

## Media Release

### Australia's reverse mortgage market delivers continued growth to reach \$2.6b at 30 June 2009

**13 October 2009:** Deloitte Actuaries and Consultants released its seventh comprehensive study of the Australian reverse mortgage sector today. The study was commissioned by the Senior Australians Equity Release Association of Lenders (SEQUAL), the peak industry body which governs reverse mortgage providers and provides consumer safeguards.

The Deloitte SEQUAL Reverse Mortgage Study showed that the reverse mortgage market as at 30 June 2009 consisted of more than 38,000 reverse mortgage facilities with total outstanding funding of \$2.6 billion. This represents market growth of 5% in the 6 months to 30 June 2009.

James Hickey, Deloitte Actuaries and Consultants partner who led the study, said that there were 2,350 new borrowers of reverse mortgages in the six months from 31 December 2008 to 30 June 2009 compared with 2,600 new reverse mortgages written in the second half of 2008. "This shows that the product is still in demand by borrowers, albeit at a slower rate than in the previous six months."

Kevin Conlon, Chief Executive SEQUAL said: "SEQUAL sees the results of the Deloitte study as testament to the fact that seniors equity release continues to emerge as a key retirement funding option. The sustained, albeit slower market growth over the last six months, demonstrates to us the important role equity release continues to play in assisting Australian seniors to face the challenge of funding their retirement."

A summary of key information is shown below:

	Dec-05	Dec-06	Dec-07	Dec-08	Jun-09
<b>Outstanding Market Size</b>	\$ .85b	\$1.51b	\$2.02b	\$2.48b	\$2.61b
<b>Number of Loans</b>	16,584	27,898	33,741	37,530	38,048
<b>Average Loan Size</b>	\$51,148	\$54,233	\$60,000	\$66,150	\$68,473
<b>Settlements</b>	\$315m	\$520m	\$466m	\$321m	\$122m
<b>Facility (settlements)</b>	\$519m	\$714m	\$627m	\$426m	\$172m*
<b>Additional Drawdowns</b>	N/A	N/A	\$125m	\$116m	\$62m*
<b>Discharges</b>	N/A	N/A	\$203m	\$253m	\$133m*

\* Indicates 6 monthly figure

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## Commentary

The reverse mortgage market in Australia is supported by 15 lenders nationally, made up of major banks, building societies, credit unions and non-bank lenders. The market grew from around \$1b in June 2006 to more than \$2.6b in June 2009.

SEQUAL Chief Executive, Kevin Conlon, explained that: “Equity release provides the opportunity for many senior Australians to access the significant wealth they have accumulated through property ownership to more effectively meet their needs beyond their working life. When used effectively, equity release can assist retirees to avoid having to sell their home in order to improve their standard of living, or meet significant financial challenges such as moving into aged care.”

The Deloitte study showed that accessing a regular income stream in retirement is the number one reason for taking out a reverse mortgage today. This is closely followed by debt repayment and home improvement. Conlon believes that these findings highlight that: “consumers are responding to the current economic climate by wisely considering their needs when using equity release.”

He further commented that: “Senior Australians are continuing to show restraint when releasing equity through reverse mortgages, shown by borrowers on average only choosing to access around 70% of the actual funding available to them”. This behaviour was most pronounced in older borrowers, where the Deloitte study showed that those aged 75 and more, drew only around 20-25% of the value of their property compared to an available facility of up to 40% loan to value ratio.

Hickey noted that the settlement and growth figures were achieved in a difficult year for lenders against a backdrop of constrained financial markets. “It was noticeable that reverse mortgages were still being actively supplied via all the channels which have grown the product over the past few years. In particular, settlements were continuing through both the direct channel (including bank branches), and third party intermediaries, such as mortgage brokers and financial planners. The continuing support by these channels shows the product’s broad appeal and the lengths industry providers have gone to establish and grow these channels.”

Over the six month period to 30 June 2009 settlements via direct channel were 53%, with financial planners and mortgage brokers combining to provide the balance of around 47% of the market.

Hickey further pointed out that: “variable rate loans were the most popular, reflecting the low interest rates and the current market conditions.”

A key finding in relation to the behaviour of borrowers with a reverse mortgage is the rate at which borrowers choose to voluntarily repay their loans. Contrary to belief that these products are only held until the ultimate death of the borrower, the Deloitte study continued to show that one in ten borrowers voluntarily repay their reverse mortgage, that is discharge their loan, in full, each year.

This finding said Hickey: “shows that a number of reverse mortgage borrowers are realising the benefit of their reverse mortgage in accessing capital at retirement without needing to immediately sell the family home or use superannuation savings.” They are then appearing to wait a few years to sell their property at a time that suits them, and then using the proceeds to repay the reverse mortgage.

“This is an important finding as it shows that such borrowers are only being exposed to reverse mortgage compound interest for a relatively short period of time,” said Hickey.

## Summary of Key Findings

- **Market growth** of outstanding balances was 5% in the past 6 months; 13% in the past 12 months
- **Payment type of funds drawn** of the \$122m worth of settlements, lump sums accounted for 97% and income stream for 3%. This continued the trend from the previous six months and is likely to be due to the popularity of the ‘lump sum’ line of credit as an alternative flexible option to the contractual income stream
- **Interest rate type** - the proportion of fixed interest reverse mortgage loans is no longer on the increase. Fixed rate loans represented 6% of all settlements in the first half of 2009, compared to 10% of settlements in the last half of 2008. In outstanding loans fixed interest loans are on average \$8,500 more than variable loans
- **Channel for new loans** overall the direct channel remained the most popular at 53% but the trend continued towards intermediated sales with 47% of new loans taken through brokers and planners in H1 2009.
- **Couples** are the most common outstanding borrowers (41% of new loans) however single women eclipsed actual settlements with their actual borrowings, now 42% of total vs. single male settlements at 19% and couple settlements at 39%. The average size of the borrowing remains largest for single women (\$80,500) compared with \$72,000 for couples and \$67,500 for single men
- **Age band of borrowers** - the average age of existing borrowers remains at 74, however the trend towards the 60-70 age group continues with under 70s taking 36% of new loans compared with 30% of outstanding loans
- **Geographic split** showed that most reverse mortgage business is in NSW (33%), with Queensland (16%), and Victoria (14%). NSW increased its share of new lending since 2008 by almost 10%.
- **Loan settlements in capital cities continue to grow at 79% compared with 75% in 2008 H1**
  - NSW around 78% in capital cities
  - TAS around 63% in capital cities
  - VIC & WA around 90% in capital cities
  - Stronger regional presence in QLD, SA and NT (26-33% capital city)
- **Information on additional drawings and discharges:**
  - One in seven existing borrowers drew down additional funds from their facility in the six months to 30 June 2009. The average amount of additional drawdown was \$10,900.

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.