Thinking of using the equity in your home?

An independent guide to using the equity in your home

MONEYSMART

Simple guidance you can trust

ASIC

Australian Securities & Investments Commission

About ASIC

The Australian Securities and Investments Commission (ASIC) regulates financial advice and financial products (including credit).

Our website for consumers and investors, MoneySmart, offers you free and independent tips and safety checks about the financial products and services we regulate.

Visit **www.moneysmart.gov.au** or call ASIC's Infoline on 1300 300 630.

About this booklet

This guide is for you if you are thinking of using the equity in your home through an equity release product (for example, a reverse mortgage or home reversion scheme).

You might:

- be 60 or over, retired, or approaching retirement
- need extra money for a specific reason
- see yourself as 'cash poor' but 'asset rich' because you own your home
- want to avoid selling your home.

An equity release product is only one option available to you. Make sure you do your homework before you go ahead.

This guide has independent information from ASIC about equity release products. It includes checklists and tips to help you work out where you stand and what you want.

This guide can help you find out if using the equity in your home through an equity release product is the right option for you.

Contents

Key tips and safety checks

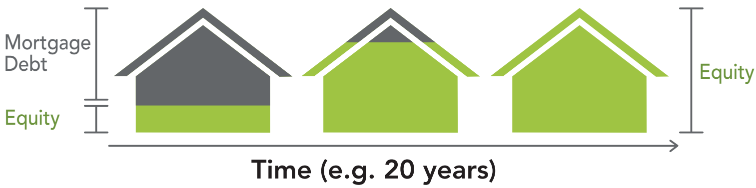
- **Look at all your options**
  Is there a better way for you to meet your financial needs, now and in the long term? See a licensed financial adviser, a financial counsellor and/or a Financial Information Service Officer from Centrelink.
- **Only get what you need**
  Will you have enough equity left to cover future medical and accommodation costs? You might live longer than you think!
- **Shop around**
  Does the reverse mortgage you're being offered have a **No Negative Equity Guarantee (NNEG)**? This can give you important protection. And if you decide you want a reverse mortgage, make sure that's what you're getting.
- **Get independent advice**
  Do you understand what you're signing up for? Go through the terms and conditions with a lawyer and talk with your family.

About equity release

Equity is the part of your home that you own outright. If you have no mortgage on your home, you own 100% of the equity. In other words, if you sold your home, all the money from the sale would go to you.

The image below shows how your equity increases over time with an ordinary mortgage.

Your equity in an ordinary mortgage



Equity release products let you use the equity in your home while you still live in it. In Australia you might be offered either:

- a reverse mortgage (this is the most common), or
- a home reversion scheme (available in some areas).

These products have some common features:

- They are generally only available if you are aged 60 or over.
- You can qualify for equity release without an income.
- You don't need to repay any money while you live in your home.

Quick tip

Centrelink offers an alternative way to release equity in your home through the Pension Loans Scheme: see page 13.

The risks of equity release

Equity release products can give you benefits, but they also have significant risks:

- They can be difficult to understand.
- They can be relatively expensive compared to other types of loans with regular repayments.
- If you breach certain terms and conditions you may have to sell your home and repay the loan.
- If property values don't increase as much as you think, or if they fall, you might end up with less money than you expect when you sell your home.
- Your circumstances and financial views might change as you age – if you release too much money now you may find you do not have enough later on.

Quick tip

You can sometimes get a reverse mortgage if you already have a mortgage on your home. But you will need to pay off the amount owing on your current mortgage before you do anything else with the money you get from the reverse mortgage.

What is a reverse mortgage?

A reverse mortgage is currently the most common equity release product in Australia. With a reverse mortgage, you use the equity in your home as security to borrow money. You can take the loan as a lump sum, in a regular income stream, as a line of credit, or as a combination of these options.

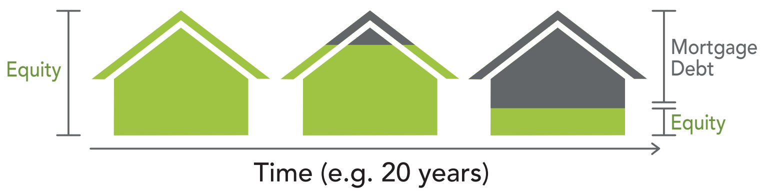
A reverse mortgage is generally only available if you are aged 60 or over. The amount you can borrow is also linked to your age (that is, the older you are, the more you can borrow).

You don't need to make repayments on the money you borrow while you live in your home. But you must repay the loan in full if you sell your home or die and, in most cases, if you move into aged care.

The money you owe increases over time. Fees and interest are added to the loan balance as you go, and the interest compounds. This means you pay interest on the interest, plus interest on any fees or charges added to the loan balance.

The image below shows how your equity decreases over time with a reverse mortgage.

A reverse mortgage



With compound interest, the amount you owe increases more quickly after the first 10 years: see the graph on the next page.

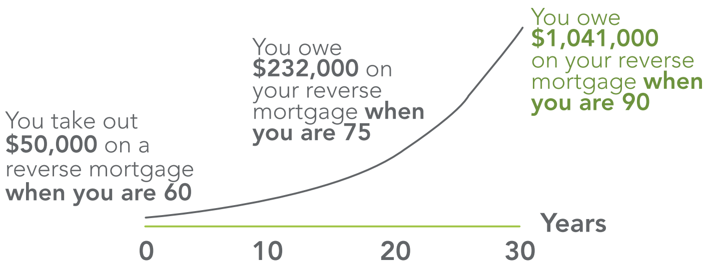
How much will it cost you?

