



ASIC

Australian Securities & Investments Commission

INFORMATION SHEET 185

Using ASIC's reverse mortgage calculator

This information sheet sets out how credit licensees should use the reverse mortgage calculator on ASIC's MoneySmart website. It covers:

- how we expect you to use the calculator to meet your responsible lending obligations for reverse mortgages under the *National Consumer Credit Protection Act 2009* (National Credit Act) and the *National Consumer Credit Protection Regulations 2010* (National Credit Regulations)
- information to help you use the calculator effectively.

What is the reverse mortgage calculator?

The calculator on ASIC's MoneySmart website is designed to help consumers understand the impact a reverse mortgage may have on the equity in their home by projecting:

- how much their debt will increase over time and what this may mean for the equity in their home
- how changes in interest rates and house prices could affect the equity in their home.

Collectively, these projections are known as the 'equity projections'.

The calculator will also allow credit licensees to meet their responsible lending obligations under the National Credit Act.

The calculator is available at www.moneysmart.gov.au/tools-and-resources/calculators-and-tools/reverse-mortgage-calculator.

This website, and the instructions set out in the calculator included on this website for the making of equity projections, has been approved by ASIC for the purposes of s 133DB(1)(a) of the National Credit Act and reg 28LD(2) of the National Credit Regulations.

Obligation to use the calculator

If you are a credit licensee, you must use the calculator to make equity projections to show a consumer before you make a preliminary or final assessment of unsuitability about a reverse mortgage: see s133DB of the National Credit Act.

To meet your obligations you must show or give the equity projections to a consumer for the three scenarios set out in Table 1.

Information sheets provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Table 1: Scenarios that must be shown to a consumer using the calculator

	Scenario 1	Scenario 2	Scenario 3
Description	How much a consumer's debt will increase over time, and what this means for the equity they hold in their home.	How no increase in house value will affect the consumer's equity in their home over time.	How an increase in interest rates could affect the consumer's equity in their home over time.
Assumed annual increase in property value	3% per year	0% per year	3% per year
Option 1: Interest rate	10% per annum	10% per annum	12% per annum
Option 2: Interest rate	If known, the annual percentage rate (APR) that applies to the reverse mortgage (e.g. 8.89% per annum).	If known, the APR that applies to the reverse mortgage (e.g. 8.89% per annum).	If known, the APR that applies to the reverse mortgage, increased by 2% (e.g. 10.89% per annum).

You may show a consumer the equity projections, or give the equity projections to the consumer by mail, email, or any other written or electronic communication agreed to by the consumer.

However, you are also required to provide the consumer with a printed projection of each scenario. This obligation is separate from the obligation to show or give the equity projections to the consumer, but may be satisfied if the equity projections are given to the consumer in printed form (for more information about the printed projections, see 'Step 7: Add notes and print' below).

Other uses of the calculator

The calculator may be a useful tool to help you meet your general responsible lending obligations to:

- make reasonable inquiries about the consumer's requirements and objectives, including the consumer's possible future needs, and financial circumstances (see s117 and 130 of the National Credit Act)
- make a preliminary or final assessment of unsuitability based on the inquiries you have made (see s118 and 131 of the National Credit Act).

You may generate additional equity projections as part of an ongoing discussion with the consumer to:

- best reflect the consumer's particular circumstances (e.g. where it is reasonable to expect that the consumer's future life expectancy will be greater than 15 years (the time period the calculator automatically provides projections over));
- inform and test the consumer's assumptions about their requirements and objectives
- help the consumer understand how a reverse mortgage may impact the equity they hold in their home.

See Regulatory Guide 209 *Credit licensing: Responsible lending conduct* (RG 209) for further guidance.

How do I use the reverse mortgage calculator?

Go to the ASIC MoneySmart website: www.moneysmart.gov.au/tools-and-resources/calculators-and-tools/reverse-mortgage-calculator.

The information set out below will help you use the calculator to meet your obligations.

Choose the lender

You will need to choose the relevant lender from the drop-down menu within Settings . This will:

- apply the lender's borrowing limits, including their loan-to-value ratio (LVR), minimum borrower's age and maximum loan amount
- allow you to enter your contact details and notes for the client's reference in Step 7 of the calculator (this is an optional feature). These details will appear in the printout from the calculator. (Step 7 only appears if a lender is selected in 'Settings').

If you are a broker, you will need to select the lender whose reverse mortgage you are providing credit assistance in relation to.

