

Making repayments to a reverse mortgage



FACT SHEET

Do you need to make repayments to a reverse mortgage?

One of the key benefits of a reverse mortgage is that **regular repayments are not required**.

Unlike a traditional mortgage, there's no obligation to make monthly repayments.

However, **choosing to make regular repayments**—whether occasionally or consistently—can help reduce the amount of interest that accrues over time, preserving more of your home's equity.

How interest is calculated

Interest on a reverse mortgage is **calculated daily** and **added to the loan balance monthly**, similar to a standard home loan. However, because no repayments are required, interest compounds over time, meaning the loan balance grows.

For example, if you borrow **\$100,000 at an interest rate of 9.20%**, your interest for the first month (January) would be:

- $\$100,000 \times (9.20\% \div 365) \times 31 \text{ days} = \780.55

Since this interest is added to your loan balance, the next month's calculation (February) is based on the new, higher amount:

- $\$100,780.55 \times (9.20\% \div 365) \times 28 \text{ days} = \711.26

Then March would look like this:

- $\$101,491.81 \times (9.20\% \div 365) \times 31 \text{ days} = 793.02$

This **compounding effect** continues over time, **but making regular repayments—no matter how small—will reduce the total interest accrued**.



The impact of regular repayments

Even small, consistent repayments can make a **significant difference** in the total cost of the loan. Some lenders may even offer a **reduced interest rate** if you commit to making repayments.

Example: The Power of Regular Repayments

A borrower takes out a **\$200,000 reverse mortgage at 9.20% interest** and chooses to make **\$500 monthly repayments** for 10 years.

If the interest rate stays the same for 15 years:

- **With repayments:** The loan balance would be **\$402,241**
- **Without repayments:** The loan balance would be **\$500,100**

That's **nearly \$98,000 in savings**—a significant difference over time!

Voluntary ad hoc repayments

In addition to regular repayments, you also have the flexibility to make **voluntary ad hoc repayments** at any time—**without penalty**.

This means you can pay off a portion of your loan whenever it suits you, whether it's a **one-time payment or occasional lump sums**.

- **No restrictions** – Repay as much or as little as you like, as often as you like.
- **No penalties** – Unlike some traditional loans, there are no early repayment fees.
- **Great for cash windfalls** – If you receive an inheritance, sell an asset, or come into extra funds (win lotto!), you can use them to reduce your loan balance.

- **Helps preserve equity** – Making ad hoc repayments helps slow down the compounding of interest (and erosion of equity), ensuring more of your home's value remains available to you or your estate.

Flexibility without obligation

While making regular repayments can help reduce the long-term cost of a reverse mortgage, it's important to remember:

- **There is no obligation to make repayments**—the loan is only repaid when you sell your home, move into aged care, or the last borrower passes away.
- You can **choose how much and when** you want to repay.
- Regular repayments can help **preserve home equity**, ensuring more is left for your estate.

If you'd like to explore how repayments might work in your situation, **Your Home Equity** can help you assess the options available.



How reverse mortgages work

A reverse mortgage is a unique type of loan designed specifically for Australians aged 55 and above, enabling you to access the equity in your home without the need to sell or make regular repayments. The loan is typically repaid when you sell your home, move into aged care, or when the last surviving borrower passes away.

Reverse mortgages can also provide the funds needed to secure your new property before your current home sells. This flexibility ensures that you can purchase a new home, cover costs like moving expenses and stamp duty, and move forward with confidence, even if your old home hasn't yet sold.

Example: A homeowner looking to downsize may need \$50,000 to prepare their existing home for sale and to cover moving costs. A reverse mortgage allows them to cover these costs without financial strain.

With a reverse mortgage:

- **You retain ownership of your home.** There are no monthly repayments required, meaning you can free up cash flow to cover living expenses, healthcare, and do more in your retirement.
- **The amount you can borrow** depends on your age, the value of your home, and how much equity you have. The older you are, the more you can borrow with borrowing capped at 55% by age 90.
- **You can access funds** in a way that suits you—either as a lump sum, a regular income, a line of credit, or a combination of these options.

Interest is added to the loan over time and compounds, meaning the total loan balance increases as time goes on. However, you are not required to make any repayments unless you choose to, and you can remain in your home for as long as you wish.

Protections for borrowers

Reverse mortgages in Australia are strictly regulated by the government to protect borrowers and ensure transparency. Some key protections include:

- **No Negative Equity Guarantee (NNEG):** This legal safeguard ensures that you can never owe more than the value of your home. Even if property prices fall, you or your estate will not be liable for any shortfall when the home is sold.
- **Ownership rights:** You retain full ownership of your home. The lender does not take over the property, and the title deed remains in your name. You are free to sell your home at any time and repay the loan without penalties (though settlement and mortgage discharge fees may apply).
- **Clear terms and conditions:** All reverse mortgages come with clear terms, including transparency around interest rates, fees, and potential risks, so you know exactly what you're agreeing to.

These protections are designed to ensure that reverse mortgages are a safe and viable option for older Australians looking to access their home equity.



