GENE ROSS

Signing your home away?

A reverse mortgage can provide some extra cash or regular income in retirement but we uncovered some alarming contract traps and gaps in consumer protection.

TAMARA GRAHAM

UTA MIHM reports on our analysis of 19 reverse mortgages. Verification: LAWSON LOBB.

A reverse mortgage allows you to borrow against the value of your home. They're usually available to consumers aged 60 and over; the older you are the more you can borrow.

They're usually targeted at older people who are asset rich but cash poor, to pay for renovations, medical costs or to supplement their incomes, for example.

The loan balance increases over time as interest and fees are added. It usually only needs to be repaid when you sell the house, permanently move out (such as to go into long-term aged care) or die.

If you move to a different home you may be able to take the loan with you depending on the property you buy.

In 2005 reverse mortgages dramatically increased in volume. According to estimates by **Datamonitor** new loans to the value of $650 million were taken up in 2005, up from $250 million in 2004; further strong expansion of this market is expected.

Many new lenders are releasing products — as well as banks, credit unions and one building society, they're now offered by non-bank lenders, specialist companies and mortgage managers.

We surveyed 19 reverse mortgages and found alarming traps in a number of contracts. Many contracts were also confusing and hard to interpret.

We were particularly concerned about the contract for the reverse mortgage offered by **Transcomm Credit Union**. However, in response to our concerns **Transcomm** has made some positive changes to its contract, see *Problems with Transcomm's reverse mortgage contract*, on page 10.

We also found problems with a number of other contracts and think consumers need to be very cautious when signing up:

- Wide-ranging default clauses. Borrowers can be in default for minor contract breaches. When you're in default the lender can require immediate repayment of the whole loan and may charge you a higher interest rate. This may lead to enforcement action and the sale of your house, see *Traps in the fine print*, on page 11.
- The 'No Negative Equity Guarantee' (lender covers any shortfall if your loan balance exceeds the proceeds from the sale of your house) sometimes seems to be so limited that it might not protect you at all, see *How guaranteed is the guarantee?*, on page 12.
- Some contracts are based on standard home loan contracts which include many limitations to your rights.

In the UK inadequate reverse mortgage contracts and poorly designed products caused consumers to be evicted from their homes. We think immediate action must be taken in Australia to protect consumers.

How do they work?

The amount you can borrow usually depends on your age and the value of the property. Someone aged 60 can get up to about 15% of the value their home (loan-to-value ratio — LVR) with most lenders; someone aged 80 can get up to about 35%.

- Maximum and minimum amounts also apply.

There are large differences between lenders: whereas **HomeStart Finance** and **StateWest Credit Society** cap the loan amount at $100,000, **ABN AMRO** and **Australian Seniors Finance** have no maximum, **Bluestone** and **OFM** offer up to $1 million.

▶ Usually no repayments are necessary until you sell the house, move or die.

TRAP: the product from **HomeStart Finance**, a South Australian State Government statutory corporation, has one important difference to other reverse mortgages — monthly repayments can be requested when the loan amount reaches more than 50% of the equity in your home. **HomeStart** says this is designed to assist borrowers to reduce the erosion of equity. It would assess the affortability in consultation with the borrower and wouldn't put a borrower into hardship.

▶ If your home is owned jointly with a partner the loan usually must be in both names and is only repayable when the last surviving partner dies or moves.

TRAP: if only one partner of a couple owns the house or a family member lives with you a reverse mortgage may not be suitable, as it normally becomes repayable when the borrower moves out permanently or dies. **Australian Seniors Finance** and **Bluestone** allow you to protect the right of a resident (such as your spouse) who is not an owner/borrower to keep living in the home. **St George/Bank SA** says while repayment is required when the last borrower moves or dies it will look at the circumstances. On the other hand, **OFM** requires all residents to be borrowers, so if your spouse is not a co-owner you won't be able to get a loan with that company.

▶ You can access the proceeds of a reverse mortgage as a lump sum, regular amounts (for example monthly), a combination of both or flexible drawdowns. Not all lenders offer all options

How much will the loan grow?

When we reported on reverse mortgages for the first time in *M&R* June/July 2004 we did a calculation for two scenarios: John and Jill; Peter and Pam. Both couples had a house worth $500,000 and took out a reverse mortgage of $100,000 — 20% of the property value.

