

Research shows reverse mortgage have been used wisely

Sara Rich | June 04, 2009

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NEW research shows that less than 10 per cent of Australian reverse mortgage holders have used the equity in their homes to pay for holidays, hobbies and luxury items.

Most said they used the money to fund necessities such as home repairs and to provide an income, according to a survey by RBS Reverse Mortgages.

Reverse mortgages allow people over 60 to borrow against the value of their home, with payments and interest not due until after death, or when they sell the property.

When the concept was introduced in Australia in 2005, there was some controversy about the effect it would have on inheritance.

But the RBS survey of more than 400 reverse mortgagees, conducted last December, found that most people who took out a reverse mortgage used the money on necessities or invested wisely.

At the time the research was conducted, there were 37,000 reverse mortgages in Australia worth a total of \$2.5 billion. The survey found the most popular use of a reverse mortgage (32.6 per cent) was to pay for minor home repairs and make the property more suitable for the elderly by installing handrails and ramps.

The second-highest use (18.7 per cent) was to provide the retiree with a regular income.

RBS Reverse Mortgages' Martin Lynch said the findings discredited what has come to be known as the SKI (Spending Kids' Inheritance) myth.

"People thought (reverse mortgagees) were spending the money on luxuries, and that was really not the case, and that they were just going nuts without any thought to their future aged-care needs," he said.

The survey found that 8.8 per cent of reverse mortgage holders have used the equity in their home to travel, 15.1 per cent to buy a car, 0.9 per cent to buy a boat or caravan and 0.3 per cent to fund hobbies.

Other uses for a reverse mortgage included as a rainy day facility (4.2 per cent) and to provide financial support to other family members (6.6 per cent).

RBS's findings are supported by similar research out of the Senior Australians Equity Release Association of Lenders, or SEQUAL, which found that on average, reverse mortgagees only drew down 70 per cent of the total facility approved.

SEQUAL chief executive Kevin Conlon said this indicated retirees were not borrowing without proper care.

"For example, they are not just taking what they can borrow and then deciding later what they are going to spend it on," he said.

"We have a process in place that requires our advisers to ensure that they map the loan proceeds to particular purposes.

"People are budgeting to determine what it is they need, and they are borrowing that now.

"Then the reverse mortgage acts as a standby facility where they are not incurring any costs until they actually need the money."

SEQUAL estimates that about 30 per cent of Australian retirees expect to rely on their home as a source of retirement funding.