How your home equity can help fund your retirement

Your free 8-page guide

There's a new way to use your property wealth to

- Increase your income
- Protect your super
- Free up a lump sum
- Refinance a mortgage
- Help your kids and more

Household® Capital

Having most of your personal wealth tied up in your home can provide a great feeling of security. What's more solid, dependable and **real** than bricks and mortar?

But it may also mean that after a working life spent raising a family and paying off a mortgage with the bank, you don't have enough money in superannuation to fund a retirement without penny-pinching. Or it may mean you can't access a cash lump sum without draining that super you worked so hard to build.

Yet, downsizing to draw capital from your other big asset – your home – doesn't suit everyone.

These are among the good reasons more Australians are turning to their own home equity to fund their retirement. It's a way to use some of the wealth you've built up as your property has grown in value, while staying in your own home for as long as you want.

Forget what you might've heard about traditional bank reverse mortgages and partial-purchase schemes because Household Capital has changed the game with its Household Loan. It's a new way to use your property wealth to fund a better retirement more easily and cheaply. And Household Capital's customers can be confident they've secured long-term retirement funding from a responsible lender and are subject to greater consumer protection than ever before.

What's a Household Loan?

A Household Loan is a type of reverse mortgage that allows you to access the equity in your home by taking out a loan that uses your house as security, but that you don't repay until you choose to do so or you sell the property.

How much you can borrow depends on your age and the value of your home – the older you are, the more you can borrow. For example, if you're 60, your borrowing limit is 15 per cent of your property's value. At 70, it's 25 per cent.

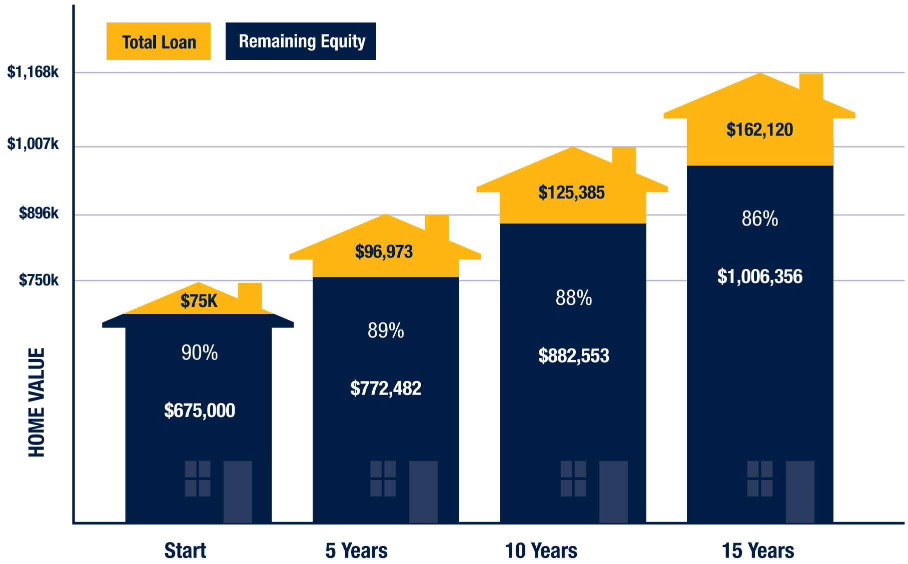
How much will a Household Loan cost me?

Because you don't have to make repayments on a Household Loan, the interest on your borrowing is added to your loan balance and compounds (put simply, you pay interest on your interest) so the amount you owe increases over time. The longer your loan term, the more the outstanding loan balance will increase.

This is where the Household Capital difference is important.

Household Capital has the lowest available variable rate in the market at 5.15 per cent (comparison rate of 5.21* per cent). Reverse mortgages attract a higher rate than home loans because providing a loan where the borrower doesn't have to make regular repayments and can stay in their home as long as they want is riskier for the lender.

Its market-beating rate isn't Household Capital's only advantage, though. A Household Loan offers personal service and more flexibility than the Centrelink Pension Loans Scheme's reverse mortgage, which can only be paid in instalments.



Case Study* Jack and Sandra, both 67 years' own their home valued at $750,000. They borrow $75,000 of their equity at an interest rate of 5.15% calculated daily, compounded monthly. After 15 years, the equity left is $1,006,356 and the loan amount is $162,120.

Calculations based on: Household Capital Variable rate of 5.15% (as at May 2020).
Home value increase of 3% average per year as per the ASIC MoneySmart reverse mortgage calculator default rate:-
www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/reverse-mortgage-calculator

**The Comparison Rate is based on a loan of $150,000 for 25 years. WARNING: this comparison rate is true only for the example given and may not include all fees and charges. Different terms, fees or other loan amounts might result in a different comparison rate.*

Household Capital also offers an interest-only facility that allows you to make regular repayments if you wish, so only the amount you originally borrowed is repayable at the end of the loan term. And Household Capital allows you to repay your loan at any time, in part or in full, with no penalty.

What can I use my Household Loan for?

You can elect to have your Household Loan paid to you as a lump sum or as a Home Income, which is a regular fortnightly or monthly payment. And while your loan is intended to ensure you have long-term retirement funding, you can use it for a wide range of life-enhancing purposes.

