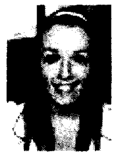
Draw-down relief to boost reverse mortgages

Hunt for alternative income sources



By Julie May
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Interest in reverse mortgages is set to rise, according to the NICRI.

The Federal Government's announcement last week that it would give a 50 per cent cut to the minimum account-based pension draw-down will lead to an increase in reverse mortgage activity, the National Information Centre on Retirement Investments (NICRI) has said.

NICRI, which has just launched a reverse mortgage information service, said interest in reverse mortgages is already at high levels due to recent interest rate cuts.

"Poor share performance and low interest rates have eaten into retirees' income and reverse mortgages have been seen by some as a way to maintain their standard of living," NICRI director Wendy Schilg said.

"Now that they can stem asset haemorrhaging by reducing pension withdrawals, they will be looking for alternative income sources until markets recover. Reverse mortgages are an obvious choice."

Factors that must be considered when looking at a reverse mortgage include impacts on Centrelink, obligations to maintain the home, inheritance issues and in particular compound interest, Shilg said.

"If no repayments are made over the life of the loan this amount can be significant," she said.

Research firm Canstar Cannex last month put its reverse mortgage star ratings program on hold due to what it called a downturn in the reverse mortgage marketplace.

On 21 January the firm said that due to the global credit crisis, eight reverse mortgage lenders had opted out of offering new loans within the past six months.