How much a reverse mortgage costs you in the end depends on:

- how much you borrowed at the start (the principal)
- how long you have the loan for (the term of the loan)
- whether you receive your loan as a lump sum, a regular income stream, or a line of credit (the loan structure)
- the interest and fees you pay on the loan
- whether you borrow any more money
- whether you have a **No Negative Equity Guarantee (NNEG)**: see the next page

The graph below shows how compound interest and fees could increase a loan of $50,000 to $232,000 over 15 years or $1,041,000 over 30 years. Keep in mind that the value of your property is also likely to change over this period.

What you will owe on a $50,000 loan over 30 years



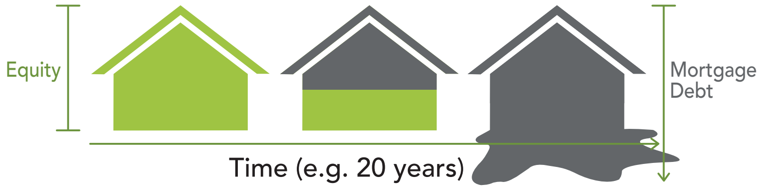
Source: MoneySmart reverse mortgage calculator at **www.moneysmart.gov.au**. Fixed interest rate of 10%, compounded monthly, $1,200 establishment fee, $12 monthly fees, assuming no repayments are made on the loan during that time.

No Negative Equity Guarantee (NNEG)

Because of compound interest and fees (and not making any repayments), the amount you owe on a reverse mortgage can grow very quickly.

What you owe can end up being more than the value of your home. If this happens, you have 'negative equity' in your home (that is, you owe more than your home is worth). The image below shows how you could end up owing more than your home is worth over time.

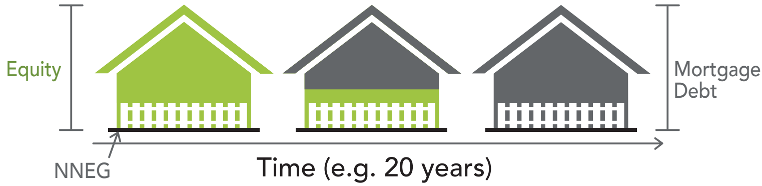
Negative equity



Most reverse mortgages protect you against negative equity by putting a limit on how much you can owe with a **No Negative Equity Guarantee (NNEG)**.

NNEGs can be lost for a serious breach of the terms and conditions of your loan (for example, wilful damage to your home). In some cases, your protection could be lost for a minor breach of the terms and conditions, so check the fine print: see page 36. The image below shows how a NNEG can protect you against negative equity.

No Negative Equity Guarantee (NNEG)



Not all reverse mortgages offer a No Negative Equity Guarantee (NNEG), and those that do are not all the same. Providers of reverse mortgages who are members of SEQUAL must offer a NNEG that applies in all but limited circumstances. SEQUAL is the Senior Australians Equity Release Association of Lenders: see 'To find out more' on page 42.

What is a home reversion scheme?

Home reversion schemes are currently only available if you are aged 60 or over and live in certain areas in Sydney or Melbourne.

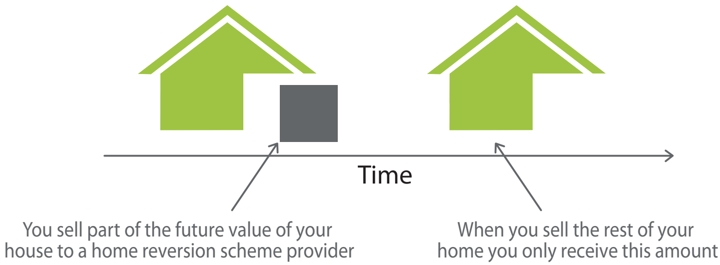
With a home reversion scheme, you sell a proportion of the equity in your home (for example, up to 65%) while you still live there. You receive a lump sum payment in exchange for a fixed proportion of the future value of your home.

This is different from a reverse mortgage, which is a loan. With a home reversion product, the proportion of the future value of your home that you sell now belongs to the scheme provider. But it is only paid to them when your home is sold (for example, if you move into aged care or die).

The lump sum you receive upfront is reduced or 'discounted' to reflect your age and life expectancy. This is because those factors will determine when, and how much, the scheme provider receives for their share of the future value of your home.

Because you can only sell a fixed proportion of the future value of your home, the remaining proportion of your home equity is protected. Whatever is left over after the scheme provider receives their amount will go to you, or to your estate. The image below shows how a home reversion scheme works.

Home reversion scheme



How much will it cost you?

How much a home reversion scheme costs you in the end depends on:

- the proportion of home equity you sell
- how much money you get for it (the discounted lump sum you receive)
- how long you live in your home
- how much your home is eventually sold for.

For both reverse mortgages and home reversion schemes, the value of your remaining home equity depends on what your home is worth (and this can rise or fall in value).

If property values don't increase as much as you have assumed, or if they fall, you might end up with less money than you expect when you sell your home. In the worst case scenario (if you take out a reverse mortgage that does not have a No Negative Equity Guarantee), you might be left owing more than the value of your home.