John and Jill paid an interest rate of 8% and their home's value increased by 6% per year. 25 years later after repaying the loan they had $1.4 million equity left.

Peter and Pam paid an interest rate of 10% and their home's value only increased by 2% per year, 25 years later they owed about $425,000 more than their house was worth. This demonstrates how important it is that the 'No Negative Equity Guarantee' really protects you.

Check *Could I get into negative equity?*, on page 11. It shows that a borrower aged 60 with a $75,000 reverse mortgage on a $500,000 property (if there's no increase in the property's value and a 10% interest rate) could be in negative equity only 19 years after entering a reverse mortgage contract. Use our calculator at **www.choice.com.au** to check your own circumstances.

ABN AMRO, **Australian Seniors Finance**, **Bluestone** and **OFM** allow you to protect a portion (up to 20%) of the value of your home to ensure you can leave something in your estate. If your house is worth $500,000 and you protect 20%, you can only borrow against a value of $400,000. In this case the lender allows an LVR of 25%, you'll only get up to $100,000. However, even if at the end of the contract the loan balance is larger than 80% of the sale value of your home your estate will still get the remaining 20%. So if, for example, your house sells for $1 million and the loan balance is $850,000, these lenders would only receive $800,000 and your estate would keep $200,000.

10 things to do first

1. Consider whether a reverse mortgage is the best option — could you downsize instead or could your children help out?
2. Talk to your family and anyone provided for in your estate.
3. Consider your future needs — what if later you need long-term aged care or want to move to a retirement village, would you still have enough money left to do so?
4. If there are other permanent residents such as your spouse who aren't co-borrowers can they stay in the home if you die?
5. Make sure the reverse mortgage features fit your specific needs. Consider: How much do you want to borrow? Do you want regular payments, flexible drawdowns or a lump sum? Do you want to make voluntary repayments and possibly redraw later? Do you want the security of a fixed rate?
6. Make sure the product has a 'No Negative Equity Guarantee'. Check the guarantee carefully with your legal adviser. Does it apply if you're in default or if you want to sell your home? Can the company ask you for a repayment before you die or move out permanently?
7. Check the contract and the default clauses — are they in plain English or hard to understand — would you be in default if you forget to fill out an annual declaration or break any of a long list of contract clauses?
8. Do you want to renovate at some time in the future and does the contract permit that? What are the conditions?
9. Make sure the lender and anyone you're dealing with about the mortgage (such as the mortgage broker and a company managing the mortgage) are all members of an approved dispute resolution scheme. To check phone 1300 780 808.
10. Get independent financial and legal advice. Use your own adviser, not an adviser recommended by the lender. Make sure the contract is checked thoroughly and your pension isn't adversely affected.

and each option has advantages and disadvantages, see *Don't lose your pension*, on page 14. Fees can be as high as $200 per flexible drawdown.

TRAP: if you decide on regular payments or flexible drawdowns check the conditions under which the lender can stop payments. Many lenders stop the payment if you're in default; and some may also stop regular payments if the value of your property has diminished. **Transcomm** can also vary the payments if interest rates change.

▶ Interest rates currently range between 7.5–8.5% pa for variable and fixed rates. Fixed loans are usually available for terms of between one and 10 years. **ABN AMRO** and **Bluestone** offer rates fixed for your lifetime; **Bluestone** also offers a capped variable rate (capped at a maximum of 9.89%) for the life of the loan.

TRAP: expensive break costs can apply if you repay the loan during a fixed-rate period. For example, Elsie (aged 70) chooses an 8% rate fixed for her lifetime. If interest rates reduce by 2% and she wants to repay the loan after eight years, the break cost could be as high as $15,000 for a $100,000 loan balance. However, if rates had gone up the lender would be able to reinvest the money at a higher rate, making a break profit, all or part of which may be payable to Elsie. With some lenders break costs apply even if the loan needs to be repaid because of your death.

▶ Set-up fees from $300 up to $2695 apply. Ongoing fees range from nil to $180 per year. You usually also have to pay between $150 and $350 for valuations normally every three to five years.

TRAP: if you want to repay the whole amount, beware of deferred establishment fees (such as 1% of the full amount if you repay during the first year) and higher discharge fees (as much as an extra $500). They apply with several lenders — usually during the first five years.

