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Mortgages in reverse gear

By **LUCY BATTERSBY**

ELDERLY Australians are taking out more reverse mortgages on their homes, as the global financial crisis has lowered the value of stock portfolios and superannuation funds.

At least $2.5 billion is on loan through 37,500 reverse mortgages, with the average size of loans increasing to $66,000 in December last year from $63,000 at the start of the year.

The number of loans has increased by about 15,000 since the start of 2006. The amount of money on loan has risen by about $1.5 billion, according to Deloitte actuaries.

But less than $200 million was loaned out in the last six months, compared to a peak of $302 million loaned out in the second half of 2006.

There is anecdotal evidence that more senior Australians have asked about reverse mortgages in the past four months, according to the chief executive of the Senior Australians Equity Release Association of Lenders, Kevin Conlon. Current data only extends to December 2008.

But with credit lines drying up during the financial crisis, reverse mortgage lenders have found it hard to secure funding since September last year, according to Deloitte partner James Hickey.

"Although 2600 new loans were written in the second half of 2008, the volume of settlements was down some 25 per cent on the prior six-month period," he said.

Reverse mortgages allow home owners to borrow cash against the value of their home.

They are only available to Australians over 60 years old who own their homes outright.

Borrowers do not make repayments until they sell their home and move into aged care, or pass away and their estate sells their home.

A majority of loans made in 2008 were taken as a lump sum, and with interest rates at historically low levels, nearly 90 per cent of loans had variable interest rates, compared to just 60 per cent in 2007.

Compound interest is charged on such mortgages, which means the loan increases each year the borrower is alive. Some lenders guarantee repayments will never exceed the property value. Borrowers aged over 80 can take out up to 40 per cent of their house's value, while those under 70 years are limited to 15 per cent.

About 10 per cent of loans are fully repaid every year, according to Deloitte, but less than 1 per cent end because a borrower dies or enters aged care. Most end because a house is sold or the owner volunteers a full repayment.

Dollar sense.