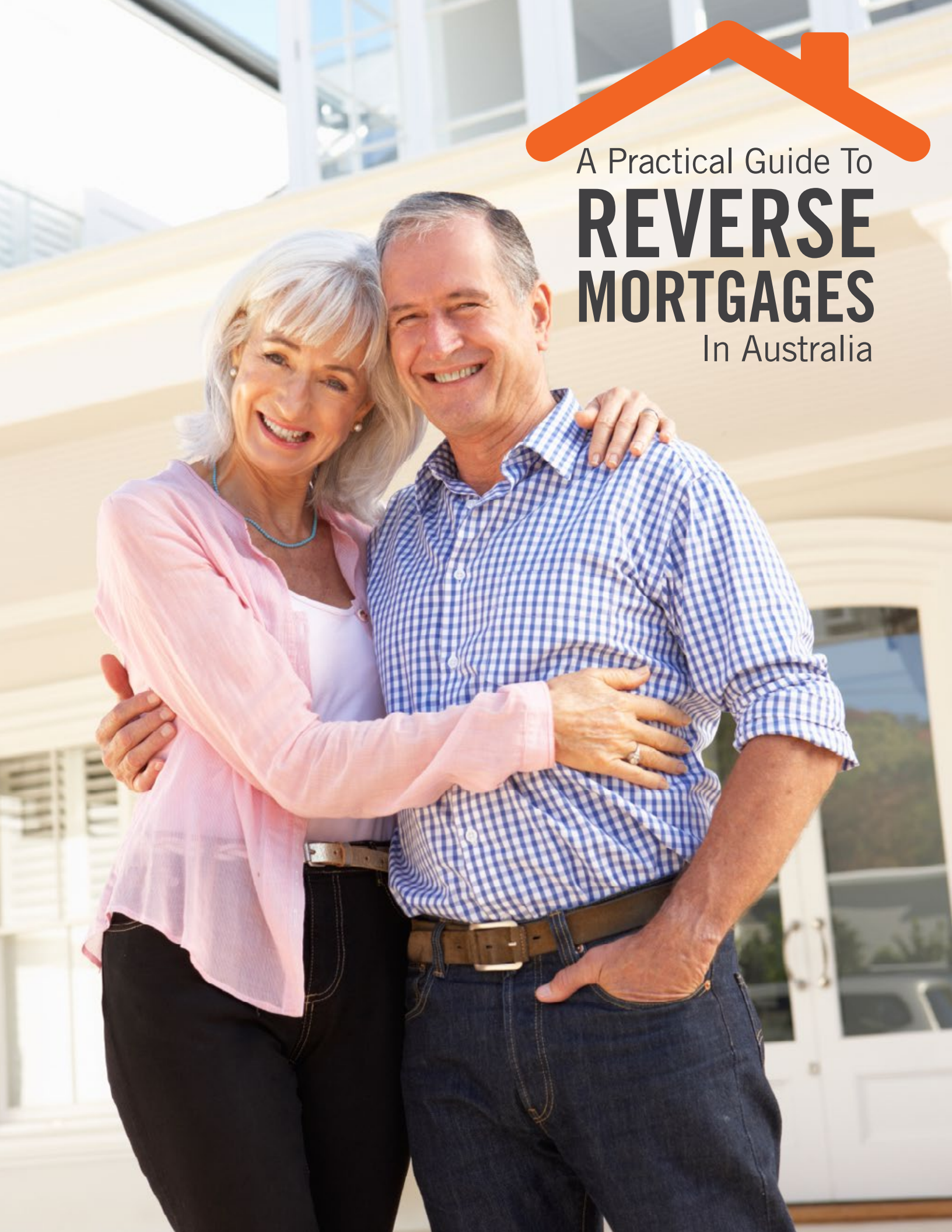


A Practical Guide To

REVERSE MORTGAGES

In Australia

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Introduction

How this guide can assist you

Reverse Mortgage lenders each have their own product options, application methods and marketing materials. For someone who may be unfamiliar with the concept of a Reverse Mortgage, this presents a challenging array of product information and jargon to sift through when researching your options.

You may be investigating Reverse Mortgages on behalf of your parents, or for yourself or with your partner. If so, this guide is designed to present some practical considerations to assist you in your research process. It is structured as a step by step guide, navigating you through a typical Reverse Mortgage decision process.