In limited circumstances you may want to remove borrowing limits (e.g. restrictions to LVR or maximum loan amount). If this is the case, you will need to select the option 'Other (no loan restrictions)' from the drop-down menu within Settings.

Step 1: Enter the consumer's details

In this section of the calculator, titled 'About you and your home', you must enter in the personal details relevant to the consumer (i.e. their name (optional), age, relationship status, gender and current house value). Where the consumer is in a relationship, the calculations will be based on the age of the younger borrower.

The current house value should reflect a reasonable assessment of the value of the consumer's home. You can determine the value of the consumer's home through:

- an independent valuation
- council rates assessments, or
- recent sales history of similar properties in that area.

The assumed annual increase in house value will automatically be entered as 3% per year.

Step 2: Enter the reverse mortgage costs

The interest rate in the section of the calculator titled 'About your reverse mortgage' will automatically be set at 10% per year. If the APR is available, you can enter the APR that applies to the reverse mortgage.

You must also enter the costs relevant to the reverse mortgage. This includes:

- the applicable establishment fee
- the total amount of ongoing fees (these can be entered in on an annual, quarterly, monthly, fortnightly or weekly basis).

Step 3: Enter payment amounts

In this section of the calculator, titled 'Your borrowing plan', you must enter in the consumer's preferred payment type and amount. This can be a lump sum payment, regular payments, or both. You can include up to three separate lump sum payments.

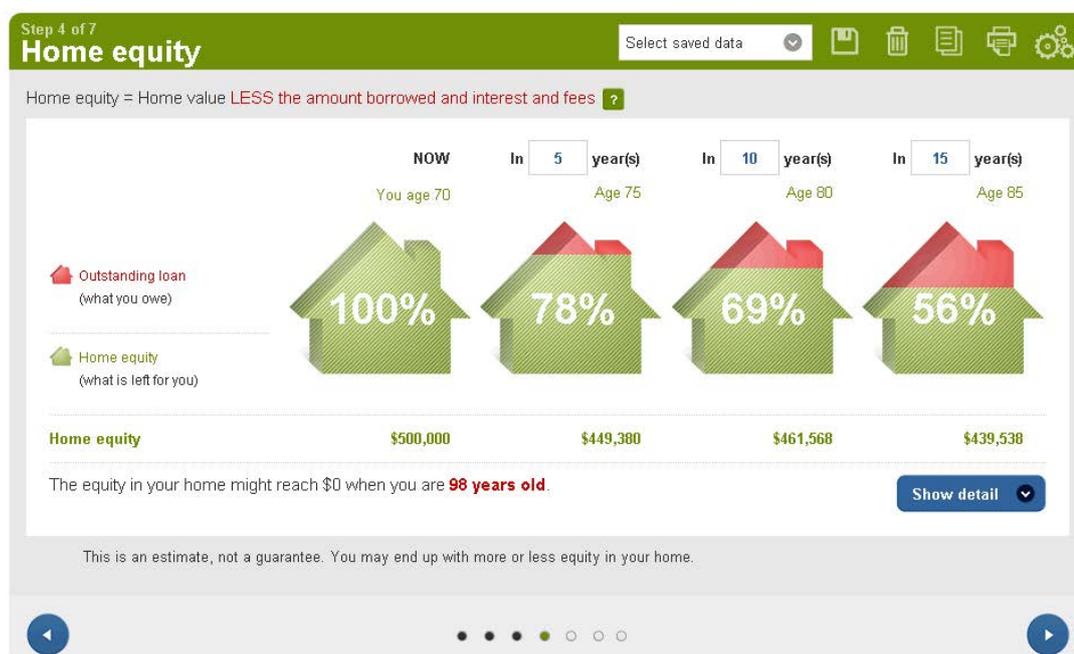
When entering in the payment amounts, you must take into account the presumptions of unsuitability set out in reg 28LC of the National Credit Regulations: see RG 209 for further information.

The calculator will prevent you from calculating a payment amount where the LVR exceeds the prescribed amounts for the reverse mortgage selected.

Note: If the consumer is uncertain about their preferred payment amount, you should consider re-assessing their borrowing plan (see 'Review borrowing plan' below) or providing them with additional projections for other amounts.

Step 4: Generate the Scenario 1 projection

This section of the calculator, titled 'Home equity', will show you how a consumer's debt will increase over time and what this means for the equity they hold in their home.



