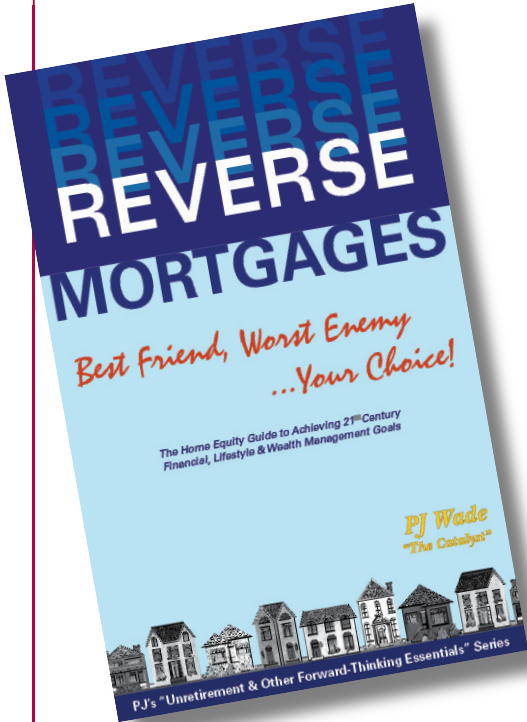


REVERSE MORTGAGES

Best Friend, Worst Enemy...Your Choice!



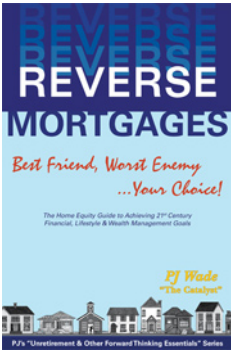
The Home Equity Guide to
Achieving 21st Century
Financial, Lifestyle & Wealth
Management Goals

by

PJ Wade
"The Catalyst"

Complimentary Preview

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REVERSE MORTGAGES: BEST FRIEND, WORST ENEMY... YOUR CHOICE!

The Home Equity Guide to Achieving 21st Century
Financial, Lifestyle & Wealth Management Goals

by PJ Wade
"The Catalyst"

www.bestfriendworstenemy.com

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INTRODUCTION

HOME MADE REVOLUTION

Money is important, but it is not enough to create a fulfilling future. Without a place to belong, feel productive, weather personal crisis, celebrate life...the future can seem very bleak. Home is essential to our well-being, present and future.

Reverse Mortgages: Best Friend, Worst Enemy...Your Choice brings together often-overlooked pieces of the future-planning puzzle—home, home equity, and home equity management—and sheds new light on these key aspects of *your* “big picture.”

Reverse mortgages are financial, lifestyle, and wealth management tools that do not always receive the recognition or respect they deserve. This is not surprising since homeowners do not always give their *home equity*, that is, the value accumulated in their real estate, the attention or respect it deserves either.

New choice exists for homeowners faced with the big decision: *Status quo* or downsize and go? Property owners can arrange a reverse mortgage to improve their standard of living or diversify their investments without having to sell their real estate. For those who do not want to move right now—or perhaps ever—a reverse mortgage provides a method of accessing home equity while retaining possession and ownership of the property. *Reverse Mortgages* will explain why, although this option can be the right choice, reverse mortgages are not a panacea nor a “one size fits all” solution.

Mental Make-over Overdue

In this age of renovations and make-overs, the time has come for our attitude towards “home,” and all it entails, to undergo a transformation. Home is so much more than somewhere to keep our stuff. Technology has expanded home’s connections throughout the world and continues to increase its usefulness as headquarters on many levels. Wireless and mobile communication are redefining so many aspects of life and work that home is bound to become an even more important personal hub.

Since mortgage-free real estate is a common goal, home is also where the money is after a lifetime of work. Up swings in the real estate market add to invisible wealth just as down turns may reduce home equity. Treating home like a personal bank or pension requires fresh new ownership strategies or hard-earned equity will vanish more quickly than it was accumulated in the first place.

Homeowners can no longer afford to consider home as a passive component in plans for the future. Gone are the days when this prized real estate was viewed as merely a nest egg to sit on until it was cashed in to finance the move to “an old folks home.” No longer is ending up in an institution the inevitable or only future. More and more people want to *age in place*, that is, live in their own home as they age rather than in an institution. Increasing numbers would prefer, when the time comes, to die at home rather than in a hospital or long-term care facility.

