



Final Report

Reverse mortgages and older people: growth factors and implications for retirement decisions

authored by

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ACRONYMS

ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
ADIs	Authorised deposit-taking institutions
AHURI	Australian Housing and Urban Research Institute Limited
AIHW	Australian Institute of Health and Welfare
ASIC	Australian Securities and Investments Commission
ASF	Australian Seniors Finance Pty Ltd
EFM	Equity finance mortgage
CAFTA	Consumer Affairs and Fair Trading Act
CBA	Commonwealth Bank of Australia
CCAA	Consumer Credit Administration Act
CCC	Australian Consumer Credit Code
CPI	Consumer price index
CURF	Confidentialised unit record files
EFM	Equity finance mortgage
ERRMIS	The Equity Release/Reverse Mortgage Information Service
FACS	Department of Family and Community Services
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FTA	Fair Trading Act
GFC	Global financial crisis
HECM	Home equity conversion mortgage
LVR	Loan–value ratio
MFAA	Mortgage and Finance Association of Australia
NICRI	National Information Centre on Retirement Investments Inc
NNEG	No negative equity guarantee
NSW	New South Wales
NT	Northern Territory
QHAL	Queensland Home Adapt Loan
QLD	Queensland
RECM	Reverse equity conversion mortgage
RM	Reverse mortgage
RBS	Royal Bank of Scotland
SA	South Australia
SDAC	Survey of Disability, Aged and Carers

TAS	Tasmania
UCCC	Uniform Consumer Credit Code
VIC	Victoria
WA	Western Australia

EXECUTIVE SUMMARY

Background

Many older people and government are interested in how the money from the accumulation of assets such as in the family home can be accessed. There are several key factors impacting the examination of Reverse Annuity Mortgages (RAMs) used by older people in terms of possible growth factors and the potential implications for their retirement decisions. These factors include understanding issues pertaining to: Australian retirement and homeownership patterns, retirement income, the types of reverse mortgage products available, and the economic drivers impacting the reverse mortgage market. Consequently, reverse mortgages are by far and away the most popular of the reverse equity product types on offer in Australia and as a consequence were the focus of this research project. The pension and taxation reviews currently underway in Australia is considering a range of reforms, such as whether the family home should be included as part of the means test for the age pension. At this point though the family home remains exempt in this consideration and a reverse equity loan is non-assessable under the income test depending on a number of factors¹. Further, the Social Securities Act also clearly limits the principal home asset exemption to someone who does not have another principal home.

Rapid population ageing in Australia should lead to a significant increase in the demand for reverse mortgage products over the next 25-years. This trend can yield significant benefits, especially if industry and government can work together to ensure a sustainable industry with a range of innovations and policy and industry safeguards in place. For instance, a growing number of older people might be willing to trade their housing asset off to supplement low-income. Mortgages traditionally were the means to an end—achieving security of tenure and enabled stored housing wealth to yield low housing costs in old age and an inheritance for their family. However, the dramatic increase in life expectancy has resulted in more Australians having to manage a greater number of years after retiring from the workforce.

The reverse mortgage market has gained considerable momentum in Australia since the 1980s. For instance, in 2008 the Senior Australians Equity Release Association of Lenders (SEQUAL) records indicated that there were approximately 36 600 reverse mortgages currently on issue in Australia. Reverse mortgages can yield cash quickly but they are complicated and can expose vulnerable homeowners to potentially serious financial risks, such as negative equity, rising interest rates, falling property values, and default conditions that could, for example, trigger immediate loan repayment and negate *no negative equity* guarantees (ASIC 2005). Moreover, costs and benefits are unpredictable because of variations in interest rates, real estate prices and life/independence expectancies. This economic volatility makes it essential and difficult to develop policy regarding negative equity safeguards. There is inconsistency in the regulatory regimes governing certain aspects of fair and transparent mortgage fees, including reverse mortgage exit fees, and this is of concern, especially for those most vulnerable, that is, older consumers on low-incomes.

In recent years, a combination of financial deregulation and product innovation means that, within certain limits, homeowners can draw down from their loan as readily as they can pay it off. For instance, the way mortgages are viewed is changing as part of the culture of consumption (Smith et al. 2007). However, reverse mortgages, unlike

¹ Social Security Guide 4.6.3.80 states that exempting the rules exempting sale proceeds on the family home changed from July 2007.

traditional mortgages, accumulate debt and so many older homeowners are understandably wary. This is unsurprising as the interest rate risk of a reverse mortgage often is several orders of magnitude greater than the interest rate risk of other fixed-income securities. Importantly, individual reverse mortgage product features can vary significantly, and the impact of product differences is poorly understood. For instance, eligibility, fees and important contractual obligations vary. Further, the proceeds from an equity release product may significantly impact older persons' entitlements and responsibilities, such as age pension eligibility and tax obligations and borrowers may be required to obtain lender/buyer approval for home modifications, while undertaking home modifications could affect resale value.

Research objectives

In Australia, as in other OECD countries like the UK, there is interest in a closer examination of reverse mortgages as a resource for long-term care, home modification, home maintenance and supplementary income. Housing wealth can be viewed by low-income older homeowners and by governments as an asset that potentially can be used for purchasing support services or supplementing income.

The key aims of the research are to understand and explore the following three key objectives:

- 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?
- How does the use of reverse mortgages influence retirement decisions and planning?

Research focus

The project sought to determine the factors influencing the take-up of reverse mortgage products and services within the context of overall demand. This is significant because many baby-boomers have housing assets worth over half a million dollars and a more comfortable retirement may be possible when the age pension can be supplemented by equity release from the family home which is currently exempt from the pension means test. This research project focuses on provision of a comprehensive appraisal of reverse mortgages as they pertain to *ageing in place* and community care decision-making. The primary elements of the research approach were a product review; focus groups with older people; a survey of reverse mortgage practitioners; and interviews with lenders (see below).

Importantly, while there is considerable state and Australian government interest, reverse equity product development has mainly been left to the banks and financial providers themselves, with the exception of the Commonwealth Centrelink equity-based pension² and smaller state-based programs such as the Queensland Home Adapt Loan (QHAL). Thus this research is founded on a partnership with SEQUAL so as to access this larger market knowledge. SEQUAL is the peak body for all lenders committed to the equity release proper process and all members are signatory to SEQUAL's code of conduct. SEQUAL represents the vast majority of reverse mortgage lenders in Australia and as partners in the research provided access to their internal research reports and membership, enabling us to access reputable reverse equity providers. This partnership facilitated us in answering questions concerning the

² The sole national scheme is the Commonwealth's Pension Loans Scheme. This scheme is more limited than a reverse mortgage in that the money can only be taken as an income stream of an equivalent value as the full age pension.

range of reverse mortgage products available from SEQUAL members, including their criteria for lending, value and the intended purpose as stated by older people at the time of the loan arrangement being established.

Findings regarding the nature of the reverse mortgage industry

We conducted a review of the reverse mortgage products currently on the market and developments over time. Existing equity release products in Australia include only home reversion³ and reverse mortgages⁴ against “money for living”—a sale and lease model scheme; and there are no other sale and lease model schemes presently operating in Australia. However the Australian Securities and Investments Commission foreshadowed an equity finance mortgage (EFM) could eventuate in the future. The sole Australian home reversion product (a sale and lease model) is no longer operating. The home reversion product currently available is provided by one lender only and has limited market penetration (although others may be in the pipeline). The available reverse mortgage loans come from a range of lenders who market them directly to consumers, or they are available as white-label products⁵ through other lenders or through a large number of brokers.

The one lender which offers its product as a white-label product through other lenders, has gained over 70 per cent of the reverse mortgage market by using a three-pronged approach of direct selling, white-label selling and selling through brokers. Retail banks offer their reverse mortgage products through their own retail structure, while non-retail banks and other types of lenders also offer their reverse mortgage products through a large network of mortgage brokers.

The Centrelink reverse mortgage product is unique in its features as it is intended solely to provide an age pension or pension top-up based on home equity for those persons otherwise ineligible for a full or part pension. Most borrowers use reverse mortgages for large one-off expenditure or topping up the age pension or their superannuation, which makes the Centrelink product not suitable to their needs.

Overall, the differences between SEQUAL-accredited reverse mortgage loan products are minor and primarily relate to similar factors to those which drive choice in standard home loan mortgages: interest rate variations, loan–value ratio (LVR) thresholds, establishment and ongoing fees and flexibility of the product in terms of how it is paid out. The findings of our product review along with the project focus group interviews (see below) indicated that:

- Our older focus group participants were generally unaware of the range of reverse mortgage products available and of the differences between them.
- While there are a number of existing products, there is room for further development of products with additional flexibility and new features.

³ In this model the consumer sells part or their entire home to a reversion company. Generally, the home is sold for less than its market price (typically between 35% and 60%), but the consumer can remain in the property until they die or voluntarily vacate the home.

⁴ This allows an older person to borrow money against the value of their home, no repayments are required while the named borrowers (persons named on the reverse mortgage loan document) remain in the home.

⁵ A white-label product or service is a product or service produced by one company (the producer) that other companies (the marketers) rebrand to make it appear as if they made it. Source: http://en.wikipedia.org/wiki/White-label_product.

- The number of lenders and potentially the range of products has recently diminished due to the global finance crisis (GFC) and this has reduced consumer choice.
- Many older consumers approach only one lender/broker and rely on them for information.

Almost all the older participants in our focus groups commented on the poor quality of advice about reverse mortgage products received from solicitors or financial planners. They noted that, although they accepted the importance of getting independent legal advice, they resented paying for advice when they knew more than the solicitor or when the solicitor was relying on the broker for his information about how reverse mortgages worked. Thus the older consumers in our focus groups were of the view that solicitors needed to be better trained in this area. No participants mentioned having received advice from a financial planner prior to looking at a reverse mortgage. However, a few participants expressed reluctance to approach financial planners regarding reverse mortgages, as they viewed the financial planner as having a potential conflict of interest that could lead to them recommending other investment products for which the financial planner received (better) commission.

Findings regarding the factors influencing market growth

Market growth is impacted by a number of supply and demand factors. On the supply side the availability and cost of wholesale funds necessary to underpin loans is critical. From September 2007 to late 2009 the GFC has impacted on this because wholesale funds are the same funds that were used for sub-prime loans as well as for other home loans, car loans, refinancing and small business loans. The effect of this has been that the availability and cost of wholesale funds has changed very quickly and as a result many bank and non-bank lenders could not afford to continue lending, as even if the funds were available, the wholesale cost was prohibitive. This was particularly so for any non-bank lenders who were not supported by the Australian Government's 2008 Deposit and Wholesale Funding Guarantees. The guarantee does not apply to products offered by non-authorized deposit-taking entities, including all the subsidiaries of the Australian Authorised Deposit-taking Institutions (ADIs). Other GFC outcomes included:

- Falls in retirees' superannuation/investment income such that some retirees have taken out a reverse mortgage loan in preference to drawing on their capital to maintain their income.
- Falling valuations of many residential properties, for example Perth, which meant that some borrowers risked reaching a negative equity situation sooner than had been anticipated if housing values continued to fall, which would have implications for lenders with respect to no negative equity guarantee (NNEG). Lower valuations also have the effect of excluding some potential borrowers from accessing a reverse mortgage loan if they needed one.

However, one lender noted that despite the GFC, the security for the lender of a reverse mortgage actually increases over time, as not only do property values in the eligible postcodes usually rise, but also many borrowers borrow funds to improve the property.

Overall, there was a surprising degree of convergence in the opinions expressed by the full range of people we talked to during the study, including, our lenders, brokers and our older focus group and interview participants, regarding how reverse mortgage loan products could be improved, such as:

- A standard contract in simple English.

- Improved marketing/education/disclosure material in simple English, including case studies and improved software for mapping various scenarios for consumers and professionals.
- Specific disclosure material regarding break fees on fixed rate mortgages including the mapping of various scenarios.
- Lowering the minimum age of the youngest borrower to 55-years.
- Reducing interest rates for reverse mortgage loans to be closer to those for standard home loans.
- Providing a capped interest rate option.
- Reducing or deleting ongoing fees.
- Increasing LVRs.
- Making reverse mortgage loans available in more postcode areas and for retirement village units.
- Facilitating access to reliable, informed and independent advice.

