Using your home equity

The definitive guide to accessing home equity and how it works

Household® Capital

If you're like most retired Australians, most of your wealth is probably tied up in your family home rather than your superannuation. A reverse mortgage can help you to access the savings built up in your home over time – your home equity – to live the retirement lifestyle you deserve.

What is a Household Loan?

Our Household Loan is a type of reverse mortgage that's been designed to work within Australia's retirement system. It can help you access the wealth accumulated in your home to enhance your lifestyle and wellbeing in retirement, without needing to sell or downsize.

A Household Loan enables Australians aged 60+ to access their home equity. This is achieved via a loan facility that doesn't require repayment until you vacate the property and comes with a number of protections, including guaranteed occupancy for as long as you want to live in your home.

What is a reverse mortgage?

Most people are familiar with a traditional mortgage as the prime means of accessing the money to buy a home and, as it is repaid, the proportion of equity in your home increases.

As the name suggests, a reverse mortgage operates in the opposite way; instead, you withdraw equity from your home to unlock the savings that have built up over time. These savings are a combination of your payments or repayments, plus capital growth.

Sometimes referred to as a *senior's loan* or *senior's finance*, a reverse mortgage is Australia's most popular means to access home equity.

Five facts about reverse mortgages

1. A reverse mortgage is designed specifically for people aged 60+ who own – or mostly own – their home

2. No income is required to qualify for a reverse mortgage, although responsible lending criteria does apply

3. Repayments are not required – however you can choose to make repayments if you wish

4. Your loan is generally repaid from the future sale of your home, when downsizing later in retirement or moving into aged care, or when the last surviving borrower passes away

5. A range of consumer protections exist to keep you safe and comfortable at home

How does a reverse mortgage work?

As with a standard home loan, a reverse mortgage is secured by registering a first mortgage over your property.

The primary difference between the two is that you don't have to make regular repayments with a reverse mortgage.

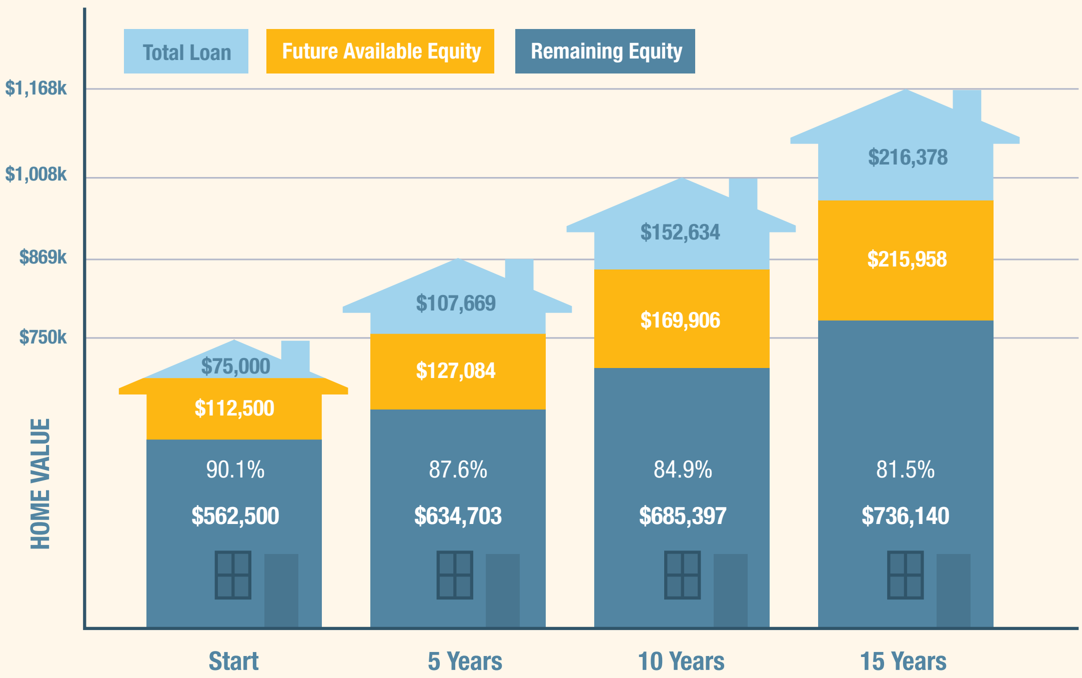
As a result, the monthly interest compounds over time and increases the balance of your loan, unless you choose to make monthly interest payments.