Homeowners are beginning to realize the benefit of treating “home” not as something the homeowner is responsible for maintaining, but instead as a “live-in” investment. The most valuable asset most people own is their home. It is time to transform this important habitable asset into a dynamic financial resource, a partner, that can help achieve and maintain a chosen standard of living, now and into the future. Along with this improvement in thinking should come a conscious shift from the out-dated 20th Century view of the end of useful life—retirement—to its replacement: the 21st Century expanding celebration of extended living that I call “*unretirement*.”

In unretirement, homeowners should expect to have the same accessibility to the money tied up in their homes that they have to savings held in their bank accounts. Homeowners and financial advisors alike should consider home ownership as a vehicle for storing tax-free capital that can be liquidated or borrowed against as required. Released equity may be used as income or reinvested in other types of investments as the need arises. Since you can’t take your home equity with you, why not consider spending it to improve quality of life or to strengthen your long-term financial position?

My experience and research have proven two things to me when it comes to home equity conversion and reverse mortgages:

1. When the fit is ideal, a reverse mortgage could be your best friend since it will be the best, and only, solution that will enable you to solve a problem or embrace an opportunity without having to sell your home.

2. When a reverse mortgage is not an exact fit, it can be your worst enemy eroding home equity much faster than it was originally accumulated without fully realizing your goal.

Reverse mortgages do not get their name from the fact that their effects are easily reversible. Rebuilding depleted home equity can take decades if not a life time, so an inappropriately-applied reverse mortgage can cause financial and lifestyle problems from which the property owner may not be able to fully recover. Hence the reason for writing this consumer-protection resource: reverse mortgages are not for everyone although every property owner can benefit from understanding them.

Important Clarification:

Please do not consider my positive views on reverse mortgages and home equity conversion as endorsements of any existing products or organizations. Neither this book, nor its author, promotes or endorses any reverse mortgage product offering or lender. Products or lenders mentioned here are included only for reference purposes.

What Is This Book All About?

Reverse Mortgages welcomes you to the world of home equity management, but it was not written to *tell* you what you *must* do or not do. Instead, sufficient context is provided on reverse mortgages to allow consumers to make confident decisions themselves, with or without professional guidance, however the marketplace changes.

The ideas and information presented here are based on three premises:

1. People care where they live
2. People care how they live, and
3. Home ownership is something people care about.

If you care, why not invest time and effort protecting your home and home equity? This plain-language, easy-to-read book is an “everything you need to know” collection of information, cautions, and insights. The hard work of researching the reverse mortgage concept has been done for you, so you can concentrate on your needs and challenges. Apply what you learn to your home and other properties, and you will understand why real estate offers more than a place to live, work, and play.

Real estate can be a dynamic financial resource. Home ownership offers wealth-management opportunities that consumers have, so far, largely overlooked. The knowledge available here can equip you with the foresight essential to managing real estate equity. When shopping for a reverse mortgage lender and product—and many other approaches to taking control of your assets and your future—you will be armed with knowledge and understanding that can counteract marketing manipulation and sales pressure.

This book is based on years of experience, on extensive research, on hundreds and hundreds of interviews, and on a creative attitude towards housing and unretirement. My first book on reverse mortgages was written when pioneering commercial products appeared in North America and a government-backed reverse mortgage program began to roll out in the United States. Decades later, Canada's marketplace is still in its infancy, while reverse mortgages have become household—if not always understood—words in the United States. The differences between reverse mortgages in these two countries—markets, products, problems, advances, etc.—also reveal why reverse mortgages are best friend or worst enemy and not much in between.

Canada lacks an open competitive reverse mortgage marketplace, solid government-backed consumer protection programs, comprehensive legislation, and mandatory advisor education, so even though you discover that a reverse mortgage is right for you, the right product may not exist and experienced advisors may be hard to find.

Knowledgeable consumers demanding a broader range of products and services will drive expansion of the marketplace. Since the last of Canada's almost 10 million Baby Boomers, born between 1947 and 1966, turn 60 in 2026, there will be millions of voices—more on a global scale—raised in demand for home equity conversion choices, so you will not be alone.

Consumers and professionals can be slow to accept new ideas. They are often suspicious of new methods and wary of being taken advantage of if they act on a new concept. Here, ideas and information are presented in the same way that wise individuals approach everything new, that is, with curiosity and a willingness to understand possibilities, positive and negative, *before* they make up their minds.

