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## Reverse Mortgages

**ISSUE:** Amend the *Consumer Protection Act* as proposed in the BC Law Institute Report on Reverse Mortgages to include specific legislation addressing potential confusion regarding the cost of borrowing under a reverse mortgage and the rising debt nature of a reverse mortgage. Additional disclosure requirements are needed to further protect reverse mortgage borrowers, who are typically senior citizens.

**BACKGROUND:** Reverse mortgages are popular among homeowners, primarily those aged 55 or older who wish to borrow against their homes without the requirement of immediate payments against principal or interest. Reverse mortgages are typically repaid upon the sale of the real estate, on the borrower's death, or when the real estate is no longer the borrower's principal residence.

In its Report No. 41 issued in February 2006, the BC Law Institute identified the concern that some reverse mortgage borrowers do not understand the implications of these rising debt loans. Since periodic payments are not made, interest accruing on the loan is not reduced. Interest compounds and the borrower pays interest on accumulated interest. This feature of reverse mortgages results in the outstanding loan amounts growing quite large.

While lenders are required to provide a borrower with a disclosure statement, CBABC is concerned that the disclosure statement required under the *Consumer Protection Act* is not broad enough. Without sufficient disclosure, seniors may be vulnerable to unethical lending practices and may be surprised at the amount owed after a period of time.

### Background Reading:

[bcli.org/sites/default/files/Reverse\\_Mortgages\\_Rep.pdf](http://bcli.org/sites/default/files/Reverse_Mortgages_Rep.pdf)