At the same time, you remain the owner of your home and reap the full benefit of growth in your home's value.

What is compound interest?

Compound interest is an important concept. Because you don't have to make regular repayments, interest compounds (adds up over time) and you pay interest not only on your loan, but also on the interest (and any fees) charged. Over time, the amount you owe will increase.

The following case study illustrates the impact of compounding interest on a total loan. However, as shown, any growth in the value of the home may help to offset the effect of compounding interest over time.



Case Study Jack and Sandra, both aged 67, own their own home valued at $750,000. They borrow $75,000 of their equity at an interest rate of 7.0% calculated daily, compounded monthly. After 15 years, the remaining equity is $736,140 and the loan value is $216,378.

Calculations based on: An illustrative interest rate of 7.0%. Home value increase of 3% average per year as per the ASIC MoneySmart reverse mortgage calculator default rate – https://moneysmart.gov.au/retirement-income/reverse-mortgage-calculator

That's why finding a low interest rate is important. A lower rate means less interest compounding over time. This results in you owing less at the end of the loan and retaining a greater level of home equity for you or your estate.

Reverse mortgage myths

BUSTED

There are a range of misconceptions about reverse mortgages, largely stemming from the traditional reverse mortgage products of the late 1990s and early 2000s.

However, following the introduction of the National Consumer Credit Protection Act (2012), reverse mortgage lending is now one of the most strictly regulated credit products in Australia, with clear consumer protections and market parameters at both the beginning and end of all loans. So, let's bust some myths!

Myth one: **I can lose my home**

FAKE NEWS

You cannot lose your home; instead, you can remain living there as long as you wish. You continue to own your home and retain the title. Because you don't need to make regular repayments there's no default risk and you cannot be forcibly removed from your home by the lender.

You do need to meet simple obligations: you need to remain living in your home, maintain it and pay the council rates and home insurance.

Myth two: **I could end up owing more than my home is worth**

FALSE

The "no negative equity guarantee" clause in the National Consumer Credit Protection Act means you are protected by law. You or your estate cannot owe more than your home is worth, regardless of what happens to the value of your property.

Myth three: **I'm disinheriting the kids**

NOT TRUE

Retirees are living longer, which means bequests are delayed past the time when your children face their biggest financial needs. Using home equity, you can help your kids and grandkids when they need it most.

Myth four: **A reverse mortgage is a 'last resort'**

FAKE NEWS

Rather than being a product of last resort, a reverse mortgage helps you access the savings in your home to enhance your lifestyle and wellbeing in retirement, without needing to sell your home. Products are increasingly sophisticated, providing you with flexibility and choice, capital and income, to improve your retirement funding.

Myth Five: **There'll be nothing left to cover aged care costs**

BUSTED

The LVR increases with age; as a result, if in later years you need to move into aged care, there should be sufficient equity to cover the accommodation deposit or daily fee as required.

Myth six: **It's better to get equity from your home by downsizing**

FALSE

In general, most Australian retirees are reluctant to downsize, identifying their current home as optimal. As well as the financial costs, moving from the home and community you have grown to love over many years can result in social and emotional costs. Selling up may also impact your entitlement to the Age Pension.

Myth seven: **I already have a mortgage so I can't get a reverse mortgage**

BUSTED

A reverse mortgage can be used to refinance mortgages (and reverse mortgages). A traditional bank mortgage has to be repaid each month, which can impact your retirement cashflow. It also carries default risk if you're unable to meet those repayments. By refinancing with a reverse mortgage, you can free up your retirement income and don't run the risk of the bank foreclosing.