Independent legal advice

Before taking out a reverse mortgage, it's essential to seek **independent legal advice**. This is a mandatory requirement for all reverse mortgage lenders, and helps ensure that you fully understand the terms and conditions of the loan.

A solicitor will review the loan agreement, explain how the reverse mortgage contact works, and discuss any potential implications, such as how it may affect your inheritance or future financial plans.

At Your Home Equity, we always encourage clients to take their time with this decision and to seek comprehensive legal and professional advice.

We believe in empowering our clients with the knowledge they need to make the best choice for their financial future.

Your Home Equity - Reverse Mortgage Brokers

At Your Home Equity, we specialise in reverse mortgage broking for Australians over 55.

This is our sole focus, and we have more than 14 years of combined experience helping clients navigate their financial options in retirement.

What sets us apart:

- **We work for you, not the lenders:** As specialist brokers, our role is to find the best reverse mortgage product for your unique situation. We're accredited with Australia's leading reverse mortgage lenders, which gives us access to a wide range of options tailored to your needs.

- **Expertise and compassion:** We understand that the decision to take out a reverse mortgage is a significant one, and we're here to provide guidance without pressure. Our process is client-focused, ensuring that you feel comfortable, informed, and supported every step of the way.

- **No obligation consultations:** We offer no-obligation consultations, so you can explore your options and ask questions without feeling pressured to commit.

We're here to make sure you have all the information you need to make a confident, informed decision.

Our mission is simple: to help older Australians live well in their retirement by accessing the wealth they've built in their homes.

Whether you're looking to refinance, consolidate debt, top up your income, or fund home improvements, we're here to guide you through the process.



General Disclaimer

The information provided is correct to the best of our knowledge, but no warranty as to accuracy is given and each person or organisation should not act on the basis of its contents without taking appropriate advice.

The information in this guide is general in nature and has been prepared without taking into account the needs, objectives, or financial situation of any particular individual. Individuals should consider their own circumstances and, if necessary, seek professional advice.

All reverse mortgage products are subject to the terms, conditions and approval of the providers and fees and charges apply.

Please note that while the information set out in this guide is considered to be true and correct at the date of publication (08/02/2025), changes in circumstances after the time of publication may impact on the accuracy of information.

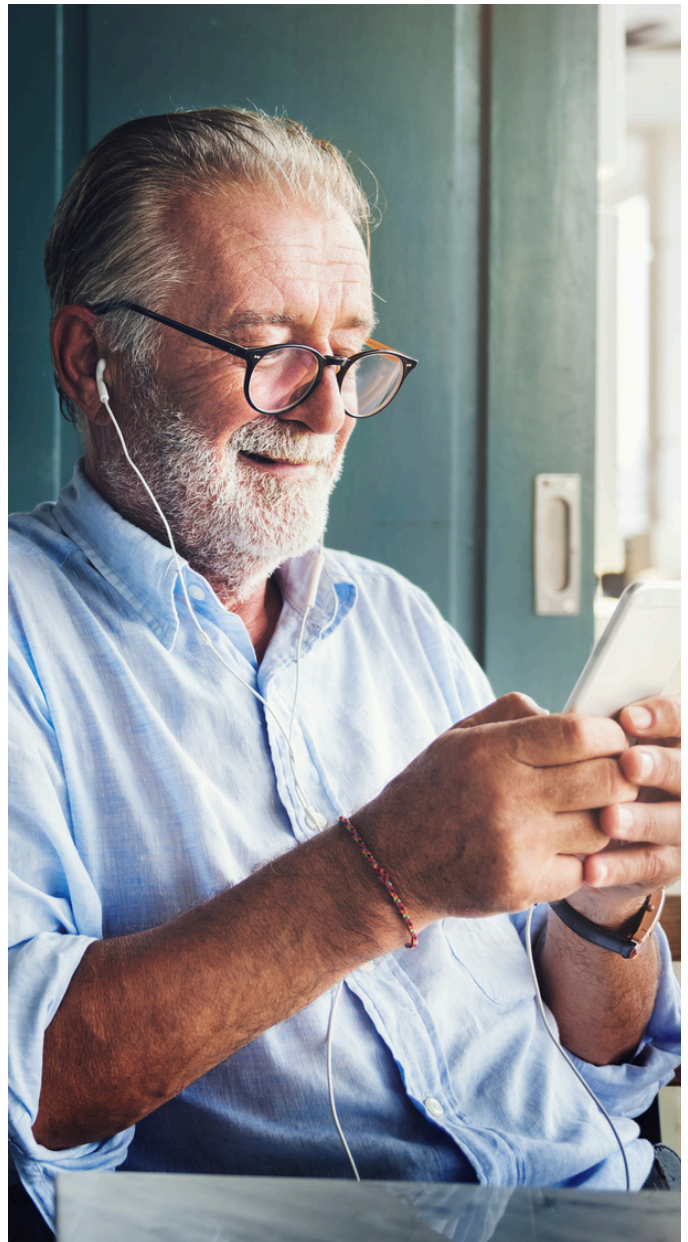
Contact Us

If you like any further information, or would like to discuss your situation, we'd be delighted to help.

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Alternatively, you can check your eligibility in minutes using our [online reverse mortgage calculator](#).



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