

FINANCE

Is a reverse mortgage right for you?

Taking out a reverse mortgage on your home is a big risk. As Tony D'Aloisio, Chairman of the Australian Securities and Investments Commission writes, you should consider carefully before making the decision.

YOU are probably thinking that an article about using the equity in your home is not a relevant topic for you at the moment.

A lot of life's big steps such as buying a house, repaying a mortgage, and reaching a ripe old age of 60 have to be taken before these products even become available to you.

Your parents or grandparents, however, may be considering using the equity in their home and it is important for you and them to be aware of these types of products available and their risks.

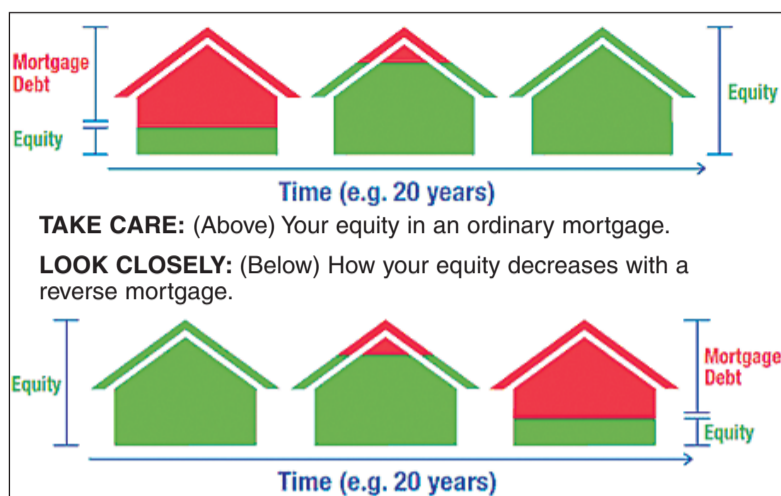
What are reverse mortgages?

Reverse mortgages allow you to use the equity – that is, the part of the home you own outright – to borrow money against your home.

Who would use one?

These products are generally only available for the over 60s and are promoted as a way to access money without having to sell your house. You can choose to receive money as a lump-sum or in instalments and you only have to repay the loan when the house is sold.

People consider using the equity in their home because they have a valuable asset but they don't have a regular income and are considered "cash



poor". Reverse mortgages seem to provide a solution because the lender will give you the cash you need in return for a part of the equity in your home.

What are the risks?

These products are risky because you are using your main asset, your house, as security for the loan. This means that if your financial situation changes during the term of the loan, or you breach a term or condition of the agreement, you may have to sell your house so you can repay the loan.

High interest rates and high fees

also make these products relatively expensive and, after time, you can find yourself owing more than what your house is worth. If this happens, you have negative equity in your home.

Most reverse mortgages offer a No Negative Equity Guarantee, which ensures that you can't end up owing more than the house is worth. If you are considering taking out a reverse mortgage it is wise to only consider loans that offer a No Negative Equity Guarantee. Remember to read the fine print because, in some cases, if you



breach even a minor term or condition of the loan this protection can be lost.

- In particular, check:
- ▶ whether the product offers a No Negative Equity Guarantee; and
 - ▶ what the penalties are for breaching the terms and conditions.

Is it the right mortgage?

It's important for anyone thinking about using a reverse mortgage to consider whether it is the best financial solution for your particular situation. Make sure you consider:

- ▶ your financial needs now and in the future;
- ▶ how much the loan is likely to cost you over the long term;
- ▶ how long you are likely to live for;
- ▶ whether you will have enough cash left over for aged care accommodation if you need it; and
- ▶ whether you want to leave anything to your kids.

What are your other options?

Consider whether the following suggestions are feasible:

- ▶ selling your home and moving somewhere smaller; or
- ▶ living off your current income and

getting a reverse mortgage further down the track (to preserve your nest egg).

Another way to use the equity in your home is through Centrelink's Pension Loan Scheme. These schemes allow you to make repayments at any time and their interest rates are significantly lower than commercial equity release products.

Get more information

With any financial product it is always important to seek independent legal advice and not feel pressured by a hard sell.

Before signing anything contact:

- ▶ The Centrelink Financial Information Service (13 23 00) or the Department of Veterans' Affairs (13 32 54) to see if an equity release product will impact your pension entitlements; and
- ▶ The National Information Centre on Retirement Investments (NICRI) free Equity Release/Reverse Mortgage Information telephone service (1800 615 676).

Phone the ADF Financial Services Consumer Council on 1300 300 630 or visit www.fido.gov.au for a copy of FIDO's booklet. Visit FIDO's information on equity release products at: www.fido.asic.gov.au/equityrelease. While you are there, take a look at what a reverse mortgage could cost you over the long term with ASIC's reverse mortgage calculator. Also check out the actuarial study on life expectancies.

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Take a look at: www.adfconsumer.gov.au



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