Common uses for a Household Loan include:

- As a regular payment to supplement or replace super income or supplement the Age Pension
- As a lump sum to top up your super balance so you can draw down more income
- To hold as a cash lump sum to have available for unexpected expenses
- To refinance an existing mortgage, removing regular repayments and the risk of foreclosure
- For property renovations or modifications that make it easier to stay at home
- To give or lend to a family member, rather than becoming a co-borrower or loan guarantor
- To cover unexpected medical expenses or health insurance
- To make up any shortfall in government subsidies for home care or aged care
- To buy a new car to help you enjoy an active retirement.

What's the benefit of combining a Household Loan and super?

You may be concerned that stockmarket falls have reduced your super balance and want to give your balance time to recover as markets make a resurgence – but that would normally mean postponing retirement or retiring on a lower income than planned. If you're already retired and using a super income stream, you'll be aware that the government recently reduced the minimum drawdown requirement - but that doesn't reduce the cost of your bills!

A Household Loan allows you to stick to your original retirement date or your existing retirement budget by reducing your super drawdown, thus allowing your balance time to recover as stockmarkets make a comeback, and instead supplementing your lower super income with regular instalments from your Household Loan.

You could later choose to repay your Household Loan via a super lump sum when your balance has recovered, wait for markets to recover then take higher super drawdowns so you can make interest repayments to reduce the size of your potential loan balance or simply wait to pay off your loan when you decide to sell your home.

What about a Household Loan and the Age Pension?

Here's another benefit Household Capital can offer. Because receiving your Household Loan as regular instalments via a Home Income is repayable, **the money you release isn't classed as income under Centrelink's income test.**

That means using a Household Loan to improve your retirement income is unlikely to impact your pension eligibility or payments.

Of course, there are many other great uses for a Household Loan, such as undertaking renovations, buying a new car, paying medical expenses, topping up your super balance or helping out your kids. Depending on your personal circumstances, some of these uses may have the potential to affect your pension, so it's important to speak to Centrelink about your plans before deciding how to use your Household Loan.

Is there a benefit to refinancing my mortgage with a Household Loan?

Many banks are making it hard for retirees to get credit or refinance a home loan once they're no longer receiving an income from work. Plus, even with a regular home loan, you still need to make repayments, which might not be easy if you're transitioning to retirement and thus a lower income,

or grappling with a reduced retirement income from super and investments.

A Household Loan, however, doesn't require repayments if you don't wish to make them, which removes the regular financial stress of making your mortgage repayment, plus the underlying concern you might default and put your home ownership at risk.

How about using a Household Loan to lend to family members?

You might be one of the many older Australians who are keen to help their adult kids get onto the property ladder. But most ways of doing so can put you at personal financial risk; being a mortgage co-borrower means you're on the hook for mortgage repayments if your child misses them, while being a guarantor on a mortgage constrains your own ability to borrow and puts your property at risk if your child defaults. And helping your kids can put a big dent in your superannuation savings.

A Household Loan removes those risks because it doesn't have to be repaid until your own property is sold. You could even agree that your child make regular repayments and use those sums to make interest-only repayments on your Household Loan, or agree to a lump-sum repayment and use that to pay off your Household Loan in full with no penalty. It's a smart way to use the equity in your family home to help your kids build the equity in their own property in a responsible way.

How am I protected if I take out a Household Loan?

There are multiple layers of consumer protection to ensure a Household Loan doesn't cause you financial hardship. Your first level of protection is from the National Consumer Credit Protection Act 2009 that ensures:

- Your home remains in your name - you benefit from any future capital gain
- You can stay in your home for as long as you wish - if you've complied with your loan terms, you can't be forced to sell
- You never end up owing more than your house is worth - even if your property value drops, making it worth less than your loan, you don't have to repay the difference.

As a second level of protection, Household Capital requires all of its clients to take legal advice and if you intend to use your loan to top up your super or to buy investments, you must get financial advice too.

But the most important protection Household Capital provides is a personal service to ensure you understand everything you need to know to manage your own home equity in a way that ensures you have a responsible, long-term home equity retirement funding plan.

How do I know if a Household Loan is right for me?

If you want to know more about how a Household Loan might suit your personal financial situation, Household Capital has free, online calculators you can use to work out how a loan could help meet your specific expenses, how much home equity you may be able to release and how your loan would compound over time.

You can schedule a phone call at your convenience with one of Household Capital's expert advisers if you'd prefer to discuss your situation or submit an obligation-free request for more information.

> I got a Household Loan because I wanted to say start saying 'yes' to a few things, instead of thinking 'it'd be nice, but no, I'd better not spend the money'. Yes to some home improvements, to travel, to helping my grandchildren with more substantial things. I didn't want to have to worry about how doing that would impact my super, so I'm using my loan as buffer that I can draw on when I need to. That way, it doesn't affect my pension either. My three kids are all very supportive because they know I always worked so hard – they just want me to have the life I deserve.

Vivienne Cable, 74
Household Capital client

Important information. Applications for credit are subject to eligibility and lending criteria. Fees and charges are payable and terms and conditions apply (available upon request). Household Capital Pty Limited is a credit representative (512757) of Mortgage Direct Pty Limited ACN 075 721 434, Australian Credit Licence 391876. HOUSEHOLD CAPITAL, the Star Device and Household Capital and the Star Device are trademarks of Household Capital Pty Ltd. This document is issued on 18/06/2020.

You created your home.
Let it create your future.

Your home can be both the best place to live and the right way to fund your retirement.

Visit us at householdcapital.com.au
or call 1300 463 082

Household® Capital