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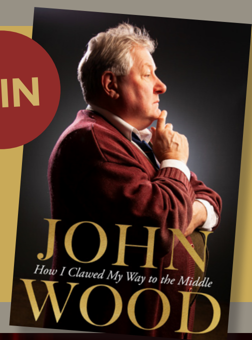

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By Kevin Conlon (M.App.Fin.) -CEO of the Equity Release Industry Council (ERIC)

EQUITY RELEASE

-An Insider's Guide

As we face up to a new year there can be no doubt that these are tough times. We are battling not only the health emergency of a lifetime but a significant economic downturn resulting from the increased Government spending intended to support business and save jobs. All of this impacts retirement funding whether we are yet to reach that stage of our lives or having retired, are struggling to maintain a decent standard of living.

What needs to be remembered though, is that we have been fortunate enough to have lived our lives during a golden era of person wealth accumulation. For most of us home-owning senior Australians, the road ahead is still clear and safe. But it is going to take a major shift in how we navigate the journey if we are to remain healthy and happy as we age. Along the way there will be some uncomfortable challenges to face and some important choices to make.

The key challenge is whether we can come to terms with viewing the family home as an active financial asset rather than a sacred store of wealth to be preserved at all cost in order to hand over a financial legacy to our family when our time is done.

Equity release is the term used to describe the process of accessing housing wealth in order to increase the amount of personal wealth available to improve our standard of living in retirement.

For too long, too many people whose lives are not affected by these important decisions have had too much to say about either championing or condemning equity release. Still worse, those who should be providing guidance have failed in their duty to speak up.

We each have our own life story and whilst, drawing down against our housing wealth in retirement may carry regret or even shame for some, for others it is a triumph of common-sense and the opportunity to live well and with dignity.

Financial advisers should be regarded as simply navigators offering up reliable information so that we can make well informed decisions. Whatever our circumstances, it is important to remember who calls the shots.

Why do people use Equity Release products?

We encounter our first myth when we look at the reasons why people choose to access their housing wealth. Despite the portrayal of these retirees as lifestyle seeking, self-centred and reckless, the facts clearly show that equity release customers tend to borrow what they need, when they need it.

Although the records shows that clients will typically release more equity if they rely on the advice of mortgage brokers, most drawdown less than the maximum amount they qualified for and this is true of each age group from 65yrs to 85yrs.

An important factor that drives this somewhat conservative behaviour is the desire to preserve benefits entitlement which, would be at risk if the money received from an equity release were to be held as a financial asset rather than spent (Centrelink guidelines indicate that funds can be held for a maximum of 90 days from receipt).

This highlights the importance of clearly identifying any major expenses that will be undertaken and developing a reliable budget that will closely reflect your actual spending pattern.

When it comes to the purpose to which equity release funds are applied, again it is practical and worthwhile purposes such as debt consolidation, living expenses, home improvements, travel, medical costs, aged care or purchasing a new car rather than reckless spending of the kid's inheritance.

Equity Release Products:

The Pension Loans Scheme is offered by the Australian Government through Services Australia as a non-taxable fortnightly loan of up to 1.5 times the maximum fortnightly payment rate of the applicant's eligible pension.

The Pension Loans Scheme does not provide lump-sum payments and although regular repayments are not required, interest on the loan will compound over time.

Due to these limitations, many senior Australians have chosen to access their home equity wealth through other commercial equity release products.

The reverse mortgage product is the most common equity release option available in Australia and more than 40,000 Australians have a reverse mortgage. Approximately $4 billion of housing has been unlocked in order that these retirees can choose to live the life they want in retirement.

A reverse mortgage is a credit product distributed by mortgage brokers operating under an Australian Credit Licence (ACL).

Although a reverse mortgage is an interest-bearing loan, you don't have to make repayments while living in your home. Interest charged on the loan compounds over time and is added to the amount you borrow. You repay the loan in full, including interest and fees, when you sell or move out of your home.

This is where we strike our next myth, that reverse mortgage borrowers are often misled by their advisers and often regret their decision to take out a reverse mortgage.

As the chief executive of the peak industry

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Want to unlock the wealth stored in your home so that you can live well in retirement?

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There is no need to sell your home and move away to meet the challenge of funding retirement.

DomaCom has launched Australia's only debt-free, fully advised equity-release financial product that allows you to drawdown your housing wealth and stay in your home.

The best of both worlds is now available to you through the DomaCom equity release product.

This may be time to consider all your options for living well in retirement when looking for equity release solutions.

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Senior Equity Release by DomaCom is Australia's first and only regulated equity release financial product that gives you access to the wealth in your home with guaranteed lifetime occupancy rights.

DomaCom's new generation equity release product guarantees your lifetime occupancy rights whilst offering important features that help you to make choices that suit your needs…

- Your choice of a **debt-free** lump sum or regular payments
- The **freedom** to use the funds in any way you choose, for any purpose
- **Available nationally** with no postcode restrictions
- **No unexpected costs** with fixed for life service fees
- Senior equity release has been **approved by the ATO** to top up your Super (Downsizer Contributions legislation)
- The property **title remains in your name**
- **Full product advice** by ASIC licensed and DomaCom Accredited financial advisers.

For further information on how to draw down on the wealth in your home register an expression of interest at **Seniors Equity Release | DomaCom Ltd**, email any questions to **sales@domacom.com.au** or call **1300 365 930** or speak to your financial adviser.

