What is a reverse mortgage?

A reverse mortgage allows you to use the equity accumulated in your home as security for another loan. This type of loan can be a lump sum, a regular source of income, a line of credit or a combination of this. Like any product, there are pros and cons to this type of mortgage, which can be summarised below:

The main benefits would be:

- You don't have to make ongoing repayments on the new loan, as interest is charged and added to the final balance.
- There is no income required to qualify for this type of loan, as the loan is repaid in full at the end of its life span, making this product more suitable to retirees.
- You also will remain the owner of your home and can live there until you pass or choose to sell the home, giving you the security and freedom to live in your home as long as you see fit.

Some of the negatives to consider are:

- Interest and fees are compounding over the life of the loan, which significantly increases the debt owing potential, making it much harder to repay in the future.
- If you decide to downsize or sell your home, then you still have a large debt to repay, often leaving you with very little equity spare.
- Interest rates are generally higher than the average home loan.
- And if you live in the home with a relative or spouse you may find that they are left without somewhere to stay when you pass away.

In short, this option might meet the needs of someone who is looking to use the loan to purchase another wealth generating asset, an asset that is going to assist them well into the future and set them up for a healthy retirement without so much dependence on the sale of their existing home.