

Media Release

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Australia's reverse mortgage market reaches \$2.7bn at 31 December 2009

28 May 2010: Deloitte Actuaries and Consultants released its eighth comprehensive study of the Australian reverse mortgage sector today. Commissioned by the Senior Australians Equity Release Association (SEQUAL), the study found that the reverse mortgage market in Australia as at 31 December 2009 consisted of more than 39,000 reverse mortgage facilities with total outstanding funding of \$2.7 billion. This represents almost 4% growth over the six months from 30 June 2009 and 9% growth over the 12 months from 31 December 2008.

James Hickey, Deloitte Actuaries and Consultants partner who led the study said that there were more than 2,665 new reverse mortgages written in the second half of 2009. "This was up on the same period in 2008," he said. "Also when you track the growth in the size of each loan from \$51,148 in December 2005 when we initiated this study on behalf of SEQUAL, to the current \$70,000 as at 31 Dec 2009, there appears to be a continued appetite for this equity release product."

Hickey noted that the settlement figures for the second half of 2009 of \$141m were level with the same period in 2008. "It is interesting to see that, following the dip in the settlement figures in the first half of 2009 to \$122m, settlements have begun to move back up to be on par with the 2008 numbers. This gradual recovery in growth appears to reflect the cautious optimism of the economy in general," he said.

A summary of key information is shown below:

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09
Outstanding market size	\$0.85b	\$1.51b	\$2.02b	\$2.48	\$2.71b
Number of loans	16,584	27,898	33,741	37,530	38,788
Average loan size	\$51,148	\$54,233	\$60,000	\$66,150	\$69,896
Settlements	\$315m	\$520m	\$466m	\$321m	\$264m
Facility (settlements)	\$519m	\$714m	\$627m	\$426m	\$367m
Additional drawdowns	n/a	n/a	\$125m	\$116m	\$126m
Discharges	n/a	n/a	\$203m	\$253m	\$309m
12 month figures (with the addition of new data from various providers)					

Kevin Conlon, Chief Executive of SEQUAL, the peak industry body which governs equity release providers and provides consumer safeguards, pointed out, "attitudes towards retirement funding are changing as the largest generation within the Australian population, the so-called Baby Boomers, approach the end of their working lives. The home is increasingly being considered a part of the planning process with equity release been seen as a means to unlock the substantial wealth stored in property in order to live well."

Summary of Key Findings

- **Market growth** of outstanding balances was 9% in the past 12 months to December 2009
- **2,665 new borrowers** in H2 2009
- **Average settlement size** \$53,000
- **Variable rate** loans most popular
- **Full discharge rate of 11.5% p.a.** (mainly due to sale of property and voluntary repayment)
- **Additional drawdowns** approximately 5% of outstanding loans
- **Lump sum** most popular drawn down type
- **Brokers & planners** now account for 50% of reverse mortgages
- **The broker channel** has increased over the last 6 months, continuing a trend since H2 2006
- **Proportions of outstanding loans by State:** NSW 33% of market, QLD 21% and VIC 17%
- **Payment type of funds drawn** of the \$141m worth of settlements, lump sums accounted for 95% and income stream for 5%. The proportions of lump sum and income stream settlements have been relatively stable since H2 2007. Income Stream relative low take up is also due to more flexible product options such as ‘line of credit’ allowing discretionary income draws rather than contractual.
- **Interest rate type** the proportion of fixed interest reverse mortgage lending on settlements was 1% in H2 2009 based on \$ amounts. This is a trend that has continued since 2008. Between 2006 - 2007, fixed interest lending increased but started to decline in 2008:
 - 4% in 2009
 - 20% in 2008
 - 34% in 2007
- **Channel for outstanding loans** there is now a 50/50 split of outstanding reverse mortgages originated from the direct channel and third party intermediated channels
- **Couples** remain the dominant borrowing segment closely followed by single women with the average loan size: single women \$84,000; couples \$76,000 and single males \$69,000
- **Age band of borrowers** the average age of new borrowers is 73 years with those under 70 representing nearly 40% of all new loans compared to 30% of outstanding loans
- **Age profile** of borrowers broadly consistent throughout the study since 2006
 - **Use of proceeds** consistently in the top three uses of settlements: Home Improvement; Regular income; and Debt repayment
- **Information on additional drawings and discharges:**
 - Almost one in nine existing borrowers in the six months drew down additional funds from their facility. The average amount of additional drawdown was around \$14,600.
- **Full discharges show** an 11.5% p.a. repayment rate for H2 2009. Of this rate:
 - Mandatory repayment (e.g. death, aged care entry) accounts for 1% p.a. discharge rate
 - Voluntary repayments account for 3% p.a.
 - Sale of property accounted for 3% p.a.
 - Refinance relatively low at 1% p.a.

