

EQUITY RELEASE OR EQUITY EATER?

WHAT MIGHT YOUR SOLICITOR SAY?

There has been a lot of publicity in recent times regarding Reverse Mortgages or Equity Release Mortgages. You will have seen and heard advertisements from Sentinel, Equity Tap and Lifestyle Securities. Some people will have made enquiries of one or all of these and some people may wonder if this is an appropriate product for them or their parents.

Firstly what is an Equity Release Mortgage? They are a mortgage product marketed as a way to make available to older people (usually over 60) some of the equity in their homes. This is done as a loan against the value of their property and drawn down as either one or more lump sums or regular payments. The loan doesn't have to be repaid until the owner sells or dies.

I talked to Brian Ellis of Ellis Law in Auckland to get a lawyers viewpoint.

"These type of products should be viewed as an option, for some people, although I would be concerned about people taking them before their 70's, A responsible solicitor would want to ensure that clients are

- Fully cognisant of what they are doing
- All other options have been explored
- The family is involved where there are good family relationships
- Will there be enough equity left to go into a retirement home later".

I would add to this that a no negative equity guarantee and/or the ability to retain a percentage of equity in the property for inheritance purposes are important also. Check with your advisor whether the lender is a member of SHERPA (Safe Home Equity Release Plans Association).

If you or your parents are considering these types of loans, which will become increasingly prevalent as the baby boomers live longer in retirement, make sure that you seek competent advice along the above lines. An advisor should be prepared to provide you with a complete record of your discussions along with mortgage and house value projections based on conservative assumptions.

Websites that you can research further are:

www.osc.govt.nz/hec/hec-overview.html

www.sherpa.org.nz

www.bluestone.net.nz

www.sentinel.net.nz

Independent consultation packs are available through www.mortgagehelp.co.nz