Reverse Mortgages: Best Friend, Worst Enemy...Your Choice was written to empower people who want to enjoy today and tomorrow. Whether you retired in the last century, are contemplating your unretirement, or have just begun to think about lifestyles that lie decades ahead, remember that

the age barrier has been broken. Chronological age has lost its relevance. How you feel about life and what you contribute is far more significant than your birth date. *Reverse Mortgages* presents the consumer's perspective to encourage you to use your imagination and create a future that means everything to you.

This practical guide is designed to be *used*, not merely read. The power of questions is a central theme. Questions are provided as valuable, practical decision-making tools to guide consumer and advisor investigations:

- **Information is accessible** from a number of entry points, including the Table of Contents, Glossary of Housing Terms, Quick Question Index, and Index of Key Words.
- Chapter 1 provides **context** for our exploration of reverse mortgages and for your decisions. Our **key themes of unretirement and age-free living** are introduced as driving forces for effective forward thinking.
- Chapters 2 and 3 explain **what a reverse mortgage is** and how each of its variations could be used.
- Chapter 4 provides insight into deciding whether a **reverse mortgage is the right choice** to solve a problem or to seize an opportunity. This chapter is also intended as a practical discussion-provoking tool for those helping others to explore their current and future needs.
- Chapter 5, clearly and simply, provides the information and guidance essential to making sure a reverse mortgage is a best friend. This **investigation into shopping** for a reverse mortgage clarifies how the fundamentally-different financial concept offers new choice and flexibility to property owners.
- Strategically sandwiched between high-content Chapter 5 and Chapter 7, which takes a plain-language walk through a **reverse mortgage contract**, is the essential primer for seeking out knowledgeable support—Chapter 6, “**Getting Good Advice.**” This section reveals how to cultivate advisors who can help you with decisions that you have never—and in many cases, no one has ever—faced before.
- Chapters 8 and 9 explore the development of the **reverse mortgage marketplace** and what may lie ahead.
- To assist readers in using this book as a “portable counsellor” and resource, *The Unretirement Decision Guide: My Search for Clarity & Confidence* is the hands-on companion workbook for those who want to record and organize thoughts and discoveries. Visit www.CatapultPublishing.com for details.

Expect to revisit this book as your view of life and the future shifts. You may read *Reverse Mortgages* for the first time as a potential home seller or a prospective mortgage borrower. Your second read may be as a home buyer or as you explore how to realize a life-long dream. Later you may want to learn more about your parents' choices or decide whether to borrow against your home to invest, to start a business, or to support a community-based venture. Perhaps you will return to help your university-bound children or grandchildren buy real estate to live in that will eventually pay off their tuition debt. At some point, you may consider the subject as an investor or have wealth management and estate planning on your mind, and on it goes.

If you see room for improvement in the content or design of *Reverse Mortgages* or you have a new home equity product or resource, we'd love to hear from you. Your input and feedback will help us continually improve this portable counsellor.

Reader Query for PJ: Where do I begin?

What mental starting line do I toe-up to, so I can begin thinking clearly about the decades ahead, free of constraints from the past?

PJ suggests...

For many, the only thing they are sure of is that they don't want the retirement their parents, grandparents, and their friends followed each other into or were forced to accept. This is not a race and progress may not be linear. Mentally take yourself off the beaten path. Select a topic or an issue that may hold relevance for you in the future, an unfamiliar subject with which you have little or no personal experience, that is, this unknown is outside your "box" of established reactions and patterns. Once on fresh ground, what genuinely matters to you can consciously be separated from the dictates of society, the "buying-happiness" habit that governed acquisition, and the "shoulds" and "shouldn'ts" that built up in your mind thanks to media and "conforming." For property owners, home equity management through reverse mortgages is **an ideal mix of future relevance and fresh ground**. Open your mind to learning something new and release a flood of fresh thinking and creativity. There are no shoulds and shouldn'ts in unretirement as you will discover in Chapter 1.

