Household Capital Overview

Our Purpose

Founded in Australia in 2015, Household Capital enables Australian homeowners aged 60+ to unlock the wealth in their home.

With home lending being challenging for most over 60s, our range of specialist mortgage solutions are now available to support the needs of clients aged 60+. We know over 60s have different financial and lifestyle needs to your younger clients, and our flexible lending solutions have been structured accordingly to support your older clients.

Household Capital is a non-bank financial institution that operates in Australia under credit license 545906.

Our values-based mission is to

Help Australian homeowners aged 60+ to Live Well At Home

Our customer-based value proposition is

Home Ownership

$900,000+

Median Australian retiree Home Equity value

Superannuation

$190,000

Median superannuation balance at retirement age

Age Pension

$42,988

Annual Age Pension
(couple - 2022)

Source: ABS September 2020, Service Australia Annual Report 2019-20, ASFA 2017, Department of Social Services 2016, Productivity Commission 2015

Company Overview

In a relatively short period of time, Household Capital has become one of Australia's pre-eminent providers of home equity funding for the 60+ market.

Its institutional shareholders and funding partners include prominent Australian companies and global powerhouse financial institutions that not only provide capital, but also a wealth of knowledge and expertise in equity release markets.

Household Capital's offices are in Melbourne and Sydney, with staff also located in South Australia and Queensland. Because Household Capital's service proposition is primarily digital, clients have access to our services across all states and territories.

- Founded 2015
- Commenced lending March 2019
- Established finance business partners

Household Capital has been recognised for its engagement with technology to improve access to home equity, improve compliance and deliver business and client servicing efficiencies.

Allocating Loan Funds for Purpose

- Household Capital specifies a range of **responsible retirement funding needs** that can be met with access to home equity and provides funding to borrowers aged 60+ based on five key purposes

- The maximum loan amount is a function of the borrower’s age and home value. Household Capital lends a maximum of 20% of a home's value at age 60; the maximum Loan to Value Ratio increases by 1% per year of age

Top-Up

- Regular Income – up to 5 years
- Contingency funding
- Super / investment top up (financial advice required)

Finance

- Mortgage refinance
- Reverse mortgage refinance
- Consolidate personal debt
- New home purchases

Home

- Home renovations
- Transport & mobility
- Travel

Give

- First home deposit
- Education fees
- Intergenerational transfers

Care

- Healthcare
- In-home care

- Residential Aged Care – RAD and DAP funding

- “Bank of Mum & Dad” - Household Capital has clients who use the wealth in their home (equity) for intergenerational wealth transfers, such as helping their kids get into the property market or to fund educational expenses.
- The purpose lead approach to 60+ lending means your clients access the wealth in their home in a responsible manner and Household Capital can better protect them from risks such as elder abuse and others faced by 60+ borrowers.
- Household Capital has implemented a deliberate strategy to ensure that risk is managed throughout the client journey, so your clients are fully aware of the purposes for which they are borrowing and how their funds are to be deployed. Ultimate control of disbursements always lies with the customer.

What we lend for – A purpose led approach

A purpose led approach means customers are encouraged to use their wealth responsibly while considering their current and future needs.

There are five main purposes; allocating funds to these categories helps to plan how best to use funds over the long term.

Top up

- Regular drawdown plan – up to 5 years (option to extend at that point)
- Top up appreciating assets – superannuation or investments (IFA also required)
- Contingency fund for unexpected and future expenses – up to 5 years (option to extend at that point) (As a guide and framework, contingency may be considered up to 50% of the aged based LVR to a maximum of $200,000)

Finance

- Purchase a new home to better suit future needs

- Refinance an existing home loan to a more flexible repayment structure
- Consolidate personal debts – credit card, lines of credit, car finance or personal loans
- Consolidate outstanding business loans relating to past business activities

Home

- Renovations and maintenance of the home to meet future needs
- Upgrade motor vehicle, holidays & travel (capped at 25% of maximum aged based LVR)

Give

- Help children and grandchildren with key expenses such as education needs or buying a new home (subject to the borrower's ability to fund their own future needs)

Care

- Medical expenses, in-home care, support the transition to aged care
- Refundable Accommodation Deposits (RAD) and Daily Accommodation Payments (DAP)
- Health care premiums

