

Media Release

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Australia's reverse mortgage market reaches \$2.3bn

29 October 2008: Deloitte Actuaries and Consultants released its fifth comprehensive study of the Australian 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 Deloitte SEQUAL Reverse Mortgage Study found that the reverse mortgage market as at 30 June 2008 consisted of more than 36,600 reverse mortgage loans with total outstanding lending of \$2.3 billion. This represents almost 14% growth over the past six months and 27% growth over the past 12 months from 30 June 2007.

James Hickey, the Deloitte Actuaries and Consultants partner who led the study, said that there were more than 3,500 new reverse mortgages written in the first six months of 2008 which, when combined with the size of each loan growing from \$60,000 to \$63,000, underpinned the continued growth in the sector.

Hickey noted that, "The settlement and growth figures are against a backdrop of a more constrained lending market. It has been a difficult year for lenders, with borrowers also choosing to be more cautious. The results show those challenges. So although 3,500 new loans were written, this was down some 8% since the second half of 2007.

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

A summary of key information is shown below:

	Dec-05	Dec-06	Dec-07	Jun-08 (6mths)
Outstanding Market Size	\$848m	\$1513m	\$2023m	\$2302m
Number of Loans	16,584	27,898	33,741	36,638
Average Loan Size	\$51,148	\$54,219	\$60,000	\$62,840
Settlements	\$315m	\$520m	\$466m	\$180m
Facility (settlements)	\$519m	\$714m	\$627m	\$225m
Additional Drawdowns	N/A	N/A	\$125m	\$59m
Discharges	N/A	N/A	\$(203)m	\$(123)m

Kevin Conlon, Chief Executive of SEQUAL® said, “The first half of the year to June 2008 has seen sustained market growth. The slowing in settlements we noted in the second half of 2007 has continued due to a combination of the tighter availability of funds impacting some lenders, and the current economic uncertainty.

“However, there is still borrower demand for reverse mortgages, showing that senior Australians are increasingly using reverse mortgages to release some of the significant wealth they have accumulated through property ownership, in order to live the life that they choose in retirement,” he explained.

Additional key statistics and directional trends:

- **Market growth:** of outstanding balances was 27% in the past 12 months
- **Payment type of funds drawn:** of the \$180m worth of settlements, lump sums accounted for 95% and income stream for 5%. 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 28% of all settlements in the first six months of 2008, compared to 34% of settlements in 2007
- **Channel for new loans:** the trend continues of the preference for intermediated sales over direct sales as the largest channel in Australia, with 48% of new loans taken through brokers and planners in H1 2008 against 44% direct. Of outstanding loans however the direct channel remains the most popular (56%). The average loan size is \$53,600 via brokers and planners and \$45,800 direct
- **Couples:** are the most common borrowers (44% of new loans, up 1% on last year), with single women at 40% and single men 16%. The average size of the borrowing is largest for single women (\$66,500) compared with \$61,500 for couples and \$52,500 for single men
- **Age band of borrowers:** the average age of existing borrowers is 73, however the trend towards the 60-70 age group continues with under 70s taking 43% of new loans compared with 32% of outstanding loans
- **Geographic split:** showed that Queensland is now the dominant state for new loan settlements with 24% of new loans. It replaces NSW, which accounted for 22% of new lending (down from 40% in 2007). VIC, SA and WA account for around 16% each of all new lending
- **Loans in capital cities dominate growing to 75% from 70% last year:**
 - NSW, TAS around 75% 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 seven existing borrowers in the six months drew down additional funds from their facility. The average amount of additional drawdown was up from \$10,600 to \$12,000.
- As like last year, 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, 1% pa was for mandatory reasons (e.g. death or moving into aged care facilities), 3% pa was due to sale of property with 1.5% pa due to refinancing, and the bulk of the 10% pa voluntarily repaid for other reasons.

Commentary on results

The total reverse mortgage market is now \$2.3 billion, and more than 36,600 Australian households now have a reverse mortgage. The overall market figure represents an increase in the market of 27% over the past 12 months.

James Hickey said, "Settlements continued to ease over the second half of 2007 and into the first half of this year."

Kevin Conlon believes that a trend towards using reverse mortgages to meet needs rather than satisfy desires has impacted market growth and is a reflection of general economic uncertainty. He confirmed that current financial market conditions present challenges for funding equity release transactions, particularly as borrowers do not usually make regular repayments on reverse mortgages.

Conlon pointed out that SEQUAL comprises both bank and non-bank lenders that offer products to the sector. "It is critical that a robust equity release market evolves to meet the challenge of an ageing population, and SEQUAL members provide a range of reverse mortgage products well suited to this growing need," he said.

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.

Responsible borrowing

Hickey also noted, "For the second 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) 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 seem to be 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," said Conlon.

"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 established 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 nearly 50% of all sales of reverse mortgages and it is critical that consumers are able to easily identify and access properly-trained intermediaries," said Hickey.

Conlon noted that SEQUAL has now established a national network of SEQUAL-accredited Reverse Mortgage Consultants (RMCs) and he welcomed the recent announcement that the Financial Planning Association had endorsed the SEQUAL Equity Release Planner Program.



For more information about SEQUAL® approved lenders and reverse mortgages go to www.sequal.com.au. See Deloitte 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 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 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.