Chapter 1

BEST FRIEND, WORST ENEMY

“Chance favours the prepared mind.”—Louis Pasteur

REVERSAL OF FORTUNE

Reverse mortgages are not as complex as the financial, lifestyle, and wealth management decisions that revolve around them. A reverse mortgage is an equity conversion approach in which a property owner borrows against equity, or accumulated value, for purposes such as travel or paying off an existing mortgage. As security for the debt, a mortgage, which does not require repayment until an agreed time in the future, is registered against the property.

These financial, lifestyle, and wealth management tools are not “good” or “bad” in themselves. A reverse mortgage may be the best or the worst solution to a problem or response to an opportunity depending on how and when it is used:

- **Best Friend:** When a reverse mortgage is the best solution, it will also be the only solution completely acceptable to the homeowner. This makes a reverse mortgage a “best friend” since nothing else will allow the homeowner to achieve that specific set of financial and lifestyle goals, one of which is to keep the property and access equity at the same time.
- **Worst Enemy:** When a reverse mortgage is the wrong fit, there will be at least one solution, if not more, that would suit the homeowner’s needs more completely or less expensively. This makes the reverse mortgage a “worst enemy” since it will erode or erase the *home equity* that probably took decades of mortgage repayment and real estate appreciation to create.

Usually, a reverse mortgage is either a best friend or a worst enemy, but nothing in between. Chapter 2 delves into exactly what a reverse mortgage is and how it works. Chapter 3 outlines the various types of reverse mortgages. The balance of Chapter 1 provides important and often overlooked context for your evaluation of reverse mortgages, their applications, possible drawbacks, and your decision making process.

Chapter 2

WHAT IS A REVERSE MORTGAGE?

"Give me a lever long enough and a fulcrum on which to place it, and I shall move the world." —Archimedes of Syracuse

IS REVERSE THE RIGHT GEAR?

A reverse mortgage is a financial, lifestyle, and wealth management tool which enables a property owner to convert equity into cash without selling the real estate or repaying the debt until a preset time in the future.

Reverse mortgages contradict the old saying “You can’t have your cake and eat it too.” With equity conversion, homeowners can have the “cake”—the home—and they can “eat it too”—that is, take out equity as cash. If the reverse mortgage is a good fit—best friend—and satisfies the homeowner’s needs, the cake analogy is complete. Although the reverse mortgage is “consuming” the equity, the property is still available to the homeowner.

Yes, the equity is eroded and, as we will see, may even be completely exhausted as interest accumulates. However, if the homeowner has taken this possibility into account when arranging a reverse mortgage, then the homeowner has decided that having “the cake” and eating it too is worth the reduction in equity. **And that is precisely when home equity conversion using a reverse mortgage is ideal—when the homeowner believes there is no other acceptable way to have the home and the money at the same time.**

Most people do not understand enough about real estate and traditional mortgages to make learning about reverse mortgages a “no brainer,” so don’t expect to make your best choice in the midst of a crisis. Shop years, if not decades, ahead of actually signing up and you will also be able to apply what you learn to save on real estate and on traditional mortgages in the meantime.

A reverse mortgage may usually be used for any purpose the homeowner wishes, however, the following scenarios outline main applications for this approach to home equity conversion:

- **House Rich, Cash Poor:**

Traditionally, homeowners concentrated on paying off the mortgage as quickly as possible, usually doing without lavish holidays and controlling discretionary spending to save thousands, if not tens of thousands, on the overall cost of the mortgage. Savvy property owners still follow this plan and eventually, hold the full value of their property as unencumbered equity.

This is the problem. Often, the wealth of homeowners is locked in their real estate, particularly when home is the main asset.

Furthermore, the increasing cost of property maintenance, insurance, and real estate taxes continuously devours income and erodes savings. Ironically, while the home is a powerful symbol of independence and freedom, this valuable asset can also become a bittersweet financial burden for some homeowners. The resulting “house rich, cash poor” lifestyle can be restrictive and frustrating for those who want to stay in this home, but need a financial infusion to maintain or raise their standard of living.

Home Equity or **Equity** is the monetary value of the home that belongs to the homeowner after mortgages and creditors’ claims are deducted. For example, if a house, valued at \$450,000, has a \$200,000 mortgage against it and no other creditors’ claims, the equity or net value to the homeowner is \$250,000 ($\$450,000 - \$200,000$). Equity accumulates as the property value increases and/or as an original traditional mortgage is gradually paid off. Before home equity conversion by reverse mortgages, this equity could only be accessed through a traditional mortgage or by selling the property.

