SEQUAL
Senior Australians Equity Release Association of Lenders

Deloitte.

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News Release

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Australia's reverse mortgage market hits $2billion

Trowbridge Deloitte, the actuarial and advisory firm, released its fourth comprehensive study of the reverse mortgage sector today. The study was commissioned by the Senior Australians Equity Release Association of Lenders (SEQUAL®), the not-for-profit member organisation governing lenders of reverse mortgages to seniors and providing consumer safeguards.

The SEQUAL® Trowbridge Deloitte Reverse Mortgage Study found that the reverse mortgage market at 31 December 2007 consisted of more than 33,700 reverse mortgages loans with total outstanding lending of over $2 billion. This represents a 34% growth since the corresponding period of 31 December 2006.

James Hickey, Trowbridge Deloitte partner who led the study said that it is encouraging to see the continued growth in the reverse mortgage industry, in light of the general mortgage industry challenges in the second half of 2007. Hickey noted "While new sales volumes were $466m for the 2007 calendar year, being 10% lower than in 2006, this was largely impacted by a difficult second half of 2007 for lenders. This masked a strong performance prior to the market issues emerging."

Kieren Dell, Executive Director of SEQUAL®, said, "Overall, 2007 saw sustained borrower demand but there was some slowing in sales in the second half of 2007 primarily due to the tighter availability of funds impacting lenders, rising interest rates and other factors of economic and political uncertainty in that period. However, sales in 2007 remained almost 50% above the levels in 2005."

Summary of Key Findings

	Dec-05	Dec-06	Dec-07
Outstanding Market Size	$848m	$1513m	$2023m
Number of Loans	16,584	27,898	33,741
Average Loan Size	$51,148	$54,219	$60,000
Settlements	$315m	$520m	$466m
Facility (settlements)	$519m	$714m	$627m
Additional Drawdowns	N/A	N/A	$125m
Discharges	N/A	N/A	$(203)m

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Additional key statistics and directional trends are:

- **Market growth** of outstanding balances was 34% in the past 12 months
- **Payment type of funds drawn:** lump sum (90%); income stream (10%). This may reflect the increasing use of "line of credit" style facilities, which are lump sum in nature.
- **Interest rate type:** variable most popular, however increasing fixed rates (34% of new loans in 2007, compared with 25% in 2006, and 22% in 2005)
- **Channel for new loans:** brokers (45%), direct (34%), planners (9%) and "alliances" (12%)
  - Planners and alliances were the major growth areas, up from around 2% each in 2006 and virtually non-existent in 2005.
- **Couples** are the most common borrowers (42% of new loans)
- **Age band of new borrowers:** average age 72 years old
- **Age band of new borrowers:** under 70s make up 40% of new loans compared with 29% of outstanding loans
- **Geographic split** shows NSW most dominant at 43%. VIC is 20% & QLD is 19%
- **Loans in regional areas** increased to 30% of the total, up from 20% in 2006

New information on additional drawings and discharges:

- Almost one in five existing borrowers in the six months drew down additional funds from their facility
- The average amount of additional drawdown was $10,600 (about 18% of average loan size), while partial discharges amounted to about 1% of the loan size outstanding
- 10% of existing borrowers repaid their loans in full over the year (i.e. completely discharged the loan)
- Of this 10% full discharge rate, less than 15% was for mandatory reasons (e.g. death or moving into aged care facilities), around 50% was due to sale of property, around 15% to refinancing, and the remaining 20% were voluntarily repaid for other reasons.

Commentary on results

The total market is now over $2b, and more than 33,000 Australian households now have a reverse mortgage. The overall market figure represents an increase in the market of 34% over the 12 months.

New lending settlements of $466m supported overall market growth in 2007. This settlements figure represents a slight reduction in new inflows compared with the prior year. It reflects the tougher overall mortgage market conditions in the second half of 2007.

James Hickey said, "It was quite noticeable that the sales inflows eased over the second half of 2007. Sales in the first half were strong at $271m, while in the second half they reduced to around $195m. This held back the growth of the overall market which, while still at an impressive 34%, would have been higher had the mortgage lending market events in the second half of 2007 not occurred."