So, if you decide to get an equity release product, be conservative in your assumptions about housing values when you are planning how much equity you want to access.

What is the Pension Loans Scheme?

Centrelink and the Department of Veterans' Affairs offer another way to release equity in your home (or other real estate assets) through the Pension Loans Scheme.

You (or your partner) might be eligible if at least one of you is of Age Pension age and:

- you only receive a part Age Pension, or
- you cannot get an Age Pension because your income or assets (but not both) are over the relevant limits.

The Pension Loans Scheme lets you use your property as security for a loan. The loan amount is limited to ensure that you cannot end up with negative equity in your property.

If you're eligible, and depending on the value of your property, you can top up your fortnightly payments to the maximum amount of Age Pension available, plus some additional benefits. Lump sums are not available, so this is a useful option if you only need small regular amounts.

The loan does not need to be repaid until you die or sell your property. You can make full or partial repayments at any time.

You will pay compound interest on the balance of the loan, but the interest rate is significantly lower than commercial equity release products.

Quick tip

Contact Centrelink or the Department of Veterans' Affairs for information about the Pension Loans Scheme, or to ask how any equity release product will affect your pension or any other benefits. See 'To find out more' on page 42.

Is equity release right for you?

Using the equity in your home is a big step. It involves what is probably your most valuable asset – your home.

List the reasons

To find out whether the benefits of an equity release product outweigh the risks for you, work out exactly what you need the money for. We've listed some common reasons and things to think about on the next page.

Write down your own reasons on the next page and keep the list with you as you work through this guide. As you go along, look again at your list:

- Is what you'll gain worth what you're giving up?
- Can you put off using your home equity? (The earlier you release it, the more you will pay: see page 8.)
- Is there a better way to meet your financial needs?
- Could you lose your pension or benefits? (See 'To find out more' on page 42.)

Avoid using an equity release product to get money for investing. The amount you'll have to repay on a reverse mortgage will increase with interest: see page 8, but there's no guarantee that your investment will do the same.

Reason	Things to consider
Travel/Lifestyle/ Buying a car	▶ You might really need your home equity later on (for example, to pay medical bills or for aged care accommodation): see page 18.
Paying off debts/ Helping out family	▶ You might leave yourself short of cash in the long run: see page 17.
Increasing your income	▶ If this is your reason, look at getting the money in a regular income stream, rather than as a lump sum or a line of credit. That way you're not tempted to draw down more than you need or can afford. See 'How the money is paid' on page 28.

Your reasons

Budget for your old age

Most people don't budget for their old age. You'd be surprised at how long you might live!

Your sex and current age		Your chance of living to age 75	80	85	90	95
Female	55	89%	82%	71%	54%	35%
	60	89%	82%	70%	52%	32%
	65	90%	82%	69%	50%	30%
	70	93%	84%	69%	49%	28%
	75		88%	72%	49%	27%
	80			79%	53%	28%
Male	55	82%	72%	58%	40%	24%
	60	82%	71%	56%	37%	21%
	65	84%	71%	54%	35%	19%
	70	89%	73%	55%	34%	18%
	75		81%	59%	35%	17%
	80			70%	40%	19%

Source: Australian Government Actuary, 2008.

Quick tip

For more information about life expectancy, look under 'superannuation and retirement' on ASIC's consumer website, **www.moneysmart.gov.au**.

The table below shows some everyday costs you might have. Consider adding your own costs in the right-hand column.

But you should also plan and budget for long-term needs (shown in the table on the next page). Otherwise you could leave yourself short of cash at a time in your life when you can least afford it.

Everyday need	Comfortable lifestyle – couple (cost per week)	Your own costs (per week)
Health	$116	
Housing costs	$185	
Energy	$40	
Food/Clothing	$242	
Transport	$134	
Household goods and services	$85	
Leisure/Gifts	$306	
Total per week	**$1118**	

These figures are indicative only and have been rounded. The costs (and your options) might differ depending on where you live and your level of income.

Source: Westpac ASFA retirement standard study, March 2010.

Long-term need	Likelihood of need	What you might need	Cost
Health and disability	56% of people aged 65+ have at least one form of disability	Hearing aids (for each ear)	$1,500–$10,000
		Hip replacement	$5,000–$7,000
Assistance	43% of people aged 65+ need some form of assistance	Home help (for example, carer or medical alert service)	$2,000–$11,000 (per year)
Aged care accommodation	23% of people aged 85+ are in aged care	Accommodation bond deposit for aged care	$0–$250,000
		Residential aged care costs	$11,000–$34,000 (per year)

These figures are indicative only and current at time of printing. The costs (and your options) might differ depending on your level of income.

Sources: ABS, Australian Institute of Health and Welfare, CHOICE, Department of Health and Ageing, Zimmer and SEQUAL.

Check your financial situation

You've got an idea of how far into the future you need to plan. Now look at your current financial situation. Do you really need to use your home equity now? If so, how much can you afford to use now instead of later?

Things to consider	Questions to ask
Your current income	▶ How much income do you get from part-time or casual paid work? ▶ Do you get regular income from savings or investments (including superannuation)? ▶ Do you get income from rental property or other sources?
Your current expenses	▶ How much do you spend on everyday living expenses? ▶ Do you have regular repayments on your credit card or other loans? (See page 21 for tips on dealing with debt.)
Your pension or benefits	▶ Will equity release affect your pension or other benefits? (See 'To find out more' on page 42.)

