Reverse Mortgage / Equity Release Loan

Source: Australian Securities & Investment Commission

What is a Reverse Mortgage?

A reverse mortgage allows you to borrow money using the equity in your home as security. The loan can be taken as a lump sum, a regular income stream, a line of credit or a combination of these options.

While no income is required to qualify, credit providers are required by law to lend you money responsibly so not everyone will be able to obtain this type of loan. Interest is charged like any other loan, except you don't have to make repayments while you live in your home - the interest compounds over time and is added to your loan balance. You remain the owner of your house and can stay in it for as long as you want.

You must repay the loan in full (including interest and fees) when you sell your home or die or, in most cases, if you move into aged care.

A reverse mortgage is a **“lifetime loan”** for people 65 years and over against the equity in your home, holiday home or investment property. It is your **“reverse mortgage” or “lifetime loan”** that allows you to borrow against the equity or asset value in your property for any purpose that you wish. These loans are known as Reverse Mortgages or Seniors Equity Loans.

It does not require any repayments on the life of the loan but you can make voluntary repayments if you wish to do this.

This senior’s loan does not have to be repaid until you choose to sell your home or the last surviving borrower passes away.

You can receive your money in a variety of ways – as a Lump Sum or have your own “cash reserve” limit as a re-draw facility and you can then draw down as you need the money, this is sometimes called a “Line of Credit”, or a combination of your options to suit your situation. It is your choice.

If you have a current mortgage or loan on the property this maybe able to be paid out for you. You can use your money anyway you wish – to pay for in-home care, home repairs, and health care – your choice.

The amount you receive will depend on the value on your property and the age of the youngest borrower.

Negative equity protection

On 18 September 2012, the Government introduced statutory 'negative equity protection' on all new reverse mortgage contracts. This means you cannot end up owing the lender more than your home is worth (the market value or equity).

When the reverse mortgage contract ends and your home is sold, the lender will receive the proceeds of the sale and you cannot be held liable for any debt in excess of this (except in certain circumstances such as fraud or misrepresentation). Of course where your home sells for more than the amount owed to the lender, you or your estate will receive the extra funds.

If you entered into a reverse mortgage before 18 September 2012, check your contract to see if you are protected in circumstances where your loan balance ends up being more than the value of your property.

Even though the negative equity protection only commenced in law in September 2012, if your lender is a member of the Senior Australians Equity Release Association of Lenders (SEQUAL) they also will only offer reverse mortgages that protect you from negative equity.

How much can you borrow?

The older you are, the more you can borrow. Different lenders may have different policies about how much they will let you borrow. As a general guide, if you are 60 the maximum amount you can borrow is likely to be 15-20% of the value of your home. You can usually add 1% for each year older than 60. That means if you are 70, the maximum amount you could borrow would be about 25-30%.

The minimum amount you can borrow may depend on the provider. It could be as low as $10,000. Keep in mind that if you borrow the maximum amount now, you may not have access to any more money later.

The Risks

- Interest rates are generally higher than average home loans.
- The debt can rise quickly as the interest compounds over the term of the loan - this is the effect of compound interest and is something you need to be aware of before making any decisions.
- The loan may affect your pension eligibility
- You may not have enough money left for aged care or other future needs
- If you are the sole owner of the property and someone lives with you, that person may not be able to stay when you die (in some circumstances).
- If you fix your interest rate then the costs to break your agreement can be very high.

If you require further information please call **1300 362 609.**