



## 10 Accessing equity

In planning housing and lifestyle options, some people consider refinancing options that allow them to access equity built up in their existing home. Equity is the difference between the value of your home and any amount you still owe on it.

In considering your options, as with any major decision, it is important to:

- get advice from an independent and qualified expert;
- check and understand any contract; and
- discuss your intentions with your family.

### Reverse mortgages

Reverse mortgages allow you to use the equity in your home to obtain money by way of a loan. Interest is charged as fixed or variable and there are fees and charges, just like any other loan, except you don't have to make repayments while you live in your home. No repayments are necessary until you sell your home, move out permanently, default on the loan or die. Because of this, reverse mortgages can be attractive to people who have built up equity in their home but who don't have enough income to pay off a normal loan.

The loan is often between 10 to 45 per cent of the home's value. Reverse mortgages may be obtained for many reasons, for example, holidays, a new car or renovations. The money can be paid in instalments, as a lump sum or as a line of credit.

### What can go wrong?

Reverse mortgages have advantages but they are complex and there are potential pitfalls that you need to consider. For example, a reverse mortgage may impact on your eligibility for a pension.

The debt can rise quickly as the interest compounds over the term of the loan.

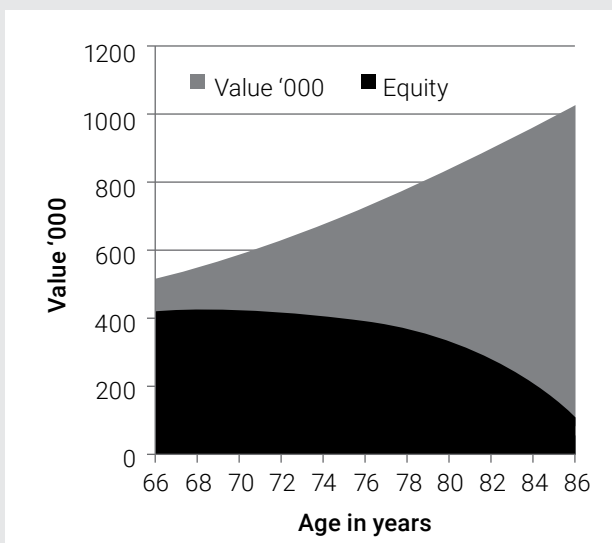
Equity is steadily eroded. A large proportion or all of the proceeds from the sale of your home may be required to pay off the loan. You may end up with not enough money left for aged care or other future needs.

Some reverse mortgages have wide ranging default clauses. If you are in breach of one of these clauses, the lender can charge expenses, which could be at a higher interest rate or ask for repayment of the loan. You may have to sell your home if you cannot repay the amount owed. Default clauses can include not maintaining insurance, not paying rates, or doing something that decreases the home's value. In a worst case scenario you could find yourself evicted, your house sold and still owing money.

If you are the sole owner and someone lives with you, that person may not be able to stay in the home if you move into aged care or die. Some contracts protect the right of a resident who isn't a borrower to stay in the house after the borrower/s have died.

## Nick and Maria

At 65, Nick and Maria decide to take out a reverse mortgage for \$128,000 on their home valued at \$500,000 for a lump sum of \$80,000 to renovate and take a trip, plus \$400 per month in payments for 10 years to help with living costs. Twenty years later, Nick dies and Maria decides to sell her home and move into a retirement village. Assuming that the interest remains set at 10 per cent and the value of the property increases at 3.5 per cent pa, when Maria is 85, the value of the home is over \$994,000, the mortgage is about \$830,000 and the equity is around \$165,000.



## Protecting equity

If the debt increases so that it exceeds the home value, you are said to have negative equity in your property. The terms of the loan contract can be arranged so that the debt cannot exceed the value of the home. This is called a no negative equity guarantee (NNEG).

You can buy equity protection that quarantines a proportion of the property value once the house is sold. Another option is being able to transfer the loan to another property if you move house.

## Pension Loans Scheme

Centrelink and the Department of Veterans' Affairs offer another way to release equity in your home through the Pension Loans Scheme. The scheme allows pensioners on a part pension and some people not eligible for a pension to increase fortnightly income by applying for a loan. The loan is paid in fortnightly instalments, to bring the total payment up to the equivalent of the full pension. You cannot apply if you are a full pensioner as you already receive the maximum amount of pension.

Under the scheme, real estate that you or your partner own is used as security for the loan. You do not have to use the full value of your asset as security – you can have a guaranteed amount kept aside from the total value. This ensures an amount of equity is preserved in case you need or want it later.

Interest is charged on the outstanding amount and there are costs for securing the loan.

## Other products

There are other financial products that may allow you to access the equity of your home. Some financial institutions offer products where they provide you with a lump sum in return for a right to share in a proportion of the sale proceeds of your house when it is sold.

## Where can I get more information?

You should seek independent expert advice on accessing equity from your financial institution or a financial advisor.