

Turn equity into cash without selling up

IT USED to be that once you'd retired you could write off the possibility of getting a loan for just about anything.

Sure you may have paid off your house in full, you may be getting a regular if limited income in the form of a pension or, preferably, an annuity from a super fund. But if you needed extra cash to renovate the house, buy a campervan and travel around Australia, or take off overseas for six months no one, least of all the banks, was interested.

"Banks have had this idea that older people were not worth giving money to, even if they had unencumbered assets like a house paid off in full," says Mr Greg O'Neill, chief operating officer with La Trobe Home Loans of Australia.

Flying in the face of such short-sighted reasoning, La Trobe Home Loans has launched a new kind of loan that gives retired people the chance to turn the equity in

their home into cash without having to move out first.

According to the Australian Bureau of Statistics, 20 per cent of our population will be over the age of 65 by the year 2000, and around 35 per cent will be in receipt of a pension or some other kind of fixed income.

The new loan operates on the reverse equity or reverse mortgage principle. Instead of the homeowner making periodic payments to the lender as with a regular mortgage, with a reverse mortgage payments — either as lump sum or smaller regular payments — are supplied from the lender to the borrower.

The lender does so on the basis of the capital value of the borrower's home, anticipating a day when the home will be sold and the loan recouped in a lump sum. Lenders in effect take over a kind of partial ownership of the borrower's home, giving the borrowers an unconditional life tenancy.

Loans range from a minimum of \$3000 to a maximum of \$100,000, or 20 per cent of the home's value. The variable interest rate will always remain comparable with that of the four major banks' owneroccupied housing rate, less .05 per cent.

Seniors can make fortnightly principal and interest repayments in line with their pension income if they choose, so helping to protect and preserve their equity in their home, says Mr O'Neill. After the age of 70 years, there are no repayments required.

For a loan of \$25,000 with a notional repayment of \$100 per month, Mr O'Neill estimates that after 12 years borrowers will still retain a 50 per cent equity in their home, even if the property value does not increase during this period.

For more information about Home Equity Loans please contact La Trobe Home Loans on 051 74 9400 or 1800 819 075.



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Get ahead in reverse

Reverse mortgages allowing retirees to top up their income have virtually vanished from the market – but not it seems from lack of demand.

By MAUREEN MURRILL

THE US market is often the "test market" for what will roll off the production line in Australia, particularly when it comes to the financial services industry.

Take, for example, the cash management trust revolution, the huge array of managed investment funds and more recently the concept of mortgage originators. They are all taken for granted now and they are considered as Australian as meat pies and Holden cars. But they had their genesis in the US.

It's the same with reverse mortgages. These allow ageing home-owners to access equity in their home to improve their standard of living. Simply, a retiree can "borrow" from a financier, never pay the loan back but agree to let the lender settle up when they die or move out of the house. The big comfort for most retirees was that no matter whether the debt eventually amounted to more than the value of the home, they could continue to live in their home until they died.

For some reason, the concept of reverse mortgages, which has been a huge boon for the ageing population in the US, has not become a feature of retirement financial planning in Australia. It made a brief appearance in a couple of forms and, when a private lending organisation launched a product two years ago, was embraced with alacrity by the powerful retiree market. So much so that it was forced off the market because demand for funds was dramatically

outstripped by supply.

On the other hand, the National Australia Bank says it has always had a watching brief on reverse mortgages but never thought the demand was very strong. However, the bank recently stepped up its research.

Peter Flavel, managing director of National Financial Management, says this is partly due to the bank's belief that while there is now a superannuation system in place to allow people to contribute to financing their own retirement, the major concern with the elderly is their ability to meet the growing cost of health care in their old age.

A refined reverse mortgage might be able to do this, provided retirees overcame their reluctance about leaving to their children a home that still had even a small mortgage. Commercially, Mr Flavel says, the product could be designed to benefit both retirees and the bank.

The big hurdle for the financiers is that retirees are living longer and longer, which means they have to wait an exceptionally long time to get their money back. And in the meantime, they have to carry the risk that in the end they will be compensated by an ever upward-moving real estate market.

For about three years until 1996, the Department of Social Security worked in conjunction with the Advance Bank (now St George) to offer a product called the Home Equity Conversion Loan. The arrangement was that home owners over the age of 68 could draw down agreed amounts each year against the value of their home. There were upper limits and, as a guide, they could draw \$5000 a year if they were under the age of 75 and \$7500 a year after that. The product was withdrawn from the market in June 1996 without any real explanation.

However, Advance ran its own retiree draw-down facility and, while it did not

mirror the DSS-sponsored product, it was called Money for Living. To qualify, a borrower had to be over 68 and own a home (even one that was still mortgaged). Under the arrangement, they could borrow up to 20 per cent of the value of the home, up to a limit of \$100,000.

The bank insisted the money be taken in one lump sum and offered the borrower the option of paying back nothing at all, leaving the estate to finalise the agreement when they died, or to pay out the mortgage in the strictly normal sense of the word. The carrot again was the fact that no matter how long they lived and no matter how large the "mortgage" became, the house was there for them to live in.

Advance, which has been taken over by St George, still offers the Money for Living product. But unlike the bank's other mortgage products, it isn't pushed by a marketing campaign. The reason undoubtedly is that each time the bank enters into a contract for this product, it is taking a risk that it will have to wait a long time for its money.

The bank is also captive to the fickle property market and to the vagaries of

inflation, and it can't force people to make early repayments or call in the loan.

These are all sentiments expressed by other major banks, which have investigated the system over a period of years but made a commercial decision to stay out of the market.

The innovative La Trobe Home Loans group, based in Traralgon, a couple of years ago had an extensive pool of funds that it allocated to reverse mortgages. The offer had to close, almost as soon as the colour got out into the market, as the demand completely outstripped supply.

And despite its popularity with the retiree market, it has been difficult to again generate a constant supply of funds from financiers who obviously find risks in more traditional markets more attractive.

