

Market for reverse mortgages could be worth \$1B, says N.Z. company

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TORONTO (CP) _ The growing demographic category of elderly homeowners in Canada is being targeted by a New Zealand-based "reverse mortgage" company, which estimates the mostly untapped market in this country to be worth as much as \$1 billion.

Headquartered in Mississauga, Ont., Seniors Money International announced Tuesday it will compete with the Canadian Home Income Plan, or CHIP, which currently has a monopoly on so-called reverse mortgages.

With a reverse mortgage, the homeowner uses the equity in a property as collateral for a loan. Unlike normal mortgages, however, the property owner doesn't make payments on the mortgage until they or their estate sells the house.

Advocates of reverse mortgages suggest they are a way for older homeowners to tap the market value of their property without having to move. Critics argue that reverse mortgages can be an expensive form of debt compared with other alternatives.

CHIP, owned by Home Equity Income Trust (TSX:HEQ.UN), has spent two decades building up its current portfolio of \$655 million in loans - with about 6,500 mortgages outstanding - through word of mouth, a slick marketing campaign and referrals from banks, which have stood on the sidelines. The loans are secured by homes worth about \$1.8 billion.

But this is only a tiny fraction of the potential market, says Nick DiRenzo, CEO of Seniors Money Canada, which will initially offer its reverse mortgage product in southwestern Ontario.

The privately held company plans to expand nationally next year, to tap into Canada's burgeoning population of seniors.

DiRenzo said he calculates the potential national market at \$1 billion by using the following factors: the current population of seniors, which is expected to double in the next 25 years; average home prices; and the company's loan to value ratio - average loans are about \$75,000.

In 2001, 93 per cent of seniors aged 65 and older lived in private households, according to census data. And according to a 2006 Statistics Canada report, there are 4.3 million people aged 65 or older in Canada, an increase of more than 446,700 or 11.5 per cent from 2001.

Each percentage point of market penetration is worth about \$1 billion, DiRenzo said.

"We think there's lots of room to compete," DiRenzo said of going head to head against CHIP.

The company's sole product is a variable rate mortgage of prime plus 1.25 per cent, which is now 7.5 per cent. However, DiRenzo said the rate could rise as high as prime plus two per cent.

Senior's Money International is already operating in Australia, New Zealand, Ireland, Spain and the Canadian expansion is being financed with equity from the parent company, DiRenzo said.

Gary Krikler, the chief financial officer for Home Equity Income Trust said the launch of Senior's Money International has been expected for quite some time, and said the company welcomes the competition as it increases consumer awareness of reverse mortgages.

"We don't mind. It adds an extra player to the business," Krikler said.

Krikler said the sector is extremely hard to get into and that's why the company hasn't had any competitors for so long.

"We have created a strong corporation over the years that's not an easy business to gain traction in," Krikler said.

Since its initial public offering in 2002, the Home Equity Income Trust has financed all of its new reverse mortgages through its fully-owned subsidiary, CHIP Mortgage Trust.

Its other subsidiary, Canadian Home Income Plan, which has been in business for more than 20 years, has originated more than 10,000 reverse mortgages. The average new reverse mortgage is approximately \$85,000 and loans are usually about 30 per cent of the home's value, according to CHIP.

"The average loan to value of the portfolio is 36 per cent and over 98 per cent of the portfolio has a loan to value of less than 70 per cent. The portfolio is well protected from declines in the value of residential real estate," Home Equity said in a release Tuesday, designed to distance itself from the woes of the asset-backed commercial paper market sparked by the subprime mortgaged crisis.

And while Home Income Trust has thrived as a monopoly, it is dealing with another looming challenge for its business: federal taxes that will kick in when new tax laws come into effect in 2011.

On July 27, the trust reported an \$11 million net loss in the second-quarter, resulting from non-cash charges for future income taxes affecting income trusts, and for an unrealized loss on the fair market value of its derivatives.

Excluding the impact of these items, the company said net income would have been \$2.3 million or 16.3 cents per unit, an increase of 47.1 per cent or 45.5 per cent per unit over the second quarter of 2006.

According to its financial report for 2006, Home Equity Income Trust originated \$104.6 million in new mortgages last year, up 18 per cent from 2005.

Shares in Home Equity Income Trust closed down 30 cents or 2.3 per cent at \$12.65 Tuesday on the TSX.