If you do not have a financial adviser DomaCom would be pleased to make an introduction.

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body, I have had the opportunity to closely observe the professional conduct of mortgage brokers and financial advisers working in this important sector and it continues to trouble me that despite a remarkably good track record, reverse mortgages continue to attract poorly-informed negative commentary.

Some time ago, the then Chief Ombudsman of the Financial Ombudsman Scheme, Colin Neave AM noted that, "Of the 38,000 existing mortgage borrowers in Australia only five have lodged a complaint and of those complaints four were resolved through provider co-operation with no evidence of wrong-doing on the part of the provider. What other industry can boast that level of consumer satisfaction"? A good question indeed!

I recently conducted a review of the case work undertaken by the new consumer watchdog agency to see how things have been tracking since the Australian Financial Complaints Authority (AFCA) took over responsibility for determining the outcomes of any consumer complaints and it is good news for reverse mortgages.

Despite many more thousands of senior Australians taking out a reverse mortgage each year, the total number of consumer complaints now stands at only thirty seven with compelling evidence of continued good industry practice clearly emerging from a close examination of these cases.

By my reckoning there are only six cases were the provider was determined to be at fault

It is somewhat amazing that of those six adverse determinations, four were based on the providers failure to ensure that the client obtained independent legal advice, one was based on a failure to ensure that the client obtained independent financial advice (their own lending guidelines, not a regulatory obligation) and one failed to properly document the loan. Of course, these limited failures are important, and it is good to see that the consumer protection system is working well.

Despite this track record of good consumer outcomes, the number of lending institutions offering reverse mortgages has fallen dramatically over recent times, with each of the major banks having now withdrawn from the market and only a handful of providers remain.

Alternatives to a reverse mortgage have been limited and slow to emerge.

In stark contrast to the success of equity release markets in the USA and the UK, Australia's equity release market has suffered from a lack of competition and an absence of product innovation.

Our next myth is that Australian seniors now benefit from a wide choice of so-called new generation equity release products. For

example, it is simply "fake news" to say that the reverse mortgages on offer today are vastly improved over the reverse mortgages that were offered in the past.

Even prior to the introduction of legislation setting out important consumer protection measures, the vast majority of reverse mortgage providers had subscribed to meaningful self-regulatory practices imposed by the then peak industry body, the Senior Equity Release Association of Lenders (SEQUAL). In fact, the Government of the day acknowledged the role of SEQUAL and simply uplifted these industry practices into legislation. I know this to be true as I was the inaugural chief executive of that association, at that time.

So, as for product choice. Despite industry lobbying Government to extend the stimulus packages that they had rolled-out to help the major banks through the Global Financial Crisis, no support was provided to the equity release market and the consequences for consumer choice were devastating.

From a large cohort of major banks and non-bank specialist lenders peaking at approximately 21 institutions, the reverse mortgage market today is comprised of no more than a handful of non-bank lenders and no major banks.

The situation is not improved by the current lack of competition to the reverse mortgage product itself.

For example, there is only one home reversion provider in Australia. Their product is based on a real estate transaction that is subject to State-based regulations and is only available in certain areas of Sydney and Melbourne.

A home reversion scheme allows you to sell a proportion of the future value of your home while you live there. You get a lump sum payment and keep the remaining proportion of your home equity.

The Australian Securities and Investments Commission (ASIC) provides a good description of home a home reversion works on their MoneySmart website, as follows:

"The home reversion provider pays you a reduced ('discounted') amount for the share you sell. Depending on your age, this may be 25% or more of the current value of the share.

For example, suppose your home is currently worth $400,000 and you sell a 25% ($100,000) share of the future value. The provider may only offer you $25,000 to $40,000 to buy that share. When you sell your home, you pay the provider their share of the proceeds. So, if in 20 years time you sell your home for $800,000, the provider gets 25% of that amount: $200,000.

It's not a loan, so you don't pay interest. You pay a fee for the transaction and to get your home valued (as a guide, around $2,000). You may also have to pay other property transaction costs.

Home reversion costs you the difference between:

- what you get for the share of your home you sell now, and
- what it's worth in the future

The more your home goes up in value, the more you'll pay the provider when you sell it.

There have been many false-dawns in the history of the equity release market in Australia but maybe we are beginning to see the bright light of change as Government starts to engage more effectively with the retirement funding needs of Senior Australians and a new breed of financial institutions apply themselves to true product innovation as recently, Australia's first advice-based and regulated equity release financial product has launched.

The Equity Release Deed (ERD) allows you to obtain cash payments for releasing equity in your home to a Fund which brings property owners and property investors together in a way that enables property owners to sell part of their property in exchange for an agreed cash payment.

You can choose whether to receive the cash payment as a lump sum or by instalments.

To be eligible, you and anyone else on the property title must be 60 years of age or older and the property must be your principal place of residence.

How the Equity Release Deed works.

Whilst no interest is charged, you will be required to pay service fees as nominal rent for the portion of your house you have sold. These service fees are paid every five years in advance by releasing further equity in your home. This means that the Fund's proportion of ownership in your property will gradually increase.

Once the Fund becomes a part owner in your property the Fund will pay its share of repair and maintenance costs. If you sell your home or die, the Fund will be entitled to its share of the sale proceeds from the sale of your home. Because there are no loans involved, you will not owe money even if you go on to live well after your equity in your home has been exhausted because at that time, your obligation to pay further service fees ceases.