Reverse Mortgages — Making your equity work for you

If you fall into the category of 'asset rich, cash poor', then a reverse mortgage may be the answer to help you tap into your locked-away wealth. But beware the fine print.

With the rise in property prices over the last decade, it's become more popular to put home equity to use rather than leave it sitting idle. This has contributed to the growth in reverse mortgage products, which allows people to unlock the value in their home by borrowing against its value. While reverse mortgages are still relatively new to the Australian mortgage market, they are becoming a more popular product among mainstream lenders.

How they work

A reverse mortgage basically allows you to borrow against the value of your home. You'll receive either a lump sum or a regular monthly payment. Your obligation to repay the loan kicks in when one of the following happens: you die, sell your home or leave it (to go into aged care, for example). Then, you or your estate has to repay the debt (including interest), usually out of the sale proceeds of your home .

Who's eligible? If you're 60 or over and own your own home, you should be able to borrow between 15 and 40 per cent of its value. If you're part of a couple, how much you can borrow will depend on the age of the younger of you. The older you are, the more you'll be able to borrow.

The pros and cons Reverse mortgages can be great for retirees who have a limited income but have seen the value of their homes skyrocket. It's also a good way to free up money for urgent expenses or otherwise unaffordable purchases – whether a new holiday, an operation or home improvements. Bear in mind, however, that a reverse mortgage is still a mortgage – i.e. a loan.

You'll be paying fees and interests over the loan term. That means the longer you have the loan, the larger your debt at the end. According to consumer website **www.choice.com.au**, at current interest rates it's likely the amount owed on an average reverse mortgage will double in less than 10 years. There's also the risk of falling into 'negative equity': where your loan amount ends up being more than what your home is worth. You also need to be careful if you're on a pension, as the loan may be treated as an asset.

Source PLAN Newsletter July 2006

Maximize your tax deduction

A good accountant will help maximise your tax deductions. Here are three sure-fire ways to find one right for you:

Find a specialist – Each and every profession can claim a variety of deductions from The Australian Tax office (ATO); it's just a matter of knowing which ones. Your accountant should be familiar with your profession or industry and what you're able to claim outside the standard that are applicable to all workers.

Good communicator – the size of your tax return will be affected by your capacity to understand where you can claim deductions and keeping track of your expenses. For a lot of us financial terms and phrases can confuse; but a good accountant should be able to communicate to you accounting principles and terms in simple, plan language. They should also be proactive; if you're having trouble understanding, let them know.

Trust – as soon as you sign the required forms to submit your tax return to the Government all liability will be borne by you. That means that if any deduction is questioned, and found to be inappropriate, you'll need to take responsibility – which means the possibility of incurring a fee, or worse. Just ensure that you feel confident your accountant is pushing the boundaries to get you the maximum return possible while completing your form within the guidelines stipulated by the ATO, not outside.

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Pre– approval packs a punch

Getting your home loan pre-approved lets you put your money where your mouth is. With competition for properties at an all-time high, it's good to have an edge over prospective buyers. Whether you're looking to buy a rural retreat, your first home or an investment property, pre-approved loans can give you that edge.

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