

ASIC warning frustrates reverse mortgage sector

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The reverse mortgages industry has been left frustrated after the corporate regulator issued a warning about equity release products at the launch of its new consumer guide.

Industry participants argue ASIC relied on outdated information gathered from a small sample group in a statement the regulator released last week.

At the launch of its new consumer guide on 22 June, ASIC released a statement that said many consumers were unaware of the consequences equity release products could have on their finances.

"Our research shows that people find it difficult to understand these products," ASIC chairman Tony D'Aloisio said.

"One of the big challenges is how to estimate the long-term cost of reverse mortgages and ensure there is enough equity left to fund future needs.

We're also concerned that people are sometimes encouraged to borrow more money than they actually need, ultimately at a greater cost to them."

It has been claimed the research ASIC refers to in its statement was conducted from August to October

2006 and was based on a sample of 29 customers.

Since 2006, the industry had greatly changed, RBS head of reverse mortgages Martin Lynch said.

"[I'm] very happy that ASIC helps to educate people, but [it is] not helpful to scare people," Lynch said.

He welcomed the consumer guide and said the information it provided was good, however, he had doubts about the tenor of some of the case studies it contained.

RBS conducted its own reverse mortgages survey in December 2008, which gathered the responses of 375 consumers with a reverse mortgage.

It showed the majority of borrowers used the money for home improvement or as an additional income stream, rather than for travelling or extravagant purchases.

It also found the majority of borrowers would recommend reverse mortgages to friends and family.

Deloitte, which conducts similar research for industry association Senior Australians Equity Release Association of Lenders (SEQUAL) twice a year, found the average borrower withdrew 70 per cent of their maximum amount.

Some industry participants see this

as a contradiction of the notion that consumers borrow more than they need.

Mortgage advisers have also been sceptical about ASIC's approach to the sector.

"The press release was titled "A reverse mortgage may not be right for you";" Melbourne and Peninsula Reverse Mortgages principal Paul Dwyer said.

"I could not agree more, but a home loan, a credit card or investment product may also not be suitable for some consumers.

"If ASIC is concerned about potential danger to seniors, why are reverse mortgages not included in regulations in the first stage of the new *Consumer Protection Act*."

SEQUAL did acknowledge some consumers found it difficult to understand equity release products and hailed the launch of the guide as a positive step for the sector.

But it did put out a media release the same day as ASIC launched its guide, describing the benefits of equity release products.

"There is clear evidence that reverse mortgages are being used wisely," SEQUAL chief executive Kevin Conlon said. «