

DomaCom Equity Release Product

ERP Qualified Adviser



DomaCom.com.au

DomaCom Equity Release Product

Adviser Accreditation Program

Study Guide Module 2

Module 2: The DomaCom Equity Release Product (ERP)



Module 2:

The Process –Application to Settlement

The DomaCom Equity Release Product

Service Fees & Charges

Long-term Home Equity

2.1 The Process -Application to Settlement

In Australia, financial advisors are prohibited from advising on real estate, which deprives clients of the benefits of capital gains the industry has to offer.

Fractional investing converts property into a financial product, allowing financial advisors to expand their portfolios to include real estate in their scope of advice.

Furthermore, following a Full Federal Court ruling in August 2018, SMSFs are now allowed to invest in DCL's sub-funds up to 50% when the tenant of the underlying asset is a related party (i.e. a family member). This ruling, which did not receive any further appeal from the Australian Tax Office (ATO) regarding the breach of the sole purpose test, is a landmark achievement for the DomaCom offering as it paves the way for inter-generational wealth management.

A significant portion of real estate in Australia is held by people over 65 years of age. Thus, the possibility of utilising asset holdings for sustainable and regular income for retirees is very substantial.

Equity Release will match those looking to obtain cash by releasing equity in their homes with individuals who wish to make investments that are underpinned by those properties. Recently approved by the regulators, DCL's Equity Release product provides an attractive solution to 'asset rich, cash poor' retirees; it gives them control and at the same time unlocks the value of their homes, while allowing them to remain living in them.

Property Investor's Journey...



Property Owner's Journey...



2.1.1 Application and Product Disclosure Statement (PDS)

Application Fee and Application Form

If the client is eligible and interested in the offer, they will need to complete the application form and pay the non-refundable Application Fee.

The application form requires them to specify the Pay Out Amount on Settlement and requires information about the Property.

It is your obligation to ensure that the information that is provided is complete, accurate and not misleading. The client also needs to provide their bank account details to enable the Fund to withdraw the non-refundable Application Fee.

In order to approve the Application Form, the client will be subject to a number of mandatory checks in order for the Fund to satisfactorily verify:

- identity and age;
- ownership of the Property; and
- Property is free (or can and will be free) of any mortgages and that any encumbrances or conditions attached to the Property are identified and understood.

To do this, the client will need to provide personal information such certified copies of either their Passport or driver's license and Property title details (Folio and Volume Number).

2.1.2 Preliminary Valuation

Once the client's Application Form and Application Fee have been received and accepted, the Fund will commission independent, qualified professionals to prepare a Preliminary Valuation.

If required by the Fund, the client must permit the Property Manager and the Valuer to access the Property at the times reasonably required by the Property Manager for the purposes of undertaking any inspection.

If the client does not accept the Preliminary Valuation they have the right to refer the Preliminary Valuation to an independent Valuer in accordance with the guidelines set out in the Equity Release Deed and the Statement of Offer will be adjusted.

They must pay the cost of the independent Valuer.

2.1.3 Statement of Offer, Information Statement and Supplementary PDS

Once the Preliminary Valuation is completed, the Fund will determine the maximum Pay Out Amount that it will offer to purchase the Fund's Interest then provide a Statement of Offer and Information Statement which will contain important information as prescribed under the ASIC Instrument including:

- Preliminary Valuation for the Property;
- the Funding Amount which is the sum of the Service Fees and Pay Out Amount and other costs;
- the value of and percentage interest in the Property to be sold to the Fund based on the Funding Amount;
- a description of fees and charges that are, or may become, payable under the Equity Release Deed, and when each fee or charge is payable, if ascertainable;
- the maximum Pay Out Amount the Fund is willing to pay if the Pay Out Amount reflects a greater percentage of the Property Valuation that the Fund is willing to acquire; and
- frequency of periodic statements of accounts.

At this stage, a pro-forma Equity Release Deed will also be provided to the client.

The client cannot enter into the Equity Release Deed unless they have received these documents and the Statement of Offer contains all the information required under ASIC's Instrument.

Copies of the Statement of Offer will be available to the client, free of charge, until the Equity Release Deed is terminated.