Quick tip

Use ASIC's MoneySmart budget planner calculator at **www.moneysmart.gov.au** to work out your current financial situation. If you can afford it, think about getting independent financial advice: see 'To find out more' on page 42.

Things to consider	Questions to ask
Your long-term financial needs	How much money should you allow for: ▶ Aged care accommodation? ▶ Home help costs? ▶ Medical expenses? ▶ Funeral costs? ▶ Downsizing to a smaller home? ▶ Unexpected costs?
Your current financial needs	How much money should you allow for: ▶ Supplementing your income? ▶ House maintenance and repairs? ▶ Car maintenance and repairs? ▶ Travel/holidays? ▶ Gifts for children?
Your family	▶ Is your spouse a co-owner of your home? ▶ Are any family members living with you at the moment? ▶ If you die or move (for example, into aged care accommodation), will your spouse or family be able to stay in your home?
Your will	▶ Would you like to leave any money to your family or a charity?

Quick tip

Financial counselling services help people who are in financial difficulty. These free, independent and confidential services can help you manage a short-term crisis or prevent a future one. For details of these services in your state or territory, see 'To find out more' on page 42.

Look at alternatives

Using your home equity now could significantly limit your choices if you need money in the future. Look at other options you might have before you go ahead.

Like equity release products, some of these options might affect any pension and benefits you receive.

Consider selling your home (to downsize or rent)	▶ If you plan to downsize eventually, think about doing this now. You'll be able to take advantage of all the equity in your home and you might even be left with some extra cash.
Use other assets (for example, your super, investments or savings)	▶ Use money you have saved or invested (including super) before you use your home equity. Think about selling any assets that you depend on less than your home.
Make the most of your current income	▶ If you are struggling to make ends meet, using your home equity might only delay the inevitable. Re-work your budget to see if you can live off your current income by cutting back on expenses.
Earn extra cash	▶ You might be able to earn a small amount regularly through part-time or casual work to supplement your current income.
Discuss your financial situation with your family	▶ Your family might be able to lend you the money you need. Make a careful record of any arrangements you enter into.
Deal with your debts differently	▶ Using your home equity is usually the wrong solution for a short-term cash flow problem or a debt crisis. ▶ Unless you can find an ongoing solution, you risk ending up in the same situation again after the money runs out, but without the security of your home to rely on. ▶ Look at other ways to manage your debts, including negotiating a more manageable repayment option on your current loan. If you need help, see a financial counsellor.

Work out what you want

If you think that an equity release product might be the right option for you, work out exactly what *you* want. This will help you decide whether a product meets your needs (and protects you against pressure selling).

Calculate how much money you need

You might be offered more money than you need (for example, if a broker's or adviser's commission is based on how much money you take out).

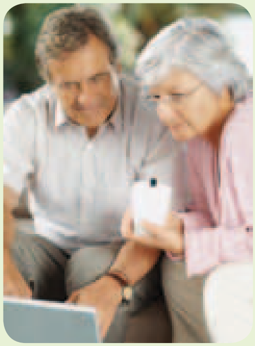
Using too much money now could limit your options in the future, so work out exactly how much you need. Sticking to a limit now will help you resist impulse spending later on, as can a regular income stream. See 'How the money is paid' on page 28.

Quick tip

Look again at your reasons on page 15 – how much money do you really need? Remember that the money will have to be repaid later either by you or your beneficiaries (with interest, if you take out a reverse mortgage).

Any interest you might earn by keeping some extra money in a bank account or term deposit won't make up for the interest you're paying on the loan.

Case study



Bob and Peggy are both 65. They own their home, which is valued at $400,000, but they rely on the Age Pension for income. They have enough cash to live on but decide to take out a $100,000 reverse mortgage to renovate their home, buy a car and give their son $20,000. In the short term, their pension is reduced because the car is assessed as an asset and because of the cash they gave their son.

Twenty years later Bob dies. Peggy is now 85 and in poor health. She decides to sell her home and move into aged care accommodation in town to be closer to her children and grandchildren.

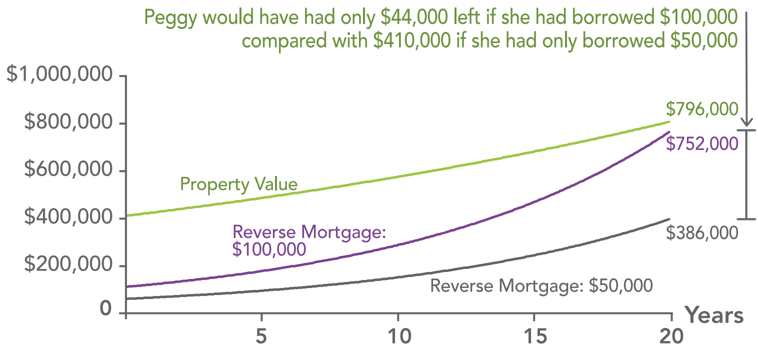
The following two scenarios show how the amount of money Peggy has left varies depending on whether property values and interest rates go up or down, and also the amount borrowed in the first place.

Your notes

Scenario 1:

Property values increase steadily over a 20-year period (going up by 3.5% per year) and interest rates on the loan stay the same (at 10%).

