

# Reverse Mortgages Made Simple:

A Quick Guide to Financial Freedom



Discover how your home can empower you - without selling it or making monthly repayments if you don't want to, or you can make interest only repayments if this better suits your needs.

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# Introduction: **Unlocking Your Home's Potential**

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Many retirees feel financial pressure but want to enjoy their retirement without sacrificing their lifestyle or losing the comfort of their family home. For many Australians in retirement, a reverse mortgage is the ideal solution. It's a simple and practical way to access the wealth in your home without the stress of selling, moving, or making monthly repayments if you don't want to, or making interest only repayments if you want to.

This guide introduces you to the basics of reverse mortgages and will help you understand how they work. Think of your home not just as your sanctuary, but as a financial ally in supporting your retirement dreams. Let's explore how reverse mortgages can help you live your best retirement life.

## What is a **Reverse Mortgage**?

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A reverse mortgage is a loan specifically for homeowners aged 55 and over. It allows you to unlock and access a portion of your home's equity (its current value minus any existing debt), while still living there and retaining complete ownership.

The best part? There are no mandatory monthly repayments. Instead, the loan is repaid later - when you sell your home, move into aged care, or pass away. You have the option to make monthly interest only repayments if you want to, this means that you would only owe the principal amount borrowed as you are paying the interest as you go and this means the interest is not accruing against your equity.

### Example:

If your home is valued at \$800,000 and you're eligible to borrow 20% of its equity, you could access \$160,000 to fund your retirement. This money can be used flexibly - for home upgrades, medical expenses, travel, or simply enjoying life.



## Key Features of a Reverse Mortgage

1. **No Monthly Repayments option:** Repay the loan when your home is sold or your circumstances change.
2. **Interest only repayment option:** this is a good option if you want to pay the interest as you go so that interest is not accruing against your equity.
3. **Flexible Funding Options:** Choose a lump sum, monthly payments, or a line of credit (or a mix of these) based on your financial needs.
4. **Ownership Retained:** You remain the legal owner of your home for as long as you stay there.
5. **No Negative Equity Guarantee:** You'll never owe more than your home's value at the time of sale, meaning your estate or beneficiaries are protected.
6. **Tax-Free Payments:** The funds you access are not considered income by the Australian Tax Office, giving you greater flexibility.



# How Does a **Reverse Mortgage Work?**

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Reverse mortgages are designed to be simple, flexible, and easy to access. Here's how it works:

**1. Application:**

Work with an experienced broker to determine your eligibility and the amount you can borrow.

**2. Receive Your Funds:**

Choose how you'd like to receive the funds:

- A lump sum for one-time expenses like renovations or medical costs.
- Monthly payments to cover ongoing retirement needs like living expenses.
- A line of credit to access funds when needed for emergencies or special occasions.
- A combination of the options above

**3. Deferred Repayment:**

The loan is repaid only when you sell your home, move into long-term care, or pass away. Any remaining equity belongs to you or your beneficiaries.

**Simple Analogy:**

Think of it as drawing small portions of your home's value while continuing to live in and enjoy it - just like using your savings for retirement when needed.

# Reverse Mortgages vs Downsizing:

## Which Option is Best for You?

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When considering retirement financial solutions, it's important to weigh your choices carefully. Reverse mortgages and downsizing are two commonly explored options for accessing the wealth in your home. Here's why reverse mortgages often emerge as the better choice for many retirees:

### Key Reasons Reverse Mortgages Outshine Downsizing

#### 1. Stay in Your Home and Community

Love where you live? With a reverse mortgage, you can access funds while staying in your family home, preserving the memories, routines, and community you cherish. On the other hand, downsizing requires selling your home and relocating - an emotional and often stressful process.

#### 2. Avoid the Costs of Moving

Downsizing comes with significant upfront costs, such as:

- Real estate agent fees.
- Stamp duty (e.g., up to \$12,750 in Victoria without exemptions).
- Renovation costs to prepare the home for sale.
- Moving and relocation expenses.

By choosing a reverse mortgage, you avoid these expenses entirely and can access funds without the logistical and financial burden of selling your home.

#### 3. Flexible Access to Equity

Reverse mortgages offer tailored options to suit your financial goals:

- Lump sum for big expenses.
- Monthly payments for steady income.
- Line of credit for flexibility and unexpected costs.

#### 4. Downsizing, on the other hand, typically provides a one-time lump sum, leaving little room for adjustments.

## 5. Tax-Free Payments

The money you receive from a reverse mortgage is not taxable, ensuring your financial independence. In contrast, proceeds from downsizing may be subject to pension asset testing or affect government benefits, such as the Age Pension.

## 6. No Emotional Sacrifice

Downsizing often means leaving a family home filled with cherished memories. Reverse mortgages spare you this emotional challenge, allowing you to enjoy your golden years in the comfort and familiarity of your home.

## 7. Full Ownership of Your Property

Even with a reverse mortgage, you retain ownership of your home for the entire duration of the loan. The No Negative Equity Guarantee adds extra security, ensuring you'll never owe more than the property's eventual sale price.

# Frequently Asked Questions (FAQs)?

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We understand that borrowing against your home is a big decision. Here are common questions we often hear:

- **Will I still own my home?**

Yes! You remain the legal owner of your home for as long as you live in it.

- **What happens if property values drop?**

You're protected by the No Negative Equity Guarantee, meaning you'll never owe more than your home's eventual sale value.

- **Will this affect my Age Pension?**

Funds from a reverse mortgage are generally not counted as income but may affect your Centrelink assets test if left unused. Also please be aware there are limits to how much you can gift each year without impacting your pension.



## Next Steps: Curious to Learn More?

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Want to better understand how reverse mortgages can support your retirement goals? **Speak With an Expert Now:** Book a no-pressure consultation with a Compare Club Reverse Mortgage specialist to explore your options. Get answers specific to your situation and expert advice tailored to your needs.



### Start exploring today

Chat with one of our friendly experts now!