▶ Voluntary partial repayments of interest and principal are possible with all lenders without penalty on variable rate loans.

TRAP: not all lenders allow you to redraw voluntary repayments; some allow a free redraw while others charge up to $495 per redraw.

▶ With a reverse mortgage the title of the home stays in your name and you're responsible for all ongoing costs such as rates and maintenance.

TRAP: the lender can ask you to carry out repairs, if you don't do them you'll be in default with some lenders; others arrange the repairs and add the costs to your loan.

▶ You'll usually need the lender's approval to renovate.

Problems with Transcomm's reverse mortgage contract

During our research we became concerned about the contract and interpretations for **Annuity Plus Reverse Mortgage/Options** offered by **Transcomm** and notified it of our concerns.

Our concerns included:

▶ It didn't offer a 'No Negative Equity Guarantee'. We think a 'No Negative Equity Guarantee' is essential. Responding to our concerns, **Transcomm** told us it will now introduce this cover for all new and existing customers.

▶ **Transcomm** told us its loan has a fixed term of up to 30 years which ends when the borrower turns 85, but that you can extend the mortgage at this time. We think that a reverse mortgage should only end when you sell, move out permanently or die. **Transcomm** says it believes at age 85 it is in the interest of the borrower to review their position.

▶ **Transcomm** says it reviews regular payments as interest rates and/or the value of your home fluctuate. We think that as a result you may not have the certainty of receiving the income you need. **Transcomm** says this is to ensure that the borrower doesn't get into negative equity.

▶ The product name includes the word "annuity", which we think is confusing as it's a loan and not an annuity under the normal definition of annuities.

▶ The following contract condition: *"The balance of the loan becomes immediately due and payable upon any of the following events occurring: ...if a full independent valuation is obtained, where the loan exceeds 80% of that valuation."* **Transcomm** says as a result of introducing a 'No Negative Equity Guarantee' this clause is now under review.

▶ Poor drafting: *"Upon attaining 80 years of age you must provide us with an Enduring Power of Attorney if we so request."* **Transcomm** told us it doesn't want to be given the Power of Attorney itself but only a copy of a Power of Attorney you've given to someone else. We think that having an Enduring Power of Attorney may be good planning but it's not a decision that should be influenced or driven by a lender.

Transcomm says its product is unique and was developed after research with its members. It says the focus is on providing borrowers with income they can afford while retaining positive equity. "The borrower decides on the positive equity target they seek to achieve and we work with the borrower to try and meet the estimated equity target."

While we appreciate that **Transcomm** is dealing with some of our concerns, we still think it needs to resolve the remaining problems in its contract.

TRAP: renovations such as a wheelchair elevator or ramp may not be allowed because they may have a negative impact on the property's value.

Traps in the fine print

Reverse mortgage contracts contain many clauses that limit your rights. For example, many contracts allow the lender to make a range of changes without your agreement. And don't leave anything blank in the contract, we found a clause allowing the lender to fill in those blanks on your behalf.

Most of the contracts we looked at weren't written in plain English, and were often very difficult to understand.

We're most concerned about the wide default clauses that mean you can get into default, for relatively minor issues like overlooking some paperwork. Once you're in default the lender has the right to ask you for immediate repayment of the loan and may charge a penalty interest rate 2%–3% higher than the normal rate until you do so. Protections like the 'No Negative Equity Guarantee' may not apply and the lender can start enforcement action and sell your home.

Collins Securities, Macquarie Mortgages, Mariner Retirement Solutions, RESI Mortgage, Royal Guardian Mortgage Corporation and **Vision Equity Living** all use the same contract document. Some features and fees are different as they're all separate lenders. Among many other default clauses in this contract you'll be in default if "you breach any other provision of your loan contract". This contract also contains many clauses that are similar to a standard home loan contract and includes many provisions that you "must" do. For example, you must keep your password secure for an online or phone facility and you must punctually pay all rates, taxes … in connection with your home.

Reverse mortgages are targeted at elderly homeowners who will use the product until they die. It's foreseeable that at some point in the future these borrowers may be frail and that a bill for council rates may not be paid on time thus putting the loan into default.

