

Reverse Mortgages

Reverse mortgages have recently become available in New Zealand. They enable the elderly to borrow funds against their home. There are no monthly repayments. The lender has no right to sell your home and recover what you owe until you die, or you decide to sell. The loan, interest and other charges are all repaid from the proceeds of the sale of your home on your death or when you decide to go into permanent long term care.

The interest rate is higher than the interest rate on a normal mortgage (usually by around 1 to 1.5%). Instead of paying interest on the loan, it is added to the loan balance and is repaid when your house is sold or when you die. The company providing the mortgage will obviously get back more money when your house is sold than it lent you because of the addition of interest and other charges.

Even if the loan reaches a point where it exceeds the value of your home, it is not sold and you may stay in your home as long as you want. As long as you have complied with the terms and conditions of the loan, any shortfall is made up by the company, as it is covered by insurance.

A reverse mortgage may reduce the money available for distribution under your will. It is therefore wise not only to revise your will but also to discuss the reverse mortgage with your family members before you make such a commitment.

If interest rates continue to rise and property values do not rise to compensate then these mortgages can significantly decrease the equity in your property. This is not a problem if you are healthy enough to stay in your house until you die. However, if something unexpected happens and your needs change, for example if you require an operation or you wish to move into a smaller house, then you may not have enough equity left to be able to pay for these things.

There are three companies in New Zealand that are offering similar products. Only one provider offers regular monthly payments to you; the others require you to take a lump sum (which can be topped up with further lump sums later). The regular monthly payment option will be treated as income and can impact on your tax liability. Fees and conditions differ amongst the different providers.

Reverse mortgages are therefore ideal for the healthy, asset rich, cash poor, elderly person or couple with no children. They are more suitable for people over 75 years as the ability to move into a smaller house may be decreased with your reduction in equity. If you are only 60 years old you may be committing to a further 25 years in the same house. It may be better to move into a smaller house, retain your full equity and have money to invest.