Product
Disclosure
Statement
-Investors



Product
Disclosure
Statement
-Owners



Application
Form



Information
Statement



Statement
of Offer



Pro-forma
Equity Release
Deed



Adviser
Declaration

2.1.4 Advice from ERP Qualified Financial Adviser



Before executing the Equity Release Deed the client needs to have received advice from a DomaCom ERP Accredited Adviser and sign a Declaration that advice was received.

The Accredited Advisor will advise on prescribed matters pursuant to the ASIC Instrument including:

- ✓ a general overview of the Equity Release Deed;
- ✓ how the Service Fee structure works and the potential impact on your interest in the Property;
- ✓ How the DomaCom ERP will work in a range of scenarios depending on your individual circumstances;
- ✓ the risks and long term cash flow implications of entering into the Equity Release Deed; and the impacts on Centrelink entitlements and estate outcomes when using the DomaCom Equity Release Product.



Some Accredited Advisors may charge a fee for their service, which is for you negotiate with your client. DomaCom does not recommend any specific Accredited Advisor and does not receive any portion of the fees paid to the Accredited Advisors.

2.1.5 Execute Documents

After the client receives advice from an Accredited Advisor and have decided to proceed, after a 3 day waiting period, they will need to execute the following documents:

(a) Statement of Offer

By executing the Statement of Offer they will be accepting the terms as set out in the Statement of Offer and the relevant Pay Out Amount specified.

(b) Equity Release Deed

The Equity Release Deed is the primary document which governs the rights and obligations of all the parties including the Property Owner and DomaCom. Your client will not be able to enter into the Equity Release Deed if 45 days or more have passed since they received the Statement of Offer and Information Statement.

(c) Execute Mortgage

As outlined in section 3.6 of the Equity Release Deed includes a Mortgage that must be signed by the client and all other owners of the Property, which will be held in escrow pending Settlement.

(d) Advice Declaration

As outlined in section 2.1.4 above, before executing the Equity Release Deed the client needs to have received advice from a DomaCom ERP Accredited Adviser and sign a Declaration that advice was received.



If the client accepts the Statement of Offer the Fund will begin a process of assessing Investor interest in funding the Pay Out Amount and other fees and costs (together, the 'Funding Amount'). This process is known as the Capital Raising.

2.1.6 Capital Raising

(a) Listing the Property

Once the client has executed the Statement of Offer, Equity Release Deed and Mortgage, the Fund will place the details of their Property on the Platform which can be viewed by potential Investors.

The Fund will proceed to enter on the Platform the available information on the Property that they have provided (the type of property, its location and condition and other important features such as the number of bedrooms and car parking space) along with the results of the Preliminary Valuation.

The Fund will also publish key information relating to the offer to Investors such as the proportion of the Property that is available, the number of units this represents, the price per Unit and the annual investment yield.

In addition, the Fund will publish photos of the client's Property that either they supplied or the Fund commissioned on their behalf from a professional photographer.

The client (or their Accredited Adviser) may request that certain information in respect of the Property is not disclosed on the Platform.

However, there is some basic information that will always need to be listed on the Platform for example the street address of your Property. The Accredited Adviser must be able to explain these to their clients.

Once these details are confirmed, the Fund will list the client's Property on the Platform and then seek expressions of interest from Investors to determine whether the Fund will agree to settle the Equity Release Deed with them. The client or their Accredited Adviser will be able to access the Property listing and see what information is available at any time.

Listing is similar to engaging an agent to sell a property and advertising it for sale. Costs will be incurred in this process even if the Property does not reach Settlement and the Application Fee is always non-refundable.

(b) Finding Investors

Over approximately the next 90 days, prospective Investors will be able to view your Property and decide whether they would like to subscribe to the offer. An Investor that wishes to subscribe to the offer does so by participating in a capital raising process. If the offer becomes fully subscribed through the capital raising process within the 90 day period, the Fund will close the offer and commence the Settlement process.

If however all or part of the offer remains unsubscribed at the end of the 90 day period (or such longer period if extended by the Fund), the listing may be withdrawn from the Platform and the Equity Release Deed will be terminated. No termination Fees are payable in this circumstance.

If this occurs, the client will be able to review the offer in order to make it more attractive and then the Fund will re-list the Property on the Platform without imposing an additional Application Fee.

