REVERSE MORTGAGES

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WHAT IS A "REVERSE MORTGAGE"?

So-called "reverse mortgages" enable older Australians who are asset rich but cash poor to borrow against the equity in their homes.

What are the benefits?

Many of our clients are considering or have already utilised this form of lending to maintain their lifestyle, to pay for holidays, to help finance the homes of their children or to acquire investments. Unlike a traditional home loan, a reverse mortgage does not require any repayments, and in most cases it only needs to be repaid when you die or leave your home permanently. It can therefore allow many homeowners access to cash without the necessity to sell their homes.

What are the dangers ?

Like all loan documents, a reverse mortgage is a one-sided legal agreement designed to protect the interests of the lender and which imposes on the borrower a large number of strict conditions. Interest is charged on the outstanding loan amount, so instead of reducing over time, your loan will constantly increase. In addition, many reverse mortgage loan contracts are confusing and hard to interpret, and they contain various default clauses which can result in higher interest rates accruing and even the sale of your home. And remember that if you leave your home permanently, such as to enter aged or nursing care, your home must be sold and the mortgage repaid.

Can my children end up owing money on the mortgage?

Most reverse mortgages have a negative equity guarantee, which prevents you from owing more than your home is worth. However that guarantee does not apply in some cases if you default on the conditions of your loan, e.g. by not paying rates or holding inadequate insurance. An additional condition in some reverse mortgages is that every 12 months you must provide a declaration that you still live in the property. Failure to provide that statement can also constitute default.

Another possible flaw is that many contracts require repayment of the loan within 31 days after the death of the borrower, which is not only unreasonable but in most cases simply not possible.

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