- **Mortgage Relief**

There has been an increase in the number of homeowners who do not pay off their mortgages before their incomes drop. Business failures or late-career job loss can force homeowners into financing just as illness or accident-related medical expenses can. In some cases, poor money-management skills turn the convenience of a line of credit into sizeable debt against the property. More parents and grandparents take on a mortgage to finance university education or business ventures for their children or grandchildren. **Those on diminished or fixed incomes can find mortgage payments a financial drain.**

- **Leveraging Home Equity**

The federal *Income Tax Act* allows one residential property or home

to be designated as the *principal residence*. This designation indicates that any profit or capital gain may be exempt from income tax. **Using home equity conversion to gain access to this money means the homeowner has tax-free dollars to spend or invest without having to move.** Owners of multiple residences and other real estate, particularly high-end properties, can leverage or borrow against equity to invest and deduct the cost of borrowing. In this way, the cost of a reverse mortgage could become a tax deduction.

Home Equity Solutions

Conventional approaches to “cash-poor, house-rich” dilemmas and to leveraging home equity have been either to convert equity by arranging a traditional mortgage or by selling the property.

Homeowners, determined to stay in the home they know and love, may consider arranging a traditional mortgage. (These mortgages are also known as forward, standard, or straight mortgages, or, simply, mortgages. Lines of credit are a variation of this type of mortgage.) However, homeowners must have sufficient income to satisfy a mortgage lender that they can afford to repay the mortgage debt. The size of the traditional mortgage is generally based on the homeowner's gross income. Therefore, if the borrower's income is low, the allowable traditional mortgage may be too small to be considered useful by the borrower.

In traditional retirement, an individual's income usually dropped drastically—often by 40 percent or more—therefore, many did not satisfy income requirements for a mortgage of any useful size. This may also be the case in unretirement, particularly for those dependent on government pensions and benefits. Increasing numbers will continue at least some income-earning activity for pleasure or out of necessity, but the same problem may still be true for traditional mortgages or lines of credit.

Greater lender flexibility over the years now allows some homeowners, particularly those with a good credit rating and mortgage-free real estate, to arrange a line of credit secured by their home if their income does not qualify.

Selling the home may be an acceptable solution for homeowners who feel their houses are too big for them, or who have found an attractive housing alternative. Yet, surveys show that most people would prefer to age in place, that is, stay in their own home. Furthermore, in many rural communities, housing alternatives are often limited, forcing individuals to move out of the area if they sell their home, especially if they want more supportive or lifestyle-oriented housing.

Selling the home may offer a remedy for financial stress, but the full impact of the sale can be far-reaching, even traumatic. The decision to sell involves not only financial, but also complex personal and social considerations. In selling the home, homeowners are disconnected from neighbourhood friends, community connections, and every aspect of life that defined them and their lives.

Reverse mortgages offer a third equity conversion choice for homeowners who cannot, or will not, arrange a traditional mortgage and who wish to stay where they are. Homeowners on low- or fixed-incomes can improve their financial well-being by using a reverse mortgage to unlock the equity in their home. At the same time, they retain ownership and possession of the property. The homeowner will be free of repayment responsibilities until a predetermined time in the future. A reverse mortgage may also be used to pay off an existing mortgage and end monthly repayment, thereby, liberating income.

Homeowners with other assets to call on can liberate the tax-free equity in their homes to invest or to spend and enjoy under the same terms.

Reverse Mortgages: Best Friend, Worst Enemy...Your Choice! was not written to convince you to sign up for a reverse mortgage or any other type of home equity conversion or management option. This book offers a clear, in-depth picture of this wealth management option to help with your financial and lifestyle strategizing—now and in the future. This chapter explains how mortgages—traditional and reverse—work, how these two types differ, and why you should be interested. The discussion then focuses on the relatively-unknown and much-misunderstood reverse mortgage by examining the advantages and disadvantages of this home equity management tool:

- Chapter 3 explores the various types of reverse mortgages.
- Chapter 4 continues with an in-depth look at home equity conversion that will help you decide whether a reverse mortgage is right for you, now or in the future.
- Chapter 5 is an insider-view of how to shop for a reverse mortgage.
- Chapter 6 explains how to find useful professional advisors.
- Chapter 7 dissects a reverse mortgage contract, so you will understand what you are signing.

