National Consumer Credit Protection Act 2009

### **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.

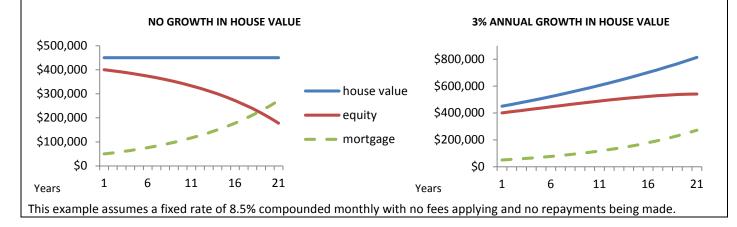
To understand how a reverse mortgage works, let's say the value of your home is \$450,000 and you take out a reverse mortgage of \$50,000, leaving you with \$400,000 in equity.

#### 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).



# 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	When thinking about a reverse mortgage, you need to consider both your current and
your future choices?	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	You can only estimate how much you will end up owing. The exact amount to repay
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	By law, lenders must guarantee that when your reverse mortgage contract ends and
my home is worth?	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	Generally reverse mortgages have to be repaid when you move out (for example, into
your home be affected?	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	A reverse mortgage will reduce the amount of equity in your home you can leave to
your children an	your children or other beneficiaries. You may wish to discuss this with your family.
inheritance?	
Are there alternatives	There may be alternatives to taking out a reverse mortgage that may be more suitable
more appropriate for you?	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	Break fees may apply when a fixed interest reverse mortgage is ended early. Break
repaying the loan early?	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 132300 to talk to a
	Financial Information Service Officer about how your pension may be affected.

## 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 1300 300 630