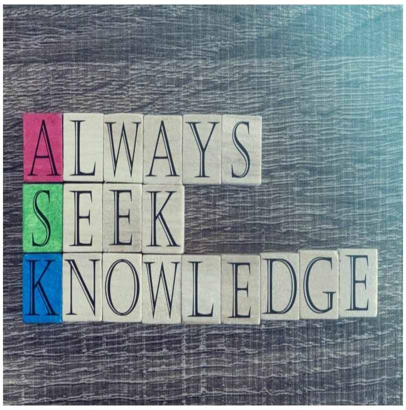

It's Never Been Easier to Get a Reverse Mortgage… But Should You?

Description

Canadian homeowners who have seen their investments take a turn for the worst, or have far less retirement savings than they would like, have a potentially lucrative lump sum at their finger tips: you guessed it, their *homes.*

Eligible Canadians—that is, those who are age 55 or older—can borrow up to 55% of your home's equity. The keyword there is "up to," as your home's value and type, as well as your gender and age, will determine how much you can actually borrow. But, considering the current value of homes, even 25% to 30% of your home's equity could give your retirement savings a major boost.

In the past, most Canadians had to go through a fairly limited list of private corporations to get a reverse mortgage. But this week fintech company Bloom made headlines by launching a completely digital reverse mortgage. Yep, that means no more sitting in stuffy offices, filling out line after line of paperwork (and trust us — it's a *lot* of paperwork). Now, you can get a reverse mortgage in your pajamas.

With that kind of ease, many Canadian retirees (or near-retirees) will surely consider borrowing against their home's value. But the question naturally arises — is it worth it? What are the dangers of borrowing against your home (if any)?

What are the advantages of a reverse mortgage?

First off, let's not overlook the benefits. A reverse mortgage allows Canadians over 55 to turn the equity of their homes into a series of monthly payments (or a lump sum), which can seriously bolster their retirement savings. And the best part? Those monthly payments are completely tax-free.

Unlike loans and credit lines, you're not required to pay back what you borrow by a certain date. Yes — you read that right. By no means will Bloom or another reverse mortgage company come knocking on your door (or emailing you ferociously). Of course, if you sell the home, or if you and your spouse die, a portion of the home sale will go to your reverse mortgage company to pay off what you borrowed.

But as long as you continue to live *in* your home, paying the property taxes and insurance, you won't have to make monthly payments on your reverse mortgage.

This can help you in a number of ways. For one, it can help you stay afloat if your investments have taken a major hit and you need to fill the gap while they recover. It can also be beneficial if you need to borrow money (say, for a medical bill) and you don't want to take out a loan. The flexible repayment terms on a reverse mortgage keep you from feeling cash strapped, while also allowing you to unlock a portion of your wealth without selling your home.

What are the disadvantages?

Let's be real — reverse mortgages are still debt. As such, they do come with some hefty risks.

For one, reverse mortgages can come with high fees and high-interest rates. You'll have to pay an application fee, a home appraisal fee, closing fees, and, in some cases, a fee for legal advice. These fees will be deducted from your equity, and they can range from $1,500 to $5,000.

Second, depending on how much you borrow, you can lose a significant amount of net worth. That may not matter much if you plan to live in your current house for the rest of your life. But if you decide to move, you'll have to repay what you borrowed (plus interest). Depending on how much you owe on your loan, you may be left with very little for a new house.

Finally, interest rates on reverse mortgages are far from favourable. Typically, they're much higher than other types of mortgages. And, as with other loans, the longer you wait to repay your reverse mortgage, the more you'll accumulate in interest. Couple that with a decrease in home equity and you could be left with a hefty loan repayment at the end of your life.

Should you do it?

A reverse mortgage can certainly help you bolster your retirement income. But weigh your options first. While, yes, you'll be able to turn your equity into cash, you'll essentially hand over a portion of your home to a private corporation. If you're okay with that, by all means, proceed. If you'd rather not go into debt, a reverse mortgage is probably not right for you.

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