The graph below shows how taking out a $100,000 reverse mortgage, compared with taking out a $50,000 reverse mortgage, will impact on the amount of equity that is left over time.



Source: ASIC's reverse mortgage calculator at **www.moneysmart.gov.au**.
This scenario assumes a $12 monthly fee and a $1,200 establishment fee.

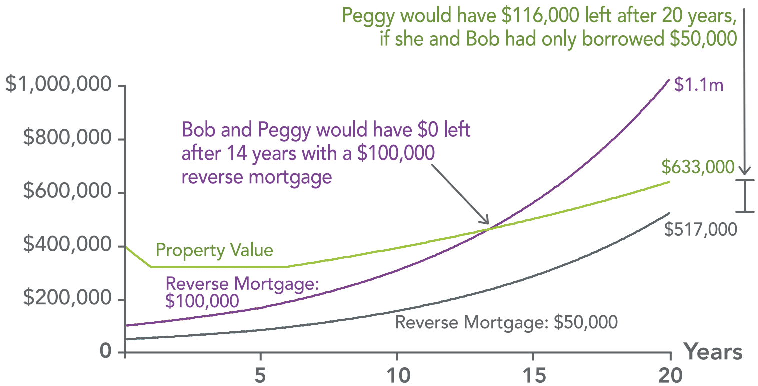
Quick tip

For information about an alternative product that Centrelink offers called the Pension Loans Scheme, see page 13.

Scenario 2:

Property values drop (by 20%) in the first year and then stay level for the next 5 years, before increasing again (at 5% per year) until Peggy eventually sells the house. Interest rates on the loan also increase (from 10% to 12%) after 5 years.

The graph below shows how taking out a $100,000 reverse mortgage, compared with taking out a $50,000 reverse mortgage, will impact on the amount of equity that is left over time. Note, if Bob and Peggy had taken out a $100,000 reverse mortgage, Peggy would have no equity left after 14 years, and may have to repay more than she gets from the proceeds of the sale of the house (unless she has a No Negative Equity Guarantee (NNEG)).



Source: ASIC's reverse mortgage calculator at **www.moneysmart.gov.au**. This scenario assumes a $12 monthly fee and a $1,200 establishment fee.

Reverse mortgage or home reversion scheme?

Compare the key features of a reverse mortgage and a home reversion scheme to help you see which type of equity release product, if any, might meet your needs.

Key feature: How much equity can you use?

Reverse mortgage	Home reversion scheme
▶ You can usually get 15%–40% of the value of your home, depending on the age of the youngest borrower, the provider's policies, and sometimes the location of your home. The older you are, the more equity you will be able to use: see page 7.	▶ You can usually get up to 65% of the current value of your home, minus a discount of 35%–60%. The older you are, the more equity you will be able to use.

Key feature: How and when do you pay for the product?

Reverse mortgage	Home reversion scheme
▶ You usually don't have to pay back the money (or any interest on it) until you leave your home, or die. When your home is sold, the loan is paid back with the money from the sale. Any money left over goes to you or your estate.	▶ When your home is sold, the provider takes their share of the money from the sale. You (or your estate) get the remaining money. If you sell earlier than expected you may be entitled to a rebate.

Key feature: Will there be any money left over?

Reverse mortgage	Home reversion scheme
▶ There's no way of knowing how much a reverse mortgage will cost you in the end. ▶ Some products allow you to protect a fixed percentage of the value of your home. Although this limits how much you can borrow, it means you can guarantee that there will be some money left if your home is sold.	▶ Yes. You can currently only sell up to 65% of the value of your home. ▶ For example, if you sell 25% of the future value of your house, you would get the remaining 75% share if your home is sold.

Key feature: What happens if you improve the property (e.g. renovations)?

Reverse mortgage	Home reversion scheme
▶ You own the full value of any improvements you make. Whether you get any money for them, though, will depend on how much you owe on the loan when the house is sold.	▶ Your home may need to be revalued before and after the improvements to work out how much you are entitled to when it is sold.

Key feature: Will your home need to be sold when you die?

Reverse mortgage	Home reversion scheme
▶ Not necessarily. Your beneficiaries can choose to pay out the loan and keep the house.	▶ Not necessarily. Your beneficiaries can choose to buy back the share you sold and keep the house.

Key feature: Can you end up owing more than the value of your home?

Reverse mortgage	Home reversion scheme
▶ Yes. The amount you owe on the loan can be more than the value of your home. ▶ You can be protected against this, as long as you meet other terms and conditions of the loan, if the product has an effective **No Negative Equity Guarantee (NNEG)**: see page 9.	▶ No. Currently you cannot sell more than 65% of the value of your home.

If you are looking for a reverse mortgage, make sure that's what you're getting. Avoid a loan that requires regular repayments, or that might need to be repaid before you are ready to leave your home (for example, a standard home loan).

Standard loans operate under different conditions to a reverse mortgage. They do not include a protection like the 'No Negative Equity Guarantee (NNEG)': see page 9. Even if small regular repayments (like some 'interest only' payments) seem manageable to you now, you could find it harder to meet them as you get older. This might mean you lose your home.

How do different reverse mortgages compare?

While there is currently only one home reversion scheme available in Australia, there are many types of reverse mortgages. Look for a loan that has the features you want.

