

Australia's reverse mortgage market continues its strong growth

Trowbridge Deloitte, the actuarial and advisory firm, released its third comprehensive study of the reverse mortgage sector today. The study was commissioned by the Senior Australians Equity Release Association of Lenders (SEQUAL®).

The SEQUAL® Trowbridge Deloitte Reverse Mortgage Study found that the reverse mortgage market at 30 June 2007 consisted of more than 31,500 reverse mortgages loans with total outstanding lending of over \$1.8 billion.

Kieren Dell, Executive Director of SEQUAL®, the not-for-profit member organisation governing lenders of reverse mortgages to seniors and providing consumer safeguards, said "Reverse mortgages are continuing to grow as a retirement financial planning tool. Market growth was 67% in the past 12 months, demonstrating the increasing acceptance and usage of the product."

James Hickey, Trowbridge Deloitte partner who led the study said, "The 30 June 2007 results also contain important new information. For the first time we were able to analyse the rate at which existing reverse mortgage borrowers were electing to take additional drawings, as well as the rate at which borrowers were completely repaying their reverse mortgages. These give valuable insights into borrower behaviour with reverse mortgages."

Summary of Key Findings

	Dec-05	Dec-06	Jun-07
Outstanding Market Size	\$848m	\$1513m	\$1809m
Number of Loans	16,584	27,898	31,544
Average Loan Size	\$51,148	\$54,219	\$57,356
Settlements	\$315m	\$520m	\$271m*
Facility (settlements)	\$519m	\$714m	\$334m*
Redraws	N/A	N/A	\$70m*
Discharges	N/A	N/A	\$(90)m*

*6 month figures

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Additional key statistics and directional trends are:

- Market growth of outstanding balances was 67% in the past 12 months (20% in the past 6 months)
- Payment type of funds drawn : lump sum (80-85%) and income stream (15-20%)
- Interest rate type : variable most popular, however increasing fixed rates (30% of new loans)
- Channel for new loans : brokers (44%), direct (36%), planners (9%) and “alliances” (11%)
- State split : NSW still most dominant, although reduced to 32%. VIC is 23% & QLD is 22%.
- Couples are the most common borrowers (48% of new loans)
- Age band of new borrowers : average age 73 years old.
- Age band of new borrowers : under 65s reduced to 13% in 2007 vs 20% in 2006

New Information on additional drawings and discharges :

- 23% of existing borrowers in the 6 months drew down additional funds from their facility
- average amount of additional redraw was \$10,500 (representing 20% of average loan size)
- 10% p.a. of existing borrowers repaid their loans in full ie completely discharged

Commentary on Results

The total market is now over \$1.8b, and settlements (ie new lending) were \$271m over the 6 month period, an increase of 24% over the corresponding period in 2006. Kieren Dell says that “This growth reflects the increasing role that reverse mortgages are playing for senior Australians.”

“Many of the key trends from the prior studies, such as the increasing use of intermediated sales channels and the broader geographic spread of the product across Australian states, are again reinforced by these results.”

The mix of lending shows that NSW (32%) is still the state with the largest volume of lending, however it is reducing. VIC (23%) and QLD (22%) are becoming equally as well represented, and the states of WA and SA are growing strongly (both now around 9% of the market.)

Further evolution of the distribution channels selling the product has occurred. James Hickey notes that “For the first time, mortgage brokers have surpassed direct sales as the largest channel for reverse mortgages. Mortgage brokers now sell 44% of all new reverse mortgage loans.”

Equally important, says Hickey, is that “Financial planners are now close to 9% of all lending, compared to almost nothing 12 months ago. The continued involvement of financial planners is critical to ensuring the reverse mortgage market emerges as a genuine retirement product option for Australians”. Dell adds that “financial planners being more involved will support the strong education standards which SEQUAL has introduced for all intermediaries involved in selling reverse mortgages”

A new channel was added in the most recent analysis, that of “Alliances”. This is where lenders provide their product for sale via other financial institutions or financial services groups. Dell says

“Alliances are emerging where lenders are offering their product via credit unions or other financial institutions which want to offer a reverse mortgage, but not necessarily be the ultimate lender.”

In terms of borrower age profile, the average age of new borrowers is still around 73 years of age.

However, the amount of lending to borrowers between 60-65 reduced since the previous study. In the most recent 6 months to 30 June 2007, only 13% of new loans were taken out by borrowers aged 60-65. This is down from close to 20% in 2006. The major borrower ages segments are those aged 70-74 (around 25%) and those aged 65-69 (around 22%).

New Information – Additional Drawings and Discharges

With the support of lenders providing more detailed information, Trowbridge Deloitte was able to analyse for the first time the rate at which existing borrowers sought to increase their borrowings, as well as the rate at which existing borrowers repaid their reverse mortgages.

Additional Drawings

James Hickey explains that “this is important information to really understand how borrowers are using reverse mortgages. From our initial study, and even now, we see that borrowers at settlement withdraw only around 75% of the facility they are offered. We wondered at what rate such borrowers may seek to make additional future drawings as their loan and needs progressed”.

“Our findings showed that around 1 in 4 borrowers do indeed seek to access additional funds from their reverse mortgage. And when they do, the average amounts they are drawing on are around \$10,500, or around 20% of their average existing loan amount”.

Dell comments that “the ability to draw down additional funds is an important issue for senior Australians. Whether it is due to an emergency or for some other reason, reverse mortgages are clearly offering a cash reserve option to borrowers”.

Discharges

The measures the rate at which borrowers are completely repaying their reverse mortgage ie early voluntary repayment of the loan.

Hickey points out that “Our findings show that, on average, 10% per annum of all reverse mortgages will be repaid by the borrowers in full. This is a very important figure for the industry.”

“It indicates that these products do not have to be ‘set and forget’, where they are left to accumulate interest for the life of the borrower. They can be repaid, and a proportion of borrowers are doing just that. They are enjoying the benefits of accessing their funds now, and when the time suits them in the future, they are then voluntarily extinguishing the debt.”

Kieren Dell pointed out that by using the loans for short term purposes, such as to fund accommodation bonds, “sea or tree change” trials, or simply as bridging finance, these borrowers were

not letting their reverse mortgages capitalise interest for long periods. “Some are even using the loans short term to tide them over until they receive an inheritance.”

“I think this is key information and points to a more sophisticated borrower comfortable in their ability to make thought out decisions,” he said.



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:

Kieren Dell
Executive Director
SEQUAL
Ph : 0427 461 186
kdell@sequal.com.au

James Hickey
Partner
Trowbridge Deloitte
Ph: (02) 9322 5009
jahickey@deloitte.com.au

Allison Lee
IMPACT Communications Australia,
Ph: (02) 9519 5411
Mob: 0410 485 131
Allison@impactcommunications.com.au

Louise Denver
Financial Services Media
Deloitte
Mobile: 0414 889 857
Tel: +61 (0) 2 9322 7615
ldenver@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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