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Peter Fabry – Plain Talk on Reverse Mortgages for Canadians 55+

Ep. 1: What Is a Reverse Mortgage?

Transcript — AI-generated from audio

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Imagine having, um, I don't know, a million dollars locked inside this thick glass box right in the middle of your living room. Just sitting right there on the coffee table. Exactly. Like, you can look at it, you know, you can dust the glass, but you cannot actually reach in and spend a single dollar of it. Even if you need it. Right. Even if you need to fix a leaking roof or pay for healthcare or, you know, just help out your grandkids. It is incredibly frustrating for people. It really is. So today, we are doing a deep dive into the highly debated financial tool designed to basically break that glass. Yep. Welcome to part one of a six-part audio series. It's called Peter Fabry: Plain Talk on Reverse Mortgages for Canadians 55 Plus. And we are aiming this discussion squarely at you, the listener, specifically the Canadian homeowner who is aged 55 or older. Because you might be... Well, you're probably either incredibly curious about how these products work, or, let's be honest, you are highly skeptical of them. Oh, completely. The skepticism is real. And my mission for this deep dive is to look objectively at the mechanics, uh, the actual math and some real-world scenarios. Right. To figure out exactly when this financial tool is brilliant and, you know, when it is entirely the wrong fit. Exactly. Because it's a tool, not a magic wand. And just to set the stage, we are basing our entire analysis today on the writings and the expertise of Peter Fabry. Which is great source material. It is. I mean, Peter has been a licensed mortgage professional in Canada since December 1999. That is, like, over 26 years navigating this industry. He's seen it all. Oh, yeah. And he's the founder of Rewind Mortgage. But the real reason we're using his guides is that he operates as an educator first. Right, and not a salesperson. Exactly. He isn't here to push a product. He just wants to strip away all that late-night marketing hype, uh, eliminate the dense financial jargon, and give you honest answers. Which is so incredibly necessary because before we can even debate whether a reverse mortgage is, you know, a good or bad idea, we really have to define what the product actually is. Yeah, because there's so much noise out there. Exactly. Most people completely misunderstand the absolute basics. Okay. Well, let's unpack this. Let's just start from square one. What exactly is a reverse mortgage in Canada? The foundation is actually quite simple. Um, a reverse mortgage in Canada is just a loan secured against your home. Okay. It's available exclusively to homeowners age 55 and older, and the key feature is that you do not make monthly payments. Wait, no monthly payments at all? None. The loan itself and the interest, they just accrue against the home's equity over time. So when do they get their money back? The entire balance is paid back when you sell the home or move out permanently or pass

away. Okay, hold on. Because if a bank is handing me, say, hundreds of thousands of dollars, and I am not making a single monthly payment to them, at some point, their name has to go on the deed, right? Mm, that is what everyone thinks. I mean, they are basically buying my house from me in slow motion. No, no, no. And what's fascinating here is that this is the single most common misunderstanding. They are not buying your house. For real? Really. You retain 100% full title and ownership of your home. You keep the right to live there. It works exactly like a regular conventional mortgage. But without the crushing constraint of a required monthly payment. Exactly. Honestly, it almost sounds too straightforward. Like, if I keep the title and I don't have to make payments, why isn't this just considered a regular mortgage? What makes it a distinct product? Well, there are really three key distinctions that make a Canadian reverse mortgage totally unique. First, the approval is based on age qualification, not income qualification. Okay, wait. If they aren't looking at my pension or my monthly income, how is the bank guaranteeing they will get their money back? And that is exactly why the other two distinctions exist. Because they are not relying on your monthly cash flow, they rely entirely on the asset itself. The house. Right. With a traditional mortgage or, say, a traditional home equity line of credit, you have to pass a stress test. You have to prove you can support the debt. Which is tough right now. It's incredibly tough. For retirees living on fixed incomes, like your standard government OAS and CPP, plus maybe a modest pension, passing that stress test is often mathematically impossible. Even if they have a ton of equity. Exactly. Even if they have a million dollars of equity just sitting in the house, a reverse mortgage completely bypasses that income test. Oh, wow. Yeah. It looks solely at your age, the home's value, and where the home is located. Which, I mean, that changes the math entirely for a retiree. It totally does. Now, the second distinction is what we just touched on. No required monthly payments. But you could make them if you wanted to. Absolutely. You can choose to pay the interest down if you want to protect your equity, but you are not contractually obligated to. It accrues and gets settled at the back end. Okay. Makes sense. Mm. And the third distinction. The third distinction, which is arguably the most vital piece of the puzzle, is the no negative equity guarantee. Hmm. Let's hover on that guarantee for a second because no negative equity sounds suspiciously like a slick marketing slogan printed on a brochure. It sounds totally like marketing, I know, but it is a very real contractual promise. Every single Canadian reverse mortgage includes this protection. What does it actually mean in practice, though? It legally guarantees that you or your estate will never owe more than what the home is worth at the time of repayment. So even if the housing market completely crashes, I'm safe. Exactly. Assuming, of course, that you've met the basic maintenance and tax rules. Right. And just to prove that this isn't some fringe, you know, shadow economy concept, there are currently four major Canadian lenders operating in this space. Very true. It's a highly regulated market. Yeah. You have HomeEquity Bank, which most people know for their CHB Reverse Mortgage. Yep, the most famous one. Then there's Equitable Bank. Yeah. You also have Bloom. Who offers a really unique payment card option where you can draw from your equity gradually as you spend. Which is a cool feature. Definitely. And as of October twenty-five, Home Trust actually entered the market with their equity access product. So like we said, this is a highly established financial landscape. It is deeply established. But, you know, despite all that regulation and the guarantees, people are still terrified of the concept. They really are. So if the no negative equity guarantee is a contractual reality, why are people losing sleep over this? Let's tackle the two biggest fears head-on. Let's