On the demand side, lenders identified the main opportunities for growth of demand in the reverse mortgage market as deriving from the ageing of the population, in particular the baby boomer cohort, and the fact that most Australians are retiring with insufficient superannuation or savings to sustain them over a longer life. The main threats identified were the opportunity for unethical lenders and brokers to operate in the absence of appropriate regulation and misinformation and negative press. This could make older people and their families fearful of the product and make it difficult for them to identify when it would be useful to them.

Older participants and reverse mortgage practitioners identified similar features as attractive. For instance, competitive interest rates, low or no fees, high LVRs and flexibility in payment options were all mentioned. Older participants also identified that the reputations of the lenders or brokers, and their relationships with consumers, were important to them in developing trust in the advice they were given. In this they were impressed by the provision of full and complete information in easily accessible formats, including good websites. Although some commented on the time it took to process the loan, this information was not available to them when they made their choice of lender.

In terms of product innovation, government and reverse mortgage providers need to cooperatively examine how:

- The private and public sectors might look at risk sharing or insurance options for those properties lenders will not currently accept, that is, in areas of housing asset depreciation and/or where negative equity is likely to be reached too early, or lack of residual equity would impede choice of aged care facility.
- The private and public sectors sharing some of the costs of setting up deals where only small sums are required as a means to reduce fees, that is, similar to the idea of a last homeowner's grant.
- Producing more *plain English* standard documents and procedures as part of industry regulation or accreditation procedures.

Findings regarding the impact on retirement decisions

Reverse mortgage loans could be categorised in terms of their main purposes for consumers as: *life needs*, *lifestyle* and *smart money*. The proportions of these three kinds of loans varied from lender to lender, but the proportion of loans in all cases was

weighted toward the life needs category, which predominates as the primary reason for older people to be seeking a reverse equity loan. The first kind of loan, 'life needs', refers to the use of loan funds to purchase lodging, transport, food and ongoing health care, and includes the infrastructure to support those needs. Consumers, as represented by the participants in the focus groups and interviews, made the decision to investigate or take out a reverse mortgage loan for the same reasons that lenders and brokers had identified: an unexpected change in their circumstances and/or an ongoing shortfall between their income and their expenses. So unsurprisingly, the most commonly cited reason for taking out a reverse mortgage, and one that crosses strongly into government ageing policy, is that of topping up the age pension.

Second, lifestyle loans including holidays also featured as a common reason for older people taking out a reverse mortgage loan. Lenders noted that many of these holidays were about preserving links with family, either interstate or overseas, and, in some cases, were 'one last trip' for people with a terminal illness. Lenders also noted that debt consolidation was rarely the only reason for people seeking a reverse mortgage loan. Debt consolidation was usually required where the older person had accumulated a large credit card or personal debt from using their credit card to top up the age pension, for example, replacing whitegoods or paying major bills. In some cases, the need for a reverse mortgage was triggered by late-life divorce, retirement or retrenchment from the workforce prior to their standard home loan mortgage being paid off. In these cases, with no income other than the age pension or equivalent, the only option was a reverse mortgage or home reversion.

The third kind of loan, smart money, was rare but was used for investment or advance transmission of inheritance among some wealthier and more financially astute consumers. Assisting children financially has a clear strategic purpose and would be viewed as having a future reciprocal benefit when the children could care for the older person should they become frail, as well as any immediate altruistic effect.

There is potential for substantial growth in the reverse mortgage market to meet demand from older people who reach retirement with insufficient private funds to top up the age pension and afford a modest lifestyle. The extent of this growth could be influenced by consumer information and education, changes in interest rates and housing valuations, the availability of lenders and products, the flexibility of products to meet clients' needs and changes to the regulatory environment. At this stage, there appears to be no direct connection between the decisions that older people make regarding a reverse mortgage and the government's housing or aged care policies. This has implications for older people's choices with respect to *ageing in place* as they move through the cycles of ageing from *young old* to *old-old*.

Policy implications

There is currently a major reform process for National Consumer Credit regulation. Stage one of the process, which is anticipated will be completed in 2010, will see commonwealth legislation taking over from existing state legislation. Stage two of the reform process for National Consumer Credit regulation will have some additional regulation of reverse mortgage loans, although at this stage the details are not finalised.

If reverse mortgage products are to be accessed to enable *ageing in place* by supplementing the housing and care support needs of older homeowners, greater guidance and support is required for the most frail and vulnerable. A number of our older participants complained about the poor knowledge of some mortgage brokers and solicitors about reverse mortgage products and some were unaware of break

fees⁶ when they signed their fixed rate mortgage. More worryingly, some seemed unsure of whether they had signed up for a fixed or variable rate loan. In terms of solutions, it may also be helpful to look at peer support and/or advocacy and support, especially for the frailest and most vulnerable. It has been noted that greater support for older people and their informal asset managers requires improved monitoring, especially where substitute decision makers are involved.

The reverse mortgage market could be improved through increased regulation, better advice to consumers, reduction in break fees and continued monitoring of the situation of reverse mortgage holders given the potentially risky nature of the product for the vulnerable client group. It will also be important to examine more carefully how closely reverse mortgages are to being a financial product rather than a credit product like a credit card, and regulating them accordingly. It is likely that the Australian Securities and Investments Commission (ASIC) will soon be responsible for regulating equity release (and other credit) products, as well as the businesses that sell, arrange or advise on them in the near future.

There is a role for increased regulation; better advice to consumers; reduction in break fees and continued monitoring of the situation of reverse mortgage holders given the nature of the product and of the client group. It will also be important to examine more carefully how closely reverse mortgages are to being a financial product rather than a credit product and regulating them accordingly. Given that it is likely that ASIC will be responsible for regulating equity release (and other credit) products, as well as businesses that sell, arrange or advise on them in the near future, perhaps this is a role that they could undertake. ASIC could also undertake an analysis of the outcomes so far from the National Information Centre on Retirement Investments Inc. (NICRI) reverse mortgage helpline and incorporate the views of a small sample of new and existing reverse mortgage holders.

⁶ In financial terms this is the amount of money one party may pay the other in order to agree to dissolve the contract. Source: <http://financial-dictionary.thefreedictionary.com/Break+Fee>.

1 INTRODUCTION

Reverse mortgages allow households to borrow cash against the value of their home. Households usually don't have to make regular repayments until they leave and move into care, sell their home or die. When the loan ends, the mortgage holder or their estate must repay what is owed, usually out of the proceeds of the sale of the home. Each year the fees and interest a mortgagee would ordinarily pay are added to the loan balance (hence the term reverse, the size of the mortgage increases rather than decreases over time). Over time, the mortgagee is charged interest on the interest (or compound interest) and that builds up the total amount that they owe. The traditional market is comprised mainly of homeowners who are 60-years or older. Households can usually borrow between 15 per cent and 40 per cent of the value of their home and older people can borrow the larger percentage (ASIC 2007).

The reverse mortgage market has gained considerable momentum in Australia. The industry peak group, SEQUAL, keeps a detailed record of the activity levels of its members. As at end of June 2008, they estimated there were approximately 36,600 reverse mortgages on issue in Australia, with a total loan book size of \$2.3 billion. Notwithstanding the GFC the market has been expanding with a 14 per cent increase in the number of loans in the last 6 months and 27 per cent in the last 12 months. Additionally, the size of the average loan increased from \$60 000 in June 2007 to \$63 000 in June 2008. While the market is Australia-wide, there is a dominance by the three eastern mainland states that make up approximately 70 per cent of the national market (SEQUAL 2008).

Reverse mortgages can yield cash quickly but they are complicated and can expose vulnerable homeowners to potentially serious financial risks. These risks include: negative equity; rising interest rates; falling property values; and default conditions that could, for example, trigger immediate loan repayment and negate 'no negative equity' guarantees (ASIC 2005). Moreover, costs and benefits are unpredictable because of variations in interest rates, real estate prices and life/independence expectancies. This economic volatility makes it difficult to develop policy regarding negative equity safeguards. Moreover, individual product features can vary significantly, and the impact of product differences is poorly understood. For instance, eligibility, fees and important contractual obligations vary even within a particular product type. Further, the proceeds from an equity release product may significantly impact older persons' entitlements and responsibilities, such as age pension eligibility and tax obligations and borrowers may be required to obtain lender/buyer approval for home modifications, while undertaking home modifications could affect resale value.

While reverse mortgages have risks, they also could provide widespread benefits to households and governments by providing access to resources for households who are asset-rich and income-poor. There are limited private and public funds available to support the ageing population and with larger numbers of older people living longer, a significant proportion may be expected to outlive their savings. Attitudes toward leaving an inheritance and a housing debt may change with increased needs and expectations from older boomers regarding their living standards and entitlements. Attitudes are influenced by generational change, although our research found that the current baby boomer cohort can see the advantages, as can government.

It would appear that the success or otherwise of reverse mortgage products will rest on how future policy treats home equity in terms of its status as an asset or not, and in terms of its treatment of eligibility for long-term care subsidies. A better understanding of the use and impact of reverse mortgages will inform policy and could ensure fiscal sustainability of older homeowners *ageing in place*, support the availability of

community care, and promote residential upgrade and maintenance outcomes. Currently very little research has been undertaken about the operation of the reverse mortgage market in Australia.

1.1 Research aims and key research questions

The central aim of this research project is to fill the research gap by providing a comprehensive appraisal of reverse mortgages as they begin to emerge as a significant financial product for senior Australians and as a policy issue for a range of government agencies.

More specifically, the study aims to address three main research questions:

A What is the nature of the reverse mortgage industry in Australia at present?

A1 What is the range of reverse mortgage/home reversion products available?

A2 What is the likely size of the market?

A3 What are the demographic characteristics of reverse equity consumers and do these vary among products?

B What factors have influenced growth in the use of reverse mortgages by older persons?

B1 What makes the product attractive to consumers?

B2 What makes the product attractive to the financial services sector?

B3 To what extent does the current legislative and policy framework hinder or support reverse mortgage/home reversion products?

C How does the use of reverse mortgages influence retirement decisions and planning?

C1 How do older people identify suitable products? What characteristics either encourage or discourage uptake by older consumers?

C2 What do older people use the proceeds for and why?

C3 Does the use of reverse mortgages influence retirement decisions and planning?

C4 Could reverse mortgages be used to help make housing more suitable for occupants?

1.2 Research methods

The research partnership with SEQUAL entered into in order to conduct this research, was solely to ensure that the terminology and product descriptors underpinning our survey and interview methods resonated with industry and among consumers. Further, without the partnership, access to their membership and consumers would have made data collection targeted to yield the most policy-relevant data difficult if not impossible.

The research design incorporates a triangulation approach, utilising qualitative and quantitative methodologies. The research design involved four overlapping phases. The systematic literature review; the legislative review and the data analysis were completed and reported in our positioning paper. This report contains the results of our focus groups and interviews that focused on:

- Understanding older persons' perceived needs for reverse equity products.
- Issues and barriers associated with taking out a loan product, such as eligibility caps, access to information, etc.

- Determining the level of knowledge of reverse equity products.
- Exploring how the reverse equity products are rated by providers and older persons and what gaps exist in the current range of products.

Three main strategies were used to collect the data:

- Interviews with SEQUAL-accredited banks and other financial institutions who are the funders or providers of the reverse mortgages.
- A series of focus groups and individual interviews with holders of reverse mortgages.
- An online survey of banking development officers and SEQUAL-accredited financial intermediaries.

A number of individual semi-structured interviews with bankers, lenders and older consumers using a conversational style allowed us to explore and document a broad range of issues relating to the reverse mortgages market. The decision was made that interviews would be conducted with SEQUAL-accredited lenders only, as there is no database or list of non-accredited lenders. The individual interview data from consumers was supplemented with data obtained from a number of consumer focus groups with older people who had already taken out a reverse mortgage or had considered doing so. These focus groups and individual interviews with older people aimed to:

- Understand older persons' perceived need for reverse equity products, and their reservations.
- Identify issues and barriers associated with using reverse equity products, such as eligibility criteria, access to information.
- Determine older persons' levels of knowledge of the products.

The web-based survey was developed using the online software package Key Survey. Our industry partner SEQUAL then emailed an invitation and link to the online survey to their members throughout Australia. This indirect process was necessary as SEQUAL's agreement with its registered mortgage brokers precludes the use of that mailing list by third parties to maintain confidentiality of all participants. The final data set was then exported to SPSS (Statistical Package for the Social Sciences: SPSS Inc., Chicago, IL, US) for statistical analysis.

