

What is protected equity in a reverse mortgage?



FACT SHEET

What is protected equity?

Protected equity is an optional feature that allows you to **guarantee a set percentage of your home's value** for yourself or your estate—no matter what happens to the property market or your loan balance.

Not all lenders offer this feature, and some may charge a fee for it. However, it can provide peace of mind by ensuring that a portion of your home equity is safeguarded.

How protected equity works

You choose a percentage of your home's value to protect.

- That portion is guaranteed to be available to you (or your estate) when the property is sold.
- Even if your loan balance grows larger than your property's value, the lender must return the protected equity amount.
- However, choosing protected equity reduces the maximum loan amount available to you.

Things to keep in mind

Some lenders offer protected equity at no extra cost, while others charge a fee.

- Not all lenders provide this feature—this is where we come in to offer our professional guidance.
- The higher the percentage of equity you protect, the lower your maximum borrowing amount.



Example: How protected equity works

- A borrower owns a **home worth \$1,000,000**.
- At age 65, the **maximum loan available is \$250,000**.
- They choose to **protect 10% of their equity** (\$100,000).
- Their **new maximum loan amount is reduced to \$225,000** (i.e., the maximum loan is reduced by the Protected Equity percentage chosen).

What happens in different scenarios?

The property loses value

- A drastic event (e.g. an unwanted infrastructure project) **causes the home's value to drop to \$500,000.**
- The **loan balance has compounded** over time (say, 15 years) and has grown to **\$900,000.**
- **The lender must still return the protected \$100,000 to the borrower** (or their estate), despite the shortfall.

The property gains value

- If the home **appreciates at 3% per year**, after 15 years it would be **worth around \$1.5M.**
- If the **loan balance has grown to \$900,000**, the borrower (or their estate) still **retains \$600,000 in equity.**
- In this case, **the protected equity feature wasn't needed**, as there was already equity remaining.

Is protected equity right for you?

Protected equity is a great option if you want certainty about how much of your home's value will be left behind.

However, it's not always necessary if you expect your property to appreciate over time.

If you're unsure whether this feature is right for you, Your Home Equity can help you explore your options and find the best solution for your needs.

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.

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.

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.



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.

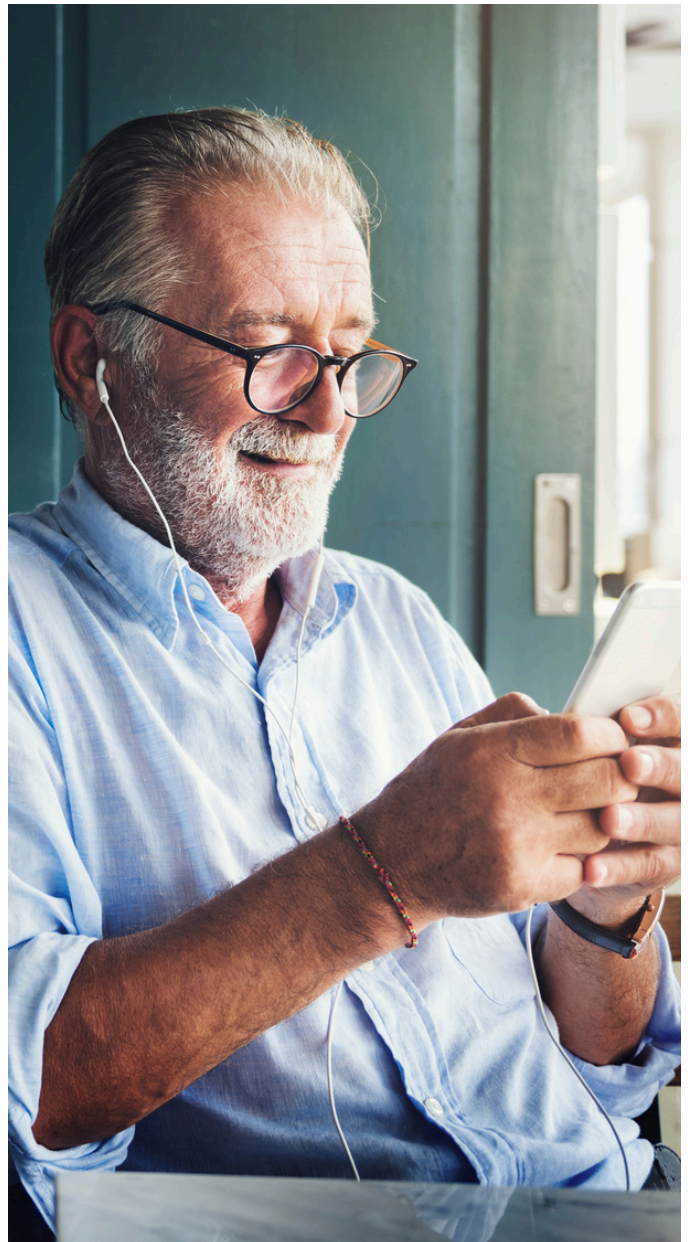
Contact Us

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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