That older Australians want to stay at home has been further highlighted by the findings of the Royal Commission into Aged Care

About Household Capital

Household Capital is a specialist retirement funding provider that provides responsible long-term access to home equity. We work with you and your professional adviser/s to improve your retirement lifestyle: by enhancing retirement income, providing access to capital and improving retirement housing.

In 2022, Household Capital acquired Pension Boost, an innovative home equity business that helps its customers access the federal government's Home Equity Access Scheme (HEAS). This provides you with greater flexibility and choice, able to utilise the product that best meets your needs.

Our approach aims to provide you with the best of both worlds – to continue living in your family home with the confidence to enjoy the retirement lifestyle you deserve.

What is a Household Loan?

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A Household Loan enables Australians aged 60+ to access their home equity. This is achieved via a loan facility that doesn't require repayment until you vacate the property and comes with a number of protections, including guaranteed occupancy for as long as you want to live in your home.

What is HEAS

HEAS is available to both pensioners and self-funded retirees. For those people with modest needs – a small amount of regular income in addition to your pension, or a lump sum payment to cover a minor expense, HEAS can be a terrific solution. The government provides this product at a lower rate but has limits on how much can be accessed.

How can I use my home equity?

There's a number of ways you can use your home equity. At Household Capital, we find our customers often use it in several different ways.

You can:

- Increase your regular fortnightly or monthly income and improve your retirement lifestyle
- Improve your cashflow and relieve financial stress
- Create a contingency fund for those unexpected expenses
- Top up your super or other invested funds
- Renovate or modify your home to make it safe and comfortable for retirement
- Refinance a home loan or pay down debt
- Buy a new car
- Cover medical expenses
- Give to your children or grandchildren when they need it most
- Choose your own in-home care service and tailor it to meet your needs
- Cover the costs of transitioning to residential aged care

A reverse mortgage aims to provide you with the best of both worlds – to continue living in your family home with the confidence to enjoy the retirement lifestyle you deserve.

Eligibility criteria

Am I eligible for a Household Loan?

Eligibility criteria include:

- The youngest person on your home's title must be aged 60+
- The home must be in an eligible postcode
- Household Capital must be able to hold a first mortgage over the property; if you have an existing mortgage we will repay that with the funds we lend you.

What if one of us is under 60?

All property owners need to be over the age of 60. A non-owner under the age of 60 who also lives in the property may be considered, subject to conditions.

Is every house eligible for a Household Loan?

Household Loans are available for homes and most apartments in metropolitan districts and a large number of regional areas, although some regional postcodes are excluded.

What if I have an existing mortgage?

Household Capital can refinance an existing mortgage depending on how much you still owe, subject to the amount required being within the borrower's age related lending limit.

Where a mortgage is refinanced, the existing loan is discharged, and Household Capital takes a first mortgage over your property.

What if I already have a reverse mortgage?

We have refinanced a number of reverse mortgages from several providers. Our interest rate is lower than most other available reverse mortgages, which makes our Household Loan an attractive alternative.

Can I borrow against a unit in a retirement village?

Household Loans are available in some cases where the following conditions are met:

- The borrower has the title to the property (including strata title)
- The management agreement or other agreements do not place restrictions or requirements on the seller with regard to approval of sale, sale agent used, unilaterally applied fees, costs, sales commissions or other forms of limitation or cost.

