pay the loan back or make any interest payments to the lender, as long as you are living in your home. If you sell your house or your home is no longer your principal residence, you must repay the loan and any interest that has accumulated. On your death, your estate would have to repay the loan.

## Where can I get a reverse mortgage?

HomeEquity Bank and Equitable Bank are two financial institutions that offer reverse mortgages in Canada. Your financial institution may also offer reverse mortgages.

## Where can I get more information on reverse mortgages?

The **Financial Consumer Agency of Canada (FCAC)** informs Canadians of their rights and responsibilities when dealing with financial institutions. FCAC makes sure that banks and federally regulated trust, loan and insurance companies comply with consumer protection measures.

### Tips:

If you need cash and are considering taking out a reverse mortgage, make sure you check all of your options carefully before making a decision. You may want to consider other options.

### Obtain a different type of loan, such as:

- a line of credit
- personal loan
- credit card

### Sell your home and:

- buy a smaller home or condo
- rent another home or apartment or
- move into “assisted living” or other alternative housing.

By exploring all of your options, you will be better able to make an informed decision that is suitable for you and your family. Before obtaining a reverse mortgage, you should also speak with a financial advisor and a lawyer so that you understand:

- how reverse mortgages work
- how your home equity may be affected over time
- what laws are relevant to your situation and
- legal consequences in obtaining a reverse mortgage (for example, what happens when you die)



## Contacts: Information, Advice and Assistance

### Financial Consumer Agency of Canada (FCAC)

Informs Canadians of their rights and responsibilities when dealing with financial institutions. Makes sure that banks and federally regulated trust, loan and insurance companies comply with consumer protection measures.

Phone Toll Free: 1-866-461-3222

Website: <https://www.canada.ca/en/financial-consumer-agency.html>

### Service Alberta's Consumer Contact Centre

Service Alberta is the provincial government ministry responsible for administering the *Consumer Protection Act* (which covers issues relating to credit agreements such as cost of credit disclosures) and investigating alleged unfair practices.

Phone: 780-427-4088

Toll Free: 1-877-427-4088

Website: <https://www.servicealberta.ca/unfair-practices.cfm>

© 2020

Legal Resource Centre of Alberta Ltd., Edmonton, Alberta  
Operating as: Centre for Public Legal Education Alberta

**You should NOT rely on this publication for legal advice.  
It provides general information on Alberta Law only.**

This project was made possible through a grant  
from the Alberta Real Estate Foundation.



[www.cplea.ca](http://www.cplea.ca)