1.3 Findings from the Positioning Paper

The Positioning Paper provided much of the background related to market potential, growth factors and retirement decision-making made by older homeowners. The Positioning Paper contents included a demographic overview, systematic literature review of the reverse mortgage market in Australia, and overseas and legislative regulatory overview. Both the systematic and legislative overview drew on both national and international literature.

Literature review: this review found that despite more recent success historically, home equity conversion schemes and reverse mortgage schemes had been slow to take off in Australia and revealed a number of significant limitations of previous research. There is a paucity of good-quality research and interpretation of available findings is difficult because the studies have many definitional, cultural, regulatory and product differences.

Four key concerns are evident in the existing literature related to reverse mortgages. First, increasing longevity has become a risk to being able to afford quality of life; it

may be that older people will be more willing to draw income from their housing equity should they have a long life.

Second, life change considerations may be more important than financial or policy considerations to elderly homeowners' housing decisions. For instance, some previous research indicates the importance of non-financial aspects of homeownership, including marital separation, death of a spouse, declining health, long residence and attachment to the home, and dwelling unit type (VanderHart 1993, 1995). These factors have implications for when older homeowners might be looking to release equity or make housing transitions.

Third, some researchers like Lusardi and Mitchell (2007) and Beal (2001b) have noted a greater reliance by baby boomers on using their home equity as a result of poor saving and planning: 28 per cent of their study sample indicated little or no retirement planning. This finding is supported by data gathered by the US Housing and Urban Development Program that indicates that the average age of reverse mortgage borrowers is dropping (Stucki 2007).

Fourth, there is clear international evidence that 'fixed term reverse mortgages' are popular with older frail people wanting in-home long-term care services (Brody et al. 1987). Indeed, there is some research that indicates that maintaining long-term care quality is challenging and just over 11 per cent of the older people sampled were struggling financially to meet rising care costs. Those most at risk and thus most likely to benefit from reverse mortgage products, appear to be single, older homeowners with a chronic disability requiring quite large amounts of home-care (Stum et al. 1998).

Legislative review: internationally, a variety of equity release schemes are available to older adults. For instance, the reverse annuity mortgage and the French viager⁷ system are both means of releasing equity in the home but have a track record of reducing costly intermediaries and bank interest charges. Within Australia there is really only one main equity release product available, the reverse mortgage. Within the reverse mortgage family of products most products allow the borrower to choose to receive the loan payment as a lump sum, a line of credit, a regular income, or a combination of these.

There is no comprehensive regulatory scheme to protect Australian consumers who obtain a reverse mortgage. One Commonwealth law permits action against credit providers who engage in misleading conduct in the advertising or sale of credit products. Two proposed Commonwealth laws, if enacted, will provide considerably more protection. The Uniform Consumer Credit Code is the primary regulatory tool at the state/territory level, but it may not apply to all reverse mortgages. Other regulation is not consistent in the states. Some states and territories have enacted fair trade and credit administration legislation that affords additional protections for consumers in credit transactions. However, the scope of that protection varies from state to state. ACT, NSW, VIC and WA specifically regulate finance brokers in some fashion; the remaining states and territories do not have any broker-specific laws. Regulation needs to appreciate the number of advantages and risks associated with reverse mortgage products for both lenders and consumers; finding an appropriate balance is critical.

Demographic analysis: there currently is a potential market of approximately three-quarters of a million residential households where the registered homeowner is 65-years or more and could seek a reverse mortgage loan. The considerable gap

⁷ The term viager owes its origin to the word viage meaning 'duration of life' in old French, a sale en viager is a particular way of selling property which relies on converting all or part of the sale price into a regular annual revenue for life in favour of the seller.

between the current number of reverse mortgage loans and the maximum growth potential of the market is influenced by a number of factors. Mitigating factors include the number of homeowners in homes with low market value; the numbers of older homeowners on sufficient income and the number of homeowners down-sizing instead of taking up an equity release option. Other constraints also include resistance from both bankers and homeowners to equity release products because of the perceived risk and the complexity involved in properly understanding all the product options.

1.4 The structure of this report

This report consists of five chapters, including this introduction.

Chapter 2 consists of a product review. It outlines the range of products currently in the reverse mortgage market and provides some details of how the market operates. It also outlines the variety of regulatory controls that operate in the market.

Chapter 3 describes the reverse mortgage lender and broker perspectives based on individual interviews and an on-line survey, concerning market growth, the nature of the potential growth and how the available products impact on older people's retirement decisions.

Chapter 4 describes the perspectives gathered from individual interview and focus groups with older persons who had taken out reverse mortgages or who had considered doing so across a number of Australian states.

Chapter 5 concludes by discussing some policy implications from the perspective of industry and older people. It summarises our findings as they relate to potential policy levers.

2 PRODUCT REVIEW

2.1 Introduction

This chapter focuses on the research questions identified in Chapter 1, which relate to home reversion/reverse mortgage products. These are:

A1 What is the range of reverse mortgage/home reversion products available?

B1 What makes the product attractive to consumers?

B2 What makes the product attractive to the financial services sector?

C1 How do older people identify suitable products? What characteristics either encourage or discourage uptake by older consumers?

An analysis of the range and features of the products is provided. This is accompanied by a review of the perspectives of mortgage brokers and older persons regarding the products on offer. Ideas presented by the lenders, mortgage practitioners and older people surveyed or interviewed during this study regarding potential improvements to the products are also discussed.

2.2 Background

The data on the range of reverse mortgage/home reversion products was collected through reviewing the websites of providers of these products, checking the information by telephone to the lender and interviews with the SEQUAL-accredited lenders. At this stage, there is only one home reversion product promoted in Australia, so no comparisons of that type of equity release product could be made. There are currently eight SEQUAL-accredited lenders of reverse mortgage products in Australia. All of these products were reviewed.

The initial methodology for this research identified that only reverse mortgage products offered by SEQUAL-accredited lenders would be reviewed. However, during the research, an additional product was identified which is provided and underwritten by the Australian Government. This additional product is the Pension Loans Scheme, a reverse mortgage product delivered through Centrelink, an agency of the Commonwealth Department of Human Services.

Therefore this product was included in the product review and this enabled key differences to be identified between the Pension Loans Scheme and other reverse mortgage products. Non-accredited lenders could not be identified, so their products are not included in this review.

All SEQUAL-accredited lenders were invited to participate in an open-ended interview regarding their products and a range of other matters which is dealt with in Chapter 3 *Mortgage practitioners*. One lender declined to be interviewed; however, their product was still included in the review, albeit with less information. The questions about their products which lenders were asked at interview were:

→ What reverse mortgage products does your organisation currently have?

→ What are their features?

Mortgage brokers, on the other hand, were asked to participate in an on-line survey. At the time this survey was constructed, there were still eleven accredited lenders listed on the SEQUAL website. However, by the time that the survey went on-line, only eight lenders were still active. The three lenders who had withdrawn their product from the market were Bluestone Equity Release, Mariner Retirement Living and Over

Fifty Group Ltd. Many brokers noted where they had been recommending those products until withdrawn. The implications of this are further discussed in Chapter 3.

The questions for mortgage brokers relating to reverse mortgage products were:

- Which reverse mortgage products do you recommend?
- How would you rate the attractiveness to older persons of the reverse mortgage products listed below?
- What are your reasons for recommending a particular reverse mortgage product?
- What improvements would make reverse mortgage products more attractive to brokers?

Older consumers of reverse equity products were invited to participate in focus groups, with some preferring an individual interview due to timing, ill health or distance. Older participants' commented on which products they were using or had investigated. However, our sample was biased toward the product offered by the Royal Bank of Scotland (RBS)⁸, formerly ABN AMRO⁹. The reason for this is twofold: first it is the product with the largest market share in Australia, and second, RBS appear to have been the only SEQUAL lender that forwarded the invitation to participate in the focus groups to all their clients. There is further discussion of this in Chapter 4 *Consumers*.

2.3 Home reversion products

Home reversion products are constructed through the partial sale of a property to the lender for less than the market price, usually between 35 to 60 per cent and, in return, the borrower is allowed to stay in the property until they leave or die (Brown 2008). These funds are recouped when the property is sold with the lender retaining their share of the capital gain in lieu of interest. However, once the level of capital gain has been factored in, it is actually possible for a home reversion product to have an effective interest rate that is higher than a reverse mortgage loan. At present there is only one home reversion product available in Australia (Bendigo Bank's Homesafe Debt Free Equity Release). The features of this product are:

- Borrowers receive a cash amount in exchange for a fixed percentage of the future sale proceeds of their home.
- Borrowers can take any amount between \$25 000 and \$1 000 000. Homesafe also limits the fixed share of their future sale proceeds that you can sell to 65 per cent, to ensure the borrower or their estate retains equity in a substantial part of the home.
- Borrowers live in their home until death, or until they decide to sell for any reason.
- Borrowers cannot be evicted at any time.
- There are no rental or any additional Homesafe payments until the borrower or their surviving partner passes away or chooses to sell the home.

⁸ Due to the 2008 financial crisis, the Dutch government nationalised the divisions owned by Fortis, while the UK government is now in effective control over the divisions allocated to RBS due to its financial bail-out of the Scottish bank.

⁹ This dutch bank resulted from the 1990-91 merger between Amsterdam-Rotterdam (AMRO) Bank and ABN, until 2007 it was one of the largest banks in Europe and had operations in about 63 countries around the world.

- Repayment of the fixed percentage is made from the sale proceeds of the home when it is sold – after the borrower’s death, or earlier, if they decide to sell for any reason.

No older participant in the consumer focus groups mentioned being aware of the existence of this product. Some mortgage brokers did mention it as an optional comment and said that they do recommend this product to their clients.

2.4 Reverse mortgage products

The reverse mortgage products reviewed in this study are those currently provided by SEQUAL-accredited lenders and by the Australian Government through Centrelink.

As a result of the GFC and its impact on the availability and cost of wholesale funds, a number of reverse mortgage providers, particularly the non-bank lenders, have withdrawn from the market or are not currently writing new loans. Those formerly SEQUAL-accredited lenders, and their products, which were withdrawn from the market due to the GFC were:

- Bluestone Equity Release/Barclays Bank (EquityTap).
- Mariner Retirement Solutions (used white-label ABN AMRO product).
- Over Fifty Group Limited (Reverse Mortgage).
- VISION Equity Living (to return to the market soon with the white-label ABN AMRO product).
- Macquarie Bank (Silver Living).

Further discussion of the impact of this consolidation of the market and the reduction in the range of products is in Chapter 3.

All of the lenders whose products were reviewed are SEQUAL-accredited and comply with the SEQUAL Code of Conduct, which includes a *no negative equity guarantee* (NNEG). See Appendix 1 for a copy of the SEQUAL Code of Conduct. A NNEG is a guarantee that no matter how long the loan runs for, the borrower can never owe more than the value of the security, in this case, their house. This means that should the borrower live a very long time, any negative gap between their principal plus the compounded interest and the final sale value of the house would be borne by the lender. However, the NNEG can be negated by the borrower breaching the conditions associated with the NNEG, such as failing to maintain the property in good condition, failing to insure the property or failing to pay the local government rates.

In the process of the research, four reverse mortgage products were identified which are provided by non-SEQUAL-accredited lenders. All of these non-SEQUAL-accredited lenders provide a NNEG. These lenders are listed in Table 1: Identified non-SEQUAL-accredited lenders and their products.

