



Welcome



The Safe Home Equity Release Plans Association (SHERPA) is a not for profit association supported by New Zealand's leading providers and distributors of Home Equity Release Plans.

Launched in May 2005, SHERPA is dedicated entirely to the protection of planholders and the promotion of safe home equity release plans.

Membership of SHERPA is open to all providers of Home Equity Release products in New Zealand who have pledged to observe the SHERPA Code of Practice. Members are allowed to display the SHERPA logo on their websites, brochures and other printed material.

Members' compliance with the [Code of Practice](#) is independently reviewed.

Associate membership is open to organisations that support the aims of SHERPA.

The Government is supportive of a [Code of Practice](#) for Home Equity Release and SHERPA has pledged to work with the Government on any future regulation of the industry.

The purpose of this website is not to recommend any particular plan to you, but simply to help you make informed and safe choices.

ABOUT HOME EQUITY RELEASE PLANS:

Background



Recently there has been much comment about the 'savings shortfall' that many New Zealanders can expect to face in their retirement.

The issue has become an increasing focus of many in society, including the Government, senior's organisations, seniors themselves and their families. The media is challenging the issue with increasing frequency, and there is much debate in the community as to how best to manage the issue.

There are a number of options available to seniors, their families and professional advisers to consider. These may include:

- Selling the home and downsizing to a smaller property
- Borrowing from the family
- Adjusting one's lifestyle to reduce daily expenses
- Returning to the workforce
- Releasing some equity from the sale of a portion of the property
- Releasing some of the equity in the home via a home equity release plan

Home Equity Release Plans

This option is becoming increasingly popular in New Zealand, and is based on similar concepts that have been available in the UK, USA, Canada and Australia for many years.

Some of the typical uses of the funds raised from a Home Equity Release Plan include:

- Home maintenance or improvements
- Long term care or medical expenses
- Supplementing your income
- Debt consolidation
- Supporting the kids or grandkids
- Holiday or travel
- Purchase of a car

A Home Equity Release Loan is usually structured as a loan secured with a first mortgage on your property, but unlike a traditional mortgage, no repayments are due until all borrowers permanently vacate the property. This will usually be when all borrowers have passed away, moved into long term aged care, or the property has been sold for any other reason, at which point the lender will seek repayment of the funds owing.

Funds released via the loan can be taken as a single lump sum, a series of installments or drawn down under a 'line of credit' facility. The options available will vary with each lender. Whilst most lenders will accept voluntary repayments, no regular repayments are required.

Interest and Fees

Because there are no repayments due whilst the borrowers are living in the property, interest and fees are added to the loan balance during this period. This is often referred to as the "capitalisation", "compounding" or "rolling up" of interest and fees into the loan balance.

Repayment

Interest rates may be fixed or variable and where they are variable they may be 'pegged' to a particular benchmark or set by the lender according to market conditions.

Lenders may charge a range of fees to cover application, valuation (including regular updates), legal, administration and early repayment. Where interest rates are fixed there may be break fees for early repayment.

When the loan and all interest and fees are due for repayment, the borrowers or their estate will typically have the option of repaying the loan out in full and retaining the property, or selling the property and repaying the lender from the proceeds of the sale.

Loan Repayment Guarantee



A key feature and a requirement by SHERPA of its members is that the total loan balance repayable by the borrowers cannot exceed the net sale proceeds of the property at the time the loan is repaid. This is commonly referred to as a Loan Repayment or No Negative Equity Guarantee. This means that provided the terms and conditions of the loan have been met, the lender cannot seek additional repayment from the borrowers personally, or from their estate, if the value of the property is insufficient to fully repay the loan.

In addition, this guarantee ensures that all borrowers or nominated residents have the right to live in the property for as long as they choose, even in the event that the total loan balance exceeds the property value.

Terms and Conditions

All lenders will make the loan available to you subject to a set of terms and conditions. This is an important document that you should read thoroughly, and seek advice on from your solicitor.

These may include, but not be limited to requirements that you as the borrower will:

- Adequately maintain the property
- Maintain an adequate level of buildings insurance on the property
- Notify the lender if there have been changes to the structure of the property
- Notify the lender if any additional permanent residents have moved into the property

These are all designed to protect the lender as first mortgagee and to protect the future realisable value of the property. Check with the lender what their specific terms and conditions are.

SAFE WITH SHERPA:

Safety Check

Anyone using their home to raise money should ask themselves three fundamental questions:

- **Do I have the right to live in my property for life?**
- **Do I have the freedom to move to suitable alternative property without financial penalties?**
- **Do I have a guarantee that whatever happens I will not owe more than the net sale proceeds from my property?**

If you arrange your Home Equity Release Plan with a member of SHERPA, you are assured that the answer to each of these questions is **YES**.

Code of Practice

Each member of SHERPA agrees it's Home Equity Release Plan(s) will adhere to, and be measured against the following Code of Practice in dealing with New Zealand seniors, their families and their advisers. As a minimum, members of SHERPA shall:

1. Treat all borrowers with respect and dignity
2. Participate in an approved External Dispute Resolution Scheme
3. Ensure that all plans carry a clear and transparent "loan repayment", "no negative equity" or "non-recourse" guarantee. That is, the borrower(s) will never owe more than the net realisable value of their property, provided the terms and conditions of the loan have been met. The guarantee will include guaranteed occupancy for life, no requirement to repay until ceasing to occupy and transferability without penalty to another property that meets lending criteria.
4. Strongly encourage borrower(s) to discuss the transaction with family members and to seek independent financial advice from a suitably qualified financial adviser.
5. Provide general advice and recommend borrower(s) consider the impact, if any, on their state benefits.
6. Ensure that the borrower(s) obtains independent legal advice performed by the solicitor of their choice. The solicitor must not act for the lender. Prior to completion the member must receive a certificate from the solicitor confirming the borrower's legal competence and that the product's benefits and obligations have been explained to them. All members must have robust review processes to ensure that the solicitor is involved as appropriate in subsequent drawdowns and further advances as the borrower's circumstances may have changed.
7. Clearly and accurately identify all costs to the Borrower(s) associated with the transaction, including any transfer of current or future equity interests in the Security Property to the Member. In addition, the Member must arrange disclosure of the form and quantum of any remuneration or benefit payable by the Member to any employee, adviser, agent or representative for introducing, referring or advising a Borrower.

8. Not assert or imply to a borrower(s) that they are obligated to purchase any other product or service offered by the member or any other company in order to enter into a Home Equity Release Plan.
9. Provide in writing a fair and complete package of home equity release documents, covering the benefits and obligations of the plan. This will include making available to borrower(s) and their advisers a tool illustrating the potential effect of future house values, interest rates and the capitalisation of interest on the loan.
10. Ensure all loans are written under the Credit Contracts and Consumer Finance Act 2003 irrespective of the use of proceeds.

Each associate member of SHERPA agrees to support the above Code of Practice and, if they are a distributor, will support and recommend Home Equity Release Plans that comply with the Code of Practice.

SHERPA MEMBERSHIP:

Members Directory

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