

# What is a cash reserve in a reverse mortgage?



## FACT SHEET

### What is a cash reserve?

A cash reserve in the context of a reverse mortgage is a flexible financial tool that gives homeowners control over how and when they access their loan funds.

Instead of receiving the full loan amount as a lump sum, borrowers can set aside a portion of the approved loan as a cash reserve.

This reserve acts as a financial buffer that can be accessed at any time, providing flexibility and security for unexpected expenses or ongoing financial needs.

Importantly, you will only pay interest on money that has been drawn – if you don't access your cash reserve, you will not pay interest on that amount.

### How a cash reserve works

#### 1. Loan allocation

When setting up a reverse mortgage, borrowers can allocate their approved loan amount into three parts:

- **Upfront access:** A portion of the loan is available immediately, often as a lump sum, for needs such as debt consolidation, home improvements, or other significant expenses.
- **Regular instalments (top-up-income):** A portion of the overall approved loan amount that is paid to the borrower at regular intervals (e.g. monthly or quarterly), for a set period. For example, \$1,000 regular instalment for 4 years would require the lender to approve a \$48,000 loan



- **Cash reserve:** The remaining balance is placed in a cash reserve, functioning like a line of credit. Borrowers can draw from this reserve as needed, ensuring ongoing access to funds.

#### 2. Accessing funds

- Borrowers **can access their cash reserve at any time**, subject to the lender's terms.
- **Withdrawals are flexible**, allowing borrowers to decide how much they need and when they need it.

- This set up ensures that funds are available for **both planned expenses and unexpected emergencies.**



**Example:** Imagine a homeowner is approved for a **\$300,000 reverse mortgage.**

They decide to take **\$100,000 as a lump sum upfront** to pay off their existing mortgage and cover some home improvements.

They have a **top-up income approved for \$2,000 per month** for five years (\$120,000).

The remaining **\$80,000 is allocated to a cash reserve.**

Here's how this might play out:

- The borrower uses \$100,000 immediately, with interest starting to accrue on this amount.
- The \$2,000 regular instalment commences one month after the loan commences, and interest is only paid on those funds as they are drawn.
- The \$80,000 cash reserve remains untouched, and **no interest is charged on it** until the borrower decides to withdraw funds.
- Over time, the borrower accesses \$50,000 from the reserve to cover medical expenses. Interest then begins accruing on the \$50,000 while the remaining \$30,000 in the reserve stays untouched.

This structure provides the borrower with financial flexibility and ensures they have **access to funds for future needs.**

### 3. Interest charges

- Interest is **only charged on the amounts withdrawn**, not on the untouched portion of the reserve.
- This means borrowers can minimise interest costs by accessing funds only as necessary.

## Benefits of a cash reserve

### 1. Financial flexibility

A cash reserve provides the **flexibility to access funds as needed**, helping borrowers adapt to unexpected expenses or changes in their financial situation.

### 2. Cost efficiency

Since interest is only charged on the funds withdrawn, borrowers **avoid unnecessary interest costs on the full loan amount.**

### 3. Long-term security

By setting aside a portion of the loan as a cash reserve, borrowers maintain access to funds for future needs, providing **peace of mind and greater financial security.**

## Considerations

While a cash reserve is a valuable feature of many reverse mortgages, there are a few things to keep in mind.

### 1. Access restrictions

Some lenders may impose conditions on how and when the cash reserve can be accessed, such as **minimum or maximum withdrawal amounts.**

### 2. Impact on your estate

Any funds withdrawn, along with accrued interest, will reduce the equity in your home. This can impact the inheritance you leave behind, so it's **important to consider your long-term financial goals and discuss them with your family.**

## Why a cash reserve is valuable

A cash reserve in a reverse mortgage gives retirees the ability to manage their finances flexibly and strategically.

- It provides funds for both immediate needs and unforeseen future expenses.
- Borrowers can better control borrowing costs by only drawing funds as needed.

## 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.

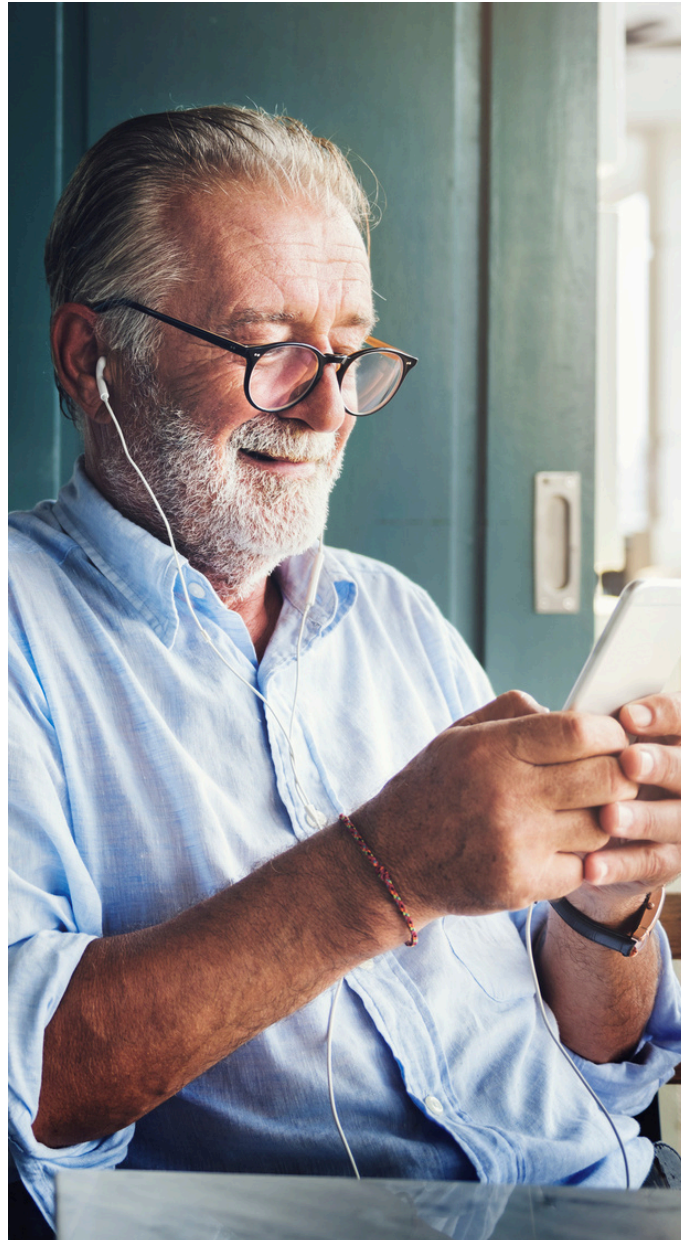
## Contact Us

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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