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Seniors tap into home equity

An increasing number of asset rich but cash poor baby boomer retirees are turning to the equity in their homes to free up cash to manage living expenses in their later years.

CEO of HomeStart Finance, John Oliver, said more retirees were choosing reverse mortgages to access home equity for expenses such as house maintenance or a trip to visit family, in the face of limited finance options.

“Most lenders are reluctant to offer personal loans to retirees due to their employment status, even though they may be sitting on valuable assets,” he said.

“We’ve seen positive growth in Adelaide’s property market which hints that the market has stabilised.

“Home ownership in Australia is higher among baby boomers than in any other demographic and reverse mortgages provide them with the ability to access the equity they’ve worked hard to build to maintain their lifestyle when their income options are limited.”

Reverse mortgages, like HomeStart’s Seniors Equity Loan, allow people over the age of 60 to access a portion of the equity in their home as a lump sum or on an ad hoc basis.

Cheryl (63) and Allen (72) Doyle of Parafield Gardens own their home outright and chose to use this loan to carry out a long awaited extension to the family home.

“When we first moved here 18 years ago, I had big plans for the house,” Cheryl said.

“But I was hurt working in a nursing home and lost 20% of my shoulder movement which put a hold on our renovations and we lost sight of them.

“We were almost going to sell the house and downsize, but our land agent told us we had a beautiful home and convinced us to stay here and renovate, rather than moving on,” she said.

Cheryl approached BankSA for a personal loan, and they recommended a Seniors Equity Loan through HomeStart.

“The lender said we were in a good position for a Seniors Equity Loan because we owned our home outright,” Cheryl said.

“We decided to go ahead with the loan because we didn’t feel there were any risks. It was very clear what the pros and cons were,” she said.

HomeStart makes home ownership a reality for more South Australians in more ways. We are a statutory authority that reports to the Minister for Housing and Urban Development. We were created in 1989 and since then have helped over 64,500 households into home ownership.

Mr Oliver said lenders are required to clearly communicate the impact of a reverse mortgage and its associated risks and provide projections of equity.

“Best practice also recommends that borrowers seek independent financial and legal advice prior to committing to a reverse mortgage credit contract,” he said.

“The no negative equity guarantee introduced in 2012 guarantees borrowers that if, when their house is sold, the proceeds of the sale are less than the amount owed to the lender, the lender is unable to pursue the borrower or their beneficiaries, for the shortfall,” he said.

Loan amounts for reverse mortgages are based on the borrower’s age, and the value of their property.

“The value of our loan is up to \$31,500 but we don’t have to use that all at once,” Cheryl said.

“We can draw down on that amount, as we need to.”

Cheryl said the flexible repayment structure of the loan gave them peace of mind.

“If I took a personal loan, I might be up for fixed payments that I can’t keep up with. If something unforeseen happens then I may not be able to pay.

“With this loan, we can still make regular payments every fortnight and can make payments more regularly if we want, but we won’t be penalised if we miss a payment,” she said.

Cheryl and Allen have started their plans to build an enclosed outdoor room at the back of their house, complete with a pizza oven where they can entertain the family and grandchildren.

“If we decide to use more of the loan, we will do up the bathrooms,” Cheryl said.

Cheryl said they were upfront with their children about their plans.

“When we told the kids what we were doing, they said if that’s what you want to do, go ahead. We have always been very open with them about our finances.

“I believe that if you want to have a lifestyle for yourself, go ahead and do it. You’ve worked hard for what you’ve got.

“I would highly recommend this loan to anyone in the age bracket we’re in.”

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