

HELOCs and Reverse Mortgages

Many Canadian older adults are "house rich, cash poor" looking for ways to access some equity without selling their homes.

Index

- [What is home equity?](#)
- [Home Equity Lines of Credit \(HELOC\)](#)
- [Reverse Mortgage](#)
- [HELOC and Reverse Mortgage comparison](#)
- [Professional advice](#)
- [Possible additional fees](#)
- [Questions to ask](#)
- [External factors](#)
- [Other options](#)
- [Related links and videos](#)

Overview

House prices have risen dramatically over the last 20 years, especially in Canada's larger cities such as Vancouver and Toronto.

Home equity has increased and now represents a more significant percentage of a retiree's net worth.

That means that for an average Canadian retiree, how to use their home equity in retirement is potentially as important a decision as what they do with their investment portfolio.

What is Home Equity?

Home equity is the amount of your home that you own, calculated as the appraised value of your home minus what you owe on your mortgage, lines of credit, and loans secured by your home.

Home Equity Release Products

Two popular home equity release products for Canadian older adults are Home Equity Lines of Credit (HELOC) and Reverse Mortgages.

Home Equity Lines of Credit (HELOC)

This option allows you to borrow as much or as little money as you need, up to 65% of your home's value.

The minimum monthly payments are simply the interest on what you've borrowed.

A HELOC works much like a regular line of credit. You can borrow money whenever you want, up to the credit limit. You pay it back and borrow it again.

The major Canadian Banks and Financial Institutions offer HELOCs.

The interest rate for this option is typically variable and lower than that of a credit card. Still, it is higher than that of a regular mortgage.

The eligibility requirements are similar to a regular mortgage; you must "qualify" based on credit score, job, history, income, and debt ratios.

Because of the income eligibility requirements, it can be challenging for retired seniors to get approval for a HELOC.

HELOCs have two phases: the Draw Period and the Repayment Period. During the Draw Period, you can borrow and make interest-only payments. After the Draw Period ends, your loan converts to a repayment schedule, and your monthly payments start, including both interest and principal.

Depending on the terms of your HELOC, if you miss a payment or default on the loan, you may be forced to sell your home.

Reverse Mortgage

A reverse mortgage is a loan for homeowners aged 55 or older. It allows you to borrow money from your home equity without selling your home.

You can convert a portion of your home equity into tax-free money.

You may be able to get a reverse mortgage from federally regulated financial institutions, including HomeEquity Bank and Equitable Bank and provincially regulated financial institutions and mortgage brokers.

This option lets you borrow up to 55% of your home's value all at once or as fixed monthly payments.

The older you are, the more money you can access with a reverse mortgage.

In most cases, the loan amount and the accumulated interest are only repaid when you sell your home or pass away. There are no monthly payments.

This option is ultimately more expensive, and seeking independent legal advice is highly recommended.

Reverse Mortgages are easier than HELOCs to qualify for, based solely on your home equity.

Reverse mortgage loans have higher interest rates and setup fees than HELOCs due to their unique nature and the lack of competition for reverse mortgages in Canada.

Because of how quickly compound interest can add up, reverse mortgages are not a good idea for younger retirees or retirees with substantial longevity expectations.

With Reverse Mortgages, you must keep on top of home maintenance, property tax, and housing insurance for your home, or it can void your reverse mortgage contract.

Comparing HELOC and Reverse Mortgage

Interest rates and administration costs are higher for Reverse Mortgages than HELOCs, and both are higher than standard mortgages.

It is easier for retired seniors to qualify for Reverse Mortgages than HELOCs.

A reverse mortgage can make sense for older seniors, whereas a HELOC works better for younger seniors who are still working or benefit from a good pension.

A Reverse Mortgage has no required monthly fees, whereas a HELOC has a minimum interest fee in the draw period and a principal and interest fee in the repayment period.

Both are complicated financial products, and the devil is in the details.

