

# Media Release

## FOR IMMEDIATE RELEASE

### Australia’s reverse mortgage market reaches \$3bn at 31 December 2010

**25 May 2011:** Deloitte Actuaries and Consultants released its ninth comprehensive study of the Australian reverse mortgage sector today. Commissioned by the Senior Australians Equity Release Association (SEQUAL), the study shows that at 31 December 2010 the reverse mortgage market in Australia consisted of more than 41,000 reverse mortgage facilities with total outstanding funding of \$3 billion. This represents 11% growth over the 12 months from 31 December 2009.

James Hickey, Deloitte Actuaries and Consultants partner, who led the study, said that there were more than 5,600 new borrowers accessing the equity in their homes in 2010. “With settlements worth \$320m, the size of the market has returned to 2008 levels, which is a 22% increase over 2009,” he said. “The average size of each loan also increased to \$72,500 (from \$70,000 in 2009). When we initiated this study on behalf of SEQUAL in December 2005, the average loan size was \$51,148.

“Although there is a continued and increasing appetite for this equity release product, spread across a larger group, settlements have not yet returned to the two peak years in 2006 and 2007, pre Global Financial Crises,” Hickey said. “Nevertheless there remains a gradual recovery in growth which is encouraging,” he said.

A summary of key information is shown below:

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec - 10
<b>Outstanding market size</b>	<b>\$0.9b</b>	<b>\$1.5b</b>	<b>\$2.0b</b>	<b>\$2.5b</b>	<b>\$2.7b</b>	<b>\$3.0b</b>
<b>Number of loans</b>	<b>16,584</b>	<b>27,898</b>	<b>33,741</b>	<b>37,530</b>	<b>38,788</b>	<b>41,600</b>
<b>Average loan size</b>	<b>\$51,148</b>	<b>\$54,233</b>	<b>\$60,000</b>	<b>\$66,150</b>	<b>\$69,896</b>	<b>\$72,474</b>
<b>Settlements</b>	<b>\$315m</b>	<b>\$520m</b>	<b>\$466m</b>	<b>\$321m</b>	<b>\$264m</b>	<b>\$322m</b>
<b>Facility (settlements)</b>	<b>\$519m</b>	<b>\$714m</b>	<b>\$627m</b>	<b>\$426m</b>	<b>\$367m</b>	<b>\$449m</b>
<b>Additional drawdowns</b>	<b>n/a</b>	<b>n/a</b>	<b>\$125m</b>	<b>\$116m</b>	<b>\$126m</b>	<b>\$131m</b>
<b>Discharges</b>	<b>n/a</b>	<b>n/a</b>	<b>\$203m</b>	<b>\$253m</b>	<b>\$309m</b>	<b>\$354m</b>

Kevin Conlon, Chief Executive of SEQUAL, the peak industry body which governs equity release providers and delivers consumer safeguards, said, “The majority of equity release customers are couples around 75 years old who have accumulated wealth through home ownership. They mainly use their released funds to supplement their retirement income, undertake home improvements following a decision to “stay in place” during their retirement or clear their outstanding debt.

“It appears that attitudes towards retirement funding are changing. As Baby Boomers approach retirement, equity release strategies are increasingly seen as a useful option to access the wealth stored in their home in order to meet the challenge of living longer and living well.”

## Summary of Key Findings

- **Market growth** of outstanding balances was 11% in the 12 months to December 2010
- **5,600 new borrowers** in 2010
- **Average settlement size** \$54,200
- **Variable rate loans** most popular (85%)
- **Full discharge rate of 9.5% p.a.** (mainly due to sale of property and voluntary repayment)
- **Additional drawdowns** 4.6% of outstanding loans
- **Lump sum** most popular drawn down type
- **Direct/intermediated split** has shifted from 50/50 to a 55/45% split (direct/intermediated) for outstanding loans
- **The broker channel** has decreased for outstanding loans over the last 12 months, breaking the trend since 2006
- **Proportions of outstanding loans by state remains consistent:** NSW 37%, QLD 21%, VIC 18%
- **Payment type of funds drawn** of the \$321m 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 2008. The relatively low take up of income stream is also due to more flexible product options such as ‘line of credit’ which allows for discretionary income draws rather than contractual.
- **Interest rate type** the proportion of fixed interest reverse mortgage lending on settlements was negligible 1% in 2010 because providers no longer offer the product for new settlements. This is a trend that has continued since 2008.
- **Couples** remain the dominant borrowing segment, closely followed by single women with the same average loan size: single women \$76,000; couples \$76,000 and single males a larger loan size in 2010 of \$83,000
- **Age band of borrowers** the average age of new borrowers that settle is 74 years
- **Age profile** has shifted in 2010 – borrowers <age 70 now only account for 30% of settlements compared to 40% in 2006-2008.
- **Use of proceeds** consistently in the top three uses of settlements: regular income; home improvement; and debt repayment
- **Information on additional drawings and discharges:**
  - Almost one in four existing borrowers in drew down additional funds from their facility in 2010 (almost double the ratio of the previous year). The average amount of additional drawdown was smaller however \$11,500 compared with \$14,600.
- **Full discharges** were down a couple of percent to 9.5% p.a. for 2010. Of this rate:
  - Mandatory repayment (e.g. death, aged care entry) accounts for 1% p.a. discharge rate
  - Voluntary repayments (by proportion) were half the previous year’s 1.5% vs. 3% p.a.
  - Sale of property was also half by proportion 1.5% vs. 3% p.a.
  - Refinance also halved and was low at 0.5% vs. 1% p.a.

## Commentary

Kevin Conlon pointed out that SEQUAL is comprised of both major banks and specialist non-bank providers and firmly believes that the trend towards releasing home equity to fund retirement will continue to grow as the Australian population ages and seeks to enjoy an active retirement.

Hickey noted that the results show that younger borrowers still utilise larger proportions of their available facility with an average 9% loan to value ratio for those aged up to 65 where there is an average maximum LVR available of 13%. Those aged over 80 however only accessed an average of 17% LVR against a possible maximum of 33%.

Conlon reaffirmed that SEQUAL and its members are committed to appropriate product design, high standards of practice and responsible borrowing. “The effective use of a combination of lump sum and income stream options enable 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. SEQUAL has established a national network of accredited Seniors Equity Release Consultants (SERC) which assist consumers 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](http://www.sequal.com.au). See our media releases and research at [www.deloitte.com.au](http://www.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.

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