2.1.7 Final Valuation

If the Fund determines that there is sufficient Investor interest for it to potentially proceed to Settlement, it will arrange for a building inspection report and a Final Valuation.

The Fund may also commission a timber and pest inspection report if the Fund determines that it is necessary. These reports may involve a physical inspection of the Property. The client must ensure that access is provided (after receiving reasonable notice) to enable these inspections.

The Fund will provide the client with a copy of the Final Valuation. The client and the Fund will both then have 10 Business Days to exercise their right to terminate the Equity Release Deed.

If Equity Release Deed is to be Terminated and the Final Valuation is within 5% (greater or less than) of the Preliminary Valuation (or the Secondary Valuation if relevant) (Valuation Range) then the party terminating the Equity Release Deed will be required to pay for the additional fees, this could include building and timber and pest reports (if required) and costs of obtaining the Final Valuation.

However, no Termination Fees are payable. Fees for these services can vary depending on the size of the house, pre-purchase building valuation is typically in the range of between \$400 to \$600, building and timber pest inspection can cost approximately \$300 to \$400 each. Note valuation prices can vary depending upon the size and complexity of the property.

However, if the Final Valuation is outside of the Valuation Range, the client can terminate the Equity Release Deed and not need to pay any of the additional fees and costs in obtaining the Final Valuation or any Termination Fees.



The Application Fee of \$700 that was paid initially is always non-refundable.

Following termination, the client will be able to re-list the Property after having had the opportunity to review the original terms of the offer. Alternatively, the client will have the right to reduce the requested Pay Out Amount.

No additional Application Fee will need to be paid for the re-listing.

Example –Valuation Range

The Preliminary Valuation of the Property is \$1million. This produces a Valuation Range of \$950,000 to \$1,050,000 (inclusive).

Final Valuation above or below the Valuation Range

If the Final Valuation is for example \$900,000 the client and the Fund both have the right to terminate the Equity Release Deed, because this Final Valuation is outside the Valuation Range. Even if the client terminates, they will not be liable for the costs of the Final Valuation.

Final Valuation is within the Valuation Range

If the Final Valuation is \$1.05million, it is within the Valuation Range.

Even if the Final Valuation is within the Valuation Range, either party can still terminate the Equity Release Deed (see 2.2.3 Termination Fees).

2.1.8 Settlement

If neither party has terminated the Equity Release Deed within 10 business days from the date of the Final Valuation, DomaCom will provide written notice to the client of the date that Settlement will occur and they will be paid the Pay Out Amount and the Fund will acquire the Fund's Interest at Settlement. The Fund will also:

- ensure that the Property is covered under the Fund nominated property insurance policy;
- secure DomaCom's interests under the Equity Release Deed on behalf of the Investors through registering the Mortgage on the title of the Property;
- organise for the Administrator to:
 - pay the Pay Out Amount to you by bank transfer;
 - pay the fees and out of pocket expenses that it is required to pay under the Equity Release Deed on your behalf (for example, the costs of obtaining some of the Valuations and inspection reports and the fees charged by the Accredited Advisers if relevant); and
 - hold the balance (that is, the difference between the value of the Funding Amount and the amounts remitted as set out above) as a pre-payment of Service Fees and charges under the Equity Release Deed.

2.1.9 Staggered Settlement

Clients can elect to either receive the Pay Out Amount as a single, 'one-off' payment or monthly over a nominated period of time (Staggered Settlement).

Under the Staggered Settlement option, they can, at any time, vary the monthly payments by simply notifying the Fund in writing. These variations include withdrawing up to the total remaining balance in the account.

The Fund will incrementally acquire an interest in the Property as each Staggered Settlement payment is made.

Despite this, both the client and the Fund will be liable for their respective share of the costs and expenses under the Equity Release Deed as if the whole Pay Out Amount was paid to the client.

The unpaid portion of the Pay Out Amount will remain the property of the Fund until it is paid to you. However, any interest earned on the Pay Out Amount will ultimately (after tax) be paid to the client.

2.2 Service Fees and Charges -Equity Release Deed

2.2.1 Initial One-off fees

The following table provides details of the initial, once off fees in respect of an application to enter into an Equity Release Deed with the Fund.

All fees are expressed GST Inclusive.