Equity Release and Reverse Mortgage

'Equity Release' is a term used to describe the release of wealth tied up in residential property. A Reverse Mortgage is a very specific form of Equity Release and is the most popular form of Equity Release for Seniors in Australia and in similar countries such as the UK, Canada and the USA.

Reverse Mortgages are now established as an important retirement planning solution, allowing Seniors to tap into a responsible portion of the wealth that has been created in their property, without selling it. This additional and accessible wealth has significant potential to support your financial security in retirement.

Your **Reverse Mortgages Victoria** Advisor will assist you with all the decisions you need to make during the process. This booklet is to provide you with the information you need to decide whether a Reverse Mortgage will meet your needs.





Understanding the Reverse Mortgage Solution

Why might you consider a Reverse Mortgage?

Reverse Mortgages are designed to provide you with additional funds in retirement. You may be looking to fund a one-off expenditure or simply supplement your monthly pension income. The most common reasons why Reverse Mortgages are used are:

- **Home renovations and/or improvements**
- **Purchasing a car**
- **Overseas holiday and travel**
- **Medical Expenses including Private Health Care**
- **Day to day income supplement**
- **Paying out other debts**
- **Gifting**
- **Possible Later life Expenses**

The most consistent motivation is likely to be that you have insufficient savings to meet your retirement lifestyle to consider these additional expenses. You may have significant wealth built up in your home and you are planning to stay put for the foreseeable future.

How does a Reverse Mortgage differ from a standard mortgage?

Under a standard mortgage, you will borrow funds from a lender (usually to purchase a home) and you will then make regular repayments back to the lender. Over time you will repay the loan in full and end up owning the home outright.

Under a Reverse Mortgage, the lender will advance you funds secured on your home. However, you will not be required to make regular repayments at any stage during the life of the loan. By its design, a Reverse Mortgage allows you to tap into equity in your home, without the obligation to make regular repayments.

Because you do not have to make any regular repayments, interest and fees charged to your Reverse Mortgage are instead added (or 'capitalised') to the loan balance, and the loan balance therefore increases over time.

Who qualifies for a Reverse Mortgage?

Each lender will have their own criteria, but generally you must be over 60, and own your home.



Ask your **Reverse Mortgages Victoria** Advisor whether your home qualifies as an acceptable Security Property.

How much equity will be left in my home?

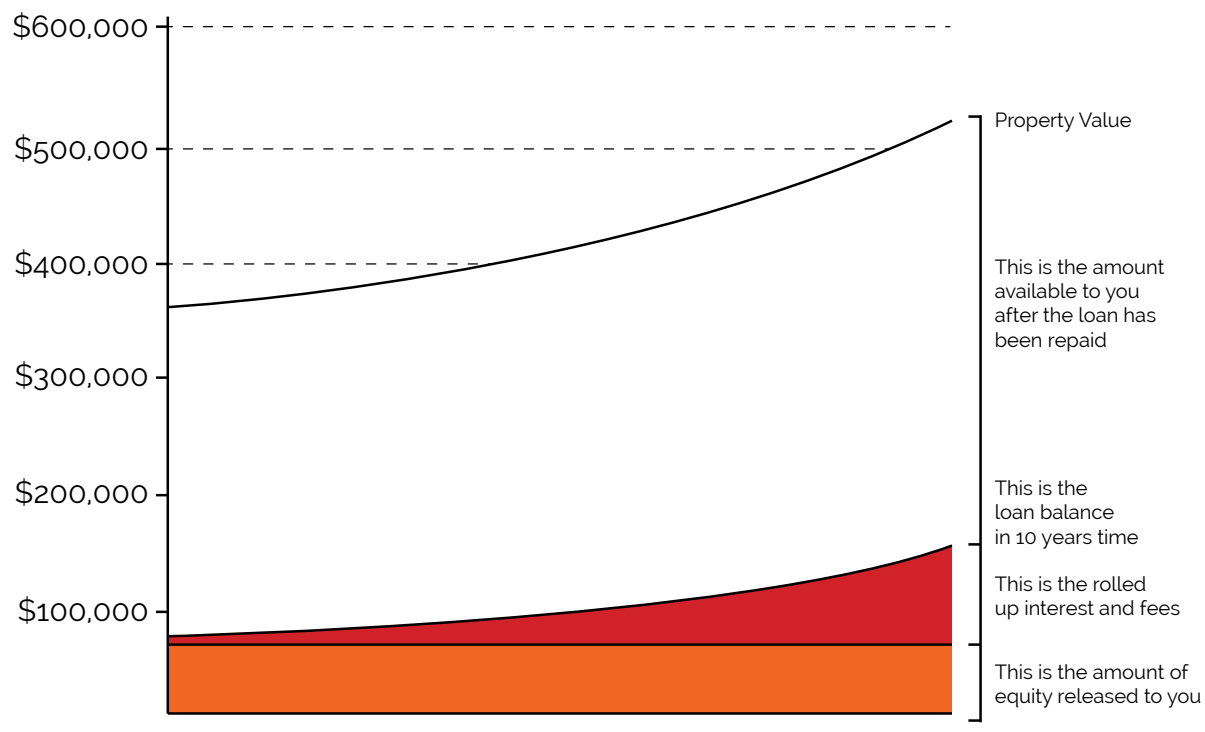
The level of equity you retain in your home will depend on a number of factors:

1. **The length of time your Reverse Mortgage runs for;**
2. **The level of future house price growth in your home;**
3. **The interest rate charged on your Reverse Mortgage; and**
4. **Any lender fees and charges**



It's not possible to predict with certainty what house prices will do in the future. Australia has enjoyed a long and consistent period of house price growth, however, this is no guarantee of what might happen going forward.

Lenders are generally conservative in the loan amount they offer, and therefore even modest levels of house price growth will assist in protecting and even increasing the level of equity in your property. The chart below illustrates how a Reverse Mortgage might work.



Note: Example shown is a $600,000 property, a loan of (20%) $120,000 and a variable interest rate of 8.5 p.a. Nominal house price growth is assumed to be 4.00% p.a. and the illustration is shown over 10 years. This is an illustrative example only and no assurance can be given on the assumptions used.

Please contact **Reverse Mortgages Victoria** for current interest rates

Am I selling a portion of my home under a Reverse Mortgage?

This is a common misconception. A Reverse Mortgage is a loan secured on your property; it is not a sale of your property. You continue to retain full ownership of your home, enjoy the benefits of any future capital growth, and have lifetime occupancy A reverse mortgage loan is in place untll the last borrower no longer lives in the home..

How much can someone borrow?

Again, each lender will have their own rules. The amount you can borrow will, however, normally be a formula based on the age of the younger borrower and the value of your property. The maximum loan available to you will be expressed as a Loan to Value Ratio (LVR); the available loan as a percentage of your property's value. The loan amount is calculated as a percentage of your property value

The older you are, the higher the available LVR. By way of example, the LVR table by age for one lender has been published as follows:

Most Common Loan to Value Ratio (LVR) %

Age of Younger Borrower	58-59	60-64	65-69	70-74	75-79	80-84	85-90
LVR	10%-14%	15%-19%	20%-24%	25%-29%	30%-34%	35%-39%	40%

Your entitlement increases as you age, in line with the above table.

When do I have to repay the loan?

Lenders will typically require repayment of the loan, plus interest and fees, on either the sale of the Security Property or the passing away of the last surviving borrower, whichever occurs first. Some lenders require repayment of the loan should you move into long term aged care.

This structure ensures both you and your partner are assured of the right to live in your home for as long as you both choose.

You may find that due to loss of a partner your income maychange and your adviser will discuss options for your revised circustances.

Your estate will normally have a period of 6 months or more following the passing away of the last surviving borrower in which to arrange for repayment of the loan, usually (but not necessarily) from the sale of the property.



What is a "No Negative Equity Guarantee"?

The No Negative Equity Guarantee is a term in the Reverse Mortgage contract that limits the amount you owe the lender to the value of your property at the time of repayment.

All Reverse Mortgage loans MUST provide a No Negative Equity Guarantee. This means that should the loan balance including interest and fees exceed the value of the property at the time the loan is repaid, you (or your estate or beneficiaries) will not be asked to make up the shortfall.

This is one of the most important aspects of a Reverse Mortgage contract and should be discussed in detail with your advisor, as each lender will have their own terms and conditions under which the No Negative Equity Guarantee will apply. All lenders are required by law to offer a No Negative Equity Guarantee.

