



REVERSE
MORTGAGES

A GUIDE TO BORROWING

“ Giving
people over the
age of 60 the
freedom to
enjoy the things
they want to”

INTRODUCTION - 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.

WHY A REVERSE MORTGAGE

Reverse mortgages are very flexible and can be used for any worthwhile purpose for example - home improvements, travel & holidays, to purchase a new car, debt consolidation, medical expenses & aged care or extra cash-flow in retirement (for bills or living costs).

HOW DOES A REVERSE MORTGAGE WORK?

The amount you can borrow is determined by your age and the property value. You can choose how to take the funds; either as a lump sum or as a cash reserve (where you can set aside funds for future use or select a regular monthly advance) - or combination of both. The lender only ever takes a first mortgage; you remain the home owner.

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.

WHAT ARE THE BENEFITS?

- Peace of mind - knowing you have access to cash
- A better lifestyle in retirement
- Less stress paying everyday bills
- No need to sell or downsize - stay in your home
- The freedom to change your life, when you want

WHO CAN TAKE OUT THE LOAN?

Up to two people, both aged 60 or over, can apply for the Reverse Mortgage where at least one of them owns, or is going to purchase, a security property. Special consideration may be allowed for Family Trusts. Please contact Morgan & Brooks support Team for further guidance regarding property ownership or other loan application queries.

ESTABLISHING THE LOAN

The amount you can borrow is determined by your age and the property value.

To determine this, "45" is subtracted from the age of the youngest applicant. For example, if you are 60 years of age, you are able to borrow up to 15% of the market value of the property. If you are 80, you are able to borrow up to 35% of the market value of the property.

FINDING THE RIGHT PRODUCT

Morgan & Brooks offers a range of different Reverse Mortgage products. For more information call 1800 801 999 or visit www.morganbrooks.com.au

EXAMPLE – ARTHUR AND DOROTHY

Arthur and Dorothy are aged 78, and 75 respectively. They own two properties, an unencumbered owner occupied home and a beach house, and wish to create an income stream to supplement their pension and small superannuation incomes.

The main residence is worth \$700,000. The second property is worth \$350,000. They would like a regular payment loan of \$25,000 per annum for 10 years.

Based on the information supplied the couple could borrow:-

- A maximum loan amount of \$210,000 (\$700,000 x 30%)
- If Arthur and Dorothy are seeking to borrow \$25,000 per annum over 10 years, the amount of \$250,000 falls outside the borrowing parameters
- The maximum annual payment available would be \$21,000 for 10 years.

ASSISTING
YOUR
FUTURE

“A Reverse Mortgage gives you the freedom to access equity in your home without the need to make repayments”

FAQ

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.

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 your pension change?

A reverse mortgage may affect your pension or other Government entitlements. You can contact the Department of Human Services (Centrelink) on 132 300 to talk to a Financial Information Service Officer about how your pension may be affected.



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