Connective Reverse

Loan or Sale?

The Important Difference Between Reverse Mortgages and Home Reversion Schemes

We are often asked about the differences between reverse mortgages and home reversion schemes. Both are mechanisms to access your home equity, and are widely available to Australian homeowners over 60, but they are very different transactions.

A home reversion scheme is a property transaction, not a credit product, whereas a reverse mortgage is a secured loan. Home reversion is a legal contract without specific consumer protections whereby you agree to sell part of the future value of your home, whereas a reverse mortgage is a secured loan and subject to statutory protections by the National Consumer Credit Protection (NCCP) Act 2009.

There are several other key differences including how you receive your funds, your legal protections and how the property is dealt with post sale.

How It Works - Reverse Mortgage versus Home Reversion

Although both products are designed to provide access to the equity in your home, they are quite different in terms of how they work, your contractual obligations and legal frameworks. The following table summarises the differences at a glance... read on for more detail.

Feature	Reverse Mortgage	Home Reversion
Transaction Structure	Ownership: customer retains 100% ownership and future upside value in their own home.	Part-sale: customer agrees to sell part of the future value of your home from the home's sale.
Capital growth	Benefit from capital growth of 100% of the home.	Benefit from capital growth of the portion of the home you own (ie. that you do not sell).
Customer transparency	• ASIC MoneySmart Calculator and home equity projections. • Statutory lending criteria. • Strong customer protections and disclosures.	Complex legal contract.
Cost of Funding	Lower and more certain long term cost of funding. Transparent cost of funding in all scenarios.	Less certain cost of funding. Cost may change depending on how long you stay at home. In most cases more expensive cost of funding.
Negative Equity Risk	No Negative Equity Risk	Negligible Negative Equity Risk
Legal nature	Simple first mortgage. The lender holds a mortgage on the property.	The customer enters a private contract and the provider registers an interest on the title.
Regulation	Regulated under the NCCP Act 2009 (Federal Credit Law).	Governed by State/Territory Property & Contract Law. Not regulated as a credit product.
Funds	Funds can be received as a regular income stream, a lump sum – or both	Funds received as lump sum payment
Impact on estate	The estate receives the residual equity (sale price minus debt).	The estate receives the agreed residual percentage of the final sale proceeds (e.g. 60%).

Reverse Mortgage

A reverse mortgage is a secured loan designed for homeowners, typically aged 60 and over. It allows you to access the equity in your home without having to sell or make regular repayments. It also means you can stay living at home as long as you choose and have guaranteed housing security for life.

Reverse mortgages are governed by the NCCP Act 2009, which includes important statutory protections. These are discussed in more detail later in this article.

The loan is secured by a mortgage registered against your property title and you are generally not required to make any repayments (principal or interest) while you live in the home. Most providers offer the flexibility to make regular interest payments and repay the loan balance at any time without penalty.

Interest is charged on the outstanding loan balance, and this interest is added back onto the loan principal and compounds over time. As you retain full ownership of your home, any capital growth in your home's value can offset some or all of that interest.

The amount you can borrow is based on the Loan-to-Value Ratio (LVR), which increases with your age. The LVR is set by the regulator, the Australian Securities and Investments Commission and is designed to protect you from eroding your home equity. As a general guide borrowing starts at about 20% of the home's value at age 60, increasing by approximately 1% for each year over 60.

A reverse mortgage loan is repaid in full – the original loan amount plus compounded interest and fees – when a "trigger event" occurs. This may be because you decide to sell your home or the last surviving borrower passes away. Different rules apply where you move into residential aged care, however you generally have five years before the home needs to be sold.

Home Reversion

Instead of borrowing against the value of your home, you agree to sell a pre-determined, fixed percentage of the future sale proceeds of your home. In exchange for selling this future share of your home, you receive a single lump sum cash payment upon entering the contract.

The lump sum you receive is typically a discounted amount relative to the current market value of the share you sold.

The amount you receive is based on several factors:

- the assessed value of your home.
- the proportion of the home being sold.
- the age and number of people living in the home.
- how long you remain living in your home.

When your home is sold, the contract ends and the home reversion scheme provider receives its share of the proceeds. The scheme provider is entitled to the exact, agreed-upon percentage of the final sale price. However, the amount paid to the scheme provider will increase (or decrease) in line with the value of your home over time. You, or your estate, retains the remaining percentage of the sale proceeds.

Different legal frameworks

Reverse Mortgages

Reverse mortgages are regulated by the NCCP Act 2009, which includes important statutory protections:

- No Negative Equity Guarantee (NNEG): By law (since 2012), you or your estate can never owe the lender more than the home is sold for. If the loan balance exceeds the sale price, the lender must absorb the loss.
- Home ownership: You remain the owner of your home and the title remains in your name. This gives you 100% exposure to any growth (or loss) in the value of your property, into the future.
- The NCCP ensures that you remain in the home as long as you wish although it's a secured loan, regular repayments are generally not required and there is minimal default risk.
- Responsible lending: Lenders must assess whether the reverse mortgage is "not unsuitable" for your needs, financial situation and capacity to repay.
- Security for partners: Lenders typically require both partners to be co-borrowers to ensure the loan is not called in until the last partner vacates or passes away, protecting the right of the surviving partner to remain in their home.

Home Reversion

The key distinction is that home reversion schemes are treated as property transactions, not credit products; therefore, the single most important legal feature of home reversion schemes is that they are not regulated under the NCCP Act 2009.

This means home reversion providers are not subject to the same strict consumer safeguards mandated for reverse mortgages and all other standard loans. This includes:

- No responsible lending obligations: Lenders under the NCCP Act must assess whether a loan is "not unsuitable" for the borrower's needs and financial situation. Home reversion providers are not legally bound by this duty.
- No statutory "No Negative Equity Guarantee" (NNEG): The NCCP Act mandates that reverse mortgage lenders cannot demand repayment that exceeds the value of the home. Home reversion schemes achieve a similar outcome through their contract structure (a fixed percentage of the sale price), but this protection is contractual, not statutory law.
- No uniform disclosure requirements: Reverse mortgage contracts must adhere to strict rules about how interest and the future balance are disclosed. Home reversion schemes have more flexibility in how they disclose the cost (which is the forfeited share of future capital growth).