Table 1: Identified non-SEQUAL-accredited lenders and their products

<i>Non-SEQUAL lender</i>	<i>Reverse mortgage product name</i>	<i>Features</i>
BankSA http://www.banksa.com.au/ (a subsidiary of the St George Bank)	Seniors Access Plus Home Loan	<ul style="list-style-type: none"> → Available as a lump sum/instalment drawdown product. → NNEG. → Minimum age 65-years. → Limit of \$250 000. → Available in South Australia and Tasmania only with postcode exclusions. → LVR from 15% at age 65 to 25% at age 80 + variable interest rate only.
Centrelink http://www.centrelink.gov.au/internet/internet.nsf/filestores/fis018_0809/\$file/fis018_0809en.pdf	Pension Loans Scheme	<ul style="list-style-type: none"> → NNEG. → Minimum age 65-years or pension age if less. → Capped at the maximum age pension plus pension supplement and rent assistance. → Underwritten by the Australian Government. → Available Australia-wide. → Available as an income stream only. → Interest rate fixed by the Minister.
Police Credit Union http://www.pcu.com.au/Loans_HomeLoans8.asp	Retirement Lifestyle Loan	<ul style="list-style-type: none"> → Available as a lump sum only product. → NNEG. → Minimum age 65-years. → Limit of \$300 000. → Available only in NSW with postcode restrictions. → LVR maximum of 30%. → Variable interest rate only.
TransComm Credit Union http://www.transcomm.com.au/reverse_mortgage.html	Annuity Plus Reverse Mortgage Options	<ul style="list-style-type: none"> → Available as a lump sum/income stream product. → NNEG. → Minimum age 55-years (65+ preferred). → Available Australia-wide with postcode exclusions. → LVR varies with age and draw-down options, e.g. at age 55 effective LVR is approximately 9% for a lump sum and at age 85 is 40% for a lump sum. → Variable interest rate only.

Under the SEQUAL Code of Conduct, accredited lenders must also require their clients to seek independent legal advice to ensure that clients understand the detail and implications of the contract prior to signing. Centrelink does not require its

applicants to seek independent advice as Centrelink's own Financial Information Services (FIS) officers assess all applicants. Some of the other non-SEQUAL accredited lenders referred to the need for clients to seek their own legal and financial advice. Refer also to Chapter 3 for lenders' and brokers' views on this issue and to Chapter 4 regarding older participants' views. Most lenders, SEQUAL-accredited and others, require that the client seek independent financial advice and consult with Centrelink regarding any age pension implications. All lenders encourage clients to discuss their situation with their families.

2.4.1 Features of current reverse mortgage products

This research has identified that there are currently ten reverse mortgage products available in Australia—six from SEQUAL-accredited lenders, three from non-SEQUAL accredited lenders and one from the Australian Government through Centrelink. Information about the reverse mortgage products offered by SEQUAL-accredited lenders was compiled after viewing their websites and client brochures, ascertaining whether they were currently operational by phone and then confirming the details at interview where possible.

The reverse mortgage product offered by the Royal Bank of Scotland (RBS), which was developed by ABN AMRO prior to their being taken over by RBS in late 2009, is offered in three different ways: directly to consumers, through brokers, and as a white-label product which is used by other lenders. The Newcastle Permanent Building Society and Suncorp Metway use the white-label product. One of the effects of this is that the RBS product is currently used by over 70 per cent of the reverse mortgage market (M Lynch, personal communication, 15 June 2009). RBS is looking to export their Australian reverse mortgage loan product back to several countries of the European Union as it is a superior product to those currently available there (M Lynch, personal communication, 15 June 2009).

Information about the products offered by the identified non-SEQUAL-accredited lenders, including Centrelink, was compiled after viewing their websites and client brochures and the details confirmed by phone. The following analyses apply only to the products provided by SEQUAL-accredited lenders.

Although some lenders mentioned specific features of their products on their website or at interview, there was not necessarily any consistency about these. For example, some lenders set a cap on their reverse mortgage loan, while others set it only as a proportion of the value of the house (the loan–value ratio or LVR); some lenders would not lend against some properties, for example retirement village units, while others did; and some lenders would not lend for certain purposes, for example gifting, while others did not exclude any purposes specifically.

Another area where there were discrepancies between lenders' approaches to helping clients identify the best products for them was that only some lenders offered reverse mortgage loan calculators on their websites. Reverse mortgage calculators are very useful to potential borrowers in enabling them to test different options and find out, for example, if their postcode is excluded or what the effect on their equity would be under various scenarios. Most lenders did not offer this service and potential borrowers would need to find the reverse mortgage calculator on the Fido website provided by ASIC to test the effects of compound interest in their case. It is not clear why all lenders do not either provide these calculators on their own websites or offer a link to the Fido website.

All products surveyed, except Centrelink, stated that they were available Australia-wide. However, in practice there are a number of limitations and exclusions. These include:

- Loans not being available for certain postcodes which are associated with current or projected low valuations.
- Exclusion of temporary dwellings or mobile homes.
- In some cases, the exclusion of retirement village units.

These exclusions are to prevent the triggering of a negative equity situation in normal circumstances. The excluded postcodes are mostly in rural and remote areas and outer metropolitan areas where land values are relatively low and not expected to rise within the lifetime of the loan. Not all lenders place this information on their websites and only a few have it embedded in loan calculators on their websites. For example, the Royal Bank of Scotland website has the information embedded in their reverse mortgage loan calculator which, in the case of a remote area like Broken Hill (postcode 2880), comes up with the message 'Postcode is out of area' and refers the enquirer to a 1800 telephone number; whereas on the St George Bank website, the minimum loan is cited as \$10 000 and must be at least 15 per cent of the value of the property, but there is no loan calculator or other resource to identify postcode exclusions. A property would need to have a minimum value of \$66 667 to meet the St George Bank criteria. Many rural and remote and outer metropolitan residential properties would not meet these minimum valuation requirements.

In the case of retirement village units, their valuations are also affected by their resale being subject to certain restrictions that reduce the market for their disposal. However, an additional factor to consider with retirement village units is that a 20 per cent LVR on a free-standing family home is likely to be much larger than a 20 per cent LVR on a retirement villa. Although some lenders do allow reverse mortgage loans to be transferred to another house or property, this can only happen where their relative values allow that transfer to take place within the LVRs of both properties. This means that should a borrower decide to downsize to a retirement villa after they have taken out a reverse mortgage on their family home, they would be constrained if the loan plus compound interest did not leave enough equity to pay off the loan and still buy the retirement villa within the LVR limits for any balance.

After this research was finalised, Bendigo Bank released a new product, the Bendigo Retirement Lifestyle Income. This product is an income stream product only with a fixed interest rate and specific requirements regarding other assets. It is not included in this review as it was not available when the research commenced. As a new product type its market share currently is negligible. However, if well-marketed it could increase its market share substantially into the future.

Table 2 lists all the SEQUAL-accredited lenders and the Centrelink Pensioner Loans Scheme as well as provides some comments regarding product independence, limits and caps.

Table 2: Lenders of reverse mortgages and their products

<i>Lender</i>	<i>Reverse mortgage product name</i>	<i>Comments</i>
Australian Seniors Finance (ASF) http://www.seniorsfinance.com.au/cms_show_download.php?id=17	The Lifetime Loan	ASF allows borrowers to rent their house out for up to 5-years if admitted to residential aged care with an annual lease agreed to by ASF.
Bankwest http://www.bankwest.com.au/Personal/Home_Loans/Home_Loan_Products/Seniors_Equity_Release/index.aspx	Seniors Equity Release	Maximum loan of \$250 000 Revaluations after 10-years and every 5-years thereafter
Centrelink http://www.centrelink.gov.au/internet/internet.nsf/filestores/fis018_0809/\$file/fis018_0809en.pdf	Pension Loans Scheme	This product is capped at the level of the maximum age pension plus pension supplement and rent assistance. It has a NNEG, is only available as an income stream and is underwritten by the Australian Government.
Commonwealth Bank of Australia (CBA) http://www.commbank.com.au/personal/home-loans/reverse-mortgage/features/	Equity Unlock for Seniors	Home loan calculator on website does <u>not</u> apply to reverse mortgage product.
Newcastle Permanent Building Society http://www.newcastlepermanent.com.au/Personal/HomeLoans/ReverseMortgage/tabid/495/Default.aspx	Reverse Mortgage Loan	This is a white-label version of the RBS product
Police and Nurses Credit Society (PNCS) http://www.pncs.com.au/home loans/EasyLivingAccessLoan.html	Easy Living Access Loan	Minimum loan \$10 000, maximum \$300 000. The PNCS chose not to participate in the research project; therefore, all information is sourced from their website.
Royal Bank of Scotland (RBS) (ex- ABN AMRO) http://www.rbs.com.au/reversemortgage/reverse_mortgage/what-is-reverse-mortgage.asp	Reverse Mortgage Loan	No retirement villages/resorts or transportable homes. Some postcode restrictions apply. Equity protection of up to 25% available. Minimum loan \$20 000. RBS also offer an accommodation bond loan and an investment property loan with essentially the same criteria except that the accommodation bond loan has no lower age limit and a maximum term of 5-years. The RBS is now the only accredited lender providing a fixed interest rate loan.
St George Bank	Seniors Access Plus	Maximum loan of \$250 000. Separate loan products for lump sum

<i>Lender</i>	<i>Reverse mortgage product name</i>	<i>Comments</i>
http://www.stgeorgebank.com.au/loans/home-loans/seniors/		or income stream options. Allows offset accounts to loan and repayments at any time. Does not lend in South Australia and Tasmania as their subsidiary, BankSA, provides a reverse mortgage product in those states.
Suncorp Metway http://www.suncorp.com.au/suncorp/personal/home_loans/reverse_mortgages.aspx	Reverse Mortgage Loan	This is a white-label version of the RBS product.

2.4.2 *Financial attributes of reverse mortgage products*

The six major financial attributes of reverse mortgage loans, which are reviewed here, are: variable interest rates, fixed interest rates, establishment fees, ongoing fees, exit fees and the LVR.

The financial attributes of a reverse mortgage loan can be a major factor in a consumer's decision as to which loan best meets their needs. This is because the financial attributes of these products can have a significant impact on the final value of the loan due to many fees and charges being compounded over the life of the loan. For example, an annual fee of \$144.00 on a loan of \$100 000.00 compounded at 6.55 per cent interest over 10-years would add \$2 270.25 to the final amount of the loan (assuming no repayments) during the life of the loan.

Interest rates can be variable or fixed. Most loans are written for variable interest rates. Reverse mortgage variable rates are approximately one per cent more than the standard variable rate for home loans in Australia. This is to manage two key risks for the lender: the provision of the NNEG and the risk that the consumer may live much longer than projected (M. Lynch, personal communication, 15 June 2009). Centrelink's interest rate (5.25%) for the Pension Loans Scheme is fixed by the relevant Minister and, although it is theoretically a variable rate, has not been varied for the last 12-years. Fixed interest rates can be set for varying terms—generally 5, 10 or 20-years or lifetime. Fixed interest rates are more expensive again than reverse mortgage variable rates overall, due to the additional cost of factoring in the risk of general interest rates rising more or falling less than anticipated. Of the products surveyed, only RBS offer a fixed rate reverse mortgage, which can be taken only as a lump sum. This is because the total sum of interest is fixed on the full value of the loan when written so cannot be varied to allow for partial instalment drawdowns or for an income stream. This is in response to specific client demand for such a product (M. Lynch, personal communication, 15 June 2009). See Chapter 4 for a discussion of older participants' reasons for preferring fixed rate loans and their impact on consumers where the characteristics of these loans are not understood. The main constraint around a fixed rate loan is that payments of interest and principal cannot be made, as that would amend the terms of the loan that has been *fixed*.

Since collection of this data commenced in October 2008, there has been ongoing consolidation of the sector and concurrent falls in interest rates. The average interest rates for reverse mortgage loans varied from 6.55 per cent for variable loans to 9.25 per cent for lifetime fixed loans as at 1 August 2009. Establishment or application fees

for reverse mortgage loans are higher than those for standard home loans. This is not surprising given the higher level of consultation and advice that is required for setting up a reverse mortgage loan. One broker actually commented that:

Frankly, it is not worthwhile acting as a broker for smaller reverse mortgages when being paid the going rates by the Banks. They necessarily take a lot more time, and there is a far greater duty of care applicable. I have reached the point where I am happy for the client to deal directly with the Bank if the loan is under \$100 000, and soak up their valuable time instead.

For example, the St George Bank charges \$600 for a standard home loan and \$750 for a Seniors Access Loan, and the Commonwealth Bank \$600 for a standard home loan and \$950 for a reverse mortgage loan.

Non-bank lenders also have a significant differential: the Newcastle Permanent Building Society charges \$400 for their standard home loan compared to \$1000 for their reverse mortgage loan, and the Police and Nurses Credit Society \$650 for the standard home loan and \$880 for their reverse mortgage loan. Some lenders' establishment fees include the valuation costs, while some do not. Our older participants noted significant variation in the valuations of different lenders for the same property and also criticised the knowledge and expertise of some property and land valuers – who did not even enter the property they were valuing in some cases. The valuation was a significant point of difference for some older participants when it came to choosing between lenders. However, the differences in the application fees are relatively minor compared to some other fees, as they are not included in the loan and do not therefore accrue interest. In addition, our older participants stated that they received transparent and clear information about these fees and understood them.

