

FINANCE FORUM 9 - 2007

Innovations in Housing Finance: Reverse Mortgages and More

with Mark Brennan, Manager – Commercial and Funding, Over Fifty Group

Date and Time: **Tuesday 10 July, 2007, 12.30 - 2.00 pm** (sandwich lunch provided)

Venue: **Finsia offices, Level 12, 330 Collins Street, Melbourne.**

Melbourne Centre for Financial Studies is pleased to announce that Mark Brennan who is Manager – Commercial and Funding for Over Fifty Group will speak on this topic. Over Fifty Group is currently developing a range of equity-release financial products including for other financial institutions.

A **reverse mortgage** allows home-owners to access the equity in their homes. The loan balance increases over time as the interest on the loan is capitalised (ie the interest is added to the principal amount of the loan). Cash is released as a lump-sum, or periodic payment. It is a product that is provided exclusively to the seniors market.

A **shared equity loan**, also marketed as an equity finance mortgage, is a type of mortgage where the financial institution shares some of the upfront cost of purchasing a new property in return a share of the capital appreciation (or depreciation) of the asset. This product has only recently become available to retail customers and is effectively two loans; a shared equity loan taken with a traditional home mortgage loan. It is a product suited to younger borrowers providing them with the ability to enter a market that continues to price them out. This product may also have application to the seniors market as an alternative to reverse mortgages in gaining access to the equity tied up in residential property.

It has been postulated that the creation of pools of reverse mortgages and shared equity loans that are capable of on-selling to the institutional market via securitisation will further permit the release of liquidity from the retail sector while providing superannuation funds with more long term retail exposure. It is also worth considering that owner occupied housing could easily become a preferred asset for self-managed super funds with relatively minor regulatory changes.

More academic financial and policy research is required. In the first instance it is important that the unique risk and return characteristics of each product are understood from the perspective of the lender, borrower and asset-backed securities investor. Housing equity release products are still relatively new and there is little publicly available data. However, it would appear that by releasing funds that were previously unavailable these products are likely to have an impact on housing prices and hence on other asset prices. They also might effectively increase the degree of disintermediation by financial institutions and transfer risks off their books. Finally, in a time of demographic change, they will likely have social implications.

Mark Brennan has over 20 years in the banking and finance industry which has included roles in credit, treasury and debt capital markets. He was involved in the ANZ residential mortgage backed securities (RMBS) programme which issued more than A\$3 billion, including the bank's inaugural issue into the US RMBS market. More recently he has been involved in the development and set-up of the reverse mortgage product for the Over Fifty Group, one of the early adopters and developers of the reverse mortgage market. In particular, he is responsible for the funding and financial risk management requirements for the Group as well as assessing the viability of new financial products for the equity release business.

This is the ninth for 2007 in a topical series of "Finance Forums" which the Melbourne Centre arranges with the objective of improving industry-academia contacts, identifying research projects and opportunities for research partnerships. It is expected that those attending will be keen to participate in discussion. Please note that there is a **limit on the number of attendees** but there is no charge. If you are interested in attending and participating, please indicate by an email to info@melbournecentre.com.au with the subject header of "Finance Forum – Housing Finance" by **noon on Monday 9th July**. (If you subsequently discover you are unavailable to attend, please advise us so that we can offer the place to others who are interested).

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