

Reverse Mortgages

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For cash-poor Australian homeowners, the marketing of home equity products can be hard to resist, but it probably makes more sense to cut costs and downsize rather than put your biggest asset on the line.¹

Introduction

This chapter gives an overview of the reverse mortgage (and equity release) market in Australia. It also discusses the features of reverse mortgage products, provides an analysis of the benefits as well as drawbacks of using such products, considers the current reverse mortgage market in Australia as well as the legislation governing reverse mortgage products, and looks to the future of such products and the implications for government policy.

Over the next 40 years an estimated seven million people are expected to live off their savings mainly in the form of their superannuation.² With volatility in investment markets there are concerns regarding how retirees will be able to make their superannuation last. Given this, financial institutions are likely to promote lending through the development to more equity release, reverse mortgages and home reversion products.

Scope of this chapter

With home reversion products, borrowers 'sell' a portion of their home at a discount to the lender and receive a lump sum in what is known as a shared equity product. The lender keeps the upside of its share in the property when it is ultimately sold. There is no accumulating of debt and borrowers can leave beneficiaries a fixed proportion of the home. An example of this is the Homesafe Solutions' Homesafe Wealth Release (a joint venture of Bendigo and Adelaide Banks), which allows borrowers to sell a proportion of the home at a discount, and Homesafe keeps the upside in the value of its share in the property when it is ultimately sold.³

- 1 A Kollmorgen, *Risky Financial Moves For Over-50s* (21 November 2016) Choice <<https://www.choice.com.au/money/property/buying/articles/reverse-mortgages-and-home-reversion-schemes>>.
- 2 B Brown, 'How to Use a Reverse Mortgage to Help Fund Your Retirement', *Australian Financial Review*, 14 March 2015 <<https://www.afr.com/personal-finance/budgeting/how-to-use-a-reverse-mortgage-to-help-fund-your-retirement-20150306-13xmfc>>.
- 3 Ibid.

This is a preview. Not all pages are shown.