Department of Families, Housing, Community Services and Indigenous Affairs

Submission to the Senate Select Committee on Housing Affordability in Australia

May 2008

Introduction

The Department of Families, Housing, Community Services and Indigenous Affairs has responsibility for housing policy and the delivery of housing assistance.

Home ownership cannot be considered in isolation from the broader housing market, particularly the private rental market. Secure, stable and affordable housing is the key to social and economic wellbeing. Housing affordability in Australia has fallen due to significant increases in house prices and rising interest rates over recent years.

A commonly used benchmark for housing stress is when lower income households, that is those in the bottom 40 per cent of incomes, spend 30 per cent or more of their gross income on housing costs. Data from the 2006 Census of Population and Housing (Australian Bureau of Statistics (ABS) 2007) indicates that 1 in 10 households with a mortgage pay over 30 per cent of their income in housing costs and are in the lowest 40 per cent of incomes. Of all private rental households 30 per cent pay over 30 per cent of their income in housing costs. Of these private renters, 75 per cent are in the lowest 40 per cent of household income.

High rent levels limit the capacity of renters to save a deposit to purchase a home. The Real Estate Institute of Australia (Real Estate Institute of Australia (REIA) 2007) figures for the December quarter 2007 show that, after adjusting for inflation, rents have increased in all capital cities since 2002. Rental vacancy rates were below 3 per cent in all capital cities, and below 2 per cent in all capital cities except Hobart, Canberra and Darwin. Low rental vacancy rates push up rent levels.

ABS (ABS 2008) data shows that house prices have also increased in all capital cities. Between March 2002 and December 2007 house prices in capital cities have increased between 35 per cent and 161 per cent. These increased prices have also had a flow on effect by increasing the amount of stamp duty that home buyers are required to pay, further exacerbating the cost of housing. High house prices limit the capacity of first home buyers to achieve home ownership.

Interest rates have also gone up in recent times. This means the cost of paying off a home loan has also gone up. Costs associated with owning a house have also increased. For example rates, water and sewage costs and insurance costs have gone up. These additional costs particularly impact on people on low or fixed incomes and who have little capacity to increase their incomes to meet these additional costs.

Estimates based on data from the 2006 Census suggest that there is demand for 180,000 new dwellings a year. There were around 151,600 dwelling commencements in 2006-07 compared to around 151,200 in 2005-06 and 160,000 in 2004-05. This means that there is more demand for new houses than there is supply, which also pushes new home prices up and this in turn flows on to increased prices for existing homes.

Housing assistance provided by the Department of Families, Housing, Community Services and Indigenous Affairs

The majority of housing assistance provided by the Department is targeted at low income people, particularly renters and people who are homeless or at risk of homelessness. Specific housing assistance measures include:

Rent Assistance

Rent Assistance contributes to the improvement of housing affordability and complements broader income support measures by assisting individuals and families with the additional costs associated with renting in the private rental marker. Rent Assistance is a non-taxable income supplement payable to those who receive an income support payment or an amount of Family Tax Benefit greater than the base rate. In 2006-07 expenditure on Rent Assistance was $2.2 billion and assisted over 954,000 people (Department of Families, Community Services and Indigenous Affairs (FaCSIA) 2007).

Commonwealth State Housing Agreement (CSHA)

The Australian Government provided $954.6m in 2006-07 (FaCSIA 2007) to the States and Territories to provide appropriate, affordable and secure housing assistance for those who most need it, for the duration of their need including:

- Base funding of $752.6m
- Aboriginal Rental Housing Program - $94.4m
- Crisis Accommodation Program - $41.1m
- Community Housing Program - $66.4m

The States and Territories provided matched funding of $368.4m in 2006-07 under the CSHA.

Between 30 June 1998 and 30 June 2007 the number of public housing dwellings declined by 20,806 (5.8 per cent), while the number of community housing dwellings increased by 12,714 9 (57.9 per cent), crisis accommodation dwellings increased by 3,382 (81.8 per cent) and state owned and managed indigenous housing increased by 1,243 (10.5 per cent).

Supported Accommodation Assistance Program (SAAP)

SAAP is a jointly funded program between the Australian, State and Territory governments. SAAP delivers crisis accommodation and support through a range of policy and program measures to those who are homeless or at imminent risk of becoming homeless. In 2006-07 the Australian Government provided $175.3m (FaCSIA 2007) to the States and Territories to deliver SAAP services.

