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Silent partner

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What it is The Homesafe Equity Release is

Bendigo Bank's answer to reverse mortgages, a product designed to give asset-rich but cash-poor elderly home owners access to equity in their home.

Homesafe looks and feels like a reverse mortgage, though it is technically not a loan but a deferred contract of sale for an agreed portion of your home's future sale value. In return, you receive cash in hand and stay living in your home until you die or decide to sell. You make no payments and have control over the property.

The upshot is that you can unlock equity in your home and be certain you will receive a fixed percentage of the future sale price, come what may.

Homesafe is a joint venture between Bendigo and Homesafe Solutions in a pilot being offered to existing Bendigo customers aged 70 and over, living in Sydney and Melbourne.

How it works You sign a contract to sell Homesafe a fixed share of the future sale proceeds of your home, up to a maximum of 50 per cent. This fixed percentage is paid when your home is sold at your discretion or on your (or your partner's) death. In return, you get a cash amount of between \$25,000 and \$200,000. When your home is eventually sold you or your estate receive the balance of the sale proceeds not sold to Homesafe.

Take the example of Margaret, a 75-year-old widow who lives in her own home, worth \$600,000, but who needs some extra cash for day-to-day expenses. She agrees to sell to Homesafe a 20 per cent share of the future sale price of her house. On current valuations, 20 per cent is worth \$120,000. However, Homesafe advances Margaret \$70,000, and keeps the balance as its compensation for the risk it is taking that she will live beyond expectations or her house will be worth less than expected when it is sold.

On Margaret's death the home is sold and Homesafe receives 20 per cent of the sale price, with the remaining 80 per cent going to Margaret's estate. However, if Margaret decides to sell her home a few years down the track, she may receive an early sale rebate on top of her 80 per cent of sale proceeds. The amount of the rebate would depend on how many years had passed and the changing value of her home. In addition, if the sale of Margaret's home exceeds a benchmark set out in the contract, she may be entitled to an excess proceeds rebate.

What it costs Because Homesafe is not a loan, there are no interest payments. There is an establishment fee of \$1000, a flat fee of \$300 for an independent valuation of your home and the cost of legal advice, which is mandatory before you can sign the contract. In addition, the NSW and Victorian governments have agreed to waive stamp duty on the initial transaction to

release equity in the home.

Pros Roubert Roulston, a director of Homesafe Solutions, says the Homesafe Equity Release was designed to give customers certainty of outcome.

One of the criticisms of reverse mortgages is that people could end up owing more than their house is worth if interest rates rise substantially and property values fall or fail to grow as expected.

This is because fees and interest on the loan are added to the debt and over time the interest compounds, that is, you are charged interest on your interest.

"We've started at the other end and made a certain amount [of the value of your home] always available," says Roulston. "We take the risk of property values falling or you living for a long time."

Your name remains on the title of your home but Homesafe also holds title, so you can't sell your property without notifying them first.

Cons Reducing risk and providing certainty comes at a cost, so the amount of cash you receive upfront is not equivalent to the portion of your home you sign over to Homesafe.

"We buy at a discount to current value but you get some of that discount back if you sell early," says Roulston.

The exact amount of discount, or shortfall in the amount of cash you receive upfront, is worked out in an actuarial formula set out in your sale contract. It depends on your age, expected longevity, property value, estimated growth rates for property prices and interest rate movements and is spelled out in your sale contract.

Roulston explains that the cost to the customer is comparable to the interest rates charged by reverse mortgage providers, currently about 9 per cent for fixed rates and just over 8 per cent for variable rates.

As with reverse mortgages, customers should discuss what they are doing with family members so they understand how their inheritance is affected.

It is also wise to seek independent financial advice about possible tax and social security implications.

Some reverse mortgages are available from age 60 and Roulston says the minimum age for Homesafe may be reduced once the product is established.

Where it fits in A number of banks and mortgage lenders offer reverse mortgages but the take-up has been limited.

Macquarie's new Silver Lining product has a negative equity guarantee to ensure customers never owe more than their home is worth, but there is still no guarantee about the amount of equity the customer or their heirs will retain once the property is sold.

Roulston believes many elderly people are reluctant to go back into debt.

"People who remember 18 per cent interest rates realise that if interest rates are compounded it doesn't take long to lose the equity in your home. We think this product is more acceptable because it offers certainty," he says.

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