Another default condition we're concerned about is the requirement from some lenders that you must fill out an annual statement declaring, for example, that you still live in the property. With the six companies mentioned above, and with **ABN AMRO**, **Australian Seniors Finance** and **CBA** you're in default if you don't fill this out.

With most contracts you're in default if you don't repay the loan when it's due. In some cases only a short time after the death of the last remaining borrower is allowed in the contract for repayment of the loan: **HomeStart** currently only gives 31 days (**HomeStart** told us this period is under review). **Australian Seniors Finance** only gives three months but told us this can be extended to up to 12 months on a case-by-case basis. **Collins Securities, Macquarie Mortgages, Mariner Retirement Solutions, RESI Mortgage, Royal Guardian Mortgage Corporation** and **Vision Equity Living** all only gave three months. When we told them about our concerns they responded that they will now extend this to 180 days for new and existing borrowers.

We've discussed these clauses with the lenders,

TRAVELLING ON THE OLD SILK ROAD


GENE ROSS

Frances, 80, from Sydney took out a reverse mortgage a few years ago.

Frances is on a pension and decided the loan would provide her with the money she needed for some improvements to her house and to fulfil a long-held dream. "I wanted to see Samarkand on the old silk road in Uzbekistan, it was magical," she says.

Before taking out the loan she discussed it with her five children who agreed with her approach. She was offered $100,000 by the lender but only took $70,000.

"We calculated the interest; if I live another 20 years there will still be something left even if my house depreciates in value," says Frances.

Could I get into negative equity?

We consider the case of a reverse mortgage of $75,000, 15% of the value of a home ($500,000) taken up by a 60-year-old.

We assumed interest is compounded monthly, the property valued annually, and the rate of property value increase and interest rates remain steady over the whole period. The final column shows that the length of time until negative equity occurs depends on the interplay of interest rates and property values.

Increase in property value per year (%)	Interest on loan (%)	Years until loan and house value are equal
0	8	24
0	10	19
2	8	32
2	10	24
4	8	47
4	10	31
6	8	88

MORE TRAILS

Reverse mortgages are distributed through financial institutions or by mortgage brokers and financial advisers paid by commissions.

For example, for a $100,000 loan with one company, a broker could get an upfront commission of $700 and an annual trailing commission of 0.25% of the loan amount; another company offers $2250 upfront or a combination of $1000 upfront and 0.2% trailing commission for the first 10 years.

For more about mortgage brokers see *M&R* Feb/March 2006.

OTHER OPTIONS

Bendigo Homesafe Equity Release and **Explorer Capital Succession Loan** are marketed to the same group of older consumers but are different to the reverse mortgages discussed in this article, for more information about these products go to **www.choice.com.au/money**.

see *Trust us, we're reasonable*, on page 13 for their responses.

How guaranteed is the guarantee?

A 'No Negative Equity Guarantee' is the most important protection in a reverse mortgage contract as it means the lender will cover the shortfall if your loan balance is greater than the sale proceeds of your home.

All companies now offer a 'No Negative Equity Guarantee'. But most may not honour the guarantee if you're in default at the time of the sale.

BankWest may not cover you if you've been in default at **any time** during the loan term. We think this seems even more restrictive. **BankWest** told us it would look at providing cover for the shortfall if the customer rectifies the default.

Many of the contracts also set out the guarantee in a way that makes it confusing and hard to understand.

All companies except **HomeStart** give the 'No Negative Equity Guarantee' if you want to sell your house. We told **HomeStart** that we're concerned about this and it responded to us saying this clause is now under review.

However, before the sale lenders usually require you to ask for their approval. They'll usually do a valuation and check that you're selling the property on the open market and are getting market value for it, technically called "an orderly arm's length sale".

