

Media Release

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Australia’s reverse mortgage market reaches \$2.5 billion

1 May 2009: Deloitte Actuaries and Consultants released its sixth 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 found that the reverse mortgage market as at 31 December 2008 consisted of more than 37,500 reverse mortgage facilities with total outstanding funding of \$2.5 billion. This represents almost 8% growth over the six months from 30 June 2008 and 23% growth over the 12 months from 31 December 2007.

James Hickey, Deloitte Actuaries and Consultants partner who led the study said that there were more than 2,600 new reverse mortgages written in the second half of 2008 which, when combined with the size of each loan growing from \$63,000 to \$66,000, confirmed continued growth in the sector.

Hickey noted that the settlement and growth figures were achieved in a difficult year for lenders with the backdrop of constrained financial markets. “The results reflect those challenges. Although 2,600 new loans were written in the second half of 2008, this volume of settlements was down some 25% on the prior six month period.

“Discharges, or the rate at which borrowers repaid their reverse mortgages, continued to remain at around 10% per annum. The majority of those discharges are due to owners voluntarily repaying or selling their property,” Hickey said.

A summary of key information is show below:

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

* 12 month figures (with the addition of new data from various lenders)

Kevin Conlon, Chief Executive of SEQUAL said, “The sustained market growth of 23% over the year, demonstrates the important role Equity Release continues to play in meeting the needs of Australian Seniors as they face the challenge of funding their retirement”.

Conlon explained that, “When used effectively, equity release can help a retiree to access the significant wealth they have accumulated through property ownership in order to more effectively live the life that they choose”.

Summary of Key Findings

- **Market growth** of outstanding balances was 23% in the past 12 months
- **Payment type of funds drawn** of the \$141m worth of settlements, lump sums accounted for 97% and income stream for 3%. This continues the trend from the previous six months and may 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 10% of all settlements in the second half of 2008, compared to 28% of settlements in first six months of 2008
- **Channel for new loans** the trend continues of the preference for intermediated sales over direct sales as the largest channel in Australia, with 52% of new loans taken through brokers and planners in H2 2008 against 43% direct. Of outstanding loans however the direct channel remains the most popular (54%).
- **Couples** are the most common borrowers (44% of new loans), with single women at 40% and single males 16%. The average size of the borrowing is largest for single women (\$74,300) compared with \$67,600 for couples and \$64,100 for single men
- **Age band of borrowers** the average age of existing borrowers is 74, however the trend towards the 60-70 age group continues with under 70s taking 37% of new loans compared with 30% of outstanding loans
- **Geographic split** showed that Queensland continues to be the dominant state for new loan settlements with 23% of new loans. NSW continues to account for 22% of new lending. VIC, SA and WA each account for around 16% of all new lending.
- **Loan settlements in capital cities dominate, growing to 80% from 75% in 2008 H1**
 - NSW around 68% in capital cities
 - TAS around 78% in capital cities
 - VIC, WA around 85% in capital cities
 - Stronger regional presence in QLD, SA and NT (50-60% capital city)
- **Information on additional drawings and discharges:**
 - Almost one in eight existing borrowers in the six months drew down additional funds from their facility. The average amount of additional drawdown was around \$12,000.
 - As for 2007, 10% of existing borrowers repaid their loans in full over the year (i.e. completely discharged the loan). Of this 10% pa full discharge rate, less than 1% pa was for mandatory reasons (e.g. death or moving into aged care facilities), with sale of property and voluntary repayment the primary reasons for discharge.

Commentary

The total reverse mortgage market is now \$2.5b, and more than 37,500 Australian households now have a reverse mortgage. The overall market figure represents an increase in the market of 23% over the past 12 months.

James Hickey said, “Settlements continued to ease into the second half of 2008, reducing to around \$141m of new loans being advanced in the six months to 31 December 2008. However, it is encouraging to see that this supported some 2,600 new reverse mortgage borrowers in accessing the product through lenders committed to the sector.”

Kevin Conlon acknowledges that current financial market conditions present challenges for funding reverse mortgages. He points out that SEQUAL is comprised of both major banks and specialist non-bank lenders that are well placed to meet the demand for seniors’ equity release products.

Kevin Conlon firmly believes that the trend towards accessing home equity wealth through the use of reverse mortgages in order to fund retirement is inevitable as the Australian population ages.

In this survey, Hickey noted that debt repayment, together with home improvement and income in retirement, continued to be the major reasons for taking a reverse mortgage in the last six months. Car purchase changed rankings from fourth to fifth with travel, and aged care purposes remained the same as the sixth most important reason for taking out a reverse mortgage settlement.

Hickey noted, for the third time in these half yearly surveys we were 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 flexible product design. “The increasing use of income stream and line of credit 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.

Confirming that senior Australians often rely on market practitioners such as brokers and financial planners to guide them through the process, Conlon pointed out that SEQUAL has developed an industry accreditation protocol, in order to raise professional standards above the minimum education requirements imposed by legislation and industry association membership.

“The financial planning and broker communities represent the majority of reverse mortgage sales and it is critical that consumers are able to easily identify and access properly-trained intermediaries,” said Hickey.

Conlon noted that SEQUAL has established a national network of SEQUAL-accredited reverse mortgage consultants and 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

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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.