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Reverse mortgage provider reacts to proposed new rules

Doug Watt / July 20, 2004



(July 20, 2004) The Ontario government's recent proposal to impose tighter regulations on reverse mortgages is being welcomed by the country's largest provider, the Canadian Home Income Plan (CHIP).

At the same time, advisors have some words of warning about the loan product, noting that reverse mortgages are suitable for relatively few clients and should only be contemplated as part of a well-designed financial plan.

Reverse mortgages — advertised frequently on television by fund industry commentator Gordon Pape — allow senior citizen homeowners to take out a lump-sum loan based on the value of their property.

Last month, the Ontario government issued a concept paper on proposed additions to the mortgage brokers act. Among the changes being contemplated is a requirement that all providers of reverse mortgages be registered as mortgage brokers.

That's already the case at CHIP, says Sian Owen, the firm's senior vice-president. "All of our employees are registered mortgage brokers," she says. "A lot of what is in this proposal is exactly how we conduct our business today." Founded in 1986, CHIP holds nearly 6,000 reverse mortgages across the country.

The move would bring Ontario in line with British Columbia and Alberta, Owen explains, noting that the Canadian Institute of Mortgage Brokers and Lenders has been working to harmonize registration rules for brokers across the country.

Still, tighter registration rules won't do much to alleviate the inherent risk of reverse mortgages, advisors caution.

"The controversy is whether this is an appropriate product for most people," says CFP Frank Wiginton, a senior personal banking officer at Scotiabank in Toronto. "It's high risk — you are borrowing, even though it's money you have in your house."

"If it's used in conjunction with a good investment plan, then it works well," he adds. "But individuals can go directly to CHIP and get this product on their own, and that's a very dangerous situation."

Owen says CHIP always recommends that clients work in conjunction with a financial planner. "You must have independent legal advice and we strongly recommend the involvement of a financial advisor because we give out a lump sum and we want to make sure people use that money wisely."

"Our training is not in the investment side of the business, so we prefer to work with someone who is helping an individual with their financial plan," she adds.

It's a bit of a conundrum for advisors, since regulations prohibit most from directly offering credit products. So advisors wanting to provide reverse mortgages to clients must work with a mortgage broker.

"When it comes down to it, mortgage brokers are probably the best people to sell the product," says Wiginton. "But they're probably the worst people to advise as to whether that's an appropriate product."

Doug Lamb, a CFP with Spera Financial in Toronto, says he's never sold a reverse mortgage because he believes they are suitable for a "very, very narrow market."

"I work on creating a retirement that is debt-free," he says. "So if you've worked all your life to become debt-free, does it make sense to take a loan out on your house?"

In addition, Wiginton notes that some of the big banks have been recently promoting an alternative to reverse mortgages: secured lines of credit, often as low as the prime lending rate and worth up to 75% of a home's value. The prime rate at the banks is currently 3.75% while CHIP's current interest rate is 6.95%, according to the company's Web site.

Owen concedes that reverse mortgages aren't for everyone but insists there is a place for them in the market, particularly for seniors who need a lump sum and may not have enough disposable income to pay off a home equity loan. "Some banks are very active in recommending reverse mortgages to clients where it makes sense."

What do you think of reverse mortgages? Would you consider them for your senior clients? Share your thoughts in the **Talvest Town Hall** on Advisor.ca.



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