



A guide to reverse mortgages

A reverse mortgage is a loan against the value of your home.

You can use the loan however you like while continuing to live in your home and keep ownership of it.



There may come a time when you'd really like to be able to take an overseas holiday, buy new furniture or pay off debts. With a reverse mortgage, you can use the equity you've built up in your home to do that.

It's up to you whether you take the loan as a lump sum, regular income or a combination of both.

Who can have a reverse mortgage?

Most reverse mortgage providers will lend you money if you are over 60 and own (and live in) your home. You don't need a current income to qualify. You can generally borrow between 15% and 40% of the value of your home, depending on your age, the age of any other borrowers and where your home is situated.

Repaying the loan

Although some providers allow you to make repayments at any time without penalty, generally you don't make repayments on the loan. All fees and interest are simply added to the loan balance each month.

If you aren't making repayments, the loan balance increases over time. This is known as 'loan capitalisation' which means you're paying interest on interest. It also means there's a risk of owing more than the value of your home. Some providers guarantee you won't have to repay more than your home's value, but this is generally subject to you maintaining your home in good repair.

You (or your estate) must repay the loan if you enter aged care, sell the home or die.

Things you should consider

- There is no way to know for sure how much you'll owe at the end of the loan.
- You may have to maintain the property to a standard required by the lender. If you don't, there's a chance you might lose your home.
- If you're 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.
- You might not have enough money left over after paying the loan for aged care accommodation, or to leave an inheritance – so you should talk to your family before taking out a reverse mortgage.
- It could impact on any Centrelink or Department of Veterans' Affairs payments you might receive.
- It can be more beneficial to receive regular payments rather than a lump sum from the reverse mortgage.
- A good rule is to only borrow what you need.

This publication doesn't take into account your personal objectives, financial situation or needs. It's important for you to consider these matters before making any financial decision and we recommend you seek help from a financial adviser.

Case Study – Henry and Alice

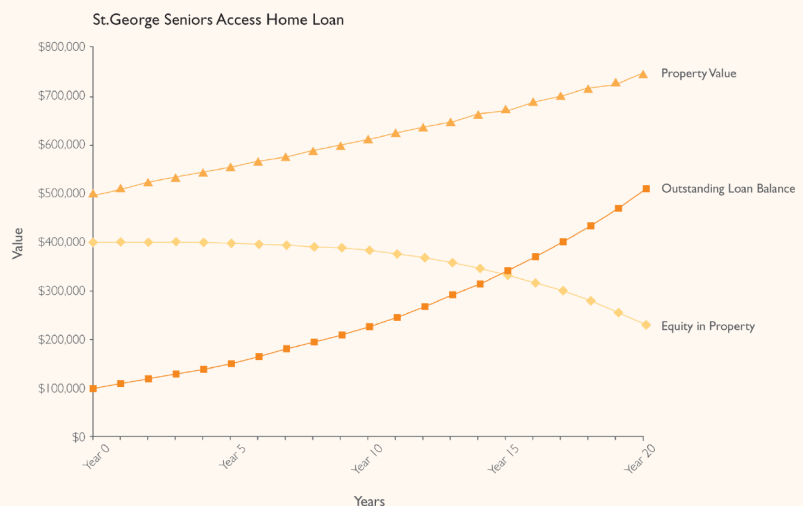
Henry and Alice own their home outright. They don't want to sell their home but find they're only just getting by on their pension and savings.

Henry and Alice discuss the option of a reverse mortgage with their family. The lender values their property at \$500,000. At their age (Henry is 71 and Alice 70), they can borrow up to \$100,000 (20% of their house value) leaving them with \$400,000 equity in their home.

Henry and Alice decide to borrow \$100,000. They want to invest \$50,000 to provide an income stream to supplement their pension, take an overseas holiday and keep what's left on hand for emergencies. Their financial adviser does a few calculations based on the following assumptions:

- Henry and Alice will live in their home for another 20 years.
- They make no loan repayments.
- The variable interest rate of 8.07% p.a. remains constant over the loan term.
- The loan balance includes a one-off establishment fee of \$750 and an administration fee of \$10 per month.
- The property achieves a capital growth rate of 2% p.a.

The financial adviser calculates the loan balance would have increased to \$509,863 in 20 years time, but because the property value has also increased, Henry and Alice would still have \$231,886 (31%) equity in their home.



Although the equity in their home is much less than it would have been, Henry and Alice have had the benefit of an overseas holiday, income from their \$50,000 investment and enough cash on hand to give them peace of mind.