Because of the compounding effect of a reverse mortgage, ongoing (account) fees, usually charged monthly, are a contentious issue. Some people in the older participant focus groups had in fact changed lenders on that basis. Ongoing fees were most strongly associated with big bank lenders such as the St George and Commonwealth Banks. Another ongoing fee can be a revaluation of the property, typically every 5-years. However, only some lenders imposed this fee.

Exit fees primarily consist of the government charges associated with the discharge of mortgages and are passed on directly to the borrower. However, in some cases lenders also imposed exit fees of their own. In one case these included an additional one per cent of the interest rate where the loan was less than 5-years old. Exit fees apply when someone sells their home such as when downsizing or moving to residential aged care but also if a reverse mortgage is discharged as a result of a windfall of some type. Sometimes reverse mortgages are discharged early because adult children likely to inherit may choose to intervene in order to keep the family home mortgage-free.

Break fees on fixed interest rate loans were not specifically disclosed, as they would vary with each contract depending on the duration and term of the loan. It was apparent from the older participants focus groups (see Chapter 4) that some older consumers had a very poor understanding of the impact of break fees when they chose a fixed interest rate over a variable interest rate. With the recent consolidation of the market, there is now only one SEQUAL-accredited lender (RBS) who provides a fixed rate option on their product.

Loan-value ratios or LVRs are set as a proportion of the value of the property and the allowable limits increase with the age at which the loan is taken out. They are based on the age of the youngest person on the title. For example, a person who is 60-years may have an LVR of 20 per cent of the current value of their property, while someone

who is 95 may have an LVR of 50 per cent. In the case of a couple, the LVR is set on the age of the younger, for example, if a husband is 85 and his wife is 60-years-old, then the LVR will be set on her age of 60-years (usually 20%), not his of 85 (say 40%). Couples with significant age differences may, in fact, have to defer applying for a reverse mortgage while waiting for the younger partner to *catch up*. Both brokers and our older participants raised this issue as an area that caused dissatisfaction among consumers. The application of the LVR differentially based on the age of the youngest borrower assists in balancing the life expectancy of the person with the life of the loan. Many brokers commented in the survey (see Chapter 3) that the LVRs were too conservative given the very low risk of default or even of negative equity being reached.

Some lenders offer the option to exclude a portion of the home from the LVR calculations, that is protect a proportion of the equity of the home for inheritance or other purposes such as Aged Care Accommodation Bonds. No older participant in the focus groups mentioned taking up this option. In terms of assisting older people to retain equity in their home so as to increase their choices of aged care when the time comes, it may be worthwhile for the government to further promote the use of this option. Both the reverse mortgage information provided by NICRI¹⁰ and the booklet *Thinking of using the equity in your home?*, produced by the ASIC¹¹ mention this option, but neither sets out a strong case for consumers on why they need to give it serious consideration.

Table 3 compares the six major financial attributes of each of the reverse mortgage products listed in Table 1.

¹⁰ <http://reversmortgage.nicri.org.au/go/reverse-mortgages/nicri/reverse-mortgages/reverse-mortgages>

¹¹ [http://www.fido.asic.gov.au/asic/pdflib.nsf/LookupByFileName/Home-equity-and%20reverse-mortgages-July2009.pdf/\\$file/Home-equity-and%20reverse-mortgages-July2009.pdf](http://www.fido.asic.gov.au/asic/pdflib.nsf/LookupByFileName/Home-equity-and%20reverse-mortgages-July2009.pdf/$file/Home-equity-and%20reverse-mortgages-July2009.pdf)

Table 3: Financial attributes of reverse mortgage products as of 2009

<i>Lender</i>	<i>Variable interest rate¹²</i>	<i>Fixed interest rate¹</i>	<i>Establishment fees</i>	<i>Annual fees</i>	<i>Exit fees</i>	<i>LVR</i>
Australian Seniors Finance	6.85%	N/A	\$845 plus valuation	No	No	Maximum 20%
Bankwest	6.55%	N/A	\$700 plus valuation fee of \$200	No	No	Maximum 25%
Centrelink	5.25%	N/A	Average \$460 for actual disbursements only	No	No	Case by case – especially if applicant has an existing reverse mortgage
Commonwealth Bank of Australia	6.84%	N/A	\$950	\$144	No	Maximum 45% at 85+ years or \$425 000
Newcastle Permanent Building Society	6.55%	8.5% (5-years) 8.95% (10-years) 9.25% (15-years to Lifetime)	\$700 (including \$300 valuation fee)	No	No	Maximum 10% at 60-years rising to 50% at 95+ years
<i>Lender</i>	<i>Variable interest rate¹³</i>	<i>Fixed interest rate¹</i>	<i>Establishment fees</i>	<i>Annual fees</i>	<i>Exit fees</i>	<i>LVR</i>
Police and Nurses Credit Society	6.56%	N/A	\$850	\$80	N/A	Not available
Royal Bank of Scotland (ex-ABN AMRO)	6.55 %	8.5% (5-years) 8.95% (10-years) 9.25% (15-years to Lifetime)	\$700 (including \$300 valuation fee)	No	\$250 unless client chooses to move other than to a nursing home and loan is less than 5-years, in which case add 1% to the interest rate.	Maximum 10% at 60-years rising to 50% at 95+ years
St George Bank	6.79%	N/A	\$750	\$180	No	Maximum 25%
Suncorp Metway	6.75%	8.85% (5-years) 9.6% (6-years to Lifetime)	\$900 (including \$300 valuation fee)	No	No	Maximum 10% at 60-years rising to 50% at 95+ years

¹² Interest rates current as at 1 August 2009

¹³ Interest rates current as at 1 August 2009

2.4.3 Loan conditions for reverse mortgage products

Reverse mortgage products also have a number of loan conditions attached to them. These can be a significant factor in influencing consumers in their choice of product. Loan conditions concern four areas; age, gifting, NNEGs and investment loans. First, all lenders set a minimum age for the youngest person on the title of the property that is being mortgaged. In most cases, this is 60-years, St George having a minimum of 63-years and the Commonwealth Bank of 65-years. This condition has an impact on couples where the younger partner (usually the wife) is significantly younger than the older partner and the couple may have to wait some years before accessing a reverse mortgage for critical purposes such as replacing their car or undertaking major repairs to their house. In the survey of Mortgage Brokers (see Chapter 3), several brokers commented that dropping the lower age limit of the youngest borrower to 55-years would be one of the product improvements they would recommend for the above scenarios. The exclusion conditions are fairly common across all products, with the exception of the Centrelink product, where applicants must be of the minimum age for the age pension, which is currently being increased from 65 to 67 years.

Second, borrowing to give the funds to others, usually family members, was explored with lenders. In most cases, lenders advised that they accepted that older people might wish to borrow to benefit their children, typically by assisting them to purchase a house or pay off debt. Only one lender, Bankwest, mentioned exclusions relating to gifting the proceeds of the loan; however, Bankwest did not mention how or whether they checked that this exclusion was complied with after the loan proceeds were drawn down. The Centrelink product also in effect excludes gifting in practice since it is limited to a fortnightly income stream at the level of the age pension. This area of borrowing to gift the proceeds to others is a contentious one as one of the areas of concern around reverse mortgage loans is their capacity to be an instrument of financial abuse of older people. Financial abuse is one of the most common forms of abuse of older people and is described as the illegal or improper use of an older person's property or finances (NSW Department of Ageing Disability and Home Care 2007).

Further, there is a strong link here also with the concept of *capacity* i.e. does the older person have the capacity at that time to make such an important decision as the taking out of a reverse mortgage loan. One of the purposes of insisting that consumers seek independent legal advice may be to attempt identifying those situations where an older person does not understand the conditions of the loan, perhaps because they no longer have the capacity to do so, or to ensure they are not being coerced into taking out the loan against their own will. However, solicitors who may be seeing a client for the first time will not necessarily have any experience in establishing whether an older person has impaired mental capacity or in detecting signs of financial abuse. Therefore, these areas need to be considered separately and it is unclear that they are appropriately considered in the present arrangements, nor how they could be. For instance, recommendations to discuss the reverse mortgage loan application with their family would in fact be counter-productive for an older person who is at risk of financial abuse from their family.

Third, the NNEGs are mandated for all SEQUAL-accredited lenders. Centrelink and the other identified non-SEQUAL-accredited lenders also have a NNEG. However, for the non-government, SEQUAL-accredited lenders, the NNEG can be negated through a number of actions or inactions on the part of the consumer, including fraud or misrepresentation, not maintaining or insuring the property, not paying the council rates on the property or inflicting wilful damage to the property. Although these conditions seem reasonable, they may cause difficulties for older people who

subsequently suffer from the onset of dementia or other conditions which affect them managing their own affairs.

Finally, some lenders allow funds to be used for investment purposes and some lenders, like the Royal Bank of Scotland, provide a separate product for that purpose. Concerns were expressed by both our older participants and lenders as to the conflict of interest arising in situations where the loan was being recommended by a lender or advisor who could benefit from commissions (non-bank lenders/advisors) or bonuses (bank lenders' staff) associated with any subsequent investments.

2.4.4 Reverse mortgage loan types and conditions

Until recently, reverse mortgages tended to be available only as a lump sum. Fixed rate loans for instance, can only be taken as a lump sum. This has implications for borrowers as larger lump sums deposited in the bank were covered by Centrelink's 'deeming' rules and counted as an asset, with any derived interest counted as income. This is the reason that most lenders and brokers encourage applicants to consult Centrelink to determine the effect of different options on their individual case. Recent years have seen more flexibility in how funds can be taken and typically there are now three choices for variable rate loans: lump sum, line of credit (instalment draw downs) and/or as a regular income stream. Further, according to M. Lynch the income stream option can be increased by 2.25 per cent per year, in other words inflation-proofing it (Fraser 2009). In practice, many loans appear to be a mix of two or more of these. This enables borrowers to avoid being caught by Centrelink's deeming provisions and income limits¹⁴, as well as giving them access to a "rainy day" facility.

Repayments of loans can be made at any time for variable rate loans and as per the contract for fixed rate loans (usually at the end of the fixed term and not before without substantial penalties). Lenders set times for repayment of the loan after the borrower dies or is admitted to residential care. Generally this is 6–12 months after death, but in practice it is usually when the estate is settled. The exception is where the property is in negative equity, in which case the lender may undertake the sale of the property, as there is nothing to be gained from accruing further interest through delay. No lender or borrower mentioned this as an area of concern. Table 4 sets out the four major conditions attached to the listed products: minimum age of youngest borrower; exclusions; payment options; and time to settle after death.

¹⁴ Drawdowns from reverse mortgages are exempt under the income test and receive a short term asset test concession: the first \$40 000 of an unspent reverse mortgage loan is an exempt asset for 90-days after receipt.

Table 4: Comparison of reverse mortgage loan conditions

<i>Product name</i>	<i>Minimum age of youngest person on title</i>	<i>Exclusion conditions</i>	<i>Payment options</i>	<i>Time to repay after death</i>
Australian Seniors Finance	60-years	<ul style="list-style-type: none"> → Misrepresentation or fraud → Failure to comply with NNEG conditions 	Lump sum/income stream	Minimum 12-months – unless in negative equity
Bankwest	60-years	<ul style="list-style-type: none"> → Misrepresentation or fraud → Failure to comply with NNEG conditions → Funds cannot be gifted to another or used as a business loan. 	Lump sum/draw-downs minimum of \$5000 each	6-months or when the estate is settled
Centrelink	Age pension age – usually 65-years	<ul style="list-style-type: none"> → None set 	Income stream <u>only</u>	At settlement of the estate
Commonwealth Bank of Australia	65-years	<ul style="list-style-type: none"> → Misrepresentation or fraud → Failure to comply with NNEG conditions 	Lump sum/instalment drawdown	12-months
Newcastle Permanent Building Society	60-years	<ul style="list-style-type: none"> → Misrepresentation or fraud → Failure to comply with NNEG conditions 	Lump sum/income stream/ Instalment drawdown	12-months
Police and Nurses Credit Society	60-years	<ul style="list-style-type: none"> → Information not available. Assume NNEG as a member of SEQUAL. 	Lump sum/income stream Redraw facility against any payments made minimum of \$2000 each	12-months
Royal Bank of Scotland (ex-ABN AMRO)	60-years	<ul style="list-style-type: none"> → Misrepresentation or fraud → Failure to comply with NNEG conditions 	Lump sum/income stream/line of credit	12-months
St George Bank	63-years	<ul style="list-style-type: none"> → Misrepresentation or fraud → Failure to comply with NNEG conditions 	Lump sum or income stream (separate products)	At settlement of the estate

Suncorp Metway	60-years	→ Misrepresentation or fraud	Lump sum/income stream/line of credit	12-months
		→ Failure to comply with NNEG conditions		

There are a number of innovations still on the drawing board in Australia and it appears that the Royal Bank of Scotland (RBS) is planning future reverse mortgage product diversification (Fraser 2009). The RBS's plan is to bring packaged products into the reverse mortgage equation. Examples of these include a car leasing package providing a new car every 3-years and health care packages, which could include personal care, meals and so on. These are valuable to older people who are unable to get credit for such things.

