

Make income from your home with a reverse mortgage

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By PAUL TYERS

Who would think that a person with a net worth of \$250,000 or more might be having a tough time financially? There are many senior Canadians who are in this exact position, because they are house rich, but cash poor.

Older single women are particularly susceptible to having insufficient income for retirement because many are living on government benefits alone. At the same time, these people who continue to live in their homes still face property taxes, upkeep costs and costly unexpected expenses which arise such as roof or furnace repairs.

One prominent Oakville resident, Mrs. Pat Smith is a case in point. She not only has her personal needs and that of her home, but also the care of her bird sanctuary which she maintains for injured birds. With her living costs exceeding her income for several years, Mrs. Smith had virtually depleted her savings and she had fallen into arrears on some maintenance and her property taxes.

However, an old friend of hers, Gerry Quinney, also from Oakville, knowing something of her situation suggested that she look into a Home Income Plan or reverse mortgage. She did and after consulting with her lawyer, took out a Home Income Plan through Retirement Counsel of Canada in Toronto; Canada's largest reverse mortgage firm.

SELL THE HOME?

While Pat Smith could have sold her home and used the equity from the sale to live on quite comfortably, she did not fancy the idea of moving from her beautiful Lakeshore property. A recently released study con-

ducted by the American Association of Retired Persons found that over 86% of its respondents would choose, like Mrs. Smith, to live in their own homes.

HOME EQUITY CONVERSION

A Home Income Plan is one way of seniors using their homes for more than just shelter. It enables them to realize a lump sum or addition income (or both), using the equity in their homes. While available in Canada for 7 years, these plans have been available in Europe and the United States for over 20 years. Recently the U.S. government began a major \$2 Billion initiative to motivate the use of reverse mortgages by seniors.

"In Canada, the demand for reverse mortgages has been strong," says Bruce Hammond, president of Security Life, whose company offers these plans in Ontario, Alberta and British Columbia. "And, with the aging population in this country, we anticipate strong growth in the future," continues Hammond.

The general concept of a Home Income Plan is that a person is borrowing against the equity in their home and obtaining the funds by way of a lump sum, regular monthly income, or a combination of the two. This loan is different than a conventional mortgage loan though, because a person does not make any payments on the funds borrowed until the end of the term. Since the term of the loan is most often for life, the homeowner will not have to worry about repaying the funds back (either interest or principal), until they die. At that time, the loan

is repaid when executors sell the home.

The two basic options of Home Income Plans are the lifetime plan and the term plan.

The lifetime option provides a lump sum and/or monthly income for life, and the loan is repayable at death or upon the sale of the home. To show how it works, let's take an example: A 74-year-old male homeowner wishes to make ten thousand dollars' worth of improvements to his detached home, which is currently worth \$225,000. He would also like more income to make life easier.

He would be eligible for a \$98,000 Home Income Plan (43% of his home's value), which would provide \$10,000 cash and \$907 per month for life indexed at 3%. Note if the loan value exceeds the home value, the lender has no recourse against the borrower's other assets.

Under the lifetime option, the amount that may be borrowed is based upon the homeowner's age (our Mrs. Smith was 84 when she took out her Home Income Plan), their home value, and expected appreciation of the property. Although the minimum age is 60 for the lifetime option, the older a person is, the greater amount they will be able to get from the Home Income Plan.

The term option is fixed for a certain period, at the end of which, the home is presumably sold or may be renewed at the option of the underwriter. Again, to illustrate, let's say a couple 65 and 62, wish to remain in their townhouse for the next five years, during which time they would like to supplement their income by \$1,000 per month. Also

during the next five years, they hope to see a recovery in real estate prices. Their home is currently valued at \$300,000. * Note that actual growth of properties values has been approximately 10% in Ontario over the past 10 years.

WHY A REVERSE RATHER THAN CONVENTIONAL MORTGAGE?

Home Income Plans are based solely on the value of property, while a conventional mortgage or loan is generally granted on the borrower's ability to meet monthly debt service requirements.

In Mrs. Smith's case, she was not able to borrow from a bank or trust company anywhere near what was necessary for her needs. However, her Home Income Plan has provided her with the funds to put in a new driveway, new roof, bring her taxes and maintenance up to date and provide her with a monthly income.

REVERSE MORTGAGE USES

1. Necessities: to provide income to buy food, provide warmth, pay taxes, and so on.
2. Repairs: to cover capital expenditures such as home renovations or a new car.
3. Extras: to cover some of life's luxuries such as extensive travel or paying for assistance around the home.
4. Inheritance planning: to allow the homeowner to share assets with loved one's while he or she is living.

NOT TAXABLE

Neither the lump-sum advance nor the ongoing income from a Home Income Plan is taxable as long as the recipient lives in his or her home. There are also various

government programs such as Guaranteed Income Supplement, which the government has indicated will not be reduced by income from the Home Income Plan.

HOW TO GET A PLAN

First, the homeowner supplies an individual income statement and balance sheet, so that a written estimate of reverse mortgage capabilities an assessment of need can be made. Next, an application for \$250 is taken out of which an appraisal is done of the property. After the appraisal, the lender prepares a commitment letter based on the findings.

