

Reverse mortgages and older people

OLDER PEOPLE USE REVERSE MORTGAGES TO COVER BASIC LIVING COSTS OR TO PURCHASE HIGH COST ITEMS (SUCH AS CARS, MEDICAL CARE OR WHITEGOODS) WHEN THEIR RETIREMENT INCOME IS LESS THAN EXPECTED.

KEY POINTS

- A reverse mortgage is a loan available to older home owners that allows cash to be borrowed against the value of the property.
- Knowledge of the market and accessible information for consumers are important in supporting the growth of this product.
- The reverse mortgage market in Australia is well established and is expanding. There is, however, potential for further expansion: both in terms of the size of the market and interest from consumers, and in terms of what the loans are used for.
- This potential for expansion, however, is hindered by a number of risks and obstacles that impact on the sustainable growth of the reverse mortgage industry.
- On the supply side, risk, complexity and attendant commissions have resulted in resistance to the product by a number of lenders and brokers. Further, consumer choice in reverse mortgage products has also diminished due to the Global Financial Crisis (GFC).
- On the demand side, borrowers reported difficulty in accessing information about the nature and range of reverse mortgages. Further, current arrangements exclude a number of sub-markets from accessing reverse mortgage products.

*This bulletin is based on research by **Associate Professor Catherine Bridge, Ms Toni Adams, Professor Peter Phibbs** of the AHURI UNSW-UWS Research Centre and **Professor Mark Mathews and Professor Hal Kendig** of the AHURI Sydney Research Centre. The research explored the state of the reverse mortgage industry in Australia and its potential for growth. The research was undertaken in partnership with the Senior Australians Equity Release Association of Lenders (SEQUAL).*

- The take up of reverse mortgages by older home owners presents a number of benefits to borrowers, mortgage practitioners and governments. It can provide a source of income and greater financial independence to older people; it means increased business for mortgage practitioners; and can potentially reduce the burden on long-term aged care and retirement facilities.

CONTEXT

The demand for reverse mortgage products is expected to rise significantly over the next 25 years. As people are living longer, home owners may be willing to trade off housing equity for a level of financial security in retirement.

The reverse mortgage market has gained considerable momentum in Australia. In 2008, there were 36 000 reverse mortgages in Australia. Both the number of loans and the size of these loans have increased. At the time of this review, there were seven SEQUAL (Senior Australians Equity Release Association of Lenders) accredited lenders, providing five reverse mortgage products. The variability of reverse mortgage products and the access to information regarding these products have implications for both consumers and governments, with take up potentially impacting on income support levels and demand for government aged care services.

METHODOLOGY

The project posed three main research questions: What is the nature of the reverse mortgage industry in Australia at present? What factors have influenced growth in the use of reverse mortgages by older persons? And, how does the use of reverse mortgages influence retirement decision-making and planning? The first phase of the research was a systematic review of the current and available evidence about equity release for older persons. This involved reviewing the websites of providers and checking online information by speaking to lenders. The second phase of research consisted of: a survey of reverse mortgage practitioners; interviews with lenders; and focus groups with consumers (older people) in Brisbane, Hervey Bay, Perth, Sydney and Melbourne.

KEY FINDINGS

1. *The nature and needs of consumers of reverse mortgages*

Potential consumers of reverse mortgages

The market for reverse mortgage borrowers is the population of home owners aged 60 years and over. In 2006, 81.2 per cent of people over 60 were home owners. The borrowers who attended the focus groups tended to be well-informed and proactive in managing their own affairs. A number of participants had experienced significant changes in their circumstances at or after retirement, resulting in significantly less retirement resources than anticipated. These groups included people who were prematurely retired due to redundancy or ill-health, people who had experienced late-life divorce or whose superannuation/investment income had reduced significantly due to the global finance crisis.

Decision factors

Borrowers who had reverse mortgages had chosen the product based on; the ability to manage cash flow; the flexibility on uses for the funds; and the no negative equity guarantee. Factors that influenced the borrowers' choice of product included: the helpfulness of the broker or lender; the reputation of the lender, interest rate; fees; Loan Value Ratio (LRV); and draw down options.