Problems can occur if the valuation shows the house is worth more than the sale price. In this case, for example, **Lifeplan Australia Building Society's** 'No Negative Equity Guarantee' wouldn't cover you. Its contract says, "A sale of the security property will not be an arm's length orderly sale if the price of the security property is below the value of the security property determined by an independent valuer engaged by us shortly before the sale". **Lifeplan** says this clause is intended to

Features

Financial institution and product	Phone number	Website (www.)	Available in all states?	Variable rate (%)	1 Fixed rate (%)	2 Set-up fees ($)	Annual fee ($)	3 Regular valuations (years)
ABN AMRO Home Equity Access	1800 999 959	homeequityaccess.com.au	√	8.20	8.25–8.45	300	Nil	5
Australian Seniors Finance Lifetime Loan	1300 889 338	seniorsfinance.com.au	√	8.20	NA	990	144	NA
BankWest Seniors Equity Release	13 17 18	bankwest.com.au	√	7.72	NA	700	Nil	5–10 **(b)**
Bluestone Equity Release EQUITYtap	13 38 82	bluestone.com.au	√	8.19–8.39 **(d)**	8.29–8.49 **(e)**	595	Nil	3
CBA Equity Unlock Loan For Seniors	13 22 24	commbank.com.au	√	8.32	NA	950	144	2
Collins Securities Lifestyle Plus	1800 265 546	collins-securities.com.au	√	8.00	8.10–8.25	599	Nil	5
HomeStart Finance Seniors Loan (Deferred Payment Option)	08 8203 4000 and 1800 018 788	homestart.com.au	**(g)**	7.47	NA	770	Nil	NA
Lifeplan Australia Building Society Lifestyle Loan for Seniors	1300 130 038	lifeplan.com.au	**(h)**	7.79	NA	343	120	3
Macquarie Mortgage Silver Living (Deferred Repayment Option)	02 8232 0554	macqaurie.com.au/silverliving	√	8.12	8.19	650	60	5
Mariner Retirement Solutions Equity Access	1300 009 963 or 1800 009 963	marinerretirement.com.au	√	8.12	7.99–8.30	575	60	5
OFM/Mortgage House Seniors Home Equity Release Loan (k)	1800 339 922 (**OFM**), 13 31 44 (**Mortgage House**)	ofmig.com.au, mortgagehouse.com.au	√	8.25	8.30–8.40	900	96	1–3 **(m)**
Police & Nurses/Nurses First Credit Society Easy Living Access Loan	13 25 77	pncs.com.au	**(n)**	7.82	NA	850	80	5
RESI Mortgage Seniors Equity Advantage Loan	13 61 26	resi.com.au	√	8.10	8.20–8.25	655	Nil	5
Royal Guardian Mortgage Corp Royal Golden Years	13 34 55	royalguardian.com.au	√	8.09	NA	820	Nil	5
SGE CU Retiree Access Loan	1300 364 400	sgecu.com.au	√	8.30	NA	630	Nil	5
St George/Bank SA Seniors Access/Plus	13 35 55	stgeorge.com.au	√	8.32	NA	750	120–180 **(q)**	5
StateWest Credit Society Reverse Equity Loan	13 63 13	statewest.com	**(s)**	7.80	NA	649	80	5
Transcomm CU Annuity Plus Reverse Mortgage/ Options	03 9629 4484	transcomm.com.au	**(t)**	7.50	NA	1000	96	3
Vision Equity Living Equity Release	1300 728 286	visionequityliving.com.au	√	7.99–8.15 **(v)**	8.15–8.30	945/up to 2695 **(w)**	Nil	5

ensure the property is sold at a "fair price in respect of the interests of both the borrower and lender".

We also found a clause in the **Lifeplan** contract that seemed to negate the 'No Negative Equity Guarantee' if the property wasn't sold by the estate **on the day** the borrower died. We made **Lifeplan** aware of this and it amended the contract to give a six-month period for an estate to sell the property.

Trust us, we're reasonable

We've asked the financial institutions about their default clauses, we think many reasons for default aren't serious enough to justify triggering potentially devastating default action, and about limitations on their 'No Negative Equity Guarantees'.

They assured us they'd be reasonable and would work with consumers to rectify defaults. They also said that if their contract timetable is too short, then they'd work with an estate to extend the time allowable for a property's sale.

For example, **Australian Seniors Finance** said: "Whilst I appreciate that your surveys tend to be understandably clinical, I think it's important they should take into account the culture and attitude of providers particularly where there is a publicly expressed indication of flexibility to meet the circumstances of individual cases. Certainly **ASF** sees that the customer's interests are very much the **ASF** interest, hence the desire to work together to achieve suitable outcomes for everybody. We must have, however, a legal position for those situations which can only be resolved in a strictly legal context and where to do otherwise quite unreasonably prejudices such things as no negative equity benefits."