Other assistance

The Department also provides funding for other special purpose assistance for Indigenous people. This includes the Community Housing and Infrastructure Program (CHIP). CHIP provides funding for housing and related infrastructure for Aboriginal and Torres Strait Islander people. Funding is provided for the construction and purchase of housing and for the upgrade and maintenance of existing housing stock. The Fixing Houses for Better Health program is a sub-program of CHIP and fixes critical “health hardware” items such as hot water systems, taps, toilets, drains, showers and electrical fittings in houses in rural and remote Indigenous communities. In 2006-07 the Government provided $227.8m for CHIP.

The Australian Government will also deliver a range of initiatives from 1 July 2008 to improve housing affordability.

Council of Australian Governments (COAG)

COAG identified the decline in housing affordability as a pressing issue for Australians and recognised that improving affordability is critical to addressing financial stress and disadvantage, including for Indigenous communities.

COAG has established a Housing Working Group. The Housing Working Group is chaired by the Minister for Housing, the Hon Tanya Plibersek MP. The objectives of the Housing Group are:

- To improve housing affordability for home buyers and ease rental stress, particularly for low to moderate income households.
- To halve the number of homeless people turned away from shelters within five years.
- To ensure all levels of government work together to improve housing affordability and negotiate a new National Housing Affordability Agreement, which builds on previous agreements and includes housing for Indigenous people.
- To improve housing supply, including through release of surplus Commonwealth, State and Territory land for housing development.
- To improve social and community housing.

At the COAG meeting on 26 March 2008, implementation plans for five new housing measures were agreed. The five new measures are:

- The Housing Affordability fund
- The National Rental Affordabilty Scheme
- Increasing the supply of land for housing by releasing surplus Commonwealth land for residential development
- The development of a White Paper on Homelessness
- A National Housing Supply Council.

Housing Affordability Fund (HAF)

The Housing Affordability Fund ($512 million investment) will act to lower the cost of building new homes, with an emphasis on proposals that improve the supply of new housing that is affordable for home buyers entering the market for the first time. This new fund will address two significant barriers to the supply of housing:

- Holding costs incurred by developers as a result of long planning and approval waiting times.

- Infrastructure costs, such as water, sewerage, transport, and open space.

Money will be targeted to areas that with high demand for new housing and can be used for both green-field and in-fill developments.

From 1 July 2008, the fund will be distributed by direct grants, primarily to local governments, through a competitive selection process. Proposals will be assessed against transparent, needs-based selection criteria and will have to demonstrate that cost savings are passed on to new home buyers.

Up to $30 million from the fund will be used to roll out national electronic development assessment systems and online tracking services to reduce red tape and streamline planning approvals.

The Government is committed to working closely with all levels of government, particularly local councils, to reform infrastructure and planning requirements, to ensure that savings are passed on to home buyers.

Land Audit

The Government has conducted a land audit of surplus Commonwealth land holdings. Each State and Territory is also conducting an audit of their surplus land holdings to identify suitable land for possible release for housing development. The outcome of the land audit will be available at the end 2008 and will detail how each jurisdiction's Property Disposals Policy contributes to land supply and housing affordability.

Release of the land will be subject to State and Territory strategic land-use and infrastructure plans and relevant legislation (planning, native title and environment).

Land release will be evaluated against three criteria:

- Whether it increases the supply of housing without adversely affecting surrounding property prices
- Whether it improves the amenity of local suburbs through the addition of parks, playgrounds, child care centres or other facilities
- Whether it creates new jobs.

National Rental Affordability Scheme (NRAS)

The National Rental Affordability Scheme ($623 million over four years) will increase the supply of affordable rental dwellings by 50,000.

This new Scheme will offer institutional investors and other eligible bodies annual tax incentives or a grant every year for a period of up to 10 years. The two key elements are:

- An annual $6,000 refundable tax credit or grant from the Australian Government to construct new affordable rental properties and rent them at 20 per cent below market rents. The incentives will be indexed to the rental component of the Consumer Price Index.

- States and Territories will also contribute $2,000 for each credit or grant and may increase this contribution if they choose. State and Territory Government assistance could be provided through a direct payment, or in-kind through reduced stamp duty, infrastructure charges and fast-tracked development approvals.

Rent for these properties will be charged at 20 per cent below the market rate for eligible tenants. Tenants will also be eligible for Rent Assistance – making the homes more affordable for low and moderate income earners who also face other cost of living pressures.

