



CANADIAN CENTRE FOR
ELDER LAW

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1822 East Mall, University of British Columbia

Vancouver, British Columbia V6T 1Z1

Voice: (604) 822 0633 Fax: (604) 822 0144 E-mail: ccels@bcli.org

Website: www.ccels.ca

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Backgrounder

CCEL Report no. 2/ BCLI Report no. 41—Report on Reverse Mortgages

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A reverse mortgage is a type of loan secured by a mortgage of real estate. Reverse mortgages differ from conventional mortgages in a number of ways, most importantly with regard to repayment and eligibility.

Many older adults own major assets such as real estate and are unencumbered by a mortgage. Upon retirement they often experience diminished incomes. Lenders have developed reverse mortgages to cater to these seniors. In British Columbia, as in most other jurisdictions, only senior citizens are eligible to borrow under a reverse mortgage.

Unlike conventional mortgages, reverse mortgages do not require a borrower to make periodic repayments of principal and interest. Rather, the loan is repaid after the borrower's death or when the borrower's principal residence is sold or abandoned. Though there is no requirement to repay the growing interest periodically, the interest is added to the principal loan balance and compounded over the term of the loan. This can make reverse mortgages a very expensive way of borrowing. The one time repayment upon sale of the home or death of the homeowner may represent a substantial amount of a borrower's equity in the mortgaged property. Often borrowers invest the proceeds in a type of investment that provides income payments at regular intervals called an annuity, or other asset that provides them with a regular income.

British Columbia does not have a statute that specifically addresses reverse mortgages. The existing law requiring lenders to disclose information to borrowers before a loan transaction closes does not apply to most reverse mortgages. This does not provide an adequate legal framework for reverse mortgages. This report recommends enacting legislation that will specifically address reverse mortgages. The proposed legislation is focused on disclosure and related consumer protection measures. It will ensure that reverse mortgage borrowers have the tools necessary to evaluate the legal and financial merits of the transaction.