LOWE LIPPMANN

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REVERSE MORTGAGES

A “Reverse Mortgage” loan is aimed at retired people who own their own home but have little cash to live on. Like a regular mortgage the property serves as security for the loan. However, unlike a conventional home loan no repayments are due on a reverse mortgage during the course of the loan. The loan is repaid when the borrower dies, when all parties move into fulltime care or when the owner decides to sell the property.

Reverse mortgages only allow the owner to borrow a proportion of the property’s value and this varies according to age. The strict lending criteria will safeguard against accumulating a large debt and regardless of how long you live the debt will never exceed the property’s value if there is a “no negative equity guarantee”, which is often of concern for potential borrowers.

Although borrowings are limited to a small proportion of the overall value of the home, borrowers should realise that the mounting debt on the home during the term of the loan erodes the owner’s increasing equity from rising property values. This means there will be less available to pass on in their will. If property prices don’t rise at all, equity will fall.

The advantages of reverse mortgages are:

- It can allow you to free up money to maintain or increase your standard of living. You can use the money to increase your retirement income or to meet planned expenditures.
- It allows you to keep your financial independence without the need to sell your house and relocate to a smaller residence.
- The interest and fees are rolled into the loan, which does not need to be repaid until you pass away or sell your home.

The risks associated with reverse mortgages are:

- It limits your options in the future. In many years down the track, you may want to sell your house to move somewhere smaller, closer to your family or into an aged care facility. You may not have enough money to make such a move if you have to repay a reverse mortgage.
- It reduces the value of your estate. The value of your estate may be much less than anticipated because the debt increases over time.
- If a home is named in an individual name, the reverse mortgage will have to be repaid if that individual relocates or passes away. This may result in a surviving spouse no longer being able to live in the home.
- It may impact on your eligibility for Centrelink payments. If you take out a loan as a lump sum, it can have an effect on your eligibility for the age pension as it may be counted as an asset. If you draw down smaller amounts to use on a regular

basis, they won’t be counted under the income test and the loan would usually have no effect on your eligibility for an age pension.