

SEQUAL Guideline: Equity Release Key Fact



SEQUAL provides effective consumer protection through a **Member Code of Conduct** and **Industry Accreditation** of Brokers, Planners, Accountants and Legal Advisers.

Find a SEQUAL-accredited Reverse Mortgage Consultant at: www.sequal.com.au

This SEQUAL Key Facts Guide explains key features of Reverse Mortgages and provides a checklist of issues you will need to carefully consider. The guide contains only general information and does not state the Terms & Conditions of your contract or the particular options, fees and charges that may apply to the product that you select. You should read this guide together with your contract in order to make a fully informed decision.



Important Notice:

The decision to enter into a Reverse Mortgage will require you to understand the legal, taxation and financial implications of binding loan documentation.

Before entering into a Reverse Mortgage transaction with a SEQUAL Member, you are required to obtain independent legal advice. SEQUAL highly recommends that you also seek independent financial advice to determine whether a Reverse Mortgage is the best option for you.

It is important for you to properly consider the impact of Equity Release on both your current and future financial position. You may also want to discuss your decision with family members.



What is Equity Release?

Home Equity is the difference between the value of your home and any outstanding loans you have secured by a mortgage.

The personal wealth of many Senior Australians has been achieved through home ownership but they face retirement with inadequate savings making them "Asset rich but Cash Poor".

Equity Release enables you to access the wealth you have stored in your home and use your home in order to meet other financial needs.



What is a Reverse Mortgage?

A Reverse Mortgage is a loan which, subject to the options available for the product you select, may be advanced as a lump sum, line of credit or scheduled instalments.

Typically, no regular repayments are required to be made under the terms of a Reverse Mortgage as the loan will capitalise over the duration of the facility.

You must provide mortgage security but you do not sell your home in order to obtain a Reverse Mortgage. The loan must be repaid when you decide to sell your home.

All SEQUAL Members are required to provide the protection of a **No Negative Equity Guarantee** which limits the maximum you can owe to the value of the security you have offered.



What are the Key Issues that will impact my Home Equity?

By releasing equity through a Reverse Mortgage you will affect your level of Home Equity.

Your prospects for preserving Home Equity will depend on a range of factors, including:

- How long your Reverse Mortgage continues.
- The interest rate movements that occur during the term of your loan.
- Changes to the value of your home over this time.



Home Equity Preservation:

A Reverse Mortgage may assist you to fund retirement expenses without having to sell your home. However, it is important to properly consider the likely impact of equity release on your overall financial position, now and in the future.

Reverse Mortgage Calculators can be helpful for estimating Home Equity Preservation, based on your own assumptions for key issues that impact Home Equity.

The Australian Securities and Investments Commission provides a Reverse Mortgage Calculator at their consumer website www.fido.asic.gov.au



Client Example:

Peter and Melissa are both aged 74. They own their home which is valued at \$350,000. They decide to take out a Reverse Mortgage for an overseas family visit, to purchase a new car and to supplement their pension with monthly income instalments of \$150 for the next 10 years. Based on borrowing **What they Need**, the Total Initial Mortgage is \$68,000 which represents 19.5% of their Home Equity. However, the **Maximum Amount** they could typically have borrowed would provide a Total Initial Mortgage of \$98,000 or 28% of their Home Equity. Peter and Melissa choose a Reverse Mortgage with the following Fees and Charges:

- ✓ Establishment Fee of \$950,
- ✓ Ongoing Monthly Fees of \$10 and
- ✓ Interest Rate of 7.50%.

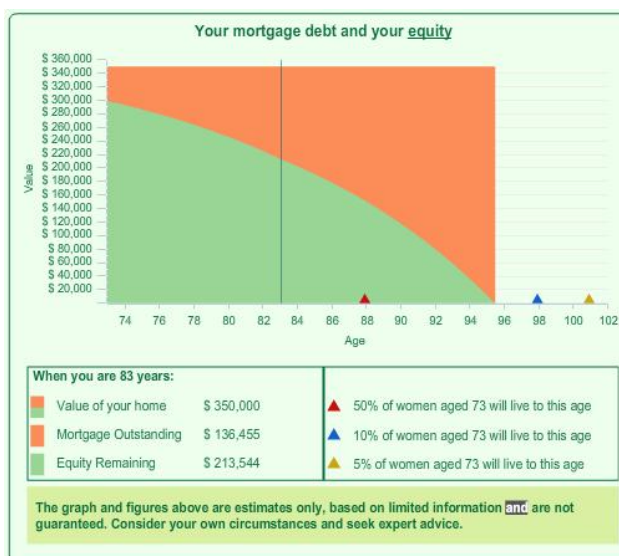
Although they were confident that their home would increase in value over the next ten years, Peter and Melissa decided to assume that both the interest rate and the value of their property would not change over the term of the Reverse Mortgage to see what impact that scenario would have on their Home Equity.



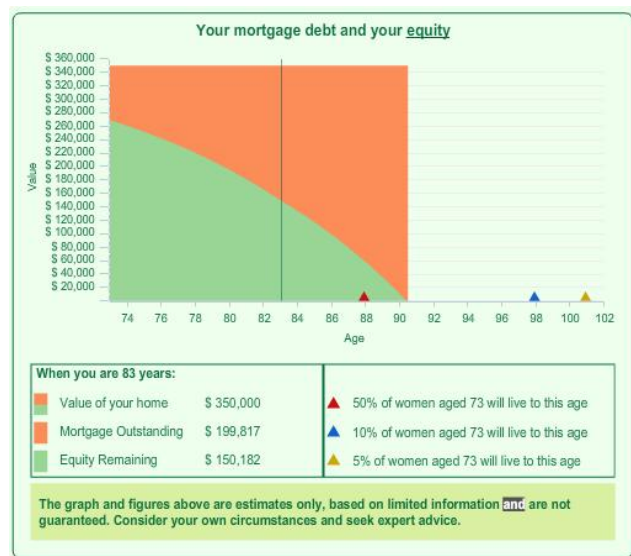
Scenario Outcomes:

The following scenarios are based on the assumptions made by Peter and Melissa and illustrate the expected impact on their Home Equity depending on whether they,

Borrow What They Need



Borrow Maximum Available





Important Notice

How much you owe depends on:

- How much you borrowed at the start
- How long you have the loan for
- Whether you receive your loan as a lump sum or as instalment payments
- The interest and fees you pay along the way
- Whether you borrow any more money, and
- Whether you have a No Negative Equity Guarantee (see below).



No Negative Equity Guarantee

All SEQUAL Members are required to offer a No Negative Equity Guarantee (NNEG). The NNEG provides that the borrower shall never owe more than the value of the property provided they comply with the terms of the contract.

This means that if the balance of the loan exceeds the proceeds of sale of the secured property, no claim for this excess will be made against you or your estate.

It is important that you carefully review your Loan Agreement to identify whether the No Negative Equity Guarantee is subject to any conditions.

SEQUAL has issued a mandatory Code of Conduct Guideline that sets out the minimum general conditions which must be contained in a SEQUAL Member loan agreement as well as the minimum process required in the instance of defaults.

You can read the SEQUAL Code of Conduct and Guidelines at: www.sequal.com.au



Costs:

Entry costs: You may be charged an application or establishment fee, plus valuation costs.

Other ongoing costs: You may be charged regular valuation fees and monthly administration fees. You will also have to pay for insurance, rates and maintenance of your home.

Exit costs: If you decide to repay the loan early, you may be charged an exit fee.

Interest: You will be charged **compound** interest on the loan. This means you pay interest on interest, plus interest on any fees or charges added to the loan added to the loan balance. Over time, compound interest will greatly increase the amount you owe.

You may have the option to choose between Variable and Fixed Interest Rates. However, not all Reverse Mortgage providers offer this choice. Variable Rates move up and down with the market but Fixed Rates do not change during the term of the Fixed Rate option. A Fixed Rate option means that you have certainty about the amount of interest you will pay. However, the Fixed Rate option will typically be priced higher than the prevailing Variable Rate and you may face significant Break Costs if you pay out your Reverse Mortgage before the Fixed Rate period ends.



Checklist:

Issues to Consider...

Borrow What You Need, When You Need It -Prepare a budget of your expenses.

Longevity Risk -Consider your future needs, you may live longer than you think.

Aged Care Needs -You may need to fund Aged Care in later life.

Zero Home Equity and the NNEG -Make sure you are protected from Negative Equity.

Expectations for Inheritance -Discuss your intentions with your family and advisers.





Cautions:

Limiting your options: The more money you borrow and the younger you are when you borrow it, the less money you will have to pay for your needs as you age. You may have high medical expenses and/or need to move into aged care accommodation and if you use up most of your equity too soon, your options may be limited.

Impact on your pension: A reverse mortgage may impact on your pension, especially if you take it as a lump sum, or buy an asset like a car. Contact Centrelink on 132 300 and make an appointment with a Financial Information Service Officer to make sure your pension isn't adversely affected.

Managing the property: Some terms and conditions in the contract may limit your ability to manage the property. For example, you may need to get the lender's approval before you go on a long holiday or wish to bring a new resident into your home, renovate, lease or sell the property. You will also be required to maintain the property to a standard set by the lender.

Forced sale of your home: In some circumstances, if you don't meet the terms and conditions in your contract, your credit provider may be entitled to begin enforcement action, which could include selling your home.

Your partner's rights: If you are living with someone who is not also a borrower under the contract and you die, the loan may become repayable and the other resident may not have any rights. *Tip: some reverse mortgage contracts protect the right of a resident who isn't the borrower to stay in the house after all borrowers have died.*

Your children: The decision to use a Reverse Mortgage may impact your capacity to leave an inheritance to your children. You may want to discuss your decision with your family.



References:

SEQUAL –Senior Australians Equity Release Association of Lenders

Website: www.SEQUAL.com.au

Email: info@sequal.com.au

ERRMIS –Equity Release/Reverse Mortgage Information Service

Website: <http://reversemortgage@nicri.org.au>

Email: reversemortgage@nicri.org.au

Phone: 1800 615 676

ASIC –Australian Securities and Investments Commission

Website: www.fido.gov.au

Phone: 1300 300 630

The Department of Veterans Affairs

Website: www.dva.gov.au

Email: GeneralEnquiries@dva.gov.au

Phone: 13 32 54

Australian Taxation Office

Website: www.ATO.gov.au

Phone: 13 28 61