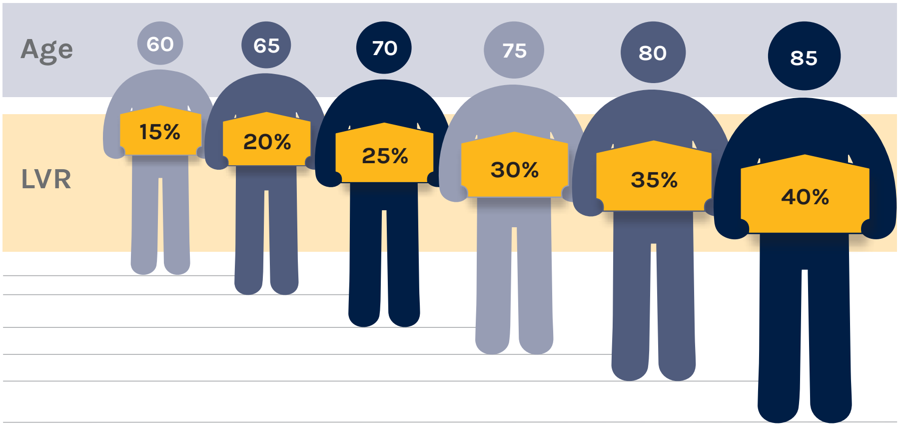
Can I get a Household Loan on an investment property?

We do offer a Household Loan against investment properties in certain circumstances.

How much can I borrow?

The amount you can borrow is dependent on on the Loan to Value ratio (LVR). For a Household Loan, the calculation takes two factors into account – the age of the youngest borrower and the value of your property.

The percentage of equity you can access is regulated by the National Consumer Credit Protection Act (NCCP). Household Capital's LVR starts at 15% of the agreed property value for those aged 60 and increases 1% per year thereafter.



Other important things to note

How do I repay a Household Loan?

A Household Loan will be repaid when you choose to sell your home, or move permanently into a retirement village or residential aged care. It may occur when the last surviving homeowner passes away.

The loan is generally repaid from the proceeds of the future sale of your home. Repayment may also come from funds provided by family members if they do not wish to sell the family home.

You can make repayments at any time without penalty, which will reduce the amount of interest you pay.

Some borrowers choose to pay the interest each month so only the loan principal needs to be repaid at the end of the loan. No further fees apply if you choose to repay the loan early.

What are the consumer protections for a Household Loan?

Our Household Loans are governed by the National Consumer Credit Protection Act 2009; there are a range of protections for borrowers using a reverse mortgage.

1] **You remain the owner of your home and the title remains in your name.**

This gives you 100% exposure to any growth (or loss) in the value of your property, into the future.

2] **You can stay in your home as long as you want to.**

There is no default risk. You cannot be removed from your home by the lender, nor be forced to sell your home at any time against your will, as long as you have met your obligations under the loan, as specified in the terms and conditions of the loan contract.

You do have a responsibility to remain living in your home, to ensure the council rates are paid, and to keep your home insured and well maintained.

3] **You cannot end up owing us more than the house is worth**

The "no negative equity guarantee" (NNEG) clause, introduced in 2012, means you are protected by law and cannot owe more than your home is worth, irrespective of the value of the property.

How is Household Capital different to other lenders?

A Household Loan provides flexibility and choice to improve your home, lifestyle and wellbeing while you continue to live in your own home. We're different because:

- We offer Australia's lowest available reverse mortgage interest rate
- Our focus is on providing long-term, responsible retirement funding
- We provide you with flexibility and choice
- We work closely with your broker, financial adviser or other professional adviser and keep them informed every step of the way

Whether you're looking for a boost to your monthly income, a lump sum payment – or both – Household Capital can help you improve your retirement funding and **Live Well At Home.**™

There are four criteria that set Household Capital apart from the rest:

Responsible lending

Whether you need to refinance an existing mortgage, require additional income or a lump sum payment, we support you to access your home equity responsibly and sustainably to meet your long term retirement funding needs.

Personal approach

Your circumstances are unique.
We want you to discuss your options openly with us, your family and your adviser to achieve the best possible outcome for your retirement funding now and in the future.

Flexibility

We provide total flexibility – you can choose to make no interest payments, make interest-only payments or repay your loan at any time. We also provide a drawdown facility, enabling you to access regular fortnightly or monthly payments.

Competitive rates

We offer consistently low rates, transparent fees and no exit or other penalties.

Now your home can be both the best place to live and the right way to fund your retirement.

How do I apply?

Contact your broker, financial adviser or other professional adviser to start the process.

www.householdcapital.com.au

Household® Capital