- ## Retirement Lending Solutions

	ORIO 100	ORIO 50	HOUSEHOLD LOAN	HOUSEHOLD LOAN +
DESCRIPTION	**Transitioning to retirement** Reverse mortgage that limits (or eliminates) the effect of compound interest and rewards with a lower rate		**Managing retirement finances** Reverse mortgage that provides flexibility to meet changing needs including additional income and access to capital	
WEALTH AVAILABLE	20% home value @ age 60 + 1%/yr			
TERMS	Optional interest only payment (100%)	Optional interest only payment (50%)	Interest accrues to loan account	Interest accrues to loan account
INTEREST RATE	8.20%	8.70%	9.20%	9.20%
CASH FLOW IMPACT	Make interest payments	Make reduced interest payments	No regular repayments required	No regular repayments required and income paid from loan
ACCESS FLEXIBILITY	Increase or decrease loan amount plus contingency access at any time, without penalty			
REPAYMENT FLEXIBILITY	Optional regular interest payments and repay loan at any time		Optional ad hoc repayments and repay loan at any time	
RETIREMENT SUITABILITY	✓	✓	✓ ✓	✓ ✓

- From a product perspective, there are many similarities to typical home lending; NCCP complying, residential mortgage lending. There are also differences; borrowing limits, flexibility around interest payments and the cost of that flexibility, as well as benefits the product can provide to a client's cash flow.
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- Optional Retirement Interest Only 100 product - **ORIO 100.** This might suit someone transitioning to retirement, who can continue to make interest payments thus preserving their remaining home equity. As regular interest payments are made, a 100bps discount is applied to the Household Loan Standard Variable Rate (SVR).
- Optional Retirement Interest Only 50 product - **ORIO 50**. This option suits someone who can make part interest payments, while allowing the remaining interest costs accrue to the loan balance. A 50bps reduction to the SVR is applied when regular part interest payments are made.
- Our **Household Loan** allows the interest to accrue fully to the loan, and while the loan can be repaid at any time, it’s not required to be repaid until the home is sold. These options both improve the client's cash flow, and in the case of our **Household Loan Plus**, can change their lifestyle by creating a regular income stream to supplement other sources.

- Our flexible lending solutions support access to client wealth that's currently locked up in their home. It enables them to meet their changing needs while offering a trade off between cost, flexibility and cash flow.
- ## Household Capital - Product Overview - HOUSEHOLD LOAN
- Four variants of the same underlying product allows brokers to tailor the option to their client's situation.
- Household Capital ensures its interest and fee structure is simple and transparent.
- **Interest Rate**
- Standard Variable Rate (SVR)
- **Minimum age**
- 60 years
- **Minimum loan**
- $50,000
- **Maximum loan**
- $2,000,000
- **Establishment fee**
- $950
- **Acceptable security property value**
- $600,000 or more (exceptions can be considered)

- **Valuation fee**
- Nil up to $2M. $950 for homes greater than $2M
- **Regular drawdown fee and annual review fee**
- Nil
- **Reserved equity fee**
- Nil
- **LTO registration and discharge of mortgage**
- Varies per state
- **Settlement attendance fee**
- Varies per state
- **Discharge fee**
- $250 plus third-party fees
- **Commission (exc GST)**
- 0.8% upfront on approved amount
- 0.2% trail on drawn funds

Lending parameters and repayment terms

Lending parameters and repayment terms							
Age	**60**	**65**	**70**	**75**	**80**	**85**	**90 +**
LVR	20%	25%	30%	35%	40%	45%	50%

- Lending values are aligned to the youngest borrower (or approved occupant)

- No negative equity guarantee
- No repayments required through the term of the loan
- BPay details are provided to enable borrowers or their family to make optional repayments at anytime (no redraw)
- Regular interest payments via direct debit from your client's bank account
- Lifetime occupancy
- Repayment triggers occur under the following situations:
    - Sale of the security property
    - To occur within 365 days after the last borrower (or approved occupant) ceases to reside in the principal place of residence
    - Should the borrower move into aged care, repayment to occur within 5 years from when the last borrower ceases to reside in the principal place of residence. (Standard approved occupant protections remain)

Property occupant definitions

Borrower*

- All borrowers must be owners of the security property
- Maximum 2 borrowers per application

Approved occupant*

- Must be a minimum age of 60
- Will enjoy the same terms and occupancy protections as the borrower and property owner

Permitted cohabitant

- One or more individuals who do not meet the approved occupant status
- Occupancy protections do not apply
- Considered on a case-by-case basis
- Over 18’s may be required to sign an acknowledgement that a loan has been provided

