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A REVIEW OF THE GOVERNMENT GAZETTE AND NEW DEVELOPMENTS IN LAW

How the reverse mortgage works

The single feature of the scheme is that it leaves the indebted homeowner in a worse position

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REVERSE mortgage schemes are a feature of the South African financial landscape, and are likely to become more prevalent as the economy tightens.

The National Credit Regulator has intimated that these schemes are contrary to the National Credit Act. Nevertheless, several are still operating.

The originator of the latest reverse mortgage scheme which has been encountered has structured it in an interesting way. Indebted homeowners whose homes are about to be sold in execution are found, alternatively indebted homeowners who require additional finance but are unable to obtain same as they are over-indebted. Only those whose homes have residual equity over and above the outstanding bond amount are considered for the scheme.

The originator arranges for an "investor" (also known as a jockey) to purchase the house from the indebted homeowner, in terms of a sale agreement. The monies raised by the investor to pay for the house (by way of a mortgage bond with a bank or other institution) are then applied to settling the original mortgage bond of the homeowner, together with ancillary debts to improve the homeowner's monthly financial position.

> All monies under the scheme are paid over by the homeowner to the originator

The new mortgage bond will be higher than the homeowner's original bond (which he is usually unable to pay), sometimes up to the full value of the home.

The investors themselves do not place any money in the scheme: houses are bought using the investor's good credit record. In many instances more than one home is purchased by an investor within a two to three month window, and all bond applications are processed simultaneously through different financial institutions. Some jockeys have up to ten homes in their name.

The former homeowner simultaneously buys the house back from the investor, ostensibly under a deed of sale in instalments under the Alienation of Land Act, whereby the whole purchase price is deferred, is payable within 24 months, and transfer is to be taken simultaneously with payment after the 24-month period.

Picture: STOCK.XCHNG

The re-purchase price of the property is the mortgage bond procured by the investor, plus an additional amount, comprising about 25% of the investor's bond amount. The investor's bond amount bears interest (to the former homeowner, who remains in the property) at the rate given to the investor, plus an additional fixed monthly amount based on an annual interest rate of 6,56%. Instalments are used to reduce the bond registered over the property, and to cover the monthly "administration" fees due to the originator and the investor.

The additional amount and the original bond amount are dealt with in the deed of sale, and the investor is obliged to pay the additional amount to the originator on registration of the transfer of the property back to the former homeowner, and the originator upon receipt of such refunds to the investor 15%, less any amounts which may be outstanding to the originator.

All monies under the scheme are paid over by the homeowner to the originator, who is not named as a party to the repurchase agreement but who signs it and accepts the benefits and obligations set out in it.

The relationship and entire trans-

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