Fees	What it Covers	Calculation	When does the ERP client pay?
Application Fee	The cost of the Preliminary Valuation and account opening costs.	\$700 Fixed amount which is non-refundable.	When lodging the Application Form
Adviser Service Fee	The cost of obtaining advice from the Accredited Advisor to provide advice on this product and for helping the ERP client regarding the suitability, risks, personal and financial impacts of an Equity Release Deed and for the Accredited Advisor's assistance through the listing process.	An amount agreed between the ERP client and the Accredited Advisor and agreed on the Application Form.	If the ERP client wishes to pay this fee by releasing equity in the Property, this fee will be paid at Settlement - selling an additional beneficial interest in the Property of equivalent value to the Fund. If so, the Fund will collect this amount and pass it on to their Accredited Adviser.
Secondary Valuation	Where the ERP client is not satisfied with the Preliminary Valuation	Varies depending on the location, size and complexity of the Property. Median priced residential properties would generally be in the range \$400 - \$600.	The ERP client must pay this at the time of the independent valuation.
Building and timber pest inspections (if applicable)	The costs of building and pest inspections if they were performed for the Property.	Varies depending on the size of the property. Building and timber and pest inspections can cost approximately \$300 to \$400 each.	Where the ERP client decides to terminate the Equity Release Deed within 10 days of the Final Valuation and the Final Valuation was within the Valuation Range.

2.2.2 Ongoing Fees

The following table provides details of the ongoing Service Fees in respect of an Equity Release Deed with the Fund. All fees are expressed GST Inclusive.

Fees	What it Covers	Calculation	When does the ERP client pay?
Service Fees	The fee payable regardless of whether the ERP client lives in the Property	<p>Starting at 4.4% of the Pay Out Amount, payable approximately 5 years in advance.</p> <p>Five years' worth of Service Fees may in fact be paid more frequently than every five years if the Service Fees paid are expended before the five year period is up. This will occur, for example, when the ERP client doesn't pay expenses payable by them after being duly invoiced and the Fund is forced to pay them from Service Fees.</p> <p>The actual Service Fee rate charged will vary depending on the ERP client's age and the percentage of equity to be released. This will be calculated at the time the offer is provided to the ERP client. However once it is calculated it will be fixed for the life of the agreement.</p>	<p>At Settlement and every Funding Period based on the re-valuation of the Property and the Fund's Interest.</p> <p>This amount can only be paid by the ERP client releasing a further beneficial interest in the Property to the Fund.</p>



Example: Calculating the Service Fee
The Service fee is calculated using the following formula:

$$\text{Initial Service Fee} = (\text{POA} + \text{AF}) \times (\text{SFP} \times 5) / (1 - \text{SFP} \times 5)$$

Where:

$$\text{Pay Out Amount (POA)} = \$100,000$$

$$\text{Adviser Fee (AF)} = 0$$

$$\text{Service Fee Percentage (SFP)} = 4.4\% \text{ (or } 0.044)$$

$$\text{Number of years compounded} = 5$$

$$\text{Initial Service Fee} = (\$100,000 + 0) \times (0.044 \times 5) / 1 - (0.044 \times 5)$$

$$\text{Initial Service Fee} = \$100,000 \times 0.22 / 0.78$$

$$\text{Initial Service Fee} = \$28,205$$

2.2.3 Out-of-Pocket Expenses -Equity Release Deed

In addition to the Service Fees and charges detailed above, over the term of the Equity Release Deed, there are additional charges which are considered out-of-pocket expenses that the ERP client needs to pay.