When the senior signs the commitment letter, the Home Income Plan is documented and is sent to the borrower's legal counsel for signature of the mortgage documents and an Independent Legal Advice Certificate.

Normally, a Home Income Plan transaction takes from four to six weeks in all to complete.

Given the age of our population, it is essential that we find innovative new methods to meet our seniors' income needs. For the retirees who wish to remain in their homes during their retirement years, a Home Income Plan or reverse mortgage may be just the right vehicle.

As Mrs. Smith says, "Seniors like me must know about this alternative. I have been telling all of my friends, living in their own homes, about what Retirement Counsel of Canada's Home Income Plan did for me."

Paul S. Tyers, C.A. is president of Retirement Counsel of Canada, a Toronto based retirement planning firm.

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Canadians...

CONTINUED FROM PAGE 3

help reduce the severity of regional economic swings by transferring funds from strong provinces to those that are relatively weak. "Without the combined strength of the country as a whole," Mr. Taylor noted, "the economically weak provinces would suffer a dramatic decline in government services and an increase in taxes." (p. 6)

Taylor encouraged Canadians to ask themselves "(whether) disunity is the answer to the challenges we face." He rejected the view that the departure of Quebec would resolve the problems of Canada, of Quebec, of the Atlantic, of the West, and of Canada's First People.

He asked:

- "Do we really need to blow Canada apart to meet Quebec's historic concerns? ... Quebec is a distinct society. Do we really need to destroy Canada to recognize and protect that reality? I say no."

- "Will disunity somehow address a deep alienation in the West, where many people believe that our national institutions are dominated by a deaf and unfeeling Eastern majority? ... I say no."

- "Do we have to destroy Canada to solve (the) very real structural economic problems" of Atlantic Canada? "I say no."

- "Would a national break-up give the First Nations the powers to participate directly in determining their own destiny? ... Again, I say no."

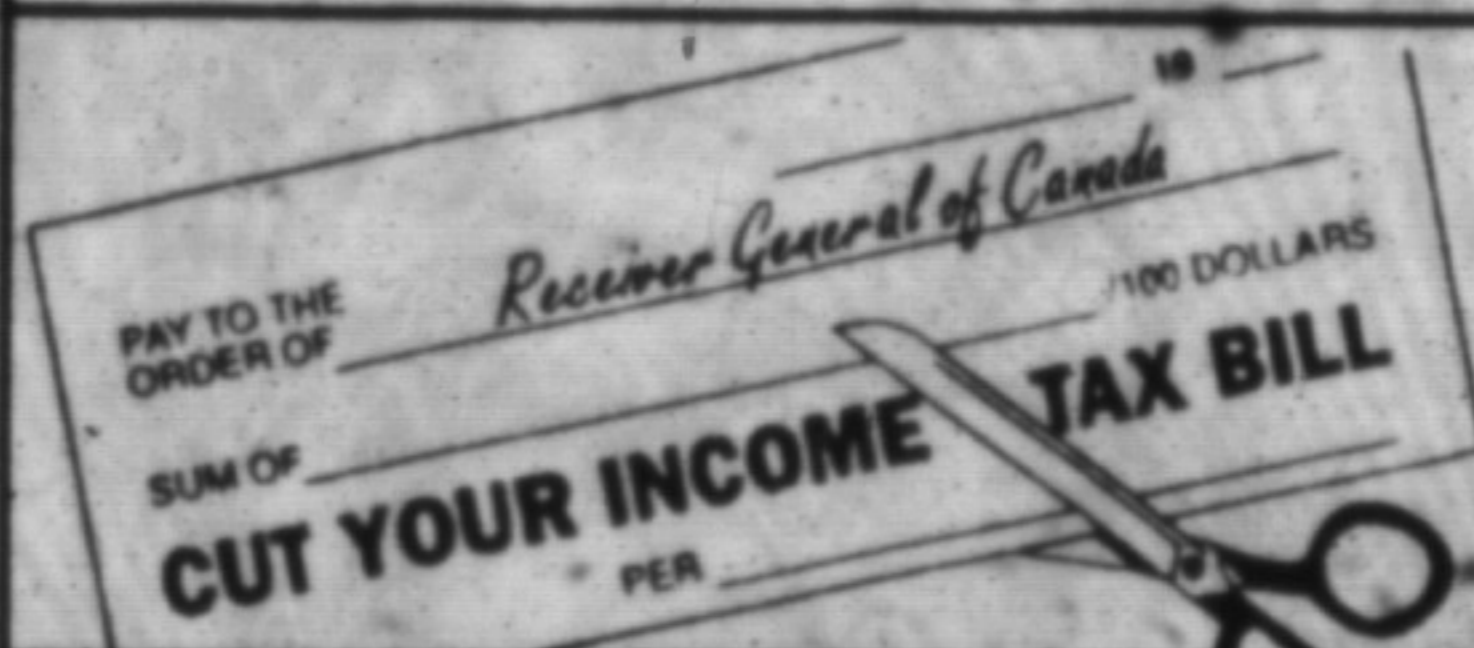
Taylor said disunity is compounding the pain and length of the current recession. "I can think of no single development that would do more to improve the economy than the acceptance of a viable plan to keep Canadians together."

"this is why the first item on the national agenda is to renew the federation," Taylor concluded, "as a new partnership between people in all regions and their governments."



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