And **Macquarie Mortgages** told us: "As you are aware, this is a new product to the market for **Macquarie** and to date no borrower is in default of their reverse mortgage contract. If a borrower is in default we will look at the type of default and aim to rectify the default with the borrower. At all

Investment properties as security?	[4] Min/Max ($)	Loan-to-value ratio (LVR) for age (%)			Lump sum, regular amount and combination available?
		[5] 60 yrs	70 yrs	80 yrs	
Case-by-case	20,000/No max	11	20	33	√
	10,000/No max	15 **(a)**	25	37.5	√
√	20,000/250,000	25 (at 65) **(c)**	25	25	Lump sum only
√	30,000/1,000,000	15–21 **(f)**	25–35 **(f)**	36–45 **(f)**	√
	40,000/425,000	20 (at 65)	25	40	√
	30,000/500,000	15	25	35	√
	5000/100,000	15	25	30	√
	20,000/225,000	15 (at 65)	20	30	Lump sum only
	10,000/500,000	15	25	35	√
	10,000/500,000	15	25	35	√
√	20,000/1,000,000	15	25	35	√
	10,000/300,000	7.5–30 (at 65) **(p)**	7.5–30 **(p)**	7.5–30 **(p)**	Lump sum only
	10,000/500,000	15	25	35	Lump sum only
	10,000/500,000	15	25	40	Lump sum only
√	10,000/250,000	15	25	30	Lump sum only
	10,000/250,000	15 (at 63)	20	25	√ **(r)**
	10,000/100,000	15 (at 65)	20	20	Lump sum only
Case-by-case	10,000/400,000	11.54 (9% at 55)	18.97	31.19	√ **(u)**
	10,000/500,000	15	25	35	√

Table notes

NA Not available/not applicable.

1 Where a range is given the cheaper rate usually applies for a shorter term (with the exception of **RESI** where the longer term is cheaper). Terms range from one year to lifetime.

2 Minimum cost including valuation and settlement fees but excluding the lender's, if applicable (and your own), conveyancing, legal and other costs. Higher valuation charges could apply depending on the location and property value. All these fees will add to your debt unless paid upfront.

3 You usually have to pay for these valuations. Costs range between $150 and $350.

4 Usually the lesser of LVR and maximum amount applies. Maximum amounts are usually for the maximum age, such as for an 85 year old. Where there are different LVRs for different locations we've given the higher one.

5 For loans with a minimum age of 65 the LVR for age 65 is given.

(a) Minimum age 55 for younger partner of a couple, older partner must be at least 60.

(b) First valuation after 10 years, after this every five years.

(c) Minimum age 60 for younger partner of a couple, the older partner must be at least 65.

(d) Both rates are capped at a maximum of 9.89%. Lower interest rate for lump sum payment to the borrower, higher rate if paid as regular amount.

(e) Lower interest rate for lump sum; higher rate if paid as regular amount.

(f) Lower LVR for lump sum; higher LVR if payment taken as regular amounts depending on the period and whether single or joint borrowers.

(g) SA only.

(h) Except ACT, NT and Tasmania.

(k) Lender is **OFM**; **Mortgage House** is a supplier.

(m) After 15 years valuations are done yearly.

(n) WA, Victoria and major cities in other states.

(p) Depending on the growth rate in the suburb in which the property is located.

(q) $120 Access, $180 Access Plus.

(r) Access Plus is available as lump sum, regular amount or combination. Access only available as lump sum.

(s) WA only.

(t) Except NT.

(u) Annuity Plus Reverse Mortgage Options available as lump sum, regular amount or combination. Annuity Plus Reverse Mortgage available as regular payment only.

(v) 8.15% for lump-sum loan. 7.99% if paid as regular amount or combination.

(w) $945 for lump-sum loan. $945 plus 1% of loan amount (capped at $1750) if paid as regular amount or combination.