Features to consider

No Negative Equity Guarantee (NNEG)	▶ Some reverse mortgages set a limit on how much you can owe with a **No Negative Equity Guarantee (NNEG)**: see page 9.
Protected equity	▶ Some reverse mortgages let you protect a fixed proportion of your home's value. ▶ This very important feature can help ensure that you have money for future financial needs (for example, to pay for aged care accommodation, or to leave some money to your children).

How the money is paid	▶ Your money can be paid as:
	  ▶ an upfront lump sum
	  ▶ a regular income stream (e.g. monthly)
	  ▶ a line of credit
	  ▶ a combination of these.
	▶ Your choice will depend on how you plan to use the money (for example, for a one-off expense or to supplement your income).
	▶ A regular income stream can be cheaper in the long run because the money is released slowly, and you only pay interest on what you've already borrowed.
	▶ If you take a line of credit, you might be tempted to use more money than you need.
	▶ Not all providers offer all these options, so shop around and get independent advice about what might be best for you.

Features to consider

Competitive interest rate	▶ Interest rates on reverse mortgages are usually slightly higher than standard home loan rates. ▶ Check for other costs as well (for example, establishment and exit fees, ongoing fees or valuation costs): see the next page.
Fixed or variable interest rate	▶ No-one can really predict how interest rates will change. But if you are worried that interest rates will increase, it might give you peace of mind to lock in a fixed long-term rate. ▶ Some providers offer a rate that is fixed or capped for the rest of your life. If interest rates fall below your fixed rate and you decide to switch to a variable rate or to repay the loan early, you may be charged a substantial fee. The amount of the fee may be much higher if interest rates have fallen significantly, or if you have fixed your rate for a long period – in some cases the fee could be many thousands of dollars.
Flexibility	▶ Some reverse mortgages allow you to transfer the loan to a new property if you move. This will be up to the provider, and will depend on the value of the new property.

Compare the costs

Compare the costs of reverse mortgages that have an effective No Negative Equity Guarantee (NNEG), a competitive interest rate, plus any other features you want.

If the interest rate for one reverse mortgage is lower, check how the fees and costs (which compound over time with interest) might affect what you end up paying in the long term.

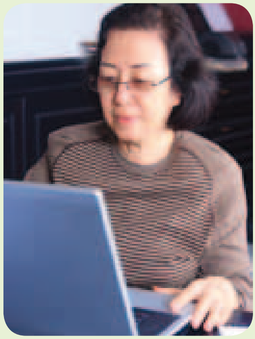
There are three main costs with reverse mortgages, which are added to the amount you borrow.

Entry costs	▶ These include application or establishment fees, plus valuation costs (these might be included in the establishment fees).
Ongoing costs	▶ This will be mainly interest, but also includes regular fees and charges (for example, regular valuation fees and monthly administration fees). ▶ Every year the interest and fees are added to the total balance. Over time you're charged interest on the interest (or compound interest), increasing the total amount you owe.
Exit costs	▶ These are fees for early repayment of the loan.

Think about other costs that you will still have to pay as part of the terms and conditions of your reverse mortgage (for example, council rates, insurance and home maintenance costs): see page 36.

Case study

Mai is 67, and her home is worth $500,000. She decides to use $50,000 of her home equity through a reverse mortgage. The reverse mortgage she chooses has an establishment fee of $1,200 and ongoing monthly fees of $12. What Mai doesn't realise is that these fees will compound to more than $20,000 over 20 years.



Source: ASIC's reverse mortgage calculator at **www.moneysmart.gov.au** with a fixed interest rate of 10% compounded monthly, assuming no repayments are made on the loan during that time.

Reverse mortgage calculators

Use ASIC's online reverse mortgage calculator at **www.moneysmart.gov.au** to see how decisions you make now can affect what you end up paying in the future.

You can compare the cost of different reverse mortgages based on:

- how much you borrow
- how you receive the money
- any fees and interest you pay
- how long you have the loan for
- any changes in the value of your home.

Watch out for calculators that only allow you to see how much you can borrow (rather than how much you'll have to repay), or that only map out the loan over a short period (for example, 10–15 years). Use your life expectancy as a guide: see page 16. If in doubt, opt for a longer loan period, rather than a shorter one.

Choose who you deal with

Equity release products are generally sold:

- directly from the provider
- through a mortgage broker
- through a financial adviser.

We've listed some things to look for on the following pages. Ask each person you see about these key issues. If you're unhappy with their answers, look around for someone else who can satisfy your requirements.

When you find the best person for your needs, check that any information you get from them matches what's in this guide.

Quick tip

If you go through a broker or adviser, make sure you are happy with who is actually providing the product. Ask the broker or adviser the same questions you would ask a provider, if you were dealing with them directly.