Professional Advice

You should consult a financial advisor before making any decisions. They can help you understand the costs, risks, and impact on home equity and your estate.

In some provinces and territories, your lender may require that you get independent legal advice for a reverse mortgage.

Possible Additional Fees:

1. home appraisal
2. legal fees
3. title search fees
4. account administration fees
5. credit insurance fees
6. prepayment fees
7. closing fees

Questions to Ask:

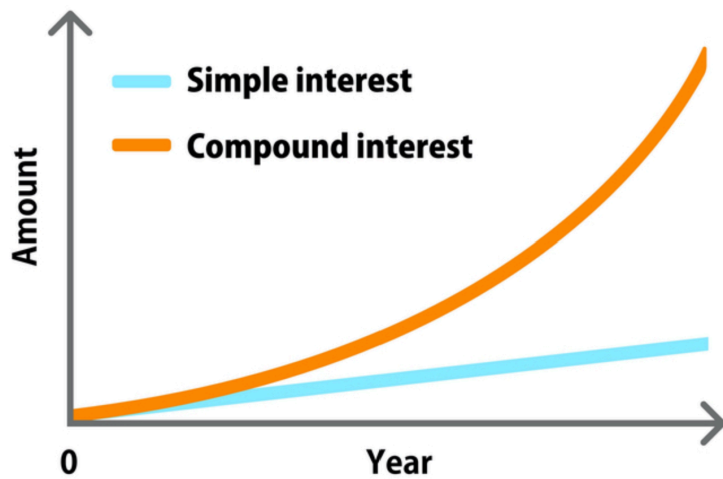
Will there be penalties if you decide to pay off the balance early?

Under what conditions can the lender call the loan? (which means immediate forced payment of the debt), have the limit reduced, or have other changes made at any time.

How will this decision affect your spouse or children?

External Factors:

What will happen if interest rates rise and/or home values drop? Compounding interest rates and fees can quickly erode your home equity, leaving you in financial distress.



Compounding vs. Simple Interest Rates

Example of compounding interest: A \$100,000 Reverse Mortgage balance can grow to \$150,000 in 5 years, based on August 2024 rates (CHIP Mortgage website). Each year the interest is added to the balance for the next years interest calculation.

The Canadian Government could enact policies that affect your Reverse Mortgage or HELOC. They could tighten credit limit rules or introduce a tax on home equity.

Other Home Equity Release Options

Before you get a reverse mortgage or HELOC, compare other options.

These may include:

1. selling your home and buying a smaller home
2. selling your home and renting another home or an apartment
3. moving into assisted living or other type of housing
4. refinancing your existing mortgage (if applicable)
5. borrowing against your mortgage prepayments (if you have previously made lump sum payments)
6. second mortgage

7. personal loan

The most important thing is to get professional advice before you make any decisions. HELOCs and Reverse Mortgages are complex, evolving products. An uninformed decision could lead to dire financial consequences and the loss of your home.

Sources:

Home Equity Line of Credit

<https://www.canada.ca/en/financial-consumer-agency/services/mortgages/home-equity-line-credit.html>

Reverse Mortgages

<https://www.canada.ca/en/financial-consumer-agency/services/mortgages/reverse-mortgages.html>

Mortgage Financing Options for People 55 and above

<https://www.cmhc-schl.gc.ca/consumers/owning-a-home/aging-in-place/mortgage-financing-options-for-people-55-and-above>

Mortgage HELOC Rules to Curb rising homeowner debt

<https://angelacalla.ca/general/canadas-banking-regulator-to-tighten-mortgage-heloc-rules-to-curb-rising-homeowner-debt/>

You should not rely on information tools for medical, financial or legal advice. It provides general information only. NICE is not responsible for any use of the information other than for general educational/informational purposes and no claim can be made against NICE or any of its personnel for any such use.

Last Updated: December 17, 2024

NICE - National Initiative for Care of the Elderly

www.nicenet.ca