Commentary

Kevin Conlon confirmed that the SEQUAL Membership is well placed to meet the growing demand for equity release products.. He pointed out that SEQUAL is comprised of both major banks and specialist non-bank providers.

Conlon firmly believes that the trend towards releasing home equity in order to fund retirement is inevitable as the Australian population ages.

In this survey, Hickey noted that home improvement was now the primary reason for taking out a reverse mortgage between June and December 2009. It eclipsed accessing regular income which moved to second place, followed by debt repayment which remained third.

Hickey noted, for the fifth time in these half yearly surveys he was able to compare the amount borrowed across age groups. “The results showed that while younger borrowers (those up to 70 years) drew down a majority of their available facility, older borrowers (aged over 75) used only around one half of what they were actually allowed to borrow.

“While this partially reflects the increased amounts available to older borrowers, it also indicates the general restraint older borrowers are exhibiting when choosing how much to borrow under a reverse mortgage,” said Hickey.

Conlon supports this view of responsible borrowing and believes this is a result of appropriate product design and the high standards of practice imposed by SEQUAL. “The effective use of a combination of lump sum and income stream facilities enables borrowers to borrow what they want, when they need it”, he said.

“It is important that consumers make informed decisions and carefully consider how their needs may change over time,” he added.

Conlon emphasised that SEQUAL’s industry accreditation protocol, raises professional standards above the minimum education requirements imposed by legislation and industry association membership. He pointed out that SEQUAL has established a national network of accredited Seniors Equity Release Consultants (SERC) which assists consumers to make informed decisions about equity release strategies. He welcomed the encouragement provided by both industry sector associations and market regulators for the meaningful contribution SEQUAL has made towards the establishment of an efficient and ethical seniors equity release market in Australia.

For more information about SEQUAL® approved lenders and reverse mortgages go to www.sequal.com.au. See our media releases and research at www.deloitte.com.au

For further information:

Kevin Conlon
Chief Executive Officer
SEQUAL
Mobile: 0411 094 495
kevin@sequal.com.au

James Hickey
Partner
Deloitte Actuaries & Consultants
Tel: +61 (0) 2 9322 5009
jahickey@deloitte.com.au

Pauline Negline
SEQUAL Media
Mobile: 0407 700 653
pauline@sequal.com.au

Louise Denver
Corporate Affairs & Communications
Deloitte
Mobile: 0414 889 857
Tel: +61 (0) 2 9322 7615
ldenver@deloitte.com.au

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About SEQUAL

Since its inception as the peak industry body for the Australian Seniors Equity Release market, SEQUAL has worked in the interest of the Australian community. The SEQUAL Mission is to ensure the professionalism of those who offer or distribute Equity Release products for senior Australians. SEQUAL is dedicated to maintaining professional standards of practice within the Australian Seniors Equity Release market.

The primary objectives of SEQUAL are:

1. To provide an industry forum for the collaborative development of an ethical and successful Equity Release market in Australia.
2. To provide effective consumer protection through a Code of Conduct by which members of SEQUAL are expected to comply.
3. To represent the constituent parts of the Australian Equity Release Market at the national level through a process of consultation with Government, Regulators and Consumer Agencies.
4. To provide a central resource of consumer information on Equity Release products and processes and to enable efficient access to SEQUAL members.