Acceptable security types

Primary property types

- Freehold up to 5 hectares
- Strata title (greater than 50sqm)
- ACT leasehold

Property considered on review

- Community title
- Over 50s strata
- Crown lease (non ACT)

Secondary property

- Non primary residence
- The borrower (and approved occupant) enjoy the same protections including lifetime tenancy
- The lifetime occupancy protection and repayment triggers relate to their principal place of residence

Note: Properties outside the above parameters may be considered on a case by case basis. Reduced lending values may apply to select properties e.g., high density apartments and some non primary property types

Renovations – Supporting document guide

While Household Capital does not offer construction funding, many clients need to make alterations or refurbish their homes so that they are safe and comfortable for their retirement years. The parameters noted on this page are a guide so that you can set expectations with your client as to the supporting documentation required for their application.

Refurbish

Scope of works

- <$100,000
- <15% of valuation
- No headroom required

Supporting documents

- Nil required

Renovate

- <$200,000
- <25% of valuation
- Headroom 33% of LVR

Additional supporting documents may be required -

- Quotes for works to be provided
- Council permits
- Trade’s details
- May be drawdown conditions

Structural

- <$1,000,000
- <33% of valuation
- Headroom 33% of LVR

- Quotes for works to be provided
- Council permits
- Builder's details
- Builder’s insurance
- Cert of occupancy on approval
- Drawdown condition

Power of Attorney

Applications signed under an Enduring Power of Attorney (POA) will be considered under the following circumstances:

- A primary purpose of funding a Refundable Accommodation Deposit (RAD), Daily Accommodation Payment (DAP) or other related aged-care needs
- Where POA is held by a spouse, funding can be requested for any approved purpose (excluding gifting)
- Where POA is held by a 3rd Party, the loan purpose may be considered (subject to approval) where it benefits the POA donor or their spouse
- A registered POA is required in all States and Territories except Victoria
- Victorian POAs must be a certified copy of the original document
- Medical certificate attesting to borrowers incapacity will be required for the POA to be invoked. Alternatively the borrower may direct Household Capital in writing to rely on the POA despite them having capacity

VOI requirements for POAs:

- If the POA has more than one attorney, full VOI is required on the permitted attorneys executing the documentation

Aged Care Funding - In residential care facility

Where the primary purpose of a loan is for residential aged care to fund a RAD or DAP:

- Maximum term - 5 years
- Property may remain owner occupied or leased to a third party
- Repayment triggers occur under the following situations:
    - Sale of the security property
    - Within 365 days of the borrower departing the aged care facility
- Applications signed under Power of Attorney accepted - See POA conditions

The rising cost of living

Scenario

Steven is aged 72 and owns his Brisbane home worth $850,000. He also receives a pension from the Australian Defence Forces to cover his everyday living costs.

Problem

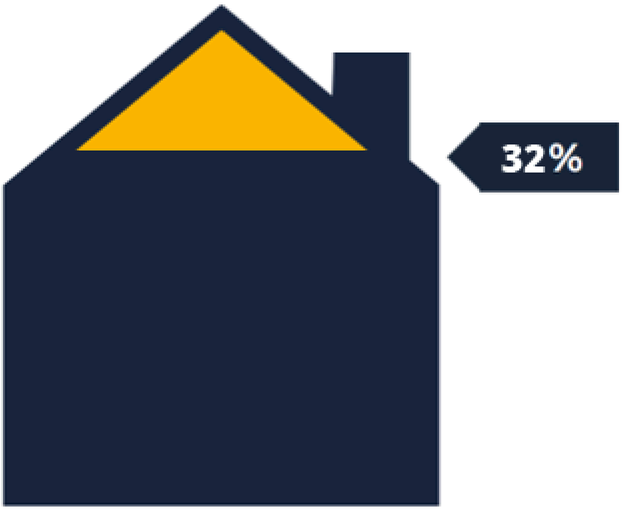
Steven would like an additional regular income to cover the costs of his retirement hobbies and regular travel to visit family while he's still healthy and fit. He'd also like a contingency fund for home maintenance.

Solution

Steven can access 32% of his home equity, an amount of $229,500.

He applies for a Household Loan of $122,000, allocated as follows:

- $50,000 for the contingency fund
- $72,000 to be drawn as an income stream of $2,000 each month for 3 years



Available Household Capital

$229,500

Estimated Home Value

$850,000

Important to note:
The additional regular income in this case is a loan drawdown and not considered income by Centrelink and therefore will not impact entitlements in any way. Customers should always check with Centrelink or their financial adviser to ensure understanding of how any financial transaction might impact their benefits.

