SEQUAL

Senior Australians Equity Release Association of Lenders

EVERYTHING YOU NEED TO KNOW BEFORE TAKING OUT AN EQUITY RELEASE OPTION (LIFETIME OR REVERSE MORTGAGE)



WHAT ARE EQUITY RELEASE MORTGAGES?

Recently there has been much comment about the 'savings shortfall' that many Senior Australians can expect to be faced with in their retirement.

The issue has become an increasing focus of many in society, including the Government, Senior's organisations, seniors themselves and their families. The media is challenging the issue with increasing frequency, and there is much debate in the community as to how best to manage the issue.

There are a number of options available to seniors, their families and professional advisers to consider. These may include:

- selling the home and downsizing to a smaller property;
- borrowing from the family;
- adjusting ones lifestyle to reduce daily expenses;
- returning to the workforce;
- releasing some equity from the sale of a portion of the property;
- releasing some of the equity in the home or investment property via an equity release mortgage.

This last option is becoming increasingly popular in Australia, and is based on similar concepts that have been available in the UK, USA and Canada for the past decade.

Some of the typical uses of the funds raised from an Equity Release option include:

- Treating yourself such as with a holiday or travel, or purchase of a car
- Home maintenance or improvements
- Long-term care or medical expenses
- Supplement your income
- Debt consolidation
- Supporting the kids or grandkids.

The most common Equity Release option available to Seniors in Australia is a Lifetime or Reverse Mortgage.

A Lifetime Mortgage is usually structured as a loan secured with a first mortgage on your property, but unlike a traditional mortgage, no repayments are due until all Borrowers permanently vacate the property (hence the term "Lifetime Mortgage"). This will usually be when all Borrowers have passed away, moved into long term aged care, or the property has been sold, at which point the Lender will seek repayment of the funds owing.

Funds released via the loan can be taken as a single lump sum, a series of instalments or drawn down under a "line of credit" facility. The options available will vary with each Lender. Whilst Lenders will accept voluntary repayments, no regular repayments are required.

Because there are no repayments due whilst the Borrowers are living in the property, interest and fees are added to the loan balance during this period. This is often referred to as the "capitalisation" or "compounding" of interest and fees to the loan balance. Interest will usually not be charged until funds have actually been advanced by the Lender to you.

When the loan and all interest and fees are due for repayment, the Borrowers or their estate will typically have the option of repaying the loan out in full and retaining the property, or selling the property and repaying the Lender from the proceeds of the sale.

WHAT IS SEQUAL?

SEQUAL has been established in January 2005, to provide a level of information to seniors considering an Equity Release option, which includes a Code of Conduct to which SEQUAL members have agreed to adhere. SEQUAL members are organisations that offer a product, or advise on a product, that will allow seniors to access the equity in their home.

SEQUAL is dedicated to the protection of Borrowers and the promotion of responsible Equity Release options. All participating Members are required to adhere to the Code of Conduct and may display the SEQUAL logo in their brochures and other printed material as a confirmation of their commitment to SEQUAL, to their customers.

You may be considering entering into some form of Equity Release option, to assist in providing you with additional funds in retirement. SEQUAL strongly recommends that you seek independent financial and independent legal advice before entering into such a transaction.

Any reference to a SEQUAL member or an Equity Release product in this document shall not constitute advice or a recommendation to proceed with an Equity Release option.

IF IN DOUBT?

There are a number of issues which you must fully assess for yourself. No member of SEQUAL will sell you a loan which does not meet the SEQUAL Code of Conduct. If you have any doubt about a particular equity release option, you should look for the SEQUAL logo as confirmation that the Lender has agreed to adhere to the Code of Conduct.

CODE OF CONDUCT

Each Member of SEQUAL agrees its equity release product(s) will adhere to, and be measured against the following Code of Conduct in dealing with Senior Australians their families and advisers. As a minimum, Members of SEQUAL shall:

1. Treat all Borrowers with respect and dignity;
2. Participate in an ASIC approved External Dispute Resolution Scheme;
3. Ensure that all products carry a clear and transparent ‘no negative equity’ or ‘non-recourse’ guarantee. That is, the Borrower(s) will never owe more than the net realisable value of their property, provided the terms and conditions of the loan have been met;
4. Strongly encourage Borrower(s) to discuss the transaction with family members and to seek independent financial advice from a qualified financial adviser;
5. Strongly encourage Borrower(s) if entitled to Centrelink benefits, to discuss the transaction with Centrelink to ensure they fully understand the impact;
6. Ensure that the Borrower(s) obtains independent legal advice performed by the solicitor of their choice. Prior to the completion of the transaction, the Borrower(s) or their solicitor will be provided with full details of the benefits the Borrower(s) will receive, and the obligations they are entering into;
7. Clearly and accurately identify all costs to the Borrower(s) that are associated with the transaction;
8. Not assert or imply to a Borrower(s) that the Borrower(s) is obligated to purchase any other product or service offered by the Member or any other company in order to enter into an equity release product;
9. Provide in writing, a fair and complete package of equity release documents, covering the benefits and obligations of the product. This will include making available to the Borrower(s) and their advisers a tool illustrating the potential effect of future house values, interest rates and the capitalisation of interest on the loan; and
10. Ensure that all loans are written under the Uniform Consumer Credit Code (UCCC), irrespective of the use of proceeds from the loan.

All Members will comply with the Privacy Act, Trade Practices Act any other relevant Code or Regulation at law.

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