Australian Government

Department of Veterans' Affairs

Businessline

Action Required: For information only

To: Assistant Secretaries, Client Benefits Division
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SUBJECT: Introduction of No Negative Equity Guarantee and Advance Payments of the Home Equity Access Scheme

Purpose: To inform staff of two changes to the Home Equity Access Scheme (HEAS) to commence 1 July 2022:

- the No Negative Equity Guarantee (NNEG); and
- the introduction of capped advance payments.

Key Points:

- The changes take effect 1 July 2022.
- The introduction of the NNEG means borrowers will not have to pay more than the market value of their secured property as repayment of their HEAS loan, even if the balance of the loan exceeds the value of their secured property.
- Clients can request up to two advance payments in any 12-month period, up to a total value of 50% of the maximum annual rate of pension. The combined loan and pension payment each fortnight can be up to 150% of the maximum pension rate.
- The HEAS was known as the Pension Loans Scheme (PLS) prior to 1 January 2022.

Informing new and existing HEAS clients:

- Under the changes, HEAS participants can choose to convert some or all of their fortnightly HEAS entitlement to an advance payment.
- The ability to receive their entitlement as an advance payment has been indicated on application forms for new HEAS recipients.
- There is a new HEAS Advance Payment Request Form (D9390) to allow existing HEAS recipients to request an advance payment.
- The Department of Social Services (DSS), as the lead agency, will be undertaking an awareness campaign to ensure current eligible HEAS recipients are aware of the scheme and the corresponding changes.

Background: The HEAS is a voluntary reverse equity mortgage that offers older Australians an income stream to supplement their retirement income. This allows people who have assets in the form of Australian real estate, but who need or want additional income in retirement, to draw on the value of those assets in the form of a fortnightly payment capped at 150% of the maximum fortnightly rate of Service or Age pension.

Any outstanding loan is subject to a compound interest rate and the loan is secured by a statutory charge over the person's real estate in Australia. The loan is normally required to be repaid if the real estate is sold or from the person's estate after their death.

These changes were part of a Budget 2021-22 measure to increase the flexibility and attractiveness of the Pension Loans Scheme. Included in these changes was a decision to rename the Pension Loans Scheme to the Home Equity Access Scheme.

The change of name from Pension Loans Scheme to Home Equity Access Scheme is to ensure all retirees, not just those on a pension, know they can benefit from the Scheme if it suits their circumstances.

Legislation

The *Social Services and Other Legislation Amendment (Pension Loans Scheme Enhancements) Bill 2021* was introduced to Parliament on 2 December 2021, passed on 30 March 2022 and given the Royal Assent on 1 April 2022.

The Bill amends the *Social Security Act 1991* and *Veterans' Entitlements Act 1986* to introduce a no negative equity guarantee to the HEAS and enable clients to access an advance of their entitlements to regular HEAS payments, commencing 1 July 2022.

Communication

DVA webpages and CLIK have been updated to reflect these changes.

Q&As have been prepared to assist staff with answering client queries on the upcoming changes to the HEAS. These are at Attachment A.

ICT Systems

DVA ICT systems have been updated to include the ability to make HEAS advance payments and record NNEG adjustments to loan balances, as well as to reflect the new name of the scheme.

Adrienne Godsmark
Acting Assistant Secretary
Policy Development Branch
Veteran and Family Policy Division

27 June 2022

Attachments
A – Q&As

Attachment A

Questions and Answers

Q. Why has the name changed from Pension Loans Scheme to Home Equity Access Scheme?

A. The new name seeks to make sure that all retirees, not just those on a pension, know they can benefit from the scheme if it suits their circumstances.

Q. Who is eligible under the HEAS?

A. To be eligible for a loan under the HEAS, participants must own Australian property (real estate) to be security over the loan, cannot be bankrupt or subject to a personal insolvency agreement and be one of the following:

- A veteran who has reached qualifying age and is eligible for service pension; or
- A partner of a veteran who is eligible for partner service pension where the veteran has reached qualifying age; or
- A widow(er) or ex-partner of a veteran who has reached Age Pension age and is eligible for partner service pension; or
- A war widow(er) who has reached qualifying age and is eligible for income support supplement; or
- Entitled to receive an Age Pension from DVA

Q. Why is the HEAS changing?

A. The HEAS is changing as a result of a 2021-22 Budget measure which enhances the support provided by the HEAS and gives greater flexibility to pensioners in how they utilise their equity in real estate. It also ensures that no pensioner can enter a negative equity situation with regards to their real estate, by introducing a No Negative Equity Guarantee (NNEG).

Q. What are the changes?

A. The major changes to the HEAS are that:

- Participants will be able to convert their HEAS entitlements to a series of capped advance payments, subject to certain limitations
- Participants can now choose to receive HEAS payments:
  - Fortnightly payments only (of up to 150% of the person's maximum pension rate, including their pension supplements); or
  - Advance payments only (of 26 fortnights' worth of up to 50% of their maximum pension rate); or
  - A combination of fortnightly and advance payments (subject to prescribed limits).
- The NNEG will mean any HEAS loan to be paid back to the Australian Government will never exceed the equity in the secured property

Q. What do the changes mean for clients?

A. The changes mean that:

- HEAS participants will be able to receive up to two advance payments per year, worth up to 50% of the total maximum yearly pension rate they receive; and
- if the value of the secured property be insufficient to repay the outstanding loan amount, participants will no longer be liable for the shortfall.

Through these measures, participants will have greater choice and flexibility on how the HEAS funds are received and have protection against owing money to the Commonwealth after sale of their secured property to repay the HEAS loan.

Q. How do the new arrangements affect existing HEAS participants?

A. Most participants will not notice a change. If they wish to convert their fortnightly entitlement to an advance payment for a given period, they should contact DVA.

The changes apply equally to both new and existing HEAS participants.

Q. How much can a person receive under the HEAS?

A. A participant in the scheme can receive up to 150% of their maximum pension rate as a fortnightly loan payment, or a combination of pension and fortnightly loan payments.

Participants will cease to receive loan payments under the scheme when they reach their maximum loan amount, which is based on their age and the value of the property as security. Participants may also request that their loan payments stop at any time.

Interest continues to be charged fortnightly on outstanding loan balances when a participant ceases to receive loan payments, until the loan is paid in full.

Q. When does the loan need to be paid back?

A. Loans under the scheme are generally not paid back until the participant passes away. Loans may be repaid at any time and must be repaid if the secured property is to be sold or transferred.