National Housing Supply Council

The Council is being established to improve the evidence base for housing policy development by providing research, forecasts and advice to government on issues such as the adequacy of housing and land supply to meet future needs. The Council will assess current and future demand for housing across Australia, publishing an annual *State of Supply Report* to analyse the adequacy of construction and land supply for the next 20 years. The Council will use knowledge and expertise from governments, industry, social welfare services and universities.

The *State of Supply Report* will include detailed analysis of trends in land availability and construction rates, it will coordinate local, state and national supply and demand research and adopt a consistent, national standard for measuring and assessing the supply of land and housing and its relationship with demand.

- The Report will also examine:
    - the impact of immigration
    - the movement of families between States and Territories
    - medium and long-term demographic changes
    - market distortions and possible future shortfalls in land supply
    - housing construction and the availability of a diversity of housing for different household incomes
    - structural barriers to the release of land, zoning, approval and the construction of new housing

- State and local development assessment processes and planning frameworks
- housing linked infrastructure provision

The Commonwealth has considerable information on the demand side – demographic change, immigration, movements of people between States. State and local government know more about the state of land supply, planning frameworks and infrastructure needs.

Other Australian Government measures to provide housing assistance

First Home Saver Accounts

The First Home Saver Accounts will provide benefits to Account holders through the payment of a 17 per cent Government contribution on the first $5,000 of personal contributions paid directly into individuals' accounts.

There will be a limit of $75,000 (indexed) on the overall account balance. If an individual reaches the account balance cap, no further individual contributions will be able to be made. Earning and any outstanding Government contributions will still be able to be credited to the account after this time.

Withdrawals will be tax free where they are used to purchase a first home. Where an individual has withdrawn the full amount and closed the First Home Saver Account to purchase a property, they will need to live in the home for at least 6 months within the first 12 months of purchase or completion of construction.

Withdrawals from the account will be limited to a first home purchase or to contribute the balance to superannuation. Individuals would be allowed to access their benefits in cases of severe financial hardship, on compassionate grounds, or in the event of terminal illness through the existing superannuation early release provisions by contributing their whole account balance to superannuation.

Consultation Process

The Government undertook an extensive public consultation process and received over 150 submissions. Comments made during the consultation focused on increasing the attractiveness of accounts and reducing the costs of providing accounts.

The Government will provide benefits to Account holders through the payment of a 17 per cent Government contribution on the first $5,000 of personal contributions paid directly into individuals' accounts. The new contribution arrangements will provide increased benefits to all individuals earning up to $80,000 per annum. It will also simplify the operation of the accounts for individuals, account providers and the ATO.

The Government has also decided to defer the commencement of the policy until 1 October 2008 to enable account providers more time to develop products. First home savers will not be disadvantaged by the deferral as they will still be entitled to a Government contribution on the first $5,000 of personal contributions in 2008-09.

Other key changes the Government is making will:

- streamline and relax the eligibility criteria to open accounts by removing the $1,000 upfront contribution and the link to residency to open an account;
- increase the attractiveness of accounts and reduce compliance costs for providers by replacing the $10,000 annual contributions cap with one overall account balance cap of $75,000 (indexed), after which no additional personal contributions can be made;
- make the accounts easier to provide, including by clarifying the way the four-year rule operates so that it is calculated on a financial year basis rather than from the day the account is opened; and
- ensure that potential first home savers have a good understanding of the features of accounts by simplifying the product disclosure requirements and providing for a 14 day cooling-off period in which to change their mind.

Specific information relating to each Terms of Reference

The following provides specific information against each of the Terms of Reference for the Committee

Terms of Reference (a) the taxes and levies imposed by State and Territory governments

The department notes that the terms of reference for the Committee does not include a consideration of the role of local government.

States and Territories are responsible for land use planning and land release policies, stamp duty and property tax. Information on revenue from these charges is available in the State and Territory Budget Papers.

Land tax is a tax levied on owners of land, but usually a person's principal place of residence is excluded. This means that most investors will pay an annual land tax if the value of their investment property exceeds the land tax threshold. Most States have lifted land tax thresholds to avoid levying average cost properties.

States and Territories are also responsible for the First Home Owner Grant (FHOG) which was introduced on 1 July 2000 to offset the effect of the GST on home ownership. Since 2004-05 States and Territories have funded FHOG from their own revenues. As part of the introduction of the GST, the Government required States and Territories to administer and fund FHOG as a condition of receiving GST revenues.