Other potential product innovations include shared equity arrangements with government and family and new home purchase. For instance, in the United States the Housing and Economic Recovery Act of 2008, Housing and Urban Development (HUD) HECM rules allow seniors to use a reverse mortgage to purchase a new principal residence and obtain a reverse mortgage within a single transaction. The new HECM program was also designed to enable senior homeowners to relocate to other geographic areas to be closer to family members, or to downsize to homes that meet their physical needs (i.e. handrails, one level properties, ramps, wider doorways, etc.) by allowing seniors to make a large down-payment on a new home and then utilize the reverse mortgage as permanent financing. The same law reduced some costs of securing the HECM reverse mortgage by limiting maximum fees associated with the loan (U.S. Department of Housing and Urban Development 2009).

In Australia, international real estate fund manager Rismark and Adelaide Bank launched a shared equity mortgage product known as an Equity Finance Mortgage (EFM) in 2008. While the current EFM has an age limit of 65-years and is not being marketed at older persons, a *second-generation* Rismark product aimed at older Australians is being proposed for the future. The lender of an EFM shares in a percentage (up to 40%) of the capital appreciation or capital losses (up to 20%) on the borrower's property, in lieu of paying interest. Greenway Capital, a start-up equity-mortgage specialist, is also planning an equity mortgage aimed at the baby boomer market. According to Brown (2009), an advantage of an EFM-type loan is that the homeowner always retains a high percentage of the equity (therefore ownership) in their home as the EFM leaves them with at least 60 per cent of the equity in their home. That is, the borrower will never owe more than 40 per cent of the value of their property to the lender.

2.5 Older participants' perspectives on current reverse mortgage products

This section considers the features of the products that influence consumer choice, specifically regarding the following research questions:

B1 What makes the product attractive to consumers?

C1 How do older people identify suitable products? What characteristics either encourage or discourage uptake by older consumers?

See also Chapter 4 for details of the results of our older participants' views as elicited via our focus groups and individual interviews. Focus groups and interviews indicated that many consumers were unaware of the range of products available or the

differences between them. None of the consumer participants had heard of home reversion loans.

A few of our older participants were very financially literate and had done extensive research on the Internet as well as talking to a range of lenders or brokers – but this was rare. Most older participants appeared to have received their information about reverse mortgage products from the broker whom they approached – usually as a result of the broker's own local marketing, which often includes advertorials and seminars to seniors' groups.

Many older participants also commented on the difficulty of finding informed and independent advice from professionals who knew the products. A number of older participants reported that when they went to a solicitor for advice, they found that they (the client) knew more about the product than the solicitor and they questioned the value of this requirement in those circumstances. Similar issues of the borrower knowing more than the lender were cited with retail bank staff and with some mortgage brokers. One older participant also noted that, given the recent press coverage of issues with financial planners who received commissions for promoting particular products, they would be reluctant to approach a financial planner for advice, as they would not be confident that the advice was independent.

Our older participants identified the following factors as influencing their choice of lender:

- Access to information and advice.
- NNEG.
- Interest rates.
- Valuation estimates, i.e. LVRs.
- Ongoing fees and charges.
- Relationship with the broker/lender.
- Reputation of the lender.

There was insufficient evidence to indicate which factors they considered most important, but several mentioned the 'psychological impact of receiving the quarterly statement'. This would indicate that the compounding effect of interest rates and any ongoing fees and charges may have a significant impact on choice.

2.6 Broker perspectives on current reverse mortgage products

Brokers' perspectives on the various products were limited by the fact that many of them appeared to only sell or be familiar with one product. In relation to the same research questions as the previous section, broker perspectives on product features were surprisingly similar.

Brokers' views on the current range of reverse mortgage products were sought in an on-line survey, which was sent to all SEQUAL-accredited brokers. Details of the survey are outlined in Chapter 3 and a copy of the survey is at Appendix 2. Over 75 per cent of the responding brokers had written between one and twenty reverse mortgage loans. Only 6.7 per cent had written more than fifty. This would indicate that reverse mortgage loans are not a major component of the average broker's business. In the survey, brokers were asked the following questions regarding reverse mortgage products specifically:

- Which reverse mortgage products do you recommend?

- How would you rate the attractiveness to older persons of the reverse mortgage products listed below?
- What are your reasons for recommending a particular reverse mortgage product?
- What improvements would make reverse mortgage products more attractive to brokers?
- What process, product, policy or marketing changes would make reverse mortgage products more attractive to older people?

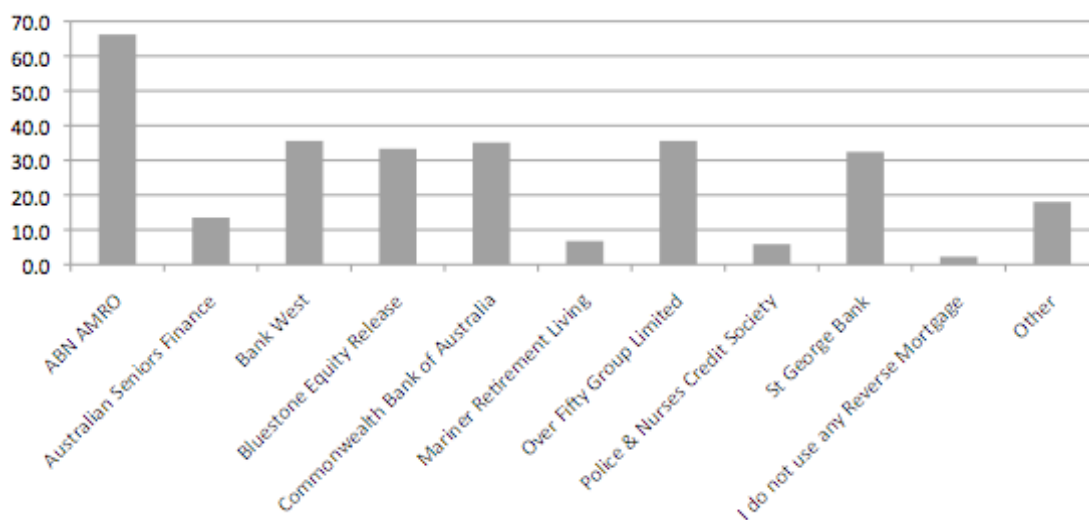
Brokers' perspectives on the current market and products were not as consistent with those of lenders in all areas. For example, they noted that not being able to lend against retirement village units was a real constraint as there was *a huge market there*.

2.7 Reverse mortgage products recommended by brokers

Almost 70 per cent of the 230 brokers who responded to our online survey recommend the ABN AMRO (now RBS) product. At 32–34 per cent, the next most recommended products were Bankwest, Commonwealth Bank, St George and two products which have been withdrawn from the market: Bluestone and Over Fifty Group. Minor lenders from a broker perspective included Australian Seniors Finance (14.1%) and the Police and Nurses Credit Society (6.2%). From comments provided by some brokers who were no longer writing reverse mortgage loans, it would appear that not all brokers are independent in terms of searching out the best product for their customers from a range of products, but appear to be tied to particular lenders or products. For example, some wrote that they were no longer writing reverse mortgage loans as the product they had formerly used had been withdrawn from the market: 'I used to use Bluestone but this product is no longer available to brokers.' On the other hand, some brokers were very clear that their role was to source the best product for the client from those on offer: 'They all have to be considered and presented to the client'. This difference in attitude could be expected to impact on consumer choice.

See Figure 1 (below) for the proportion of responding brokers who reported recommending each product.

Figure 1: Commercial reverse mortgage products recommended by brokers



2.7.1 Attractiveness to older people of reverse mortgage products

Table 5 shows the percentage of brokers who rated each product in terms of its perceived attractiveness to consumers. The brokers who participated in the survey rated the top eight products in their order of their relative attractiveness¹⁵ to older people as: ABN AMRO (now RBS) (69.4%), Over Fifty Group Ltd (now inactive) (37.4%), Commonwealth Bank (32.3%), St George Bank (29.8%), Bankwest (29.3%), Bluestone (now withdrawn) (28.6%), Vision Equity Living (now withdrawn) (25.9%), Australian Seniors Finance (16.2%). It should be noted that this survey would not identify differences in market penetration due to lenders primarily lending directly to their own members or customers rather than through brokers; nor does it take into account the size of the institution or the number of reverse mortgage loans as a proportion of the lender's overall business. Optional comments noted many brokers' concerns at the change in the market due to the GFC and the withdrawal of some lenders and some products and the consequent reduction in choice for consumers with comments such as 'prefer to have more choices of lenders and products' and 'there is no lender competition'.

Table 5: Brokers' ratings of relative attractiveness of current mortgage products

<i>Reverse mortgage products current</i>	<i>Attractive</i>	<i>Neutral</i>	<i>Unattractive</i>	<i>Missing</i>	<i>Total</i>
ABN AMRO (now RBS)	64.4%	26.6%	2.3%	6.8%	100.0%
Australian Seniors Finance	13.1%	57.7%	9.0%	20.3%	100.0%
Bank West	27.0%	54.1%	6.8%	12.2%	100.0%
Commonwealth Bank of Australia	27.5%	42.3%	17.6%	12.6%	100.0%
Police & Nurses Credit Society	6.3%	58.6%	10.8%	24.3%	100.0%
St George Bank	25.7%	46.8%	11.3%	16.2%	100.0%
Newcastle Permanent	2.7%	62.6%	11.7%	23.0%	100.0%
Suncorp	4.1%	60.8%	12.2%	23.0%	100.0%

Note: This information represents the full 230 mortgage practitioners' survey responses as analysed in August 2009

Table 6 includes the ratings of the five products that were withdrawn from the market following the GFC of 2008 during the research.

¹⁵ We use the word 'relative' because the ratings are based on a three-point Likert scale.

Table 6: Brokers' ratings of relative attractiveness of withdrawn mortgage products

<i>Reverse mortgage products withdrawn following the GFC</i>	<i>Attractive</i>	<i>Neutral</i>	<i>Unattractive</i>	<i>Missing</i>	<i>Total</i>
Bluestone Equity Release	25.7%	39.2%	18.9%	16.2%	100.0%
Mariner Retirement Solutions	7.7%	58.6%	12.2%	21.6%	100.0%
Over Fifty Group Limited	32.4%	40.5%	11.3%	15.8%	100.0%
Macquarie Bank	7.2%	53.2%	21.2%	18.5%	100.0%
Vision Equity Living	21.2%	49.1%	10.8%	18.9%	100.0%

Note: This information represents the full 230 mortgage practitioners' survey responses as analysed in August 2009

What is interesting is that brokers perceived the majority of withdrawn products as less attractive with the Macquarie Bank product being ranked as the least attractive (21%).