A MORTGAGE BY ANY OTHER NAME

Reverse mortgages and traditional mortgages are both variations on the mortgage concept. Reverse mortgages are frequently explained as "just the reverse" of the traditional version, but most people do not completely

Chapter 3

VARIATIONS ON A THEME

“A guest sees more in an hour than the host in a year.” — Polish proverb

BEYOND BASICS

The reverse mortgage concept is simple. Property owners use a reverse mortgage to borrow against equity, converting it into cash without selling their real estate or having to repay the mortgage debt until some time in the future. The design of specific reverse mortgage products may involve a number of different approaches to achieve this common equity conversion objective.

The complexity of comparing one reverse mortgage product over another, commercial or private, is usually fuelled by differences created and cultivated by marketing and sales campaigns. An equity conversion product or approach may not carry a reverse-mortgage or conversion label. It may be named for the benefits it can create, for problems it will solve, or by standard financial terminology. This cloud of jargon can add to the challenge, but none of the issues involved is beyond the understanding of determined property owners and non-financial professionals. Here the term “reverse mortgage” is not limited to products or contracts that carry this label, but includes any equity conversion approach that fits the broad definition.

The right home equity conversion decision materializes either as a clear resolution that one contractual arrangement will be the best fit, or that a reverse mortgage is not the best approach to problem solving at this point.

When your life changes during your decades-long unretirement and you revisit reverse mortgages, take note of your initial evaluation, but start your new investigation from the beginning. Resist the temptation to pick up where you left off. The reverse mortgage marketplace is in flux and overlooking substantial or subtle changes could cost you dearly.

Whenever you consider home equity conversion through a reverse mortgage, begin with the right attitude—a determination not to settle for less than full understanding, no matter how persistent you must become.

Chapter 4

IS A REVERSE MORTGAGE RIGHT FOR ME?

“Knowledge of what is possible is the beginning of happiness.”

— George Santayana

BEST FRIEND, WORST ENEMY . . . MY CHOICE

Are you wondering, “Is a reverse mortgage right for me?” No one can answer this question but you. No one should make this decision for you. However, that does not mean you have to make the decision alone. On the contrary, I have always believed that isolation inhibits inspiration. Seek out relevant, knowledgeable input from others and the decision, if not fun to make, will become less intimidating.

Reverse Mortgages clarifies two prime concerns for property owners and for professionals investigating reverse mortgages for themselves or others:

- **What questions should I ask?**
- **How do the answers relate to me, my real estate, and my future?**

A reverse mortgage will be your best friend when it is the best solution. The ultimate bad decision is arranging a reverse mortgage before you explore all the alternatives and later realize that there was a better, cheaper, more acceptable solution. Say yes to a reverse mortgage when it’s not the right fit and it may become your worst enemy—unnecessarily, and probably irreversibly, eroding equity and, therefore, probably reducing your choices in the future.

A bad decision involving reverse mortgages is something everyone wants to avoid, but a bad decision can arise from ignorance, indecision, or not deciding just as easily as from making the wrong choice. **You will be short-changed if you make one or all of these common mistakes:**

- **Do not know all your options**—If you neglect to explore reverse mortgages and how they work when you do not need one, this solution may not occur to you when there is a problem that home equity conversion could solve or an opportunity it could help you take advantage of.

Chapter 6

GETTING GOOD ADVICE

*"For all sad words of tongue and pen, the saddest are these,
'It might have been'." — John Greenleaf Whittier*

DECISIONS, DECISIONS, DECISIONS

How Do You Decide?

Everyone makes decisions differently. Different kinds of decisions are often made differently. We take great care when shopping for shoes, a new car, or a home theatre. That degree of care is rarely matched, however, when we buy a house or condominium unit, arrange a mortgage, or choose an advisor.

When making a major decision, many people prefer to keep their business to themselves. Others tell everyone and listen to no one. Some people rely on feedback from family members or the same circle of friends, and so end up repeating the same mistakes. Too many exhaust themselves trying to get everyone, especially family, to agree with them even when they are the only one with the right to an opinion. A few look for someone else to make the decision for them. Many others procrastinate until an emergency or a deadline destroys the opportunity for choice and drives them to action. Some confuse having the courage of their convictions with merely being stubborn.

