Ageing well
Housing solutions for older Australians

24 July 2014
Housing equity withdrawal by older home owners

Associate Professor Rachel Ong
AHURI Research Centre—Curtin University
Background

- Common forms of HEW
  - In situ mortgage equity withdrawal (MEW)
  - Downsizing
  - Selling up
Background

- Common forms of HEW
  - In situ mortgage equity withdrawal (MEW)
  - Downsizing
  - Selling up

- Evidence from a mix of:
  - Quantitative analysis of the HILDA Survey
  - In-depth interviews with 27 home owners aged 45+ and 9 service providers
Rates of HEW
45+ years, 2001–10

Source: 2001–10 HILDA Survey
Distribution of HEW styles
2001–10

45-54 yrs
91% In situ MEW
3% Downsize
4% Over-mortgage

55-64 yrs
83% In situ MEW
8% Downsize
6% Over-mortgage

65-74 yrs
60% In situ MEW
25% Downsize
14% Over-mortgage

75+ yrs
42% In situ MEW
19% Downsize
39% Over-mortgage

All
84% In situ MEW
7% Downsize
7% Over-mortgage

Source: 2001–10 HILDA Survey
### Sale

Reduction in income support payments

<table>
<thead>
<tr>
<th>% who would find their ISPs reduced</th>
<th>Downsizing</th>
<th>Selling up</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>61%</td>
<td>80%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average dollar reduction in ISPs (per fortnight)</th>
<th>Downsizing</th>
<th>Selling up</th>
</tr>
</thead>
<tbody>
<tr>
<td>$78</td>
<td>$186</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average percentage reduction in ISPs</th>
<th>Downsizing</th>
<th>Selling up</th>
</tr>
</thead>
<tbody>
<tr>
<td>17%</td>
<td></td>
<td>34%</td>
</tr>
</tbody>
</table>
Under the income and assets test they are deeming. They say, 'okay, you’ve got $100 000; $70,000 we’re going to take 3% and $30,000, 4.5%,' or whatever. So suddenly you think 'oh no' (Home owner, Perth, 75+)
Social isolation

- Loss of familiar and friendly neighbours
- Lack of accommodation for visiting children and grandchildren

... there is very clear evidence ... [that] there is a strong desire to stay in place. That relates mostly to the way in which senior Australians respond to their community rather than necessarily their property asset—the family home ...

(Private finance provider)
Downsizing
Transaction costs

Stamp duty as % of equity released

Source: 2001–10 HILDA Survey
Selling up
Disadvantages of renting

- Rents can be expensive and increase at a faster rate than fixed incomes
- Lack of control over home maintenance issues
- Tenure insecurity
Mortgage equity withdrawal (MEW) raises mortgage indebtedness and repayment risk (on any form of borrowing) is strongly correlated with:

→ Low incomes and primary home values
→ Events that might reduce income e.g. poor health, unemployment
Mortgage equity withdrawal (MEW) raises mortgage indebtedness and repayment risk (on any form of borrowing) is strongly correlated with:

- Low incomes and primary home values
- Events that might reduce income e.g. poor health, unemployment

Equity borrowers should have no problems meeting higher debt repayments *as long as* they are not hit by adverse events that reduce income
Mortgage equity withdrawal
Limited equity risk

- 20% older owners use MEW have housing equity that is less than 40% of the value of their homes, compared to 10% of other older mortgagors who do not use MEW

- Thus a substantial proportion of MEW users in the later stages of the life course no longer have a majority equity stake in their homes

- But it is once again mitigated by the secure financial positions
Mortgage equity withdrawal

Other obstacles

- Stigma attached to the use of reverse mortgage products
- No difficulty obtaining information about equity release products, information not always useful, can be overly complex

I think when you look at the asset guide on reverse mortgages, I think it runs for some 79 pages, ... there is very little that gives an unbiased view of the advantages and disadvantages …

(Private finance provider)
Intergenerational issues

- Older home owners might release equity to provide financial assistance for their children with the children making repayments
  - Parents are exposed to default risk if the child experiences events that make repayment difficult
  - Tension between siblings

- Breakdown of informal housing and care arrangements
  - Burden of care under-estimated by the son / daughter and little equity remains to finance professional care arrangements
  - Changing dynamics in household