Click on 'Show detail' for more comprehensive information on the estimated value of the property, interest amount (compound), fees paid and total amount of debt.

You should show this equity projection to the consumer as **Scenario 1**.

Step 5: Explore other projections

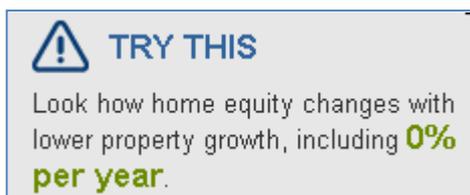
This section of the calculator, titled 'What if?', allows you to change the assumptions about future house value and interest rates, and gives you instructions on showing a consumer Scenario 2 and Scenario 3.

The printed equity projections will automatically generate Scenario 2 and Scenario 3 after Step 4 when you go to print.

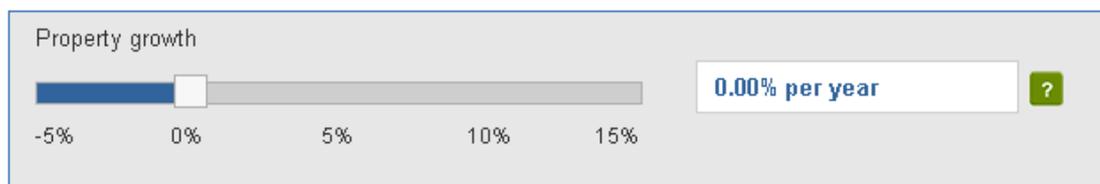
You can leave out Step 5 if you prefer to show the copy of the equity projections to a consumer in printed form.

Scenario 2

At the base of the equity projection two new blue rows will appear. The first row says 'What if house value grew by 3.00% per year?'. When you click on 'Explore scenario' the following sign will appear:



You should now change the value of property value growth to 0% per year. You can do this by moving the slider to 0% or alternatively entering '0' into the field next to the slider.



This changes the equity projections. You should show this equity projection to the consumer as **Scenario 2**.

Before you move to the next item, you must return the property growth to 3%.

Scenario 3

The next item to look at is 'What if interest rates were 10.00% per year?' When you click on the 'Explore scenario' this sign will appear:



You should now increase the interest rate by 2%. For example, if the interest rate is set at 8.89% per annum, this must be increased to 10.89% per annum. You can do this by moving the slider or entering the interest amount into the field next to the slider.

This changes the equity projections. You should show this equity projection to the consumer as **Scenario 3**.

Before you move to the next step, you must return the interest rate to 10% per annum or the APR of the reverse mortgage.

Review borrowing plan

If you or the consumer considers that the amount proposed to be borrowed does not meet their requirements or objectives, you may review the amount borrowed at this point and change accordingly.

Step 6: Review inputs

You may review the details you have entered and save the results.

To help you meet your obligations, you must make sure your details are set at **Scenario 1**. This will enable the calculator to automatically generate equity projections for all three scenarios when you print.

Step 7: Add notes and print

If you have selected settings relevant to a specific lender, you will be able to enter additional notes, including your details (e.g. name, contact details).

You can now click 'Print results'. The document that will be printed will illustrate Scenario 1, Scenario 2 and Scenario 3.

You may show or give the consumer a copy of the printed equity projections, including associated materials, at this point. The equity projections can also be given to a consumer by mail, email, or any other written or electronic communication agreed to by the consumer.

A consumer should be given a reasonable time to review these projections, to consider their current and future circumstances.

Where can I get more information?

- Go to www.comlaw.gov.au to read the National Credit Act and National Credit Regulations
- Read Regulatory Guide 209 *Credit licensing: Responsible lending conduct* ([RG 209](#))
- Go to www.asic.gov.au/credit for the latest information on credit and to download copies of regulatory guides
- Subscribe to ASIC updates on credit at www.asic.gov.au/credit-update
- Go to www.moneysmart.gov.au for credit information and resources for consumers
- Contact ASIC on **1300 300 630**

Important notice

Please note that this information sheet is a summary giving you basic information about a particular topic. It does not cover the whole of the relevant law regarding that topic, and it is not a substitute for professional advice. Omission of any matter on this information sheet will not relieve a company or its officers from any penalty incurred by failing to comply with the statutory obligations of the National Credit Act.

You should also note that because this information sheet avoids legal language wherever possible, it might include some generalisations about the application of the law. Some provisions of the law referred to have exceptions or important qualifications. In most cases your particular circumstances must be taken into account when determining how the law applies to you.