

Hey kids!; Hands off our equity: The rise of reverse mortgages

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If there is no money left for the kids when you die, too bad. That's one of the propositions of increasingly popular reverse mortgages, which let seniors stay in their house and access the equity built up over the years. Of course, the longer the parents live, the less money they will be leaving.

Author P. J. Wade, who has written extensively on reverse mortgages, says it's a dated concept to think parents owe their children some type of inheritance.

"In the 18th, 19th and even the 20th century, leaving something for the kids was something a parent felt beholden to do," says Ms. Wade. "As life expectancy has increased, the parents are living into their 80s and 90s and the kids are in their 60s. The kids don't need much help at that stage."

With children living at home well into their 20s, parents are also spending more money on their kids than ever before -- and therefore, putting themselves in a financial hole in old age.

Ms. Wade says adult children who feel they have entitlement to their parents' home are the same children demanding they sell the home so they can get their hands on the cash. "They want the cash in their hands even faster," she says. "Children have to understand it's not their money."

There is something else these adult children pressuring a parent to sell should also consider: It might mean mom and dad are one step closer to living with them. "They're going to be tapping the child on the shoulder for assistance," says Ms. Wade.

She says people going into a reverse mortgage know what they're doing. "You know going in you could use up all the equity, [that your] exit from the property will be in a pine box," says Ms. Wade. "But accessing the equity is about your future. Retirement is not a handful of quiet years spent on the porch waiting to die. It's 20, 30, 40 years of active living."

One of the reasons reverse mortgages are not given out until age 60 is so homeowners do not end up in a negative equity situation, says Nick DiRenzo, president of Seniors Money Canada, which launched in August.

"The average life of the loan is usually 12 to 15 years," says Mr. DiRenzo, who figures about 50% of the value of a home remains once it is sold. "This allows them to continue to live in their home, it allows them the use of the money and it also allows them to leave something for their estate."

Mr. DiRenzo, whose firm operates in seven countries, says seniors sometimes access a reverse mortgage so they can help their children while they are alive.

Based on his own company's statistics, the No. 1 reason for a reverse mortgage is some sort of home improvement. "Sometimes some repair has gone on too long and there is a need for a home improvement," says Mr. DiRenzo.

While consolidating debt is the second most-popular reason for a reverse mortgage, gifts are third -- 18% of his clients claim that as the reason they need the loan.

"It's a combination of helping their kids make a down payment on their homes to helping grand-kids with a university or college education," says Mr. DiRenzo. "[The younger generation] benefits in two ways, because they are recipients of the funds but also because their parents won't need the help."

Eric Vengroff, president of the 50Plus Group and marketing manager of the Canadian Association of Retirement People, says he's observed that advertising for reverse mortgages has definitely increased and that probably means more people than ever are accessing the product.

"Many of us have seen our parents age and where they went. They went to nursing homes or institutional care and when confronted with that choice, most of us would choose to live independently as long as possible," says Mr. Vengroff. "People expect they are living in the last home they are going to live in."

Illustration:

- Color Photo: Fred Thornhill For National Post / Nick DiRenzo says his clients most often choose a reverse mortgage so they can improve their homes.