do it. Fear number one, and this is the absolute biggest one by far: Will I lose my home? Emphatically, no. You will not lose your home, provided you meet the standard conditions. Okay, what are the conditions? Are there hidden traps? Not at all. You have to pay your property taxes. You have to keep the home insured. You must maintain the property in reasonable condition, and you have to make the home your primary residence. Which, if you think about it, are the exact same rules for a conventional mortgage. Exactly. Like, if you have a regular twenty-five year amortizing mortgage- Mm-hmm ... and you just, I don't know, stop paying your property taxes, your municipality steps in, and you are in technical default with your bank anyway. Precisely. If any lender is securing a massive loan against a physical property, they need that property to remain marketable. They need it insured against a fire, and they need to know the government isn't about to seize it for unpaid tax liens. It is just standard risk management. So you aren't losing your home, you are just agreeing to take basic care of the collateral. Exactly. But what about when the borrower passes away? The source material highlights this as a massive point of confusion. Yeah. People say, "Well, when I die, the bank swoops in and takes the house from my kids." Right. And if we connect this to the bigger picture of how estates actually function, that misconception totally vanishes. How so? Because it is never the bank taking the home. When the last surviving borrower passes away, the loan simply becomes due. Yeah. That is how every mortgage works. Got it. If you pass away with a standard mortgage, your children don't just magically inherit the mortgage under your name and your specific interest rate. Oh, right. The estate has to settle your debts before the assets can be distributed? Exactly. The executor of the estate gets a statement. They have time to list and sell the house. The lawyer pays off the reverse mortgage lender from the sale proceeds, and the remaining funds go into the estate account for the heirs. But what if the kids want to keep the house? If the heirs actually want to keep the physical house, they just have to qualify for their own mortgage to pay off the estate's debt or use other estate funds to clear it. Ah, I see. Yeah. The bank doesn't seize ownership. The estate simply settles a debt through a standard real estate transaction. Okay, so that thoroughly handles the losing the house fear. But then we run right into fear number two: Will the compounding interest eat all of my equity? Ah. Yes. And here's where it gets really interesting because we are essentially watching a race, aren't we? It really is a financial race. You have two massive things compounding at the exact same time. Okay, break that down for me. Well, the loan balance is compounding with interest, meaning the debt is growing larger every single year. But your home's overall value is also typically compounding and appreciating every year. Let's do the math on that race, because frankly, a seven percent interest rate on a loan sounds a lot scarier than a three percent appreciation rate on a house. It absolutely does, until you look at the base numbers. Okay. Let's say your home is worth five hundred thousand dollars and it grows at a conservative three percent a year. Right. That is fifteen thousand dollars of growth in year one. Right. Meanwhile, let's say you took a one hundred and fifty thousand dollar reverse mortgage at seven percent. That loan grows by ten thousand five hundred dollars in year one. Oh, wow. So even though the loan's interest rate is higher, the dollar amount of the home's growth is actually larger. Exactly, because the home's base value is so much bigger. Historically, over the last twenty-five years in most Canadian markets, home appreciation has actually outpaced the reverse mortgage interest accrual. So the home's growth is basically absorbing the loan's growth. Precisely. Meaning a client who took a reverse mortgage ten years ago and sells today typically walks away with the same or

