Subject: Additional Response to Productivity Commission Draft Report "Caring for Older Australians"

In introduction, I am a SEQUAL accredited Equity Release specialist and the honorary Victorian Director of FORTUS, an association of Equity Release practitioners. I wish to note the two previous submissions to the Commission on behalf of FORTUS.

We acknowledge the Commission's recommendation for Equity Release as an avenue to fund future needs of the aged care industry, and agree with the Commission's recommendation of a maximum of 40% Loan to Value ratio (LVR) in accessing equity for the purpose of funding an Accommodation Bond into aged care, or the payment of "charge" costs.

At this point, we wish to clarify the following –

1) A Reverse Mortgage is a form of Equity Release. There is only one funded product at this time which allows the borrower to be absent from the security (eg to transfer to aged care). The maximum loan amount is $250,000 or a maximum of 25% of the asset value. There is no set term for this product.
2) There is only one product which specifically funds an Accommodation Bond up to 40% of the asset value or a maximum of $500,000. This product has a 3 year term with the option of a one year rollover. A second product is due for release shortly, offering either a 40% LVR over 5 years or a 50% LVR over 3 years.
3) Both products are **not** Reverse Mortgages.

We note the recent submission by Aged Care Association Australia (DR 777, 28th March 2011) and refer to their support of an Equity Release scheme, but with a recommendation of a maximum of 60% LVR. ACAA submits that a $500,000 home with a 40% LVR would not be sufficient to meet the current average Bond of $233,000.

We advise no lender/funder has ever approved a LVR % to the 60% submission, either as a Reverse Mortgage or Accommodation Bond.

There are two protections for consumers at this time.

a) All Reverse Mortgage products marketed by SEQUAL members carries a "No Negative Equity Guarantee"
b) All Accommodation Bonds are guaranteed by the Federal Government (if providers are in default, restitution will be enforced)

In effect, the Accommodation Bond Guarantee reduces the net LVR to less than 40%

In order for current or future lenders/funders to be comfortable in raising the LVR to 60%, we ask for Treasury, Health and Aging and the Productivity Commission to examine the combination of the No Negative Equity Guarantee with the Accommodation Bond Guarantee for the extension of funding limits to a maximum 60%LVR.

The writer kindly accepts any further interest in developing the market considerations for aged care residents wishing to retain their family home.

Yours sincerely,

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FORTUS
16 May 2011