

JAPARA

Ms. Jane Thompson
Senior Research Officer
Senate Financing &
Public Administration Committee
SJ60 Parliament House
CANBERRA ACT 2600

24th March 2009

Dear Ms. Thompson,

I refer to the Senate Finance and Public Administration Committee inquiry into the aged care industry and the question on notice I was asked by the Committee when I appeared before them on the 20th February 2009.

The question on notice related to what the various financing structures might be available to facilitate the payment of an accommodation bond/refundable deposit on high care beds in the aged care industry.

I have summarised below a number of financial structures that might be applicable:

Reverse Mortgage

A reverse mortgage allows the resident, and/or the registered proprietor of a residential property to borrow money which is secured against the value of that asset. The loan normally only needs to be repaid when the house is sold or passes to the estate of the borrower.

Reverse mortgages operate in a different way to traditional home loans. Instead of the loan being variable with interest and debt repayments being made over the term of the loan, no principle repayments are made and the interest on the reverse mortgage is generally capitalised. The total debt (interest & principle) is repaid once the asset is sold.

A relatively low loan to value ratio (typically less than 40%) limits the extent to which the product can be used to fund accommodation bonds. The industry generally applies between 40% to 60% of the medium house price within the local government area as the value for accommodation bonds in the low care sector.

Interest rates on reverse mortgages are generally 110 to 150 basis points higher than home loan interest rates.

Bridging Loan

A bridging loan operates on the basis of providing funds for a period of time up until the realisation of an asset, such as the sale of a house. These funds are therefore available immediately and can be used to fund an accommodation bond. In essence a straight bridging loan is available to most residents for up to 75% of the property value. This loan has a capitalisation feature for interest where the interest cost would be paid at the end of the loan period of up to 12 months. The bridging loan allows the resident to realise their asset over a period of say 6 to 12 months or alternatively rely on the loan for the period whilst in occupation in aged care facility.

Resident Loan/Secured by credit strength of Approved Provider

A financial instrument where the bank will lend up to 80% of the value of bond to the resident and the resident (or resident's family) would pay 20% of the bonds value to the aged care operator.

The Banks' security relies on the aged care operator's obligation to repay the resident.

In essence, the loan is based on the credit worthiness of the aged care operator, many of whom have excellent credit records and substantial liquidity but have limited options to assist their residents financing moving to care. The aged care operator must be of significant scale and have a strong balance sheet in order that the finance sector will provide this loan facility.

The resident and any co-borrowers would make interest payments to the Bank at the rate of 200 basis points lower than the maximum bond interest rate.


In respect of the above financial structures, the major Australian banks have the capacity to deal with fees although such financial products for seniors will need to be further developed in the funding of high care bonds.

The selling of a resident's asset, including the family home, is a process which currently occurs to fund accommodation bonds in low care and high care extra service facilities. This also is the principle method of the funding the purchase of independent living units in retirement villages.

Typically the above financial instruments could be implemented in a very short period of time and would not require elderly residents to sell their family home in order to pay an accommodation bond.

I am pleased to discuss this matter in more detail with you if required.

Yours faithfully,



Andrew Sudholz
Chief Executive Officer