sometimes even slightly more net equity than the day they signed the papers. That is wild. But let's be fair in bringing a counterpoint, because Peter's guides do not shy away from the critics. They definitely don't. There was an article in November twenty twenty-five by Dale Jackson for BNN Bloomberg. He argued that home equity gets eaten away at an accelerated pace by reverse mortgage interest. I remember that piece. Yeah. He basically told seniors they should just skip the reverse mortgage entirely and go get a, a LOC, you know, a home equity line of credit from their bank instead. Which raises an important question about the difference between theoretical financial advice and realistic financial advice. So you're saying he's wrong? Well, Dale Jackson's math isn't entirely wrong. Compounding interest definitely does compound. Yeah. If you take out the absolute maximum reverse mortgage at exactly age fifty-five and you happen to live to ninety-five and your home magically never appreciates in value for forty straight years. Okay. Yeah. In that scenario. Right. Yes. Your equity will shrink significantly. But that is an extreme worst case scenario. Most clients aren't borrowing the maximum amount at fifty-five anyway. Exactly. They're borrowing what they need at seventy or seventy-five, so that compounding window is drastically shorter. Right. But the biggest flaw in that BNN Bloomberg critique is the casual suggestion to, you know, quote-unquote, just get a HELOC. To a mortgage professional, that advice shows a complete disconnect from how modern underwriting actually works. Because of the stress test we mentioned earlier. Exactly. A stress test doesn't care that you own a million dollar home outright. It runs a harsh simulation. The bank's computer basically asks, like, if interest rates suddenly spike to seven or eight percent, does your modest monthly government pension cover that hypothetical monthly payment alongside your heating bills and property taxes? Right. And for most seniors on a fixed income, the math instantly breaks. The computer just says declined. So you cannot just walk into a bank and order a HELOC off a menu. Not at all. And even if a senior miraculously does qualify, HELOC rates float with the prime rate. Oh, that's dangerous. Very. If the Bank of Canada raises rates, your required monthly payment instantly goes up. And at the exact same time, higher interest rates usually depress home values. Wow. That is a terrifying double bind for a retiree living on a fixed pension. It is. A reverse mortgage, with its locked-in terms and zero required monthly payments, offers a specific kind of safety that a HCLSC structurally cannot provide. Okay, so if my equity is relatively safe from being devoured and my estate can handle the back-end processing, the only thing really stopping me is the upfront cost. Right. Let's talk numbers. Yeah, let's look at the actual numbers. How bad are the interest rates compared to a regular mortgage? Generally speaking, you can expect reverse mortgage rates to be about one to two percent higher than a standard conventional mortgage. Naturally, the first question's gonna be, why am I paying a premium? Well, think about the mechanics from the lender's perspective. It comes down to something called duration risk. Duration risk? Yeah. The lender is borrowing money from the financial markets to lend to you. They have to make regular, ongoing payments on the money they borrowed. Okay. But they are giving you that cash and giving you the right to hold it indefinitely, maybe for two or three decades, without you ever having to make a single payment back to them until the very end. Ah. So they are floating that cash flow the entire time. Exactly. So it's kind of like renting an apartment, but demanding the landlord let you stay for 30 years without ever raising the rent or kicking you out, regardless of what the real estate market does. That is a perfect way to look at it. Right. And the landlord is obviously gonna charge a premium for offering you that absolute ironclad certainty. Precisely. The lender takes on significant