Other forms of Equity Release

There are other ways for Seniors to 'Equity Release', including selling their home and downsizing, or entering into contracts known as Home Reversion schemes or Shared Appreciation Mortgages.

Selling and downsizing the home can have emotional and practical issues associated with it, as well as a significant cost in the actual selling, moving and purchasing of another property. However, it may be a preferred solution depending on your circumstances.

Home Reversion schemes involve the sale of part of the beneficial interest in your home, usually at a discount to its market value.

Shared Appreciation Mortgages involve the transfer of a portion of any future growth or decline in the value of your home to a lender, in exchange for a reduced interest rate.

Home Reversion schemes and Shared Appreciation Mortgages are often complex transactions that involve a sale or transfer of some or all of the beneficial interest in the future value of your home.

It is not always possible to ascertain the real cost of funding on these transactions.

Home reversion schemes and Shared Appreciation Mortgages are not common in Australia and generally restricted to a limited number of post codes in Sydney and Melbourne.





Aged Care Loan

An aged care loan is a special Reverse Mortgage loan, designed to allow older Australians entering residential aged care to release equity in their home for the purpose of paying aged care costs.

There may be specific reasons why the family home is to be retained, such as a partner is still living in the home or the home is to be retained for the future estate. The retention of the home can also have a beneficial effect of reducing Government fees in some circumstances.

Aged care has aged pension and means testing implications and your adviser will be able to include such discussions in any loan application process.

An Aged Care Loan is generally a 5 year term, and can be repaid anytime during that period.

An Enduring Power of Attorneys is often involved in the loan process, and acts on behalf of the borrower. In some states, the Power of Attorney Authority must be registered with the State Titles Office. Your **Reverse Mortgages Victoria** Advisor will assist you with your Power of Attorney situation.



Choosing the right Reverse Mortgage structure

Your **Reverse Mortgage Finance Solutions** Advisor will assist you to review the range of Reverse Mortgages available to you. Each lender offers a 'point of difference' to you.

However, the two most important Reverse Mortgage product options that you will need to decide on are:

1. **How would you like to receive the funds from your Reverse Mortgage (lump sum, income and/or line f credit); and**
2. **The interest rate structure on your Reverse Mortgage**

Once you've decided on which options best suit you, you will be in a position to select the specific Reverse Mortgage lende that meets your needs.

Options for accessing your Reverse Mortgage funds

The options available to you will generally be as follows:

- **Receive all your Reverse Mortgage funds as a single lump sum on the settlement of the loan, often referred to as a Lump Sum option;**
- **Receive a series of monthly payments over an agreed term, often referred to as an Instalment option;**

- **Receive a funding limit under your Reverse Mortgage, from which you can draw funds from time to time as you need them, often referred to as a Line of Credit or Reserve option.**

You will also be able to combine these options, for example by taking a portion of your Reverse Mortgage as a Lump Sum and the balance as a series of Instalments depending on your needs.

Which is the most suitable option to draw down my funds?

The decision as to which option best suits you will depend largely on what you are releasing the funds for. In general, if you need funds for a one-off capital expenditure (such as a car or home renovations) then a Lump Sum may be more suitable.

If, however, you are looking to supplement your monthly pension income, then the Instalment option may be more suitable.

If you are looking to have a safety net or a reserve fund that can be called on in emergencies, then a Line of Credit may be the most appropriate.

The advantage of the Instalment or Line of Credit option is that you will only be charged interest on funds that are actually drawn down, not on the approved limit.

Depending on your current Centrelink entitlements, there may also be an advantage in drawing the funds down via Instalments or a Line of Credit as Reverse Mortgage funds are not generally assessed by Centrelink until they are actually drawn down.

Interest rate options on your Reverse Mortgage

Currently, only variable interest rates are available for Reverse Mortgage loans. There are no fixed rate loans available.

Variable Rates

Variable rates are available from all lenders. The interest rate charged on your loan may vary at any time during the life of the loan, and will usually be linked to the Reserve Bank's interest rate setting.

The advantage of a variable interest rate is that lenders will normally allow you to make partial or full repayments, without any early repayment fees or fixed rate break fees.

The disadvantage of a variable rate is that you will not be able to forecast with any certainty what your loan balance will be in the future (as the interest rate will be unknown).