Information sources used

Most borrowers had consulted the Centrelink Financial Information Service officers and/or conducted their own research. Sources of information included: the borrowers' friends and families; mortgage brokers; websites (especially Choice); and the borrowers' banks.

2. Benefits, risks and obstacles in the reverse mortgage market in Australia

	Consumers	Providers
Benefits of reverse mortgages	<ul style="list-style-type: none"> • Ability to release equity while remaining in the family home. • Top up to current income stream to enable reasonable standard of living. • Access to funds for basic home maintenance and/or to adapt home to meet needs of ageing in the home. • Flexibility in use of funds for one off needs such as holidays and large items (e.g. white goods and vehicles). • Enables gifting to children in the present rather than on inheritance. • Non negative equity guarantee. 	<ul style="list-style-type: none"> • Fills a gap in the market. • Increasing the range of products available to clients. • The market's growth potential as the population ages.
Associated risks	<ul style="list-style-type: none"> • Compounded long term interest. • Interest rates above market levels. • Unplanned longevity. • Lack of expertise of many legal and financial service providers. • Break fees for premature finalisation. • Falling housing prices. • Any negative future tax rulings regarding means testing for the aged pension and for home care assessment. 	<ul style="list-style-type: none"> • Falling valuations resulting in reaching negative equity levels earlier than anticipated. • Any negative future tax rulings regarding means testing for the aged pension and for home care assessment.
Obstacles to take up	<ul style="list-style-type: none"> • Lack of expertise and understanding of many legal and financial service providers. • Lack of access by certain sub populations (exclusion clauses). • Inability to borrow against retirement village units. • The requirement of ongoing regular fees in addition to compound interest in a number of products available in the market. • Lack of usage of reverse mortgage calculators by many brokers and lenders. • Lack of information regarding the range of products available. • Minimum age applied to youngest borrower for access to reverse mortgages. 	<ul style="list-style-type: none"> • Complexity of product, and consequent requirement and costs of high levels of face to face interactions with clients. • High levels of documentation required. • Current commission levels. • Exclusion clauses. • Low community awareness of product.

POLICY IMPLICATIONS

Reverse mortgages can provide a viable option for older and often, more vulnerable Australians, to age in place. To support the potential growth and sustainability of this market, the research has highlighted a number of policy issues that need to be addressed including: redressing information imbalances, ensuring appropriate regulatory frameworks are in place, and establishing supportive legislative and policy settings.

1. Redressing information imbalances

Consumers

The biggest issue currently facing consumers is the imbalance of information in the market for reverse mortgage products. Improving supports and information for older people seeking advice about care and funding options is critical to redressing this imbalance. A number of positive developments in this area have been undertaken (NCRI, ASIC), however, further individual and community based educational programs and advocacy based supports should be considered.

Providers

The research also highlighted that further industry education for financial and legal service providers on reverse mortgages is necessary. Financial and legal service providers in this area need to better understand the availability of reverse mortgage products, their features and appropriate usage, and where to find further sources of information.

2. Ensuring appropriate regulation

Regulation could reduce risks for older consumers by ensuring the suitability of the match between the available product choices and consumer need, with the most vulnerable in mind. The self regulation implemented by SEQUAL appears to have significantly improved outcomes for the sector. However, consideration of the reach of this peak body in a potentially growing market, and the future adequacy of voluntary self regulation needs to be explicitly examined.

3. Ensuring supportive legislative and policy settings

To create an environment that supports sustainable growth and innovation, government should consider:

- Ensuring that tax and pension provisions continue to exclude equity based products from assessments of benefit entitlement.
- Ensuring that they are similarly excluded from income assessment requirements for community care services.

FURTHER INFORMATION

This bulletin is based on AHURI project 70512, *Reverse mortgages and older people: growth factors and implications for retirement decisions*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au or by contacting the AHURI National Office on +61 3 9660 2300.

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ACKNOWLEDGMENTS This material was produced with funding from Australian Government and the Australian States and Territories. AHURI Limited acknowledges the financial and other support it has received from the Australian, State and Territory Governments, without which this work would not have been possible.

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