Your notes

Things to ask about

Complaints resolution	▶ ASIC recommends that you only deal with a provider, broker or adviser who belongs to an ASIC-approved complaints resolution scheme. If something goes wrong, you'll have better protection: ▶ Any provider who is a member of the Senior Australians Equity Release Association of Lenders (SEQUAL) must belong to a scheme. ▶ Any broker who is a member of the Mortgage and Finance Association of Australia (MFAA) or the Finance Brokers Association of Australia (FBAA) must belong to a scheme. ▶ All financial advisers must be licensed by ASIC (or be an authorised representative of a licensee). To be licensed, an adviser must belong to a scheme. ▶ Contact these organisations to find out if the person you are dealing with is a member or is licensed: see 'To find out more' on page 42.
Lender's capacity to maintain regular payments	▶ If the lender is not financially sound/specially regulated, there may be an increased risk that they won't be able to meet long-term promises to you to make regular payments (if you decide to take your loan money this way). ▶ Banks, building societies and credit unions are specially regulated to make sure that, under all reasonable circumstances, they can meet their financial promises to you.
Product range	▶ If you go directly to a provider, you will only find out about the product they sell, so shop around before you decide. ▶ Some brokers or advisers get paid more for recommending certain products. This could limit the range they offer you. You might miss out on the best equity release product for your needs.

Things to ask about

Commissions	▶ A broker or adviser is likely to get paid a commission on any product they sell you. The commission might be paid as: ▸ a percentage of the total amount of money you apply for ▸ a trailing commission (an ongoing percentage of the amount you owe at any given time) ▸ a combination of these. ▶ Good brokers and advisers put your interests first, but bad ones might not. If the amount of their commission is based on the amount of equity you use, they might encourage you to take more money than you really need.
Training and experience	▶ Check with the broker or adviser to see if they have relevant training and experience (for example, accreditation by SEQUAL).

Don't let anyone pressure you into taking out an equity release product. If you feel at all uncomfortable, say 'no'. Ask a family member or friend to be with you when you meet or talk with the sales person if you're worried.

Take time out to think

Using your home equity is complex and a long-term commitment. Make sure you know what's involved and whether you can meet your obligations before you go ahead.

Read the terms and conditions

If you find a product with the features you want at the lowest cost, look carefully at the terms and conditions and check what's required of you. If you're not sure about anything, ask the provider for more information and get your lawyer to explain it.

For most equity release products, you will have to:

- pay your council rates on time
- keep your home in good condition
- insure your home.

Keep in mind that council rates, lender fees and insurance costs will probably increase as the value of your home increases. You could also find it harder to look after your home as you get older.

Some common terms and conditions are listed on the following pages.

Check what happens if you fail to meet the terms and conditions of the contract. For example, could you be evicted from your home or have to repay the money early? For a reverse mortgage, could you lose your No Negative Equity Guarantee (NNEG) protection? See page 9.

Terms and conditions

Cooling-off period	▶ What are your options if you change your mind? Can you reverse your decision within a certain period of time?
Paying council rates	▶ Is paying council rates a condition of the contract? The rates you pay will increase over time as the value of your home increases.
Maintaining your home	▶ How much will it cost to maintain your home and garden, especially if you need help as you get older? Who sets the standard – you or the provider?
Insuring your home	▶ Do you have to insure your home to an agreed value? What happens if your home is damaged (for example, in a fire or flood) and it is underinsured? Insurance costs will increase over time as the value of your home increases.
Selling, leasing or renovating your home	▶ Do you need permission from the provider to sell, lease or renovate your home?
Leaving your home	▶ What happens if you leave your home for a period of time?
Sharing your home	▶ Do you need permission from the provider before someone moves in with you? ▶ If you are the sole product holder, can anyone living with you stay in the home if you die or have to move into aged care accommodation?
Valuations	▶ Do you have to get your home valued regularly (for example, every year or every 3 years)? This could get expensive over 10, 20 or 30 years.

Discuss your situation

Discuss your situation with your partner, your family and anyone else who is likely to be affected by any decision you make.

Talk through any implications for them (for example, they might be financially dependent on you, or live with you). Think about how an equity release product might affect your will as well.

Quick tip

People who talk about financial issues with family and friends are likely to make a better decision.

Your notes

Get more information and advice

How can you tell the difference between a good sales pitch and straight information or advice? Go to an independent source. You should not rely solely on advice from anyone who is trying to sell you an equity release product, because that person might not have your best interests at heart.

What is it	Where to get it
Free information	Use free independent information from: ▶ **www.moneysmart.gov.au** (ASIC's consumer website) ▶ National Information Centre on Retirement Investments (NICRI) provides a free independent telephone information service to consumers covering all aspects of equity release/reverse mortgage products ▶ Centrelink provides a free independent telephone information service to consumers ▶ Department of Veterans' Affairs ▶ State and territory fair trading agencies See 'To find out more' on page 42.
Licensed advice	An independent financial adviser can: ▶ design a financial plan to balance your long-and short-term needs ▶ provide advice about a wider range of options, including alternatives to using your home equity. Only go to someone who is licensed by ASIC. For more information about choosing a financial adviser, get a free copy of ASIC's booklet, *Getting advice*. See 'To find out more' on page 42.

What is it	Where to get it
Legal advice	Regardless of the product, always see a lawyer first to: ▶ check the fine print and explain what's involved ▶ check the **No Negative Equity Guarantee (NNEG)**, if you're buying a reverse mortgage ▶ discuss whether any changes should be made to your will.
Other professional advice	Accountants may also be able to advise you on equity release products.

Quick tip

Most providers will require you to get independent legal advice before you go ahead with an equity release product. This is a requirement for all SEQUAL members. See 'To find out more' on page 42.

Use your money wisely

If you have taken out an equity release product, keep these things in mind.

Budget carefully

You want any money you get from your home equity to last as long as you need it to. Be realistic about how long you are likely to live: see page 16. Stick to your budget and take a long-term view of your financial needs.