duration and cash flow risk. When you view it conceptually like that, a one to two percent premium is actually a highly fair exchange for never having to make a payment. That makes total sense. And it's important to note that the headline rate you see plastered on a billboard isn't the only rate that matters here. Oh, not at all. There are actually four different rates you need to consider: the headline rate, the renewal rate, the fee structure, and the early discharge penalty. You really have to look at all four. And Peter Fabry has a fantastic detailed breakdown of this at rewindmortgage.k/rates. If you are seriously considering this tool, you need to go read that page so you don't get misled by flashy marketing. Highly recommended. It cuts through a lot of the noise. So moving on. How much money can you actually get? Because the late-night commercials always boast that you can get up to 59% of your home's value. Let's get realistic. Yeah. That phrase "up to" is doing a lot of heavy lifting for the marketing department. I figured. The realistic amount you can access depends heavily on your age. At age 55, you are typically looking at accessing only 15 to 25% of your home's value. That's quite a bit lower than 59. It is. At age 65, it bumps up to roughly 25 to 35%. By age 75, you're looking at 35 to 45%. Okay, so it scales up. Right. And it is really only when you hit your mid-80s that you start getting closer to that maximum 45 to 59% bracket. Which makes perfect sense based on what we just discussed about duration risk. Exactly. The younger you are, the longer that compounding interest has to run. The lender has to be far more conservative with a 55-year-old to protect that no negative equity guarantee than they do with an 85-year-old. Precisely, and the location of the home matters just as much. Really? Oh, yeah. A highly liquid condo in downtown Toronto is evaluated very differently than, say, a unique rural property out in cottage country. That's a good point. Now, this brings up a great scenario from Peter's notes. He talks about the COVID freezer mentality. I love this analogy. It's so good. So say you get approved for \$200,000, but you only actually need \$50,000 to clear off some credit card debt. Yeah. A lot of people have the instinct to say, "Well, just give me the full 200 grand so I have it sitting in my bank account, you know, just in case." Yeah. People love the idea of a safety net. Right. And Peter likens this to when the pandemic hit, and everyone panicked and bought massive chest freezers and filled them with expensive food they didn't need just to have it. It is a totally dangerous instinct when it comes to borrowing. To me, borrowing extra money on a reverse mortgage and just leaving it in a savings account is like leaving a taxi meter running while you sit inside a restaurant eating a two-hour dinner. Oh, that's a brilliant way to put it. Right. You are paying an active compounding premium for something you aren't even using. If you borrow an extra \$150,000 just in case, you are paying, say, 7% interest on that loan while your savings account is maybe paying you 3%. If you're lucky. Exactly. You are literally bleeding wealth just to watch your own money sit there. Exactly. The rule of thumb is do not panic buy a reverse mortgage. You only draw down exactly what you need when you need it. Perfect. Okay, let's talk timelines. Yeah. How long does this whole process actually take? Usually, you are looking at 30 to 45 days from your very first conversation to having the funds deposited in your bank account. And what's the bottleneck there? Why does it take a month and a half? The physical appraisal is almost always the bottleneck. Ah, finding the time for the visit. Right. The actual application and conditional approval from the lender can happen in just a few days. But getting a certified appraiser out to your house, having them find recent comparable sales in your specific neighborhood, and writing the report takes time, especially in rural areas or during the winter. Makes sense. And what about the costs? They are incredibly transparent. The only thing you pay up front out of

your own pocket is that appraisal fee, which usually runs between \$400 and \$700. And everything else, like the mandatory independent legal advice, the lender administration fees, your lawyer's closing costs, all of that is just deducted from the loan proceeds at the very end. Correct. No hidden out-of-pocket surprises. Okay, so we have the mechanics, the rates, the timelines. But how do we know if it actually fits your specific life? Let's talk real world applications. This is where it gets practical. Right. When is a reverse mortgage the absolute wrong choice? There is a fascinating scenario from Peter's files. He had a client who wanted \$100,000, but they only needed the money for one single year. Okay. And they didn't qualify for a standard bank HELOC because their pension income was too low. What's fascinating here is that Peter, who is a reverse mortgage broker, advised them against getting a reverse mortgage. Why? I mean, if the big banks said no to a HELOC, wouldn't the reverse mortgage be their only lifeline? No, and this is exactly why working with an educator rather than a salesperson is critical. A reverse mortgage was the absolute wrong tool for this client for two specific reasons. Okay, what's the first? First, reverse mortgages have steep early repayment penalties in the first few years. If you borrow \$100,000 and try to pay it all back in year one, you get hit with a massive discharge penalty. Ouch. And the second reason? Second, if you pay it back, you do not automatically have a revolving line of credit to access that equity again later. It is largely a one-way street. Wow. Okay. So if the big tier one national banks said no, and the reverse mortgage was a bad fit, how did Peter solve their problem? He found an alternative path entirely. He set them up with a HELOC from a trust company. A trust company? Yeah. Trust companies are alternative lenders that often have much more flexible income guidelines than the massive Big Five banks. Oh, that's clever. Right. This allowed the client to get the \$100,000 for a year, pay it back without a massive penalty, and still have access to the credit line later. He solved the problem without ever touching a reverse mortgage. That's the value of a good broker. Yeah. But there are times when it is the absolute right choice. Oh, absolutely. We're talking about situations like aging in place when your pension isn't quite enough to cover in-home health care or, you know, a wheelchair ramp. Right. Or giving a living gift to your kids, so you can actually watch them enjoy the money while you're still here. That's a huge one. Or even paying off high-interest unsecured debt, like those 20% credit cards that are basically suffocating your monthly cash flow. Exactly. Or even a 55-plus divorce situation, where one spouse needs to buy out the other's half of the equity, but neither has the liquid cash on hand. Right. Those are all textbook perfect use cases where the math deeply supports the product. Yes, completely. But if I'm listening to this, and I look at my own life, and I know a reverse mortgage is the exact right tool for my situation, why wouldn't I just call a lender like CHIP directly? It's a common question. Yeah. Why use a broker at all? Why not just cut out the middleman? It's a completely valid instinct. I mean, for decades, the smart consumer move was to go direct to the source. But in this specific market, going direct actually works against you. How so? If you call CHIP directly, they are only going to offer you a CHIP product. They are not going to volunteer the information that Equitable Bank might have a slightly better rate for your specific property type. Right. Or that Bloom's payment card is actually a much better fit for your daily lifestyle. It's like walking into a Ford dealership and asking the salesperson what the best car in the world is. They're gonna say a Ford every single time. They have to. Exactly. A specialized broker shops all four lenders and compares the nuanced underwriting rules for you. And crucially, using a broker costs you, the client, absolutely nothing extra. Really? Nothing?