2.7.2 Brokers' reasons for recommending particular reverse mortgage products

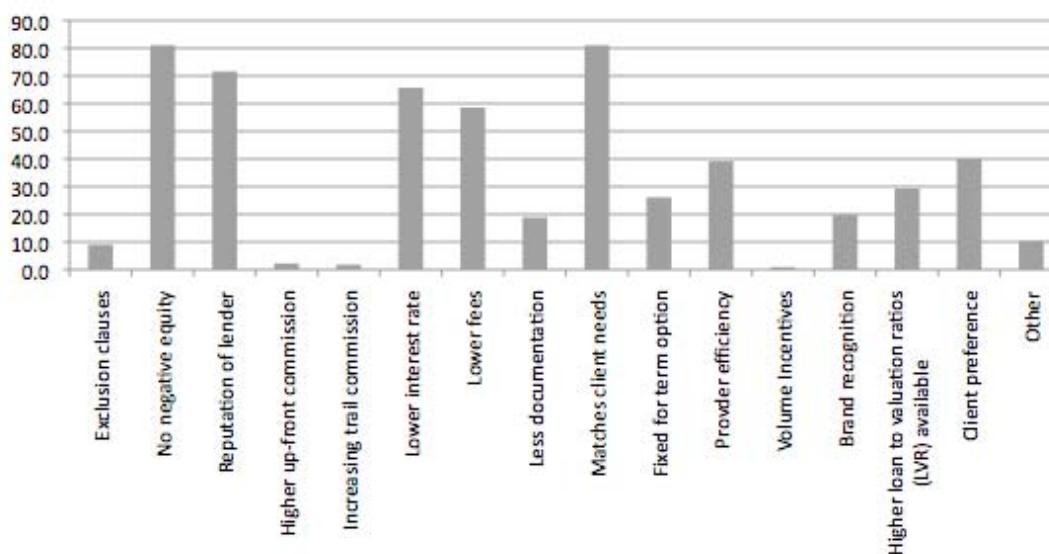
Brokers' five top reasons for recommending a particular product were, in order of importance: NNEG, matches client's needs, reputation of lender, lower interest rate and lower fees. Other factors that rated a significant response were provider efficiency, higher LVR and client preference. Factors such as exclusion clauses, higher up-front commissions, increasing trail commissions, less documentation, volume incentives, brand recognition and *other* were reported by brokers as being less significant in their selection of a product. Brokers who had ceased lending because the product(s) they had used were no longer on the market primarily used the category of *other*. No information was given as to why they could not choose to sell one of the remaining available products.

The products that brokers reported as their preferred recommendations are broader than those products used by our older participants. This is for two reasons; first, many brokers recommended products which ceased to be available after the GFC and so those lenders and their consumers did not participate; second, our older participant sample was biased toward consumers who had mortgages with the RBS because RBS forwarded the focus group invitations to all their consumers.

It was not possible to obtain any specific information regarding the commissions that lenders pay to brokers. Nor was it possible to obtain any information regarding the bonuses or other rewards that are paid to bank staff that sell these products. Therefore, it is not possible to say whether or to what extent the commission/bonus structures influence brokers/bank staff in their choice of product to recommend to clients. In their responses on their reasons for recommending a specific product, brokers indicated that this was not important, yet in their comments on product improvements, higher commissions featured quite strongly. There seemed to be some agreement that the fees/commissions were not sufficient as many brokers recommended an increase to both up-front fees and trailing commissions.

Figure 2 *Brokers reasons for recommending a reverse mortgage product'* shows the reasons that brokers say they recommended particular products.

Figure 2: Brokers' reasons for recommending a reverse mortgage product



2.7.3 Brokers' recommended improvements to reverse mortgage products

In contrast to their responses regarding what influenced their choice of product, many brokers of the 99 who responded to this question noted that the most significant change which would make reverse mortgage loans more attractive to them was an increase in up-front fees and commissions. The other major themes to emerge were the need for increased education and marketing for consumers and advisors and product improvements such as: higher LVRs, lowering the minimum age to 55-years, online (electronic) application, interest rates closer to the standard variable rate, increased postcode flexibility (including retirement village units being eligible), deleting or reducing monthly fees, increased equity protection options and removing the word 'mortgage' from the name of the product! In addition, brokers noted the difficulty for clients in obtaining good independent legal and financial advice and the need for a more accommodating stance by Centrelink when lump sums are taken for health reasons. In reviewing these suggestions, many of them would benefit consumers more than brokers, so it is assumed that brokers responded to this question also in terms of product features that would make them easier to sell – and thus increase the brokers' volumes and turnover. The specific items that would benefit brokers have been grouped as follows:

- Increases in up-front fees and commissions.
- Changes that would increase the efficiency of the application process, e.g. on-line applications and standard contracts.
- Changes that could reduce the time needed to explain the product to clients, their families and advisors, e.g. standard contracts and educational/promotional material in simple English.
- Changes that would increase the potential market, e.g. greater postcode flexibility, lowering of the minimum age and coverage for retirement village units.

Brokers particularly noted the need to regulate the industry to ensure that all brokers who sell reverse mortgage loans, not just lenders, are appropriately qualified:

... should be required to complete ... independent training ... on how reverse mortgages operate through ASIC.

There was also support for mandatory accreditation with an industry body.

Issues around accreditation and training may be addressed in the current Inquiry into Financial Products and Services in Australia (Parliamentary Joint Committee on Corporations and Financial Services 2009) and the current review of the Uniform Consumer Credit Code (Parliament of Australia 2009). Further discussion of the impact of these is in Chapter 3, as well as of the impact of lowering the age of the youngest borrower in terms of its policy implications.

Other product improvements, such as higher LVRs or better interest rates are in the hands of the money markets, lenders and their actuaries as there is a fine balance between taking into account the increasing longevity of Australia's older people, the costs and availability of funds and the risks attached to reverse mortgage products, while still generating a profit for shareholders. The issue of higher LVRs and their risks are significant in terms of the management of the risks which give rise to the exclusion of certain postcodes and retirement village units by some lenders.

Until recently, lump sums and income streams were marketed as separate products that required separate applications and fees. However, increasingly, lenders are offering the same flexibility in payment arrangements for reverse mortgage loans as they offer for standard home loans.

Brokers commented that the ideal product would be one loan, which offered all three options and allowed additional drawdown to the LVR as the house increased in value or the person aged and became eligible for a higher LVR. However, the downside of this single application process is that some borrowers could use up all their equity in their house much sooner than they anticipated.

2.7.4 Centrelink's role in age pension income determinations

The role of Centrelink is worth exploring. Centrelink administers both assets and income tests to check age pensioners' initial and ongoing eligibility for the age pension. Those with assets, other than the family home, which exceed the limit, can find their pension reduced or cancelled. Those with incomes other than the age pension, which are above the Centrelink limits, can also find themselves with a reduced or cancelled age pension. Therefore, most lenders encourage consumers to consult with Centrelink about the effects on their age pension, or their eligibility for the age pension, prior to finalising their plans for a reverse mortgage loan. In particular, consumers need to consider the effect of taking out a large lump sum that they do not use immediately as the deemed interest on that sum could count as income for age pension assessment purposes. The result of these rules is that increasingly lenders are offering options that combine lump sum withdrawals with instalment drawdown and an income stream to ensure that the loan is structured so as to minimise the effects of Centrelink's Income and Assets test and their deeming rules¹⁶. For example, an older person may take out a reverse mortgage loan of \$50 000 as follows:

- \$20 000 immediately to replace their car.
- \$200 per month as an income stream to top up their pension.
- The balance in instalments as required replacing their refrigerator or purchase timely elective surgery.

¹⁶ Drawdowns from reverse mortgages are exempt under the income test and receive a short-term asset test concession: the first \$40,000 of an unspent reverse mortgage loan is an exempt asset for 90 days after receipt.

This way, they draw only what they need, thus reducing the compound interest on their loan. At the same time, they earn no actual or deemed income from a lump sum placed in the bank or an investment, thus keeping their overall income at a minimum level so as to not affect their eligibility for the age pension.

2.7.5 Product changes to make reverse mortgage products more attractive to older people

Brokers commented that the ideal product would be one loan, which offered all three options and allowed additional drawdown to the LVR as the house increased in value or the person aged and became eligible for a higher LVR. However, the downside of this single application process is that some borrowers could use up all their equity in their house much sooner than they anticipated.

From brokers' survey responses it would seem that brokers have identified a number of areas where current products could be improved. They are also very aware of the features that consumers look for in a reverse mortgage loan. A number of brokers mentioned spending a lot of time with consumers to tease out their situation and actual needs before identifying a suitable product—but they were in the minority of those responding to the survey.

One of the factors that brokers particularly commented on was *lender efficiency*, that is, how long the lender took to process the loan and make the proceeds available to the borrower. Instances were noted of the process taking more than 3 months. It could be expected that experience of this kind would make a broker reluctant to recommend that product/lender again, which could impact on consumer choice.

Of the 93 brokers who responded to this question, the common suggestions to emerge were:

- Education and promotional materials in simple English.
- Using case studies and better software that would enable the demonstration of various scenarios.
- Increasing consumers' and their families' understanding of the product.
- Increasing education of advisors, especially solicitors and financial planners, both education programs to be undertaken by industry groups such as SEQUAL; the Mortgage and Finance Association of Australia (MFAA) and/or government.
- Product improvements such as better valuations and higher LVRs.
- Reductions in interest rates.
- Greater postcode flexibility.
- Increased equity protection amounts.
- A simpler application process with easy to read documentation.
- Capped interest rates.
- Lower fees and greater flexibility for repayments.
- Changes in regulation so that SEQUAL-accredited lenders and brokers can only sell the product.
- The development of a standard reverse mortgage loan contract.

A few brokers commented that clients found the requirement to get advice from a solicitor a little condescending. However, many more commented on the difficulty for clients of getting informed advice from solicitors and financial planners. For this

reason, some brokers suggested the development of a standard contract to facilitate the training of solicitors and financial planners in giving effective advice on this product and keep the cost of the advice down. However, this would not necessarily be the case as, from the stories told by consumers in the focus groups, most solicitors looked at the contract as just a contract to be checked in isolation of any knowledge or understanding of the client's circumstances. In many cases, the client had no previous contact with the solicitor.

2.8 Summary and implications

The implications of these product reviews are that:

- Consumers are unaware of the full range of products available and may have difficulty understanding the differences between them.
- While there are a number of existing products, there is room for further development of products with additional flexibility and new features.
- The number of lenders and potentially the range of products has recently diminished due to the GFC and this may have reduced consumer choice.
- Many consumers approach only one lender/broker and rely on them for information.

At this stage there are only two kinds of commercial products available on the Australian market. Only one lender provides a home reversion product and it has limited penetration into the market (although others may be in the pipeline). Reverse mortgage loans are provided by a range of lenders that market them directly to consumers, as white-label products through other lenders or through a large number of brokers. The one lender that offers its product as a white-label product through other lenders, has gained over 70 per cent of the reverse mortgage market by using a three-pronged approach of direct selling, white-label selling and selling through brokers. Retail banks offer their reverse mortgage products through their own retail structure, while non-retail banks and other types of lenders also offer their reverse mortgage products through a large network of mortgage brokers.

The Centrelink reverse mortgage product is unique in its features. However, its application is limited to people who are not eligible for the full age pension and wish to have a regular equivalent income on the basis of their residential property assets. Most borrowers use reverse mortgages for large one-off expenditure or topping up the age pension or their superannuation, which makes the Centrelink product not suitable to their needs.

Overall, the differences between SEQUAL-accredited reverse mortgage loan products are minor and primarily relate to similar factors to those which drive choice in standard home loan mortgages: interest rate variations, LVR thresholds, establishment and ongoing fees and flexibility of the product in terms of how it is paid out. Consumers indicated that the other factor that influenced their choice of product was their relationship with and reputation of the broker or lender. See Chapter 4 for more on this issue.

On the other hand, the factors that inform brokers' choice of product and which would make specific reverse mortgage products more attractive to the financial services sector, especially brokers, are:

- higher fees and commissions
- increased efficiency of the application process
- simpler educational, promotional and contract documentation and materials

→ expansion of the potential size of the market through changes to eligibility criteria.

Overall, the consolidated recommendations from lenders, brokers and consumers for improving reverse mortgage loan products include:

- A standard contract in simple English.
- Improved marketing/education/disclosure material in simple English, including case studies and improved software for mapping various scenarios for consumers and professionals.
- Specific disclosure material regarding break fees on fixed rate mortgages, including the mapping of various scenarios.
- Lowering the minimum age of the youngest borrower to 55-years.
- Reducing interest rates for reverse mortgage loans to be closer to those for standard home loans.
- Providing a capped interest rate option.
- Reducing or deleting ongoing fees.
- Increasing LVRs.
- Making reverse mortgage loans available in more postcode areas and for retirement village units.
- Facilitating access to reliable, informed and independent advice.