Keep your end of the bargain

If you have a reverse mortgage, make sure you know whether, and in what circumstances, you could be considered in default and be forced to repay the loan early (or lose your No Negative Equity Guarantee (NNEG) protection: see page 9).

Check what you need to tell your provider (for example, you might plan to go travelling for 6 months, or one of your children might move back home for a while).

Quick tip

Know what your obligations are under the terms and conditions of the contract. Keep handy a list of any major obligations to refresh your memory from time to time, especially if you expect to have the loan for a long time.

Think carefully if you are tempted to take out more money later (that is, to increase your reverse mortgage). Go through the decision-making process again using this guide.

Case study

Three years ago, Don applied for a reverse mortgage to consolidate some debts, renovate his kitchen and help his daughter with her business. The provider approved a limit of $130,000 – more than Don had originally wanted.

Because the extra money was available, Don spent more than he planned and has used almost all of his available credit. Over $1,000 in interest is added to the amount he owes every month. Don has now decided to put his recently renovated house on the market so he can pay off the reverse mortgage.

Complain if something goes wrong

If something goes wrong, complain in writing as soon as possible to the person you dealt with.

Hopefully you can sort out the problem straight away but if not, don't be put off. If the problem can't be resolved directly, see if you can take the matter to an ASIC-approved complaints resolution scheme.

These schemes are independent and cost you nothing. If the person you are complaining about (for example, the provider, the broker or the adviser) is a member of one of these schemes, they must comply with whatever solution the scheme recommends.

Quick tip

The Financial Ombudsman Service (FOS) and/or the Credit Ombudsman Service Limited (COSL) may be able to deal with your complaint: see 'To find out more' on page 42. Get a copy of ASIC's free booklet, *You can complain*.

To find out more

Australian Securities and Investments Commission (ASIC)

Free financial tips and safety checks, reverse mortgage, compound interest and budget planner calculators. Report misleading or deceptive information, misconduct, fraud or dishonesty. Visit ASIC's consumer website MoneySmart.

www.moneysmart.gov.au or phone 1300 300 630 (Infoline)

Centrelink: Financial Information Service (FIS)

Free financial information and seminars. Help with government pensions and benefits, and the Pension Loans Scheme.

www.centrelink.gov.au or phone 13 23 00

CHOICE

Free information and some pay-to-view information on the website, *CHOICE* magazine subscription and books.

www.choice.com.au or phone 1800 069 552

Credit Ombudsman Service Limited (COSL)

Can deal with complaints about credit unions, building societies, non-bank lenders and mortgage and finance brokers.

www.cosl.com.au or phone 1800 138 422

Department of Veterans' Affairs

Information about pensions and benefits, and the Pension Loans Scheme.

www.dva.gov.au or phone 13 32 54 (general inquiries)
or 1300 131 945 (for state offices)

Finance Brokers Association of Australia

Details of brokers who belong to ASIC-approved external dispute resolution schemes.

www.fbaa.com.au or phone 07 3847 8119

Financial Counselling Australia

For details of financial counselling services around Australia, look on Financial Counselling Australia's website.

www.financialcounsellingaustralia.org.au
or call the National Financial Counselling Hotline on 1800 007 007

Financial Ombudsman Service

Can deal with most complaints about participating financial service providers, including complaints about banking and credit, insurance and financial planning.

www.fos.org.au or phone 1300 780 808

Mortgage and Finance Association of Australia

Details of brokers who belong to ASIC-approved external dispute resolution schemes.

www.mfaa.com.au or phone 1300 556 902

National Information Centre on Retirement Investments (NICRI)

Free information on the internet and in publications.

www.nicri.org.au or phone 1800 020 110

State and territory fair trading agencies

Consumer protection and free information.

ACT	**www.ors.act.gov.au** or phone 02 6207 0400
NSW	**www.fairtrading.nsw.gov.au** or phone 13 32 20
VIC	**www.consumer.vic.gov.au** or phone 1300 558 181
QLD	**www.fairtrading.qld.gov.au** or phone 13 13 04
SA	**www.ocba.sa.gov.au** or phone 08 8204 9777
TAS	**www.consumer.tas.gov.au** or phone 1300 654 499
NT	**www.consumeraffairs.nt.gov.au** or phone 1800 019 319
WA	**www.commerce.wa.gov.au** or phone 1300 304 054

Senior Australians Equity Release Association of Lenders (SEQUAL)

Information about SEQUAL members and Code of Conduct.

www.sequal.com.au or phone 02 8815 8131

We are interested in your feedback

To help us meet your needs better and identify what other areas you need information about, please fill out this form and post it back to us reply paid. (Any information you provide in this feedback form will not be used for any other purpose.)

Please indicate whether you agree or disagree with the following statements:

	Agree	Disagree
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I would tell other people to use this guide	☐	☐

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- ☐ Online
- ☐ From a library
- ☐ From a presentation
- ☐ From an expo
- ☐ From a financial adviser
- ☐ From a financial counsellor or legal centre
- ☐ From Centrelink's Financial Information Service
- ☐ Other, please specify ....

How old are you? ☐ <18 ☐ 18–24 ☐ 25–44 ☐ 45–64 ☐ 65–79 ☐ 80+

What is your gender? ☐ Female ☐ Male

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