



**National Council of
Women of New Zealand**

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Wahine O Aotearoa

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**Submission to the Office for Senior Citizens on the
“Home Equity Conversion” Schemes**

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 42 Nationally Organised Societies and National Members. NCWNZ has 31 Branches throughout the country attended by representatives of those societies as well as some 1560 other societies. The Council's functions are to serve women, the family and the community at local, national and international levels through research, study, discussion and action. NCWNZ welcomes the opportunity to make this submission which has been prepared by the Economics Standing Committee following consultation with NCWNZ members.

The consultation document raises wide ranging issues within the context of this discussion, however the processes of NCWNZ preclude covering such diverse questions. Members were consulted on four main questions then further comments were invited. NCWNZ is pleased to accept the opportunity to respond, not using the submission booklet format, as allowed on page three of the information booklet. The following responses came from wide representations from Whangarei to Invercargill.

Questions:

1(a) Before agreeing to a Home Equity Conversion (HEC) scheme should independent financial advice be sought?

Answer: This elicited a unanimous “yes” from members. It was strongly recommended that advice be sought from lawyers, family members, bank managers or even Citizens Advice Bureaux and Community Law Centres where advice can be obtained freely.

1(b) Should such advice be voluntary or compulsory?

Answer: Most responses advocated that there should be some evidence that independent advice had been sought. Some didn't go as far as agreeing to compulsion but still recommended strongly that advice be sought. Two members felt there should be no compulsion as there “should be responsibility for one's own actions”.

2. Should the HEC industry be subject to standard guidelines?

Answer: Again, a unanimous “yes”. These guidelines should include a requirement of regular financial reports – at least quarterly, transactions to be in plain English, a cooling off period as in the Credit Contracts Act, to allow for reconsideration and even withdrawal without penalty. It is felt that there should be as much transparency in the HEC transactions as for regular mortgage, e.g. the implications of compound interest; that all proposals carry a “no negative” equity guarantee. Clients should be informed that Work and Income NZ (WINZ) can offer some of the help offered in the scheme. Contracts should guarantee occupancy of one's home for as long as



needed. The possibility of inflated valuations under the current market conditions was also a concern. Clients should be aware there could be recourse to the Disputes Tribunal in a crisis.

3. How could consumers be protected from undue pressure to purchase other financial products?

Answer: Some HEC firms sell various insurance products. Discounts on these products could be used as incentives to take out HEC contracts. Guidelines and legislation could cover this possible problem. Some members felt there needed to be a clear definition of “independent”. Some knew of the organisation *Sherpa* – a regulatory body set up to protect legitimate companies from being associated with “sharks” in the business. Some expressed concerns that family members may pressure parents to take out HEC loans “to pay out their inheritance whilst parent/s are still living”.

4. What consequences could you envisage if more patients opt for HECs to fund medical costs?

Answer: At one public meeting convened by the Office for Senior Citizens a questioner was told that approximately 10% of HECs were for medical costs, in order to avoid public hospital waiting lists (this figure was for Australasia). Some members stated this could be an advantage, even though it would be better to go to a bank (depending on what may be covered by private health insurance). One branch expressed concern that more people seeking this kind of private health cover could lead to a shortage of doctors in our District Health Boards (DHBs) along with the possibility of some private medical procedures being performed unnecessarily.

The media story of a health professional advising people to take out HEC mortgages for medical/surgical procedures drew comments like “unethical” and “highly immoral”. Members felt that this could lead to medical specialists becoming agents in the financial industry. There was a fear that this could lead to an abdication of government responsibility with excuses to reduce funds allocated to Vote Health and shift responsibility back on to individuals.

One branch felt the Minister for Senior Citizens should take more responsibility for hospital waiting list processes. Another pertinent observation was that private health insurance could be substantially affected by reliance on any kind of property mortgages being taken out for the purpose of funding medical/surgical treatment. With higher premiums often imposed for older clients, people may prefer the mortgage option to private health insurance.

Other Comments:

An article in the Rainey Collins Newsletter of February 2007 points out that HECs are more expensive than ordinary mortgages. With higher interest rates and extra costs e.g. valuation fees, a customer may find transactions not as beneficial as expected. In Britain some HECs have collapsed as the lender’s own funders have poor credit ratings.

There is concern that television advertisements make such schemes appear deceptively simple: periodicals carry very tempting messages.



The most appealing attraction of HECs is the freedom from repayments until the occupier of his/her family sells the dwelling. But customers need to be aware of eventual negative equity or penalties should one wish to move house.

One branch is very concerned about the need for clear legislation covering all aspects of HECs so that the borrower is made fully aware of any alternatives that may be available.

Another concern is that HECs are serving to “normalise” the credit habit. It is hoped that looking into the possibility of getting involved in the HEC scheme may cause potential clients to explore other options, including ordinary bank loans and adjusting their financial affairs.

NCWNZ commends the Office for Senior Citizens for alerting the public to the pitfalls and benefits of HECs.

Christine Low
National President

Heather M. Smith
Convenor, Economics Standing Committee



