

Understanding Reverse Mortgages - how can they benefit you?

A reverse mortgage is just like a normal home loan, except that it has been designed for the needs of seniors. It allows people aged 60 and over to release equity in their home to fund a more comfortable and independent retirement. No regular repayments are required, though voluntary repayments can be made at any time. Interest is added monthly to the loan, which is repaid from the future sale of the property. Importantly, you continue to 100% own your own home.

How can you use it?

Funds can be used for any worthwhile purpose. "Many Australians who retire just desire a few of life's 'wants'; to travel, to enjoy outings with friends and family, or to occasionally spoil the grandkids," says Sharon Yardley, from Australia's leading provider Heartland Reverse Mortgages.

A common reason for taking out a reverse mortgage is to consolidate debts, and other popular uses include taking the stress out of everyday bills, home repairs or improvements, paying for medical procedures, car maintenance, or anything that can make life easier and more comfortable in retirement.

Is there a limit to what I can borrow?

The amount you can borrow is determined by your age, the value of your property and other requirements of the provider. At 60, you may be able to borrow up to 15% of your property value, and this may be able to increase by 1% every year until 90 when it's possible to access 45%. Applications are subject to the lender's loan approval criteria, including a full valuation of your property.

A reverse mortgage is very flexible and you can choose how to take the funds; either as a lump sum, cash reserve, as regular advances (which, depending on provider, could be paid monthly, quarterly or annually for up to 10 years), or a combination of all three.

Customer protection?

Reverse mortgages are arguably the most heavily regulated consumer finance product in Australia. As a result, reverse mortgages have considerable protection for customers, including a guarantee that you will never owe more than the net sale proceeds of the property, lifetime occupancy, and no requirement to make repayments until the end of the loan (with flexibility to repay in full or in part at any time). This protection, which is subject to you adhering to the terms of the loan, and the thorough application processes involved during application, helps provide peace of mind.

How do I decide on a provider?

One of the most important decisions you will make about a reverse mortgage loan is which lender to choose. This decision may have a long-term impact on you and your family, so it's crucial you get this right. Criteria to consider include the flexibility of the product being offered, ongoing fees and charges, protections offered to customers, and what loan options are available. The drawdown options are very important – as usually you are only charged interest on what has been accessed from the loan amount. It is also sensible to get independent financial advice, and legal advice is compulsory when taking out a loan.