Contract conditions

	Default		'No Negative Equity Guarantee'			Repayments	
Financial institution and product	1 Not for annual paperwork problems	2 No penalty rate	3 Guarantee applies	4 If in default	5 If property sold	6 No penalties for early repayment	7 Redraw possible
ABN AMRO Home Equity Access			√		√		√
Australian Seniors Finance Lifetime Loan			√		√	√	√
BankWest Seniors Equity Release	√	√	√	(c)	√	√	√
Bluestone Equity Release EQUITYtap	√		√		√		√
CBA Equity Unlock Loan For Seniors			√	(d)	√	√	√
Collins Securities Lifestyle Plus			√		√		√
HomeStart Finance Seniors Loan (Deferred Payment Option)	√		√		(e)		√
Lifeplan Australia Building Society Lifestyle Loan for Seniors	√	√	√		√	√	√
Macquarie Mortgage Silver Living (Deferred Repayment Option)			√		√		√
Mariner Retirement Solutions Equity Access			√		√		√
OFM/Mortgage House Seniors Home Equity Release Loan (g)	√		√		√	√	
Police & Nurses/Nurses First Credit Society Easy Living Access Loan	√		√ (k)	√ (k)	√ (k)	√	√
RESI Mortgage Seniors Equity Advantage Loan			√		√		√
Royal Guardian Mortgage Corp Royal Golden Years			√		√		√
SGE CU Retiree Access Loan	√	√	√	√	√	√	√
St George/Bank SA Seniors Access/Plus	√		√	√	√	√	√
StateWest Credit Society Reverse Equity Loan	√		√	√	√	√	
Transcomm CU Annuity Plus Reverse Mortgage/Options	√		√ (m)	(e)	(e)	√	
Vision Equity Living Equity Release			√		√		√

times, we will maintain a level of reasonableness when dealing with borrowers in default as well as taking into consideration any risk associated with the default."

We think terms like reasonableness and flexibility that companies have pledged to us should be written into contracts to give consumers greater security. Potential future problems should be averted now by requiring lenders to provide clear, reasonable, plain English contracts.

We don't believe consumers should be expected to just trust a lender with their home which might be their most important asset.

We think all companies should ensure a customer is only put in default for serious breaches of the contract. The most important provision of the contract, the 'No Negative Equity Guarantee', shouldn't be conditional on relatively minor default clauses some borrowers may not be able to meet.

David Tennant, director of the ACT Consumer Law Centre expressed the view that: "In such a new market, with so little direct regulatory guidance, it's probably safer to think the worst of everything until it is proven different"

Our verdict

We are very concerned about the broad default clauses and limits to the 'No Negative Equity Guarantees' in reverse mortgage contracts.

We think such contract traps have the potential to place elderly consumers in financial danger at a time when they may be frail and vulnerable (such as when they have to sell their home to move into aged care). Reverse mortgage contracts need to be cleaned up and made crystal clear now to prevent excessive risks to borrowers in the years to come.

We think existing laws, including the Uniform

DON'T LOSE YOUR PENSION

A reverse mortgage can affect your pension under the income and asset tests. The first $40,000 of an unspent reverse mortgage is asset test exempt for 90 days, but will be counted after that.

If you use funds from a reverse mortgage for something that's counted as an asset, such as a car or a financial investment, your pension could be affected. Homeowners can have up to $157,000 (single), $223,000 (couple) in assets before pension payments are affected and the pension cuts out at $322,000 (single) and $497,500 (couple).

Loan amounts aren't counted as income at the time they're received. But income from financial investments such as money in a bank account, is assessed under the deeming rules (a specific rate of interest set by the government) regardless of what interest you actually get.

	Regular payments	In case of death	
8 Lender can't request repayments	9 Lender can't stop regular payment	10 Right to stay for residents who aren't borrowers?	11 Time for estate to repay the loan (months)
√	√		12
√	√	√ **(a)**	3 **(b)**
√	NA		6
√	√	√ **(a)**	6
√	√		Case-by-case
√	√		6
(f)	√		1 **(e)**
√	NA		6
√	√		6
√	√		6
√	√	**(h)**	10
√	NA		Case-by-case
√	NA		6
√	NA		6
√	NA		Case-by-case
√	√	Case-by-case	Case-by-case
√	NA		6
(n)	**(p)**		Case-by-case
√	√		6

Table notes

√ Indicates a condition we think could be of value to borrowers.

NA Not available/not applicable

1 Many lenders ask the borrower to fill out an annual statement confirming they still live in the house etc; with many lenders if you don't fill out the paperwork you will be in default.