3 MORTGAGE PRACTITIONERS' VIEWS

3.1 Introduction

This Chapter focuses on mortgage practitioner perspectives around the research questions. The term 'mortgage practitioner' includes professionals of several sub-specialities and differing professional backgrounds who operate in the mortgage market. It is used here as an inclusive term to collectively describe the professional group, primarily lenders and brokers, who develop, market or sell reverse mortgage products. Understanding their perspectives on potential growth implications, barriers and enablers provides a critical piece of the reverse mortgage picture. While Chapter 2 focused on reverse mortgage products, this chapter focuses on the perspective of the mortgage practitioners around the same research questions. There is also some discussion of their views on the current regulatory environment and recommendations for improving it.

The description and analysis in this chapter is based on the questions that we asked the lenders in face-to-face interviews and which were then used to develop the online survey for brokers. The last question: 'Would you agree to forward to your clients an invitation to participate in focus groups regarding reverse mortgages?' was included as part of our *snowballing*¹⁷ consumer recruitment process and as such is excluded from this chapter but is discussed in Chapter 4.

3.2 Background

Prior to presenting our survey and interview results, It is important to describe the groups with whom we consulted. Most mortgage practitioners are lenders (both bank and non-bank lenders) or brokers.

Lenders includes corporations who carry on a 'banking business within the meaning of the *Banking Act 1959*¹⁸ and meet its requirements for Authorised Deposit-taking Institutions (ADIs). A 'banking business' as defined by that Act is:

- A. A business that consists of banking within the meaning of paragraph 51(xiii) of the Constitution.
- B. A business that is carried on by a corporation to which paragraph 51(xx) of the Constitution applies and that consists, to any extent, of:
 - 1. both taking money on deposit (otherwise than as part-payment for identified goods or services) and making advances of money; or
 - 2. other financial activities prescribed by the regulations for the purposes of this definition.

There are *bank* and *non-bank* institutions that are ADIs under this Act. The distinction between *bank* and *non-bank*, which includes building societies and credit unions, is as defined by the Australian Prudential Regulation Authority and as listed on their

¹⁷ **Snowball sampling** is a special non-probability method used when the desired sample characteristic is rare. It may be extremely difficult or cost-prohibitive to locate respondents in these situations. Snowball sampling relies on referrals from initial subjects to generate additional subjects. While this technique can dramatically lower search costs, it comes at the expense of introducing bias because the technique itself reduces the likelihood that the sample will represent a good cross-section from the population.

¹⁸ [http://www.comlaw.gov.au/ComLaw/legislation/actcompilation1.nsf/0/6A6E0041D1D932A5CA2575E80004BAA9/\\$file/BankingAct59_WD02.pdf](http://www.comlaw.gov.au/ComLaw/legislation/actcompilation1.nsf/0/6A6E0041D1D932A5CA2575E80004BAA9/$file/BankingAct59_WD02.pdf)

website¹⁹. However, it is not necessary to be an ADI to lend monies for reverse mortgages.

A broker is defined as 'One that acts as an agent for others, as in negotiating contracts, purchases, or sales in return for a fee or commission'²⁰. This is an important distinction, because lenders and brokers have different roles and responsibilities within the system, which means that their views will differ in certain respects.

3.3 The global financial crisis (GFC)

The GFC of 2008–2009 occurred during this research project and it was relevant to this project in three ways: it had an impact on the availability and cost of wholesale funds, it led to a consolidation of lenders in the sector and it reduced the income of many retirees. The GFC is generally considered to have started in about July 2007 and, while still ongoing, is now thought to be in the process of winding down. The causes of the GFC are open to conjecture, but certainly a contributing factor was the liquidity crisis arising from the issuing of sub-prime loans in the USA. Sub-prime loans are those issued to borrowers with a higher risk of default. In the case of the USA, this was exacerbated by 'optimistic' honeymoon rates and loans, which were greater than 100 per cent of the valuation of the house in some cases.

The effect of the GFC was that data relating to product features changed several times over the course of the project and this may have led to responses and views of lenders and brokers being affected by where the GFC was in its cycle. For instance, the interest rates decreased a number of times, stabilising at a cash rate of three per cent—the lowest rate that Australia had experienced for many years.

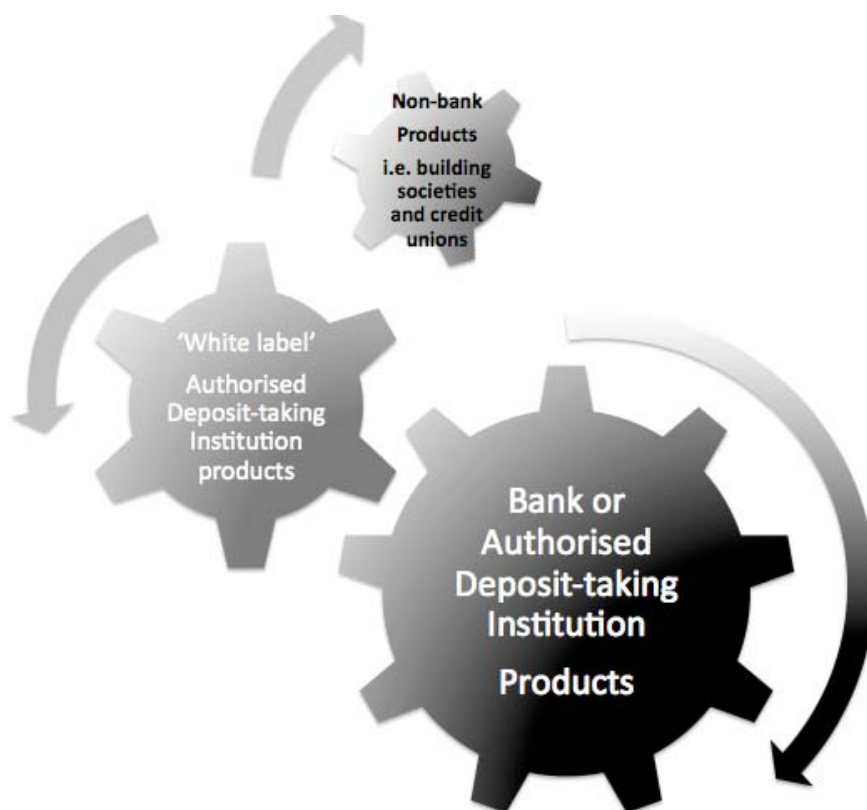
The second change was to do with the availability and cost of wholesale funds. These are the same funds that were used for these sub-prime loans as well as for other home loans, car loans, refinancing and small business loans. The effect of this has been that the availability and cost of wholesale funds changed very quickly and many bank and non-bank lenders could not afford to continue lending as, even if the funds were available, the cost was prohibitive. This was particularly so for any non-bank lenders who were not supported by the Australian Government's 2008 Deposit and Wholesale Funding Guarantees²¹. The Guarantees do not apply to products offered by non-ADI entities, including non-ADI subsidiaries of Australian ADIs. Six of the remaining SEQUAL-accredited lenders are covered by the Guarantees, as they are eligible ADIs. In this context, Australian Seniors Finance Pty Ltd (ASF) is the odd one out in the group. ASF is not an ADI, but a proprietary company limited by guarantee, which markets a single reverse mortgage product. ASF's loans are underwritten by 'Hannover Re Group' and their funds are sourced from the Commonwealth Bank of Australia (CBA), which is an ADI. The current relationships among the reverse mortgage lenders are illustrated in Figure 3.

¹⁹ <http://www.apra.gov.au/ADI/ADIList.cfm#BS>

²⁰ Oxford English Dictionary

²¹ http://www.treasury.gov.au/documents/1431/HTML/docshell.asp?URL=Design_and_operational_parameters.htm

Figure 3: Relationships among reverse mortgage lenders



Another effect of the GFC was a contraction of lenders of reverse mortgages, which was of two distinct types:

1. A contraction as a result of a takeover of one institution by another, e.g. Bankwest by Commonwealth Bank of Australia.
2. Contraction from an institution withdrawing from the reverse mortgage market, e.g. Macquarie Bank.

Table 7 lists the inactive or former lenders in this market, their status as at October 2008 and their reasons for withdrawal from the market. The net results of this contraction were that ABN AMRO was taken over by the Royal Bank of Scotland (RBS), which is now 70.33 per cent owned by the UK Government, Bankwest by the CBA and St George Bank by Westpac²². In the latter case, the separate branding of St George products continues. In the case of CBA and Bankwest, they also appear to be continuing separate branding at this stage, including the ongoing provision of both reverse mortgage products.

²² Note that the takeover of St George by Westpac was planned before the GFC was widespread.

Table 7: Inactive/former reverse mortgage lenders

<i>Former Lender</i>	<i>Status as at October 2008</i>	<i>Comment</i>
Bluestone Equity Release	No new clients accepted	Initially declined to be interviewed but subsequently advised that not available for interview until 28 July 2009, which was too late for this research project.
Macquarie Bank	Product withdrawn	No longer active in this market
Mariner Retirement Solutions Ltd	No new clients accepted	No longer active – had used ABN AMRO white-label product
Over Fifty Group Ltd	No new clients accepted	“Wholesale funds had become too expensive”
Vision Equity Living	No new clients accepted	In process of moving to broker role in on-selling the RBS (ex ABN AMRO) product rather than rebadging the white-label version

Source: Authors

In addition, some organisations who had previously been lenders have now become brokers, for example Vision Equity Living are in the process of changing from using the RBS’ white-label product to on-selling that product. In effect, this leaves two entities supplying most of the funds for reverse mortgages in Australia, RBS (in its own name and as a white-label product) and CBA (as CBA, as Bankwest and providing funds to ASF). The net effect of the GFC on Australian lenders was that most who were not ADIs withdrew from the market, and those who were ADIs, but did not have access to a source of their own funds, that is, depositors, had difficulties in accessing funds at a reasonable cost and in some cases withdrew their products which relied on those funds.

The last effect of the GFC was a fall in the value of shares and other investments as people lost confidence in the true valuations of their portfolios, which may have included sub-prime loans. This meant that income from investments also fell, which directly affected many retirees who relied on income from investments or superannuation to meet their living needs. In some cases, withdrawals from investment trusts, especially those dependent on property assets were suspended. In parallel with this was a fall in interest rates instigated by the central banks of major economies, including Australia, as a mitigation strategy to support consumer and business spending and investment.

3.4 Lenders

The research identified that there are actually three forms of lenders in the reverse mortgage market: SEQUAL-accredited lenders, non-government non-SEQUAL-accredited lenders and government lenders. In this section we will describe the role and perspectives of both the government lender and SEQUAL-accredited lenders. We will not describe the non-government non-SEQUAL-accredited lenders as they could not be identified and therefore were not included in the methodology.

Centrelink is one of the agencies within the Australian Department of Human Services. Centrelink’s Pension Loans Scheme is the only reverse mortgage product, which is provided by a government entity. As a government entity, Centrelink is not an ADI, as defined under the *Banking Act 1959*, nor is it considered to be a mortgage

practitioner. Centrelink's Pension Loans Scheme has key differences from other reverse mortgage products in that the funds can only be used for basic living expenses because they must be drawn as an income stream that is no greater than the maximum level of the age pension plus allowances. Because Centrelink is not a SEQUAL-accredited lender, it was not originally included in the scope of the project and emerged as a reverse mortgage provider during the project. Therefore, Centrelink was not approached for an interview regarding their perspectives on the reverse mortgage market and its future prospects. However, the Department of Human Services has a representative on the research project's User Group and represents Centrelink's perspectives.

Therefore the only product reviewed that is provided by a non-SEQUAL member was the Centrelink Pension Loans Scheme. The features of the Centrelink product that make it a reverse mortgage product are that it is only available to people of age pension age who own a home which can be used as security for the reverse mortgage. All information about Centrelink as a lender was sourced from their website and from telephone conversations with their Financial Information Services Helpline.

Of the eight active SEQUAL-accredited lenders listed on the SEQUAL website in October 2008, seven agreed to participate in the research and one, the Police and Nurses Credit Society, declined. The seven participating lenders were invited to participate in a semi-structured interview. The interview questions relating to their perspectives as mortgage practitioners were:

- What do you see as the current issues in the reverse mortgage market? (Research question A).
- What do you see as the future