Your **Reverse Mortgage Finance Solutions** Advisor will assist you with the choice of the most suitable interest rate.

Other important features to consider

Having made some decisions on the major options available to you, it is also worth considering specific product features that may be available (and important) to you from certain lenders. Your **Reverse Mortgages Victoria** Advisor will assist you with these features.

- **Further Advances: The ability to draw down additional equity in your property at some point in the future;**
- **Protected Equity Option: The ability to protect a fixed portion of your property's value that will always be available to you or your estate in the future, for example to finance an aged care accommodation deposit;**
- **Aged Care Funding: The ability to move into residential aged care without the requirement to repay the loan until you choose to sell your home; and**
- **Investment Property: The ability to use an investment property as the Security Property for a Reverse Mortgage Loan.**



Choosing a Reverse Mortgage lender

We will assist you to select the most appropriate Reverse Mortgage structure that suit your needs, and will then assist you to select the lender that you are comfortable dealing with, and who can offer you the most suitable Reverse Mortgage product.

Below are some pointers we suggest you consider in the selection of your Reverse Mortgage lender.

Clear disclosure

Your adviser will show you illustrations or scenarios for how the equity in your property might change over time.

Rates and fees

Ensure your Reverse Mortgage lender is able to offer you options options on the way in which you can draw down the funds.

Do I have to deal with the lender directly?

No! Your **Reverse Mortgages Victoria** advisor will be able to assess your individual circumstances, and then assist you in identifying the most appropriate and competitive product to meet your needs.

We will prepare the loan application, submit it to the lender and monitor progress of the application right through to completion of the loan.



Taking advice

Taking appropriate financial, legal and family advice is an important part of the process when considering a Reverse Mortgage. Your personal and financial circumstances will indicate whether a Reverse Mortgage is an appropriate product, and what other options might be available to you.

Centrelink

If you are currently receiving Centrelink entitlements, it is very important that you speak to your Financial Information Services (FIS) Officer at Centrelink to ensure the funds received from your Reverse Mortgage do not impact your entitlements. This will include a review of how you are receiving the Reverse Mortgage funds, as well as what you are proposing to do with the funds.

Your adviser has significant knowledge of Centrelink rules and will be able to indicate any possible impact on your entitlements. Remember that the final arbiter is Centrelink.

If there's an impact on your Centrelink entitlements, it might be worth talking to your mortgage adviser to see if the Reverse Mortgage could be structured in another way.

Legal advice

You are required to receive independent legal advice from a solicitor of your choice. The loan contracts and supporting documentation will be sent to you or your nominated solicitor, who should then provide you with advice on the terms and conditions of the Reverse Mortgage loan contract.

Family

In most cases, the repayment of your Reverse Mortgage will affect the value of your estate. It is therefore important to consider discussing the Reverse Mortgage with your family and beneficiaries. It is often the case that children are actually very supportive of their parents enjoying a quality of life in retirement, even at the expense of a reduced inheritance.



The Reverse Mortgage process: Application to Settlement

The application for a Reverse Mortgage is similar to that of a standard mortgage, and is summarised in the diagram below (although each lender will have their specific process).

How long will this process take?

Each lender will have their own process, but you should expect the whole process to take around 6-8 weeks.

Expectation of Lenders after the loan settlement

The lenders require that you maintain:

- **Your home to a satisfactory level**
- **Pay house/building insurance for an appropriate level of cover**
- **Pay Council rates and taxes when due**
- **Not change the material use of the home**

Your solicitor is required to review and advise you on the Loan Offer Documents, after the lender sends them to you. Some lenders send a copy of the loan documents direct to your nominated solicitor.



1

Application submitted to Lender

You Reverse Mortgage application will need to be supported by date of birth and signature I.D. as well as certain declarations that you will need to sign with the application form.

2

Security Property is valued

Your Reverse Mortgage Finance Solutions Advisor will arrange for a formal valuation of your home to assess the value of the security.

3

Reverse Mortgage Approval is given

The lender will confirm to you in writing the approval of your Reverse Mortgage, subject to the loan contract and other conditions being satisfied.

4

Reverse Mortgage Contracts issued

Loan contracts will be sent to you or your solicitor.

5

Independent Legal Advice

You will meet with your solicitor to review the loan contract, and sign the relevant documents back to the lender.