Out-of-Pockets Expenses	What it covers	Calculation	When does the ERP Client need to pay?
Revaluation Costs	The cost of valuing the Property every 5 years.	Varies depending on the location of the Property – expected to be in the range \$400-\$600.	Proportionate share paid by the ERP client as and when incurred.
Ongoing Repair and Maintenance Works incurred during the term of the Equity Release Deed	The cost of Repair and Maintenance Works required to ensure that the Property remains in good condition.	If Approval with Contribution is given (whether automatic or otherwise) the ERP client proportion share of the cost of the works in accordance with the ERP clients interest in the Property.	As incurred.
Occupier costs	The cost that in the normal course of renting or leasing a Property would be met by the tenant, including but not limited to lawn mowing services, rubbish removal, decorating, household cleaning and electricity and water usage.	The whole amounts incurred.	As incurred.
Insurance	The cost of the insurance policy obtained to protect the Property.	The Fund will pay its share of the cost of the insurance policy with the balance being paid for by the ERP client.	As incurred.
Buy Back Valuation Fee	Where the Property needs to be valued if the ERP client (or the ERP client's estate) decides to buyback Fund's Interest. (Note: The ERP client can elect to rely on a valuation obtained by the Fund (at no cost) if it was obtained within the previous 3 months).	Varies depending on the location of the Property – expected to be in the range \$400-\$600.	Paid by the ERP client as and when incurred.
Termination Fee	Fee for early termination of Equity Release Deed after Settlement	Approximately \$2,000	On termination of the Equity Release Deed before Settlement in certain circumstances.
Property Sale Charges	Costs and charges associated with the sale of the Property.	Costs such as (but not limited to) appointing a real estate agent.	As incurred.
All other rates, taxes or any amount charged against the Property such as land tax	Taxes related to ownership of the Property as a whole	The ERP client will pay and the Fund will reimburse the ERP client its share of the cost	As incurred.

2.2.4 Termination Fees

If the client decides to terminate they must pay the fees and costs associated with obtaining the Final Valuation, building and pest reports. If the Fund terminates, they will not be required to pay any fees or costs in respect of the Final Valuation but will still lose the Application Fee of \$700 which is always non-refundable.

It is stated at Clause 4.4 of the Property Owner PDS that, the Termination Fee is approximately \$2,000 which relates to the reasonable administrative cost of the Fund terminating the Equity Release Deed.

2.3 Critical Equity Release Deed Terms and Calculations

Custodian's Interest is the Initial Interest plus any additional interest acquired through Further Service Fees.

Funding Amount means the amount of funds which the Custodian requires to be raised in order to proceed to Settlement and is equal to the Pay Out Amount plus the Fees.

Funding Period means the period commencing on the Settlement Date and expiring on the earlier of:

- (a) the date that is five years from the Settlement Date; or
- (b) the date on which the Initial Service Fee has been expended.

The Funding Amount is the amount determined in accordance with the following formula:

$$\text{Funding Amount} = \text{POA} + \text{AF} + \text{ISF}$$

where:

POA is the Pay Out Amount;

AF is the Adviser Fee (if any); and

ISF is the Initial Service Fee for the Funding Period calculated in accordance with clause 8.2.

2.3.1 Calculation of Initial Service Fee

The Initial Service Fee is the amount determined in accordance with the following formula:

$$\text{Initial Service Fee} = (\text{POA} + \text{AF}) \times (\text{SFP} \times 5) / (1 - \text{SFP} \times 5)$$

where:

POA is the Pay Out Amount requested by the Owner;

AF is the Adviser Fee (if paid for using equity release); and

SFP is the annual Service Fee Percentage as stated in Item 13 of Schedule 1 to the equity Release Deed.

Example

Applying the calculation to an example where Home Owner requires \$100,000 pay out amount and is living in a home valued at \$1,000,000, assuming no adviser fee and the annual service Fee is 4.4% p.a.

$$\text{Pay Out Amount (POA)} = \$100,000$$

$$\text{Adviser Fee (AF)} = 0$$

$$\text{Service Fee Percentage (SFP)} = 4.4\% \text{ (or } 0.044\text{)}$$

$$\text{Number of years compounded} = 5$$

$$\text{Initial Service Fee} = (\$100,000 + 0) \times (0.044 \times 5) / 1 - (0.044 \times 5)$$

$$\text{Initial Service Fee} = \$100,000 \times 0.22 / 0.78$$

$$\text{Initial Service Fee} = \$28,205$$

$$\text{Funding Amount} = \text{POA} + \text{AF} + \text{ISF}$$

$$\text{Funding Amount} = 100,000 + 0 + 28,205$$

$$\text{Funding Amount} = \$128,205 \text{ represents } 12.8\% \text{ of the Home Owner's equity.}$$

$$\text{Custodian Interest (CI)} = 12.8\%$$

2.3.2 Calculation of Further Service Fee

Further Funding Period means the period commencing immediately after the expiration of the Funding Period or a previous Further Funding Period (as the case may be) and ending on the earlier of:

- a) the date that is five years from the end of the Funding Period or Further Funding Period (as the case may be); or
- b) the date on which the Further Service Fees in relation to the previous Further Funding Period has been expended.

