

Reverse Mortgage

Contributed by Stuart Barker

The "Reverse Mortgage" is a product becoming more and more popular in the market place and you will hear the term far more frequently in the future. What is a reverse mortgage and what does it mean?

In effect the product "reverse Mortgage" is designed to assist our aging population access the equity in their family home for lifestyle in their retirement without having to sell the asset.

In Australia the "Reverse Mortgage" is quite a young product and not available through all lenders it is widely used in the USA and can only become more available here over time.

Many lenders are nervous about implementing the product, as they fear being dragged through the media for having to sell up an elderly couple and put them out in the street. Those that are involved with the product have assessed the likelihood of this happening and have deduced that this scenario is unlikely given the parameters under which the product is offered.

Basically the rules currently governing "Reverse Mortgages are as follows;

- Available only to those people over the age of 65.
- First mortgage security.
- Maximum of 25% of the registered value of the property offered as security.
- No repayments are required.
- Interest accrues and is compounded, thereby increasing the original advance.
- Facility is basically a line of credit, which is used as a bank account with an overdraft facility.
- The debt is cleared from the eventual sale of the property either voluntarily or through the estate.

The facility has many benefits for an aged population who either didn't have the opportunities to create wealth that we have or didn't take advantage of them. However, there are potential issues that need to be considered as follows;

- You are pledging your only major asset and it may be prudent to discuss with family before committing, as their inheritance would most certainly be affected.
- There may be implications to your social security benefits, which need to be clarified before proceeding.
- There may be tax implications depending on individual circumstances so an Accountants advice would be critical.
- Different lenders have different policies and criteria so a good Mortgage Broker is also critical.

If you would like to know more please feel free to contact us.