Nothing. Brokers are paid a finder's fee directly by the lender. Your interest rate isn't higher. Your fees aren't higher. You just get an expert whose interests are aligned with finding the best fit for you rather than hitting a sales quota for one specific bank. The source material actually has an incredible story about the danger of this DIY trap. Oh, the estate buyout story. Yes. So a client wanted to buy out their sister's share of an inherited family home. Imagine sitting at your kitchen table. You've just inherited your childhood home. You want to keep it in the family, so you use a specific lender's online calculator and call their call center directly. Seems like the right move. Right. But the call center rep punches a few numbers into an algorithm and just says, "No, you don't qualify for enough money." Application declined. Dead in the water. That is devastating for a family. It really is. But that client eventually brought the declined file to Peter, and Peter took that exact same file, went back to that exact same lender, but he structured the application differently. Because he understood the nuance of the property. Exactly. He got them approved for a significantly higher amount. Then, to cover the final remaining gap, he brought in a financial planner to coordinate a tiny, manageable shortfall plan. And the result was incredible. The family home didn't have to be sold. The sister got paid out fairly. The estate didn't have to lose 5% of its wealth to real estate agent commissions. All because a broker knew how to navigate the fine print that a rushed call center employee just glossed over. It totally proves that financial planning is never just about the headline rate you see on TV. The devil is always in the details of the underwriting. Always. So what does this all mean? We have covered a massive amount of ground today. We really have. The core takeaway here is that a reverse mortgage isn't a winning lottery ticket, but it isn't a scam either. It is a financial time machine. A time machine. I like that. Yeah. You are pulling future equity into the present to solve an immediate problem, but you are paying a toll for that time travel. And Peter actually suggests a brilliant stress test for anyone considering this. He says, "If you got the money and did absolutely nothing with it, would the loan still solve your problem?" Oh, that's really good. Right. If the answer is yes, you probably just want the money for psychological comfort, and you might not actually need the loan. But if you have a specific tangible problem to solve, like crushing debt, urgent health care, and estate buyout, then it might be exactly what you need. Perfectly said. Remember, this is just part one of our deep dive into this six-part audio series. Episode two covers the honest pros and cons of reverse mortgages. You know, the gritty stuff the shiny brochures intentionally leave out. It gets really interesting. It does. Now, if you want to jump ahead or if you want to read these plain language guides for yourself, go directly to Peter's website at rewindmortgage.ak. And you should also absolutely check out his YouTube channel at youtube.com/@reversemortgagescanada. He breaks all of this complex math down visually, which is incredibly helpful. Super helpful. And as we wrap up, I want to leave you with one final thought to ponder. For generations, we have been conditioned to view our home's equity as an untouchable museum piece, locked away safely behind glass until we eventually pass it on to the next generation. Like the glass box. Exactly. But what if we started viewing it differently? What if we viewed it as a dynamic living asset, a battery of stored energy meant to actually power and improve the quality of the life you are living right now? Wow. That changes the whole conversation. Thanks for joining us on this deep dive.