

HOME EQUITY RELEASE : short term gain or long term pain?

With an increase in the cost of living, particularly medical expenses, a rising number of New Zealand's aging population are facing hefty bills in their retirement that they do not have the cash to pay. Often their sole or main asset is the family home into which they have poured their life savings. They find themselves unable to pay large bills such as house repairs and surgery costs or unable to do what they want in their retirement such as going on overseas trips, buying a new car or gifting money to family members.

Home equity release mortgages work by releasing the capital retirees have in their home by way of a lump sum which is secured against the family home by a first and only registered mortgage. Generally the loan plus capitalised interest is only due to be repaid when the borrower passes away, sells the property or permanently moves. Often borrowers are given the opportunity to transfer the mortgage to their new home (subject to its value) or, more recently, to a retirement village unit.

The three main home equity release providers are Sentinel, Save and Invest (SAI) and Lifestyle Securities. Each provider offers different products, each of which have their own set of pros and cons. For example, some have specific criteria regarding the type/value of property and age of borrower/s and all have minimum and maximum advances. All the products have establishment fees and some also have early repayment fees. Some products require ongoing costs such as five yearly valuations and "insurance premiums" which guarantee that the amount you must ultimately repay will not be more than the amount you receive on the sale of your property. Sentinel is currently the only provider that allows borrowers to use their retirement village unit as security.

The interest rates are generally 1.5% to 2% above normal bank mortgage rates and can be compounded as frequently as quarterly. Over time the interest costs may be significant and may grow at a much faster rate than the value of the mortgaged property. This may erode the legacy left for family members and may also mean insufficient funds are left to move into a retirement village.

According to recent research carried out by the New Zealand Institute for Research on Aging, the home equity release market is growing and it is predicted that given the current and likely future social, economic and policy environment the potential for these financial products to become more prevalent in New Zealand is high.

We recommend that any decision to take out a home equity release mortgage is made carefully and after evaluating all the costs and the alternatives, such as a boarder or home share arrangement, down-sizing or subdividing or selling the home to a family member. Consultation with family members and carefully review all the available products with your legal advisor to ensure the one you choose best fits your circumstances.

Consideration must be given to the amount that can be borrowed, the total cost of borrowing including interest, repayment fees, valuation fees and any other costs, ability to transfer the mortgage to another property (or retirement village unit), the impact on government benefits and the reputation of the provider in the industry.

For further information on home equity release mortgages, please contact [Tony Fortune](#) or [Bill Duncan](#).