

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

19 – 20 October 2011

Question No: SBT 810

Topic: Debt-Free-equity Release Products

Hansard Page: Wednesday 19 October 2011, Pg 118-119

Senator Cormann asked:

Senator CORMANN: Perhaps we could just go back a bit. I am interested in what work you are doing currently, if any, in relation to this concept of debt-free-equity-release products in the context of a broader retirement policy framework, and also the recommendations in the Productivity Commission report *Caring for Older Australians* to establish a government-backed Australian aged care home credit scheme.

Mr Murphy: I would refer you to the statements by the Treasurer and Minister Shorten at the tax forum in terms of annuities, equity-release products and all those types of products. It seems there is a dearth of those products that can assist people in planning their retirement income.

Senator CORMANN: Specifically, though, in relation to debt-free-equity release and the recommendations that the government should consider establishing a government-backed Australian aged care home credit scheme, has Treasury done any costings?

Mr Murphy: No, not that I am aware of. I can check it out. I think these are being looked at, but in that broader context.

Senator CORMANN: So there is no active consideration. But, if there was, would it be your area of Treasury that would be looking at it?

Mr Murphy: It could be the markets area or it could be the revenue group. On the equity-release ones, there have been some problems with those products in terms of individuals committing themselves and not really being fully apprised of the conditions of the transaction.

Senator CORMANN: Can you talk us through some of the problems you have identified or that you are aware of?

Mr Murphy: They relate to people who have been given loans. You are referring to a case in which a person puts their home up—

Senator CORMANN: No, what I am talking about is this product which has been floated as another component of a retirement policy framework whereby, rather than selling a share in the equity of their home, people can sell a share of the proceeds in a future sale.

Mr Murphy: There are a few products around and there are two points I would make. One is that government announced in the Tax Forum that it is going to look at—I do not know the time frame—

annuity products and these sorts of retirement planning products. At the same time, there is some mischief out there in some of these equity release products which people are looking at.

Senator CORMANN: Mischief?

Mr Murphy: There are some very good products and there are also some products where people are getting conned and there are problems.

Senator CORMANN: I would be interested in getting, maybe on notice, an outline of the good products and the products where people are getting conned. I did not think that they were all that widely available yet. I am looking at this Access Economics report—

Mr Murphy: Yes, they have one and it seems quite a good product, but I am aware of others where there have been issues.

Answer:

Current products

There are three types of equity release products currently available to seniors in Australia – reverse mortgages, accommodation bond loans and home reversion schemes.

- Reverse mortgages: a loan product under which a borrower uses their house as security for a loan. The outstanding balance of the loan grows over time, as the interest is capitalised (rather than repaid). The consumer is usually not required to make any repayments until they die or otherwise voluntarily vacate the property. These products are the most commonly used form of equity release product in Australia.
- Accommodation bond loans: a loan used for the sole purposes of funding an accommodation bond for residential aged care. It operates similar to a reverse mortgage, however the term of the loan is fixed (usually for 3 or 5 years).
- Home reversion schemes:
 - sale and mortgage model: a consumer sells a fixed share of their home to a reversion provider for a lump sum payment in exchange for a fixed proportion of the future value of their home. The consumer receives a lump sum for the sold share (usually at less than market price) and retains legal ownership over the property. Currently, Homesafe Solutions Pty Ltd is the only provider of these products in Australia. The availability of their product is limited to certain areas of Victoria and NSW.
 - sale and a lease-back model: a consumer sells their home to a reversion provider for a sum (either a single lump sum payment, or an initial lump sum payment with ongoing regular payments). The reversion company has full ownership of the property, but provides the consumer with a lifetime lease agreement for them to remain in the property until they die or voluntarily vacate. Currently, there are no providers of this model of home reversion scheme in Australia.

The sale and lease back model has significant risks for consumers relative to the other equity release products. The risks are illustrated by ASIC's 2006 action against a sale and lease back provider Money for Living Pty Ltd for false and misleading conduct. Money for Living purchased 117 properties from retirees at a discounted price in return for a lump sum and/or regular monthly payments plus a lifetime tenancy. Some properties were then on sold to various investors who

denied knowledge of the retiree's tenancies. Many retirees took legal action in the Federal Court to be able to remain in their homes.