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Helping People through Finance

KEY INFORMATION ABOUT REVERSE MORTGAGES

What is a reverse mortgage?

A reverse mortgage allows you to borrow money using the equity in your home as security. The loan may be taken as a lump sum, an income stream, a line of credit or a combination of these options. Interest is charged like any other loan, but you usually don't need to make repayments while you live in your home. The loan must be repaid in full if you sell your home or die or, in most cases, if you move into aged care. Typically, you are charged a higher interest rate on a reverse mortgage than for a standard home loan.

How will I be charged interest?

You will be charged interest on the loan amount you borrow. Fees and interest are added to the loan balance as you go, and the interest compounds. This means you will pay **interest on your interest**, plus on any fees or charges added to the loan. Over time, the amount you owe the lender will increase, and the longer you have the loan, the more the interest compounds and the bigger the amount you will have to repay.

For example, if you take out a reverse mortgage of $50,000, the effect of compound interest means that in 10 years' time you will owe more than twice that amount, as the table below illustrates.

Loan Term	Interest	Total amount owing
1 year	$4,420	$54,420
2 years	$9,230	$59,230
10 years	$66,632	$116,632

This example assumes a fixed rate of 8.5% compounded monthly with no fees applying and no repayments being made.

How much equity will I have left after my reverse mortgage is repaid?

The amount of equity you have left in your home after repaying your reverse mortgage will depend on how much money you borrow, the interest rate and how long you have the loan, and the value of your home when it is sold.

To understand how a reverse mortgage works, let's say the value of your home is $450,000 and you take out a reverse mortgage of $50,000, leaving you with $400,000 in equity.

What if the value of your home stays the same?

Over 20 years, your debt will grow from $50,000 to $272,060. If the value of your home stays the same over this time, your remaining equity will be $177,940 (see Graph 1, below).

What if the value of your home goes up?

If the value of your home goes up at the rate of 3% per year, after 20 years your home will be worth $812,750 so your remaining equity will be $540,690 (see Graph 2, below).

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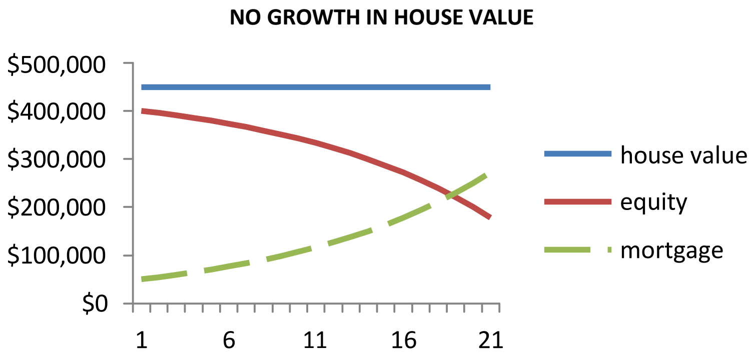

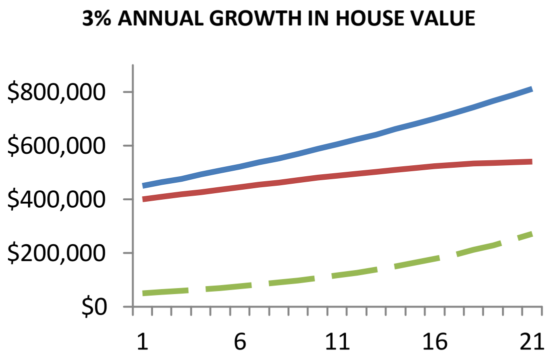

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A REVERSE MORTGAGE MAY NOT BE SUITABLE FOR EVERYONE. WHAT ARE THE ISSUES TO CONSIDER IN DECIDING IF IT IS RIGHT FOR YOU?

How will the loan affect your future choices?	When thinking about a reverse mortgage, you need to consider both your current and future needs. The more you borrow now, and the younger you are when you borrow it, the less equity you will have in your home to pay for your needs as you age. How might your health and living situation have changed in 10, 20 or 30 years' time? If you use up too much of your equity too soon, you may not be able to afford future costs such as high medical expenses, the need to move into aged care accommodation, essential home maintenance or the purchase of a motor vehicle.
How much will you have to repay?	You can only estimate how much you will end up owing. The exact amount to repay will depend on how much money you borrow, the interest rate and how long you have the loan, and the value of your home when it is sold.

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Will I owe more than what my home is worth?	By law, lenders must guarantee that when your reverse mortgage contract ends and your home is sold to repay the loan, you will not have to pay back more than the value of your home. This is known as a "no negative equity guarantee". There are a few exceptions to this rule.
Will other people living in your home be affected?	Generally reverse mortgages have to be repaid when you move out (for example, into aged care) or die. If you are the homeowner and someone else is living with you, the other resident may have to move out when the loan has to be repaid. Some reverse mortgage contracts may protect the rights of the other resident by allowing them to stay in the home. If you want this option, make sure you discuss this with your lender before taking out a reverse mortgage.
Will you be able to leave your children an inheritance?	A reverse mortgage will reduce the amount of equity in your home you can leave to your children or other beneficiaries. You may wish to discuss this with your family.
Are there alternatives more appropriate for you?	There may be alternatives to taking out a reverse mortgage that may be more suitable for your needs. These can include downsizing, making arrangements with other family members, accessing government benefits, loans (such as the pension loans scheme) using savings or selling other assets or home reversion schemes.
Will you incur costs for repaying the loan early?	Break fees may apply when a fixed interest reverse mortgage is ended early. Break fees can be very high. Depending on the size of the loan and how long you have had it, these fees may be thousands of dollars. Note: inclusion of this box is not required for reverse mortgages with no break fees.
Will your pension change?	A reverse mortgage may affect your pension or other Government entitlements. You can contact the Department of Human Services (Centrelink) on [Note 1] to talk to a Financial Information Service Officer about how your pension may be affected. Note 1: Provider to insert the Department of Human Services number.

SOURCES OF OTHER INFORMATION

ASIC's MoneySmart: To find out more about reverse mortgages, including a reverse mortgage calculator to help you work out how much equity you may have in the future, visit the Australian Securities and Investments Commission's free consumer website at www.moneysmart.gov.au or call [Note 2]. Note 2: Provider to insert the ASIC Info line number.

National Information Centre on Retirement Investments: NICRI offers a free independent telephone service to help consumers understand reverse mortgage products. To speak to an information officer from NICRI call (toll free) [Note 3]. Note 3: Provider to insert the NICRI Info line number. Note: This line is not required if NICRI no longer provides a free independent telephone information service.