6

Settlement

The lender will carry out settlement of the Reverse Mortgage funds on the instruction your Reverse Mortgage Finance Solutions Advisor provides them.. This will include disbursement of funds at your direction, or confirming the bank account into which you would like future instalments to be deposited.

What to expect after your Reverse Mortgage has settled

Once the loan has settled, there are a number of occasions on which you should expect to hear from your Reverse Mortgage lender:

- **Either monthly or Six monthly loan statements:** This will include a presentation of your current loan balance, together with the interest and any fees that have been charged to your loan balance and any repayments of further advances that have been made to the account since the previous statement;
- **Monthly or periodic payment of your installments:** You will receive **installment** payments directly into your bank account on the date nominated in the loan contract;
- **Annual Certification:** Most lenders will require you to complete an annual declaration that confirms there is no change to your circumstances;
- **Revaluation of your property:** Periodically, the lender may require your property to be revalued. This will involve a standard valuation of the property by a registered and licensed valuer, who will contact you to arrange a suitable time to carry out the valuation. The cost for this is normally deducted from your loan account.



Useful Contacts

ASIC's reverse mortgage calculator

Website: www.moneysmart.gov.au/tools-and-resources/calculators-and-tools/reverse-mortgage-calculator

Centrelink

Your Financial Information Services (FIS) Officer will be able to assist you with any questions you may have with regard to your Centrelink entitlements and your Reverse Mortgage.

FIS Officer Appointments: 13 23 00 **Website:** www.humanservices.gov.au

Veterans Affairs

The Department of Veterans Affairs also has a Financial Information Service.

Telephone: 133 254 **Website:** www.dva.gov.au

NCCP Regulations (National Consumer Credit Protection Regulations)

Website: www.asic.gov.au/regulatory-resources/credit

Glossary

Annual Percentage Rate (APR)

The interest rate used by Reverse Mortgage lenders to calculate the interest charged periodically to your Reverse Mortgage loan balance. NB: A Comparison Rate must also be disclosed.

ASK is the regulator for all NCCP loans including Reverse Mortgages.

Capitalisation/compounding

The term used to describe the effect of periodically adding interest and fees to your Reverse Mortgage loan balance.

Comparison Rate

The calculation of an effective interest rate prescribed by the UCCC, and designed to give you an interest rate that reflects the total cost of borrowing, including fees charged by the lender.

Default

This is the term used when a condition of the loan contract is breached. See 'Expectation of Lenders past the loan settlement'.

Equity Release

A generic term used to describe options that enable property owners to release some or all of the equity tied up in their property.

Further Advance

Additional funds that may be drawn from an existing Reverse Mortgage.

Home Reversion Scheme

A form of Equity Release under which the homeowner sells all or part of their home in return for funds at a discount to the market value of the property.

Instalments

The payment of monthly or periodic payments under your Reverse Mortgage, as opposed to a single lump sum payment.

Line of Credit

A set funding limit that a customer can draw against from a lender.

Loan to Value Ratio (LVR)

The value of your loan as a proportion of the property's total value. An LVR is used by Reverse Mortgage lenders to describe the amount of equity you can release from your property.

Lump Sum

A single advance of Reverse Mortgage funds.

Nation Consumer Credit Protection Regulations (NCCP 2010)

This legal statute deals with 'responsible lending' obligations which apply to loans. Reverse mortgage loan products come under the NCCP regulations as well as mortgage brokers who provide advice and placement of these loan products.

No Negative Equity Guarantee

A guarantee given by all Reverse Mortgage lenders that the amount owing under your loan can never exceed the value of the Security Property, subject to the terms and conditions of the loan being met.

Protected Equity Option

By choosing to protect a proportion of your property's future value, you will be guaranteed that proportion of the property's value will be set aside for you or your beneficiaries, no matter what the final loan balance is or subsequent movement in the value of your property.

Reverse Mortgage

The most common form of Equity Release under which Senior homeowners use the equity in their property as security for a mortgage.

Security Property

The term used to describe the actual property used as security for your Reverse Mortgage.

Settlement

When the Reverse Mortgage application is finalised and the lender releases the funds to the borrower.

Shared Appreciation Mortgage

A form of Equity Release under which the homeowner pays a reduced interest rate on a mortgage, in exchange for giving up a share in the future capital growth, and in some cases a decline, in the whole value of the property.