

REVERSE MORTGAGES

Over the years the economists have encouraged us to retire debt including the repayment of our mortgages. When the home mortgage is paid off the home owner has a big investment in a non income earning asset. National superannuation rates are now at a level which would make it almost impossible to live as a single person without having some other form of income in the nature of superannuation. As a consequence a lot of us find ourselves “asset rich and cash strapped.”

Until a few months ago, it was very difficult to raise any funds using the property as a security as reverse mortgages had not become a popular method of raising capital. Over the past year or so three organizations have entered the reverse mortgage market. This scheme works on the basis that the company lend money to the home owner and the interest and charges are rolled over and paid from the sale proceeds of the home or from the estate of the home owner. Nothing is paid by the home owner in repayment of the loan during their lifetime.

While this sounds a very good scheme, it should be treated with caution. Firstly, the cost of borrowing is very high and the younger the borrower, the more equity will be gobbled up by the mortgage company. In an extreme case, for every dollar borrowed, the repayment figure could be \$5.00. The reverse mortgage companies are making a very high profit and it is a very good investment for them.

Basically the reverse mortgage is not a good way to raise money and if family members can be prevailed upon to assist it would be preferable for them in the long run to provide funds to their older folk so that their inheritance is preserved.

At the extreme it is possible that if the home owners let the property run down the mortgage company may have the right to foreclose early although again that would be an extreme case.

It is also essential that borrowing is kept to a minimum as the more that is borrowed the more equity will be eaten up.

The companies providing these mortgage options have very different terms and conditions and it is essential to shop around for the best deal and discuss the proposal with financial advisors and family members.

Recently both the Christchurch Press and the Sunday Star Times had very good articles about reverse mortgages. If any reader would like a copy please telephone me and I will post copies to you.

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