Local governments are responsible for rates and some charges such as water and supply of gas and electricity, planning approval and development of land, including land development charges. These have also increased significantly in most areas in recent years.

Terms of Reference (b) the rate of release of new land by State and Territory governments.

The Department is not aware of data on the rate of release of new land by State and Territory governments. The Government's new initiatives outlined above are largely supply side initiatives which will increase the supply of affordable housing and reduce the costs for home buyers.

Terms of Reference (c) proposed assistance for first home owners by State, Territory and the Commonwealth Governments and their effectiveness in the absence of increased supply.

Information on home purchase assistance which is funded through the Commonwealth State Housing Agreement (CSHA) is provided in the Housing Assistance Act Annual Reports. The most recent report is for 2005-06 and is available on the Department's web site at www.fahcsia.gov.au

As noted above the First Home Saver Accounts will provide a simple, tax effective way for Australians to save a larger deposit for the purchase of their first home. The First Home Saver Accounts will complement the increased supply of affordable housing under the measures discussed above.

Terms of Reference (d) the role of all levels of government in facilitating affordable home ownership

As a proportion of gross household income, housing costs of lower income owners (that is those in the household incomes in the lowest two quintiles) with a mortgage declined from 27 per cent in 1994-95 to 24 per cent in 1999-00 but rose to 28 per cent in 2005-06. Housing costs as a proportion of income for lower income private renters fell from 34 per cent in 1994-95 to 31 per cent in 2001-01 and 29 per cent in 2005-06.

In addition to the measures outlined above, the new National Affordable Housing Agreement (NAHA) will replace the CSHA. The intention is that the NAHA will encompass housing assistance provided at all levels of government (Commonwealth, State and Territory and Local Government). Under the NAHA roles and responsibilities of each level of government will be clearer and there will be greater accountability for outcomes at each level of government. It will provide an integrated approach to the provision of social and private housing and will have clear priorities, objectives and measurable outcomes.

Terms of Reference (e) The effect on the market of government intervention in the housing sector including planning and industrial relations laws.

As noted above, most of the Government's new housing initiatives are designed to have a supply impact on the market.

Terms of reference: (f) the role of financial institutions in home lending

There are a large range of mortgage type products currently available in the Australian market place

The Department is aware of the emergence in recent years of more flexible home lending arrangements which can assist people who previously could not access standard loans because of poor credit rating or fluctuating income. The Department also notes the risks these loans can pose to borrowers who may not fully understand the implications of the loan agreement and the financial risks involved.

The loan types that have attracted most attention in recent years are low-doc and non conforming mortgages. The Reserve Bank of Australia (Reserve Bank of Australia (RBA) 2005) noted in its Financial Stability Review – September 2005 that:

'low-doc' loans ….are loans for which borrowers self-verify their income in the application process. They are designed mainly for the self-employed or those with irregular income who do not have the documentation required to obtain a conventional housing loan. But the lack of documentation also leaves them open to abuse, for example by people who are overstating their income to the lender in order to obtain a larger loan than otherwise. They may also be used by people who have understated their income for taxation purposes.

The value of low-doc loan approvals has grown over the past year, even though the value of total housing loan approvals has been broadly flat. As a result, while low-doc loans are estimated to account for only around 5 per cent of all outstanding housing loans, their share has been rising. These loans are currently estimated to make up a little under 10 per cent of new loans, though the shares differ widely across lenders.

The rapid growth of the market has occurred alongside increased competition, of which the most visible sign has been an increase in the number and type of providers. Initially, low-doc loans were marketed only by specialist non-bank lenders, but in recent years mainstream lenders have also entered the market. Some smaller banks, in particular, have targeted this segment. The major banks were slower to enter the market, but they have recently begun to actively promote these products.

Aside from the self-verification, low-doc loans provided by banks are otherwise 'prime' in the sense that they are subject to banks' usual lending criteria. This contrasts with some non-bank lenders that also offer low-doc loans to borrowers with impaired credit histories or other high-risk characteristics – types of so-called 'non conforming' loans.

Because of the higher risk of low-doc loans, lenders have typically charged a higher interest rate on these loans than on their conventional loans. However, as competition in the low-doc market has intensified, these spreads have been declining.