2 Default rates apply if borrower is in default and are usually 2–3% higher than the normal rate.

3 Lender covers the shortfall if your house is sold in an approved sale for less than the balance of the loan.

4 If you're in default when the loan becomes due many lenders say the 'No Negative Equity Guarantee' doesn't apply, see *How guaranteed is the guarantee?*, on page 12.

5 In case of an orderly arm's length sale approved by lender, see *How guaranteed is the guarantee?*.

6 Variable rate loans; break costs may apply for fixed loans.

7 For voluntary repayments of the principal. Some lenders allow a free redraw while others charge up to $495 per redraw.

8 Only **HomeStart Finance** and **Transcomm** may request repayments in case of the loan amount reaching a specific limit. However, most lenders could ask for full repayment in the case of default by the borrower.

9 Only **Transcomm** varies the regular payment depending on interest rate and property value. However, most lenders could stop the regular payment in the cause of default by the borrower. Some may also stop it if the value of the house has diminished.

10 Usually the loan becomes due once the last borrower moves or dies. This can be a problem if, for example, your spouse is not a co-owner of the house.

11 Companies say they would work with borrowers, see *Trust us, we're reasonable*, on page 13.

(a) Loan is only repayable on the death or entry into long-term care of the last resident even if the resident is not an owner/borrower.

(b) **Australian Seniors Finance** says it may extend this up to 12 months on a case-by-case basis.

(c) **BankWest** may not honour the guarantee not only if you're in default when the loan is to be repaid but also if you've been in default at any time during the loan term. **BankWest** told us it would look at providing the 'No Negative Equity Guarantee' if the customer rectifies the default.

(d) The contract for **CBA** says the guarantee doesn't apply if an "undertaking in connection with this Contract is breached". We think this means the guarantee wouldn't hold in many cases, including if you're in default.

(e) Company told us this clause is under review.

(f) Repayments may be requested when the loan amount reaches more than 50% of the value of your home. **HomeStart** says affordability will be assessed with the borrower to avoid hardship.

(g) Lender is **OFM**; **Mortgage House** is a supplier.

(h) **OFM/Mortgage House** require all residents to be borrowers, so if your spouse is not a co-owner you won't be able to get a loan with them.

(k) **Police & Nurses/Nurses First** doesn't call this a 'No Negative Equity Guarantee' but a "non-recourse" loan which is essentially the same thing.

(m) In response to our concerns **Transcomm** has told us it has now introduced a 'No Negative Equity Guarantee" for new and existing borrowers. See *Problems with Transcomm's reverserse mortgage contract*, on page 10.

(n) Full repayment of the loan when the loan balance exceeds 80% of the value of your home, **Transcomm** told us this is under review.

(p) Regular payment can be varied at any time depending on interest rate and property value.

Consumer Credit Code don't adequately protect reverse mortgage consumers. Our investigation has already prompted many contract changes but much more is needed.

We'll be urging state governments to introduce uniform reverse mortgage laws in order to force the industry to standardise its contracts.

A new regulatory framework is needed to ensure:

- Separate contracts for reverse mortgages instead of an add-on section in a general home loan contract.
- Contracts are to be written in plain English.
- Cooling-off period.
- Default conditions are only in place for serious contract breaches.
- The 'No Negative Equity Guarantee' is very clearly spelled out in the contract and should only be conditional on serious breaches of the contract. It should cover the net proceeds of the house in an orderly arm's length sale.
- All lenders and other companies dealing with the consumer about the loan, such as mortgage brokers and mortgage managers, are members of approved external dispute resolution schemes.
- Licensing of mortgage brokers, especially if they're dealing with reverse mortgages, to help ensure that consumers receive proper and complete advice.

MORE INFO ...

- **Centrelink Financial Information Service, phone 13 10 00.**
- **National Information Centre on Retirement Investments (NICRI), phone 1800 020 110, www.nicri.org.au.**
- **Australian Securities and Investments Commission, www.fido.gov.au.**
- **SEQUAL is an industry association for reverse mortgage providers. A voluntary code of conduct applies to members, the code includes the requirement for a 'No Negative Equity Guarantee' and participation in an approved external dispute resolution scheme, www. sequal.com.au.**