Refinancing an existing mortgage

Scenario

Betty and James are 69 and have a small mortgage of $90,000 on their Balmain home, which is valued at $1.45 million. They also have two credit cards with $14,000 owing. They have depleted their superannuation and their only source of income is the Age Pension.

Problem

Interest rate rises and cost of living increases mean that the couple are struggling to get by and are at risk of defaulting on their repayments.

Solution

Betty and James can access 24% of their home equity, an amount of $324,000.

They apply for a Household Loan of $140,000 to be allocated as follows:

- $90,000 to pay off the mortgage
- $14,000 to pay out their credit cards
- $36,000 to be taken as an income stream of $1,500 a month to top-up their pension for the next 2 years
- **Intergenerational wealth transfer**
-
- **Scenario**
- Prue 74 and Tom 76 are well positioned to fund their retirement. They have two children in their late 20s, both of whom would like to buy a home. Given the challenges of entering the property market, Prue and Tom decide to transfer some of the wealth in their Kew home, valued at $2.74 million, to provide assistance with the deposit for these first home buyers.
- **Problem**
- High property prices, increasing rents and general cost of living increases have made it challenging for the couple's children to save for the deposit for their first homes.
- **Solution**
- Prue and Tom can access 29% of their home equity, an amount of $794,600.

- They apply for a Household Loan of $500,000 to gift each of their children with $250,000 toward their first home.
- **Making a home retirement ready**
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- **Scenario**
- Jenny 70 and Craig 72 are fit and love their beachside home in Coogee, which is valued at $1.95 million. They are self-funded retirees but wish to renovate their home to make it safe and comfortable for their future.
- **Problem**
- The couple does not want to draw on their income-producing assets to undertake the renovations, which have been quoted at $350,000.
- **Solution**
- Jenny and Craig can access 25% of their home equity, an amount of $487,500.
- They apply for a Household Loan of $400,000 to pay for the renovations, landscape their garden and buy some new furniture.

Care - medical expenses

Scenario

Linda is 65 and had to retire early because of chronic health issues. Because of her age she is not eligible for the Age Pension. She only had $86,000 in superannuation when she retired, but she owns her Adelaide home, which is valued at $925,000.

Problem

Linda has ongoing health needs that she is struggling to pay for; she is also having trouble meeting the payments of her private health insurance, which she does not wish to give up.

Solution

Linda can access 20% of her home equity, an amount of $185,000.

She applies for a Household Loan of $154,00 to be allocated as follows:

- a fortnightly income of $2,000 for two years
- a contingency fund of $50,000 for any ‘lumpy’ medical expenses

- ## Additional requirements for 60+ Lending
- While lending requirements are mostly similar to other mortgage products, there are some requirements that uniquely apply to 60+ lending. It is crucial to ensure that the following requirements are met when submitting applications to Household Capital.
- 1
- It is important to ask specific questions to your clients and carefully document their responses in the Accredited Broker Application Summary, making sure that the document is completed thoroughly.
- ## Downsizing and Borrowing Considerations
- Downsizing is an alternative to borrowing that should be considered by customers. However, it may not be suitable for those who wish to remain in their home or for those who want to avoid unnecessary stress and anxiety caused by moving. Additionally, downsizing may not always be the best financial option.
- ## Impacts on Centrelink Benefits
- If the borrowing purpose does not involve gifting or topping up investments, it is unlikely that Centrelink benefits will be affected. However, in all cases, clients should be aware of any potential impact on their benefits and should confirm with their financial adviser or Centrelink, if applicable.
- ## Aged Care and Estate Plans
- For some borrowers that are closer 60, it is possible that they have not yet considered aged care or made any plans for their estate. Nevertheless, it is important to consider these factors and

understand how the loan will affect the funds available for aged care or the estate.

- 2

- Product related information and disclosures that must be provided to customers prior to submitting the application.
- **MoneySmart (ASIC) equity projections** based on the recommended scenario. This calculator can be accessed at https://moneysmart.gov.au/retirement-income/reverse-mortgage-calculator . It will provide your customers with information on the impact the proposed loan will have on their capacity to fund future needs including aged care.
- **Reverse Mortgage Information Statement.** This document is available in the Accredited Broker portal and must be provided to and understood by customers prior to submitting an application to Household Capital. It contains important product disclosures and information for customers to make an informed decision whether the product is suitable to their needs.

- ## How we work with you

Contact Mates Rates Mortgage Brokers today to find out the next steps