Kieren Dell believes that this second half slowing reflected the overall economic pressures and funding restrictions. "All lenders, both bank and non-bank, in the reverse mortgage market raise their funds to varying degrees via third party wholesale or institutional investors.

"This form of funding availability suffered significantly from the credit market events in the latter half of 2007. Lenders therefore had to deliberately ration the availability of lending to borrowers in order to conserve precious funding".

"I believe the strong volumes in the first half of 2007 are more reflective of the continued buoyancy of the reverse mortgage industry, and we would have seen positive growth in sales if they had continued" says Dell. "Borrower demand is continuing to grow as the education and understanding of seniors and their advisers increases; but it really was a challenge for lenders to fund that demand in the second half of 2007."

Dell notes that, "Loan settlements in 2007 remained almost 50% higher than in 2005, indicating that there is still an increasing demand trend among senior Australians for flexible alternatives to releasing equity in their home in retirement."

In terms of the mix of borrowers, an important trend was observed with the borrowing habits of younger and older borrowers. Hickey noted, "In this survey we were able to compare the amount borrowed across age groups. The results showed that while younger borrowers (those up to 70) 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 it appears older borrowers are exhibiting when choosing how much to borrow under a reverse mortgage." says Hickey.

Dell also supports this view of responsible borrowing, and believes across all ages this is a result of flexible product design. "The increasing use of income stream and line of credit facilities allows borrowers to choose how much and how often they want to receive their funds. They do not have to draw down large amounts, but instead can draw what they need now and then draw more later if they need to. This is a sensible strategy for keeping compound interest under control."

Informed intermediaries are now increasingly supporting borrowers in deciding how and when to access reverse mortgage funds. "The financial planning and broker communities now represent over 50% of all sales of reverse mortgages, with the use of financial planners increasing markedly from 2% of new loans in 2006 to 9% in 2007," said Hickey.

"This is important as it allows borrowers to ensure they receive quality advice from accredited intermediaries," says Dell. A significant recent focus of SEQUAL and its member lenders has been on increasing the accreditation coverage of mortgage brokers and financial planners.

The mix of lending shows that NSW (43%) is still the state with the largest volume of lending, however sales through NSW are reducing. The other states remained steady. VIC and QLD equally share 20% of the market.

Additional Drawings

Alongside new loan volumes, it is important to recognise that existing borrowers continued to draw additional funds from their reverse mortgage. Hickey pointed out that, "Around one in five borrowers seek to access additional funds from their reverse mortgage. And when they do, the average amount they are drawing on is $10,600, or some 18% of their average existing loan amount."

In 2007, there was around $125m of additional drawdowns made by existing borrowers on top of the new loans figure of $466m. Considered together, this would bring total funds advanced to a combined $591m.

Dell commented that line of credit products are increasing in popularity. "This is seen as a flexible alternative to contractual income stream products. The flexibility to be able to draw down additional funds is an attractive feature for senior Australians. Reverse mortgages are a handy way to access these additional funds when needed through releasing home equity."

Discharges

Discharges involve borrowers repaying their reverse mortgage either partially or in full. In 2007, 10% of all loans were fully discharged with a further 1% of outstanding debt partially repaid.

Hickey reveals that for the first time, Trowbridge Deloitte was able to distinguish the reason for discharge. "This showed that over three quarters of all discharges were due to voluntary repayments and sale of property. Only around one in 10 discharges were due to mandatory reasons, such as death or moved to aged care facilities."

This is important as it shows that reverse mortgage borrowers are actively choosing to repay their debt before the natural end of the loan term. Dell points out that this reinforces the flexibility offered by reverse mortgages. "Loans are often used for short term purposes and repaid once finances are available."

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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

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About SEQUAL

Senior Australian Equity Release Association of Lenders (SEQUAL®) was launched to protect seniors' finance and safeguard the equity release lending sector.

A not-for-profit association, SEQUAL aims to ensure the market for reverse mortgage is developed in a responsible and consumer conscious way, via lenders and distributors of equity release loans.

SEQUAL members voluntarily adhere to a code of conduct by that establishes a set of core safeguards for consumers. The Code of Conduct includes mandatory no negative equity guarantees so retirees can't ever owe more than the value of their property.

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