

Reverse Mortgage



Finance Solutions

Senate Standing Committees on Economics

PO Box 6100

Parliament House

Canberra ACT 2600

For the attention of the Committee Membership,

We wish to refer to the Draft Legislation – **National Consumer Credit Protection Amendment (supporting Economic Recovery) Bill 2020**.

In particular, we draw attention to the proposed amendments to Licensees and Reverse Mortgages - Equity Projections.

We draw attention to the recent Retirement Income Review and the important aspect of home ownership and Equity Release as a Pillar of Retirement Income

Our mortgage brokers specialise in reverse mortgage and aged care lending across all mainland states, and we would like to make this submission based on our member's knowledge, accreditations and consumer experiences with regard to a further requirement to existing regulations.

The Draft requires a continuation in the primary purpose of the Money Smart calculator – to demonstrate the use of funds in a proposed reverse mortgage loan and how that would likely affect the net equity of the borrower/s over a period of 5, 10 and 15 years.

Licensees will be required to ask the borrower/s for their estimation of future aged care accommodation costs, and those figures are then to be input into the calculator to demonstrate the additional cost of residential aged care after the cost of the loan.

It is appropriate to note that if a member of a couple enters residential care, the person entering care would most likely be fully supported by Government, as the primary place of residence would have no value due to the “protected person” status of the remainder person.

There are no parameters around the length of funding and whether any consideration should be made to wards estate planning and the return of any lump sum payment to the estate

The Draft fails to address the following issues of the proposed amendment.

- 1) Most potential borrowers of reverse mortgages have little/no understanding of aged care costs. “I’ll get carried out of my home in a box” is often declared. Any discussion with potential borrowers should therefore provide an explanation on the cost of accommodation in residential care.
- 2) The accommodation cost of non-supported aged care residents is not required to be paid as a lump sum. According to the Aged Care Finance Authority, 40% on new residents now pay for their accommodation daily.
- 3) The cost of a \$550,000 room would require an annual payment of \$22,110, not a lump sum of \$550,000.
- 4) A person with \$300,000 net equity after the repayment of a reverse mortgage would still have sufficient funding for 12+ years of accommodation.
- 5) Accommodation costs are only one element of aged care costs. The other costs are the basic daily fee (85% of the basic age pension entitlement), an additional services fee that can be \$50+ per day, and a means tested care fee based upon assessable assets and income. This Draft only reflects one cost outlay.

Increased knowledge by Licensees (both lenders and mortgage brokers) as to the cost of aged care is now available via The Equity Release accreditation program (supported by ASIC as the minimum knowledge requirement).

We would suggest that accepting a borrower’s incorrect declaration of costs does not run parallel with the Best Interest obligations unless

- A) It corrects an incorrect estimation and
- B) places a realistic cost into the calculator

In its RG586 Review of Reverse Mortgages, ASIC was clear to point out that discussions around future costs (including residential care and in-home care) must form part of a Fact Find/Preliminary Assessment with any potential borrower/s.

We would also like to point out that there are safeguards for older Australians seeking care.

- Subsidised services for in-home care are available up to \$52,000 per annum, at a daily cost up to \$10.75 per day.
- Residents entering residential care with assets less than \$50,500 will be fully supported by Government for care and accommodation, and those with assets between \$50,500 and \$171,535 will be partially supported.

In conclusion, we seek that the Committee makes recommendations on the Draft Bill that requires a better informed input into the calculator, based upon the client's financial position and a realistic set of costings according to the borrower's circumstances.

We thank you for accepting this submission.

For and on behalf of Reverse Mortgage Finance Solutions

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