

## YOUR MONEY

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### **Investing in Reverse Mortgages Can Be Risky Business**

**Q.** In your last column, you discussed the benefits of insured annuities. Another product I've heard a lot about is reverse mortgages. All the television ads promise no monthly payments and access to large amounts of cash. Can you give me your thoughts?

**A.** The proliferation of reverse mortgage campaigns has been extraordinary. It seems every time you turn on the television or open a magazine, you're bombarded with visions of luxury items, exotic travel, and improved retirement living. You need to know if a reverse mortgage is the best way to gain these things or whether you are unnecessarily risking a very valuable asset – your home equity.

Reverse mortgages are loans which use home equity as security. They provide a lump sum without requiring payments toward the principal. The interest accumulates and the debt is usually only repaid when the mortgage holder dies or sells the property. This is used as a major selling point because many seniors prefer to remain in their homes.

A reverse mortgage can be beneficial for some individuals, *but you must be sure it is right for you.* You must do all the math and you must ask all the right questions. Let's consider one aspect that I have yet to see mentioned in any advertising.

Reverse mortgages have high interest rates. At current rates your debt will *increase and double every seven or eight years*, rapidly eroding this important asset. My philosophy is always to preserve your capital, no matter what it is – home equity or investments – and therefore I believe a reverse mortgage should be a last resort.

Some people summarily dismiss the loss of home equity. They say it doesn't really matter if you don't have beneficiaries, and leaving an estate is not an issue. I say *maybe* - because, as you age, you might *want* or *need* your home equity.

Let's assume you are now 62 with a \$600,000 home and you are approved for the maximum 40% reverse mortgage of \$240,000. With the compounded debt doubling every seven years, you will owe \$1,920,000 when you are 83.

But suppose that, at 83, you are alone and want to move into a seniors residence to enjoy the social aspects? What if you need to give up your home for health reasons and have to enter a care facility? With little or no equity in your home, how would you achieve either one? These are *only three of the many important questions* that must be *asked and answered* before embarking on a financial path that erodes your assets.

Fortunately, there are other financial tools at your disposal that provide income *while preserving your home equity* so that you can have options when you need them most. Before going forward with a reverse mortgage, please consider all your options and make certain you are not doing it prematurely, or for the wrong reasons. It must be an appropriate part of your financial plan.

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