Those that do decide to talk to a professional advisor about anything from investment or estate planning to health and housing often grab at an advisor recommended by a friend without making sure that friend knows good advice from bad. Others trust the phone book, so they end up with an early-alphabet advisor, or search the internet and get googled into advice from someone who may merely be very good at ranking high in a search.

What's your approach? The search for advice can be challenging when it lacks clarity and focus. Once you decide why you need advice and which type of advice, locating the appropriate advisor becomes easier.

Chapter 7

WHAT AM I SIGNING?

"Ignorance creates the battleground, but knowledge wins the war."

— PJ Wade

WHAT DOES A CONTRACT MEAN TO ME?

Contracts in Context

Home equity management and contracts go hand in hand. Contracts are involved in every aspect of home, home ownership, and home equity, including real estate transactions, mortgages, insurance, listings, leases, and renovation. If you decide on home equity conversion through a reverse mortgage, or an equivalent approach, the resulting contract can create your best friend or your worst enemy.

Since you have probably spent decades earning, maintaining, and cherishing your real estate, are you willing to invest a fraction of that time and effort to understand exactly what you agree to when you sign an equity conversion contract? This is where good habits pay off. Do you read everything before you sign? Do you understand everything to which you put your signature? If your answer is "no" to one or all of these questions, then I ask, "Why?" Why would you be too trusting, too embarrassed, or too busy to read—or, at least, have your lawyer read—an agreement that you will be bound to for years once you sign? What do you gain by not reading and understanding the documents you sign?

As an example of what is involved in real estate contracts, this chapter introduces you to the "guts" of a reverse mortgage agreement. Many of the terms and concerns are common to mortgage contracts and a variety of real estate agreements, and are relevant to other equity conversion approaches.

As you read through contract details presented here, keep the three reverse mortgage questions, introduced in Chapter 3, in mind at all times:

1. What do I get?
2. What will it cost?
3. What will be left?

This chapter will be good practice whether you decide to sign up for a reverse mortgage soon, or later. If you want to learn what to expect and request in an equity conversion equivalent, these three questions will help you concentrate on what the arrangement must accomplish for you. A mortgage broker or lawyer will know how to construct the contract, particularly if you share what you have learned in this book. Do not worry about the wording. That is where professionals come in. But do expect to read and decipher it.

For those readers who turned directly to Chapter 7:

To gain full benefit from this discussion of a reverse mortgage contract, readers should be equipped with an understanding of the concepts, issues, and terminology presented in previous chapters. Although the Quick Question Index and the Glossary, beginning on pages 146 and 151, respectively, may assist readers, these summaries are not substitutes for reading the material in sequence. Base your housing and financial decisions on *all* the information in this book, so you discover the potential and the pitfalls, both present and future, whenever you evaluate a new option, whatever your immediate reaction.

Five Rules To Contract By

Wise consumers—and that should include all homeowners—apply these five basic rules about contracts to everything they sign:

Rule #1: Sign only when you understand what you're signing.

Have you been told, "Don't worry about the small print, it's just a formality?" Have you ever discovered, too late, that you're not going to receive what you thought you had agreed to? Contracts commit you to what you sign, not to what you thought you had signed—whether you have read and understood the terms or not. Unless the agreement specifically includes a "cooling-off" period or legislation allows you to change your mind, once you sign there is no backing out. For instance, in Manitoba, the *Mortgages Act* allows a 7-day cooling-off period for reverse mortgage borrowers, provided strict requirements are met. (See page 108 for more on these periods.)

The **slow motion deciding** strategies introduced in Chapter 6 will also help you achieve clarity, especially if you use this opportunity to identify and improve on self-defeating decision-making habits.

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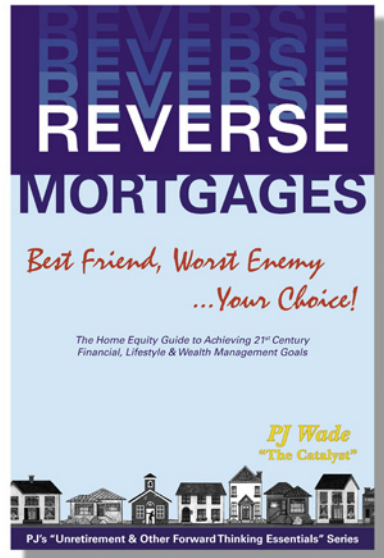
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