Lenders have also increased the maximum size of low-doc loans that they are willing to provide. When low-doc loans were first introduced, the maximum allowable loan size was generally around $500 000 but these limits have since been increased, contributing to an increase in average actual loan sizes. Recent estimates based on securitised loans suggest that new low-doc loans are on average around 30 per cent larger than conventional loans.

As competition has picked up, lenders have also increased the maximum loan-to-valuation ratios (LVR) they allow on low-doc loans. While many lenders initially restricted the loan to between 60 per cent and 75 per cent of the property value, most lenders now allow borrowers to take out a loan with an LVR of 80 per cent, with some even allowing LVRs as high as 95 per cent. As a result, the average initial LVR on securitised low-doc loans has increased over the past few years, both in absolute terms and relative to LVRs on conventional loans.

The reduction in the interest-rate premium on low-doc loans, together with increases in maximum loan sizes and LVRs, raises the possibility that some lenders may not be adequately factoring in the higher risk of default of these loans. The arrears rate for securitised low-doc loans is currently around three times higher than for conventional loans. Even if estimates of the expected loss rate on low-doc loans take account of this higher arrears rate, they may still understate the risks involved because low-doc loans have only existed during the past few years of economic expansion, so their quality has not been tested during a period of weaker activity. This risk is heightened by the fact that lenders know little about the characteristics of low-doc borrowers, specifically how many have overstated their income to obtain larger loans. '

Further, the *House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into home loan lending practices and processes* (House of Representatives 2007) report released on 17 September 2007 found that:

- The number of non-conforming loans has increased in recent times—from 0.5 per cent of approvals in 2000 to 2 per cent in 2006.

- In 2005 the RBA reported that the majority of non-conforming loans were made to individuals refinancing other debts. A significant proportion, around 60 per cent, of the value of nonconforming loans involve the refinancing or consolidation of other debt(s). Some of these are to borrowers who use their housing loans to consolidate numerous personal and credit card debts, while other borrowers have fallen into arrears on their mortgage repayments with other lenders and have subsequently refinanced with a non-conforming lender.

- Lending to people with poor credit histories is clearly a risky business.

Losses on non-conforming loans are significantly higher than for prime loans. Lenders protect themselves against this risk by charging higher interest rates and imposing harsher fees and conditions.

A small number of lenders in the non-conforming sector are associated with inappropriate or 'predatory' lending.

It was also noted that:

- Non conforming and low-doc loans have considerably higher arrears rates than other loan types.

- However the vast majority of borrowers are servicing their mortgages. While low-doc loan products do have higher arrears rates, this is not necessarily because borrowers are facing financial difficulty: The higher arrears reflect the nature of the ultimate borrower of a low-doc loan, who is typically self-employed and or a non-PAYG employee. This employment status typically results in the borrower having lumpy cash flow and a fluctuating ability to service the loan, particularly compared to a PAYG employee under a standard full documentation loans

The *Committee* concluded:

- The level of loan arrears has increased in recent times but remains low by international and historical standards. The increased availability of credit for housing has not, at this stage, resulted in substantial increases in mortgage defaults.

- Arrears on low-doc and non-conforming loans are higher than full doc loans, reflecting the increased risk involved in such products. Evidence suggests that while low- doc loans have a higher arrears rate, these arrears are more likely to self-cure. This is indicative of the lumpy cash flow of the holders of these loans, who are primarily self-employed.

- The level of arrears on non-conforming loans is high and is rising. This is not surprising given the profile of such borrowers, and non-conforming lenders charge much higher interest rates to cover any losses. The nonconforming market is only a fraction of the total housing lending market (about 1 per cent), so the higher arrears rates do not pose significant macro-economic concerns. Predatory lending practices are almost exclusively associated with the non-conforming sector. Higher arrears rates in this sector may also be reflective of this fact.

Housing loan arrears are the most tangible indicator of the extent to which households are getting into difficulty with their housing loans. Information about the proportion of loans for which repayments are in arrears by more than 90 days indicates that while arrears rates rose somewhat between 2002 and 2006, they remain relatively low by historical standards, and fell through much of 2007. Most households that fall behind in their mortgage payments eventually make up the overdue payments and return to their original repayment schedule, that is, they ‘self cure’.

The Reserve Bank of Australia reports that the number of court applications for property repossession has risen over recent years, although less so in 2007. Over the year to August 2007, there were 5605 such applications in New South Wales and 2775 in Victoria (up from 897 in 2001) although these figures overstate the number of housing repossessions that eventually occur, as borrowers can choose to sell their property or refinance the loan before the lender goes through all the remaining legal steps to take possession.

