<p>A senior contemplates getting a reverse mortgage</p>
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Are reverse mortgages a good idea for retirees?

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It's no secret that many Canadians are heading toward retirement without much money in the bank.

In a recent survey of 1,500 Canadians aged 50-plus by the non-profit Investor Education Fund, only two in 10 households said they would have more than $250,000 saved for their retirement. And half of all households surveyed said they believe they will exhaust their savings in the first 10 years of retirement.

Faced with these challenging prospects, many Canadian homeowners are considering the option of a reverse mortgage to access the equity in their home.

Here's how it works: If you are a Canadian homeowner older than 55, you can get up to 50 per cent of your home's value through a reverse mortgage. You are not required to make any mortgage payments and don't have to pay any interest or principal until you sell the home or die. The mortgage is paid off from the proceeds of the home's sale.

It's increasingly becoming a popular choice among seniors. Steve Ranson, president and CEO of HomEquity Bank, which administers the Canadian Home Income Plan (CHIP), the main source of reverse mortgage products in Canada, says they currently have about $1.5-billion in mortgages outstanding. He projects about 2,500 new customers, or $250-million in mortgages, this year.

"Our average clients are couples in their early 70s," he says. "They've been retired for a certain time and they are on a fixed income. Interest rates are low so whatever they've been earning on their investments is less than they planned on and they're saying, we need a little bit more money. They bought a house for $30,000 or $40,000, now it's worth $400,000. They love their house, they don't want to move, but the problem is how do you get at that equity? And that's what we do."

Mr. Ranson says older seniors are generally eligible to receive a higher percentage of their home's value, while younger seniors get less, with the average being about 33 per cent. Another feature of the program is the "no-negative equity guarantee," which means that regardless of how much interest you accrue, you will never owe more than the house is worth.

"The benefit is that if you've got a cottage you want to leave to the kids or you've got other assets you want to give to charity or whatever, you never have to worry that those assets are somehow going to be used to pay the loan. You are only ever going to owe the value of the house," Mr. Ranson says.

Lending rates differ depending on the term – the six-month term rate is currently 3.99 per cent, while a five-year rate is 5.45 per cent. At the end of each term, the mortgage resets to the current posted mortgage rate. There is an option to pay the interest annually, and Mr. Ranson says they will give clients 50 basis points off the rate if they choose that option. But he notes that only about 5 to 10 per cent of customers choose to make those annual interest payments.

"It really is designed for people who need cash flow," he says.

Danielle Park, a Barrie, Ont.-based chartered financial analyst with Venable Park Investment Counsel Inc. and author of *Juggling Dynamite*, says that in most cases, taking out a reverse mortgage is not the way to go.

"The thing that stands out for me is that the interest rate is above market, quite a bit," she says. "The five-year rates are around 5.45 per cent at the moment and they compound semi-annually, so … the debt could potentially double every seven years."

As well, Ms. Park notes that because clients can lock in a rate only for a maximum of five years, they could run into trouble should mortgage rates start rising again.

"With rates at an all-time low, it would be more fortuitous for the homeowner if the rate was fixed but, of course, it's not," she says. "Once we do get into a rising-rate environment again – a normal five-year rate is 8 per cent actually – if they are charging over-market rates, potentially five years or 10 years from now it could be a big risk for the homeowner.”

Annie Kvick, a Vancouver money coach and certified financial planner who specializes in retirement planning, says that although reverse mortgages are more expensive compared with other products, they’ve come a long way. “Just the last few years, rates have gone down, they are more flexible nowadays because you can pick fixed versus variable rates, you can choose the length of term, so definitely the product with some good planning could be a good tool for some seniors.”

Ms. Kvick says the key is figuring out, with the help of a financial planner or money coach, how much you need to take out and using those funds prudently. She says that for some people, a reverse mortgage might be preferable to a home equity line of credit because it’s more difficult to access funds.

But with housing prices at an all-time high in Canada, says Ms. Park, cash-strapped seniors should consider selling their home, as opposed to heaping on debt.

“Basically the correct answer in most cases is if people don’t have sufficient cash flow and they’ve got a lot of equity in their house, [they should] downsize, sell their house, put the funds into an annuity or something that will pay them an income or actually even rent in some cases.”