REVERSE MORTGAGES

Reverse mortgages allow you to borrow cash against the value of your home. You usually don't have to make regular repayments until you leave and move into an aged care facility, sell your home or die. When the loan ends you, or your estate, must repay what's owing, usually out of the proceeds of the sale of your home.

Each year the fees and interest you would ordinarily pay are added to the loan balance. Over time, you're charged interest on the interest (or compound interest) and that builds up the total amount you owe.

There is a risk that the amount of the loan may increase to a point where it is more than the value of your home. This is called 'negative equity'. Some, but not all, reverse mortgage products guarantee that if this happens, you will not have to repay more than the value of your home (a no negative equity guarantee). But you may lose this protection if you don't meet the terms and conditions of the loan – for example, if you don't repair and maintain your home to a standard set by the lender.

You should be eligible for a reverse mortgage if you are 60 years or older and own your own home. You'll usually be able to borrow between 15% and 40% of the value of your home, depending on how old you are – the older you are the more you can borrow. In the case of couples who are both owners of the property, the amount you can borrow is based on the age of the youngest borrower.

What are the benefits?

- You can access cash as a lump sum, a regular stream of income or a combination of both – to suit your needs.
- You don't need a current income to qualify.
- You get to stay in your home and keep ownership.
- You usually don't have to make any regular repayments while you live in your home.

What are the costs?

- Interest rates are usually higher than average home loan rates.
- Because the interest builds up (or compounds) over the term of the loan, the debt can rise quickly, to the point where it may even be more than the value of your home.
- You may have obligations that become quite onerous, especially as you get older – like maintaining the property to a standard required by the lender. If you don't meet these obligations, you may lose your no negative equity guarantee and the lender may be entitled to evict you.
- If you are the sole owner of your home and you move or die, anyone who lives with you may not be able to stay in the home with you.
- The loan may affect your eligibility for a pension.
- There is no way to know for certain how much you will owe at the end of the loan.
- You might not have enough money left over after the loan to pay for aged care accommodation or to leave an inheritance (although some products do allow you to protect a fixed percentage of the value of the property so it cannot be used to repay the debt).

Warnings

- If you take up a reverse mortgage with a fixed term you may have to sell the house and repay the loan in your lifetime.
- If you take up a product that does not contain a no negative equity guarantee, you may have to meet the shortfall if your debt amounts to more than the value of your property.

This article contains general information only and is not provided as legal advice. Professional advice, including financial advice, should be taken before any course of action is pursued, or any information here is relied upon.

For advice about reverse mortgages contact Sharon McRae or Caroline Symington on 9890 3321.

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