Terms of Reference (g) the contribution of home ownership to retirement incomes.

The following information was provided in the *Standing Committee on Community Affairs Inquiry into the cost of living pressures on older Australians* (Standing Committee on Community Affairs 2008**)** report released on 20 March 2008.

The report noted that older couples enjoy a comparatively higher rate of owner occupancy than older singles with 90.4 per cent compared to 74.5 per cent. The home ownership rate for age pensioners was lower at 70 per cent. Home ownership helps the living standards of those in these circumstances by reducing costs, compared to those in rental accommodation. In addition to the financial benefits, older people that own their homes enjoy greater stability and housing reliability'.

The Department's submission to the *Senate Standing Committee on Community Affairs Inquiry into the cost living pressures on older Australians* noted that home ownership is comparatively high amongst older Australians and this provides significant benefits for them. While there are costs associated with home ownership such as council rates and building maintenance, home ownership supports older Australians' living standards through, for example, reducing their recurrent outgoings, compared with rental housing. Home ownership, apart from its intrinsic capital value, also provides greater stability for individual well being by reducing the likelihood of unanticipated relocation expenses and experiences. In addition, stable housing arrangements, including home ownership are well known to support positive outcomes in a range of life areas including health and participation..

The report further noted that in a 2004 study of 7,000 older Australians, home owners were most likely to want to age in place, although for the majority, their attachment was not to the home but to the local area. Pleasure in and familiarity with the area and its facilities were important, as was proximity to people they know in the area. Nevertheless, one in three respondents had moved house in the past five years and a further one in three intended to move in the foreseeable future, many commenting that the change was or would be a lifestyle decision, for example to access better recreational facilities or move somewhere 'better' or 'warmer'.

The *AMP-NATSEM Income and Wealth* (AMP-NATSEM 2008) report released recently highlighted that a large proportion of the wealth of older Australians is preserved in illiquid assets, most notably the family home. 2-3 per cent of older people (aged 65 and over) are still repaying a mortgage.

AMP-NATSEM also found that twice as many older Australians over 60 are still paying off a mortgage than 10 years ago. Housing stress (defined by AMP-NATSEM as the housing costs take up more than 30 per cent of disposable incomes of all households) amongst the over 60's increased by 80 per cent over the last decade. Outright home ownership levels have dropped dramatically over the last decade from 43 per cent of home buyers in 1995-96 to 34 per cent in 2005-06. For Australians aged 45-49, in 2005-06 only 36 per cent of them fully owned their own home compared to 54 per cent outright ownership in 1995-96. This means that more Australians are approaching retirement without having paid off their own home.

According to ABS statistics on home ownership, 89 per cent of couple households with the reference person aged 65 and over own their own home outright. The rate remains high for older single person households, with 75 per cent owning their home outright. These figures represent more than twice the national average. Relatively few older Australians are paying off mortgages (2-3 per cent of those aged 65 and over).

It was also reported to the *Senate Standing Committee on Community Affairs Inquiry into the cost living pressures on older Australians* that private home-owners have also faced considerable rises in housing costs, most notably rates and associated charges such as water levy and supply charges following the boom in property values that have occurred over the past decade. Instances were reported where rates had increased by more than 50 percent in 12 months and that water charges increased by up to 25 per cent in the same period. This particularly affects people on fixed incomes with limited capacity to pay higher charges such as age pensioners.

Evidence was also provided that older people faced other increases in housing costs, including mortgages, insurance, maintenance and repairs. It was noted that many retiree home-owners are increasingly finding insurance costs too expensive.

Reverse Mortgages

Reverse mortgages allow an owner of a property to borrow against the equity in their home. Generally the outstanding principal and interest is repaid when the home is sold, transferred or passed to the estate of the last surviving borrower. Repayments during the life of the loan can sometimes be made but because of the nature of the loan, this is uncommon, and there may be penalties for doing so.

Interest rates on reverse mortgages are typically around 1 per cent higher than a regular mortgage.

The average amount borrowed is approximately $60,000 and the average age of borrowers is 72 years of age. Reverse mortgages are mainly used for home improvements (15 per cent), regular income (13 per cent) and debt repayment (12 per cent). The first $40,000 borrowed is exempt under the pension assets test for 90 days in recognition that the funds may be used for home repairs or modifications to allow people to continue to stay in their own home.

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