Typically, this is 5 yearly resets unless the service fees have been eaten up earlier.

Further Service Fee

- (a) on each Review Date during the Term the Owner must pay the Administrator a Further Service Fee determined in accordance with formula below.
- (b) In order to determine the Further Service Fee, an updated valuation of the Property must be undertaken by a Valuer (Revaluation) appointed by the Custodian.
- (c) No later than six months prior to each Review Date, the Custodian will issue a notice to the Owner (Inspection Notice) which:
 - (i) informs the Owner of the pending Review Date;
 - (ii) informs the Owner of the Valuer appointed to undertake the valuation of the Property; and

- (iii) requests the Owner to contact the Custodian to arrange a suitable time for an inspection of the Property by the Valuer.
- (d) If the Custodian and the Owner fail to agree on a mutually acceptable time for the Valuer to inspect the Property within 14 days of the Inspection Notice, then the Owner must permit the Property Manager and the Valuer to enter the Property at a time nominated by the Custodian which must not be more than one month after the date of the Inspection Notice.
- (e) The Owner must permit the Property Manager and the Valuer to enter the Property to view the state of repair of the Property at the time determined
- (f) The Revaluation undertaken by the Valuer must determine the fair market value of the Property. The Valuer must make a copy of the Revaluation available to both the Custodian and the Owner.
- (g) The Owner is liable for its share of the revaluation fee.
- (h) If funds equal to the amount of the Further Service Fees cannot be raised from Investors, no Further Service Fees are payable by the Owner during the Term. Notwithstanding anything else contained in this deed the Custodian will continue to be liable for its share of costs and expense relating to the Property based on the Custodian's Interest.

Further Service Fee Calculation

The Further Service Fee is the amount determined in accordance with the following formula:

$$\text{Further Service Fee} = (\text{CI} \times \text{RV}) \times (\text{SFP} \times 5) / (1 - \text{SFP} \times 5)$$

Where:

CI is the Custodian's Interest (as a percentage) immediately prior to the Review Date.

RV is the market value of the Property determined by the Valuer as set out in the Revaluation.

SFP is the annual Service Fee Percentage as stated in Item 13 of Schedule 1.

RA is the residual amount remaining from the Service Fee paid by or allowed for the Funding Period or previous Further Funding Period (as the case may be).

- (i) Within 14 days of receiving the Revaluation the Custodian must give the Owner written notice stating the Further Service Fee payable by the Owner for the Further Funding Period as determined under this clause.

Example

Using the same information as above, but assume the property has increased by 3% p.a.

$$\text{New property value is} = \$1,000,000 \times (1.03)^5 = 1,159,274$$

$$\text{Further Service Fee} = (\text{CI} \times \text{revaluation}) \times (\text{SFP} \times 5) / (1 - \text{SFP} \times 5)$$

$$\text{FSF} = (0.128 \times 1,159,274) \times (0.22 / 0.78)$$

$$\text{FSF} = 148,387 \times 0.2825$$

$$\text{FSF} = 41,853$$



[Link to the DomaCom On-Line Calculators](#)

Adjustment to Custodian's Interest

The parties agree that the Further Service Fees will be paid by the Owner by increasing the Custodian's Interest in accordance with the following formula:

$$\text{Adjusted Custodian's Interest} = \text{CI} + [(\text{Further Service Fees}) / \text{LV}] \times 100$$

where:

CI is the current Custodian's Interest immediately prior to this adjustment;

LV is the market value of the Property determined by the Valuer as set out in the Revaluation.

In line with the example above

$$\text{Adjusted Custodian's interest} = 12.8\% + (41,853 / 1,159,274) \times 100$$

$$\text{Adjusted Custodian interest} = 12.8\% + 3.61\%$$

$$\text{Adjusted Custodian Interest} = 16.41\%$$



For the avoidance of doubt, any increase in the Custodian's Interest will be taken to represent a sale of a further interest in the Property by the Owner to the Custodian.

The further service fee calculation will take place every 5 year intervals or earlier if the service fee has run out and using the exact same formula.

2.4 Impact on Long-term Equity

2.4.1 Impact of Service Fees

The ERP client agrees to sell the Initial Interest in the property to the Fund in consideration for payment by the Fund of the Pay Out Amount.

The ERP client acknowledges that by entering into the Equity Release Deed and if settlement occurs, their equity in the Property will be diminished over time.

An estimate of the ERP client's interest in the property over time, is contained in the Information Statement.

2.4.2 Client Actions

Duration of Occupancy

The DomaCom ERP offers the opportunity for an ERP client to access cash payments through the Fund acquiring interests in the Property.

Under the Equity Release Deed, the ongoing Service fees must be paid by selling further interests in the Property to the Fund. Over time this could result in the ERP client's interest in the Property being exhausted.

Accordingly, the erosion of the ERP client's interest in the Property will be greater, the longer the ERP client occupies the Property.

Repairs and Maintenance Works

The ERP client, at their own expense, must undertake all Repair and Maintenance Works throughout the Term.

If the Repair and Maintenance Works will be greater than \$1,000, or more than \$5,000 had already been spent on Repair and Maintenance Works over the past year, the Owner must first obtain the Property Manager's written approval to the Repair and Maintenance Works.

The Custodian will procure that the Property Manager will approve all Repair and Maintenance Works.

The Custodian must contribute towards the costs of any Repair and Maintenance Works approved by the Property Manager in an amount equal to the Custodian's Interest (expressed as a percentage).

However, the Custodian is not required to contribute towards the cost of any repairs or maintenance not approved by the Property Manager or that are undertaken by the Owner without first seeking the approval of the Property Manager.

The Custodian may undertake Repairs and Maintenance works if in the Property Manager's reasonable opinion the state or condition of the Property is such that the value is less than the fair market value of comparable Property, then the Custodian may undertake such Repair and Maintenance Works as may be reasonably required.

The Owner must pay or reimburse the Custodian for any costs incurred by the Custodian undertaking those repairs.

Capital Improvements

The ERP client may at any time during the Term and at its sole cost and expense, undertake any Capital Improvements to the Property with the prior written consent of the Custodian.

Under the terms of the Equity Release Deed, the Custodian will not unreasonably withhold its consent to Capital Improvements to the Property. However, if the Custodian reasonably considers such improvements may diminish the value of the Property or are unsafe or would result in a breach of law, then the Custodian may withhold consent to the Capital Improvements.

Nothing in the Equity Release Deed requires the Custodian to contribute to Capital Improvements made to the Property during the Term.

However, the Custodian may agree to fund the cost of Capital Improvements in proportion to the Custodian's Interest subject to the Custodian raising funds equal to those costs through a further listing on the DomaCom Platform inviting Investors to purchase additional units in the Scheme.

If the Custodian's fund raising is successful it will pay the cost of the Capital Improvements in an amount equal to the Custodian's Interest (expressed as a percentage) multiplied by the total cost of the Capital Improvements.

2.4.3 Transaction Events

Funding Periods

The Funding Period means the period commencing on the Settlement Date and expiring on the earlier of:

- (a) the date that is five years from the Settlement Date; or
- (b) the date on which the Initial Service Fee has been expended.

Further Funding Period means the period commencing immediately after the expiration of the Funding Period or a previous Further Funding Period (as the case may be) and ending on the earlier of:

- (a) the date that is five years from the end of the Funding Period or Further Funding Period (as the case may be); or
- (b) the date on which the Further Service Fees in relation to the previous Further Funding Period has been expended.

Review Date means the date immediately after the expiration of the Funding Period or the Further Funding Period (as the case may be).

Service Fee means the Initial Service Fee and/or the Further Service Fees, as the context requires. The ERP client acknowledges that the determination of Initial Interest includes the payment of the Initial Service Fee.

Further Service Fees means the additional service fee payable by the Owner on each Review Date for a Further Funding Period

Under the terms of the Equity Release Deed, the parties agree that the Further Service Fees will be paid by the ERP client by increasing the Custodian's interest in the Property.



Important: Be sure to explain to the ERP client that there are many factors that may impact the rate at which their equity in the Property may diminish including but not limited to, the frequency of Further Funding Periods, changes to the value of the Property, the Service Fee Percentage (calculated at the time that the offer is made to the ERP client), etc.