

choice MEDIA RELEASE

REVERSE MORTGAGE CAN SEVERELY REDUCE OPTIONS

Warning for seniors planning windfall from home equity

Reverse mortgages should only be taken out as a last resort as those sign up for too large a mortgage too early in their life are likely to find their future financial options severely limited, according to a CHOICE report.

The consumer advocate's advice for seniors is to delay taking out a reverse mortgage for as long as possible and then only borrow what they really need. Also taking out smaller amounts over a period of time, rather than a lump sum, will reduce the interest paid.

"Reverse mortgages are promoted as a way to upgrade your lifestyle or fund a holiday or child's education. But if your home is your main asset it can also mean you might not have enough equity left in your home to downsize or even fund a bond for an aged-care facility," said CHOICE media spokesman Christopher Zinn.

The survey of the burgeoning market in reverse mortgages, which allow those aged over sixty to unlock some equity in their home by borrowing against it, says while some lenders have cleaned up their act many others have pitfalls.

These include not offering clearly defined default conditions. This means the lender can in theory could put borrowers in default, and even force the sale of their home to pay the loan, for even relatively minor contractual breaches.

CHOICE has campaigned for and developed other minimum contract standards including a no negative-equity guarantee which requires the lender to cover any shortfall if the loan amount becomes larger than the net sale price of the house.

"The federal government has already called for better regulation of advisors in the reverse mortgage market. Consumers need access to affordable, accessible and independent advice when considering these potentially risky financial products," said Zinn.

The CHOICE report says while reverse mortgages can work for some borrowers they are a long term financial decision with require a plan considering all the pitfalls which for any children can include a big reduction in any possible inheritance.

While CHOICE lists six reverse mortgages providers as having good consumer protection it says eight are "not good enough" and three rank as "poor".

For an interview or further information please contact Christopher Zinn on 0425 296 442
For the full story go to www.choice.com.au