

# Reverse Mortgage



## Finance Solutions

Senate Standing Committees on Economics

PO Box 6100

Parliament House

Canberra ACT 2600

Re Social Services and Other Legislation (Supporting Retirement Incomes) Bill 2018 (Provisions)

We are a national body of Equity Release advisers, specialising in reverse mortgages and having individual experiences greater than 10 years.

We refer to the above Bill, with special reference to the Pension Loan Scheme (PLS).

The Pension Loan Scheme has operated since the 1980's. It is understood around 700 older Australians currently have this loan from the Federal Government. To qualify, Australians of Age Pension age, income support supplement qualifying age or service pension age, who cannot receive one of these payments because of their income or assets (but not both) can receive a payment under the PLS.

In 2011, The Productivity Commission released its far reaching report into "Caring for Older Australians". It examined equity release and suggested Government involvement. Since then advocates and lobbyists have been suggesting some form of lower priced reverse mortgage, principally to allow older Australians to contribute to the cost of their home care.

As Ian Yates CEO of COTA suggested - "COTA supports this development (expansion of PLS) because it means people can borrow to pay for their share of Home Care Package costs, for example, or to top up a high-level package".

In turn this will allow the Government to include means testing the family home for the Home Care Package, an alternative to the current income testing.

This amendment to the current legislation will allow all older Australians to have access to the PLS.

The Budget Papers estimates 6000 loans over the forward estimates. This forecast seems exceptionally low.

A survey in its *2018 Retirement Matters Survey* by YourLifeChoices (an online senior's website) with more than 5000 respondents said 13% they would take up the Pension Loan Scheme. Whilst unlikely, if this was applied to the total retirement sector, it would amount to in excess of 230,000 applications.

If the take up is similar to the private reverse mortgage market, it would be 30,000 to 35,000 applications.

In allowing all retirees to apply, the **extremes** can be seen

A ) a self-funded retiree couple at the age of 70, with \$850,000 in super and a \$2,000,000 house, could access \$53,820 per annum (150% of the full age pension) for a period of 11.44 years, on top of a mandated super draw down of \$42,500 per annum. As the PLS increases the available income stream annually with an increase in the “age component” ratio. Over a 10 year period the \$53,820 per annum increases to around \$66,000 per annum in year 10.

#### B) Example from the Budget Papers

Bob and Sue are a 70 year old maximum rate pensioner couple, with a house valued at \$850,000. Their combined Age Pension income is currently \$1,368.20 per fortnight (\$35,573 per year).

Under the expanded PLS, Bob and Sue are now able to access some of the value in their home. They choose to receive \$2,052 per fortnight (\$53,360 per year), the full amount of 150 per cent of the maximum rate of the Age Pension. The value of the income stream increases over time in line with pension indexation

C) 70 year old single retiree with property valued at \$400,000 and no other assets. This pensioner could access a maximum \$458 p/f for a period of 10 years +, and up to an amount of \$123,200. This would suit many single women young enough to fulfil retirement but due to divorce, bereavement or no super, have no other options.

#### The Reverse Mortgage market

Reverse mortgages are the most regulated home loan in Australia. The National Consumer Credit Protection Bill (Stage 2) provides the legislation and ASIC regulates the market. In its 2018 review of Reverse Mortgages, ASIC found borrowers’ short- term needs were addressed, but the borrower’s long term needs or financial objectives were not adequately documented. It would appear the approach taken by this amendment, and it’s operational function, is moving in the opposite direction to ASIC.

ASIC is currently conducting consultation with the industry discussion around long term needs and how this can be achieved.

There does not seem any reference to long term considerations around aged care. The age component (a method to calculate the maximum funds available for PLS) is set so that negative equity does not arise. With means testing for aged care, the current threshold for assets is \$166,707.20. A resident entering care will be partially supported or fully supported if assets are assessed below this threshold.

Based upon current indexation, that threshold will reach \$350,000 in 25 years, when average life expectancy will be around 90 years. If low value properties obtain minimum growth over that period, more older Australians accessing residential care may become partially or fully supported, thus putting more pressure on tax payers.

There are some basic differences between the Government's scheme and the private market. Firstly, the Government removed itself from banking with the sale of the Commonwealth Bank in the early 1990's and therefore has lost touch with the risk and credit policies relevant to today's legislation and regulations. In addition,

- 1) Legal advice is mandatory for reverse mortgage but not PLS.
- 2) Reverse mortgages now require some discussion around future needs such as aged care, but PLS does not.
- 3) Reverse mortgages are restricted to residential property but PLS allows commercial property and vacant land.
- 4) Most reverse mortgages interviews are conducted face-to-face, a requirement ASIC may make mandatory, whilst PLS does not have the resources and it is suggested applications may become an online process
- 5) Reverse Mortgages have a detailed "know your client" process, whilst PLS is trending towards a lower level of information around needs.

We suggest the proposed amendments to the current legislation

- have been prepared in haste,
- are an extension of a previously poor product structure
- have not addressed the changing needs of older Australians and
- lack the consultation with the private market, whose knowledge and experience in reverse mortgage funding has led to the best structured and the best protected lending to older borrowers anywhere in the world.

We further recommend that

- a) An exclusion be placed upon applications from non-pension borrowers, a further capping be placed upon part-pensioners, and be fully available to full time pensioners.
- b) The application process considers the potential for later life medical costs and aged care.
- c) A review be conducted on the current "age component", to ascertain if it adequately includes provision to ensure borrowers do not become partially supported/fully supported by Government in future age care needs as a result of the PLS.
- d) Following a comprehensive review of potential demand, a study be conducted to assess whether Government or the private market is best suited to carry out the PLS.

We thank you for the opportunity to make this submission and welcome any further discussion the Economics Committee may require.

Yours sincerely

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