Federal budget 2018: revised reverse mortgage scheme wins industry approval

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Opening up a little-used government-backed reverse mortgage scheme, which allows pensioners to get an income stream from the equity in their home, has been cautiously welcomed by investors and industry professionals.

The 30-year-old pension loans scheme has only attracted 6000 clients to date, but the government may face a major uptick in applications from older Australians after the budget dropped program restrictions, widening it to include all Australians of pension age.

Reverse mortgages work like this: The homeowner takes out a mortgage. Under the terms of the loan the mortgage provider pays a set sum to the homeowner. The mortgage is cleared when the homeowner can pay it off, invariably when the house is sold.

Reverse mortgages have not taken off in the local market as they have higher interest rates than standard mortgages and the products can trigger intergenerational stress as the interest owing on the loans gets capitalised, or rolled into the loan, as time passes.

But the government scheme will have an attractive rate of 5.2 per cent, considerably lower than commercial rates for similar products which begin at 6 per cent.

John Rawlings, an aged-care specialist at Joseph Palmer and Sons, explains: “The first thing on my mind with reverse mortgages is elder financial abuse ... if someone is going to look at a reverse mortgage they need to be very clear what they are doing ... having said that they can be useful, especially if elderly homeowners have run out of other options and really need a lift in income for a defined period.”

Rawlings and other advisers also said adult children of reverse mortgages holders often express concern over such arrangements, with many being uncomfortable the family home (and future inheritance) is to some extent back in the control of the banks, or the government in the case of the pension loans scheme.

The government scheme does not offer lump-sum deals. It is an income stream product and the annual income is limited to $11,799 for singles or $17,787 for couples.

There is some confusion between reverse mortgages and so-called equity release products.

Equity release packages work like this: The financial institution actually buys a stake in the house. The money is received immediately by the homeowner, the proceeds of the house are then split between the homeowner and the product provider when the house is sold. The government is not offering this facility.

Though industry participants welcomed the government announcement they also suggest a wider mix of products should be considered.

Dianne Shepherd, general manager at Bendigo-bank backed Homesafe Ltd, which specialises in equity release packages for older Australians, suggests “debt free equity release allows seniors to access a larger lump sum. This may assist a wider population whose needs may not be met by the expanded pension loans scheme.”

As for the government getting back into the mortgage market three decades after the disasters that hit savings banks in the last recession, Ms Shepherd said: “I’m not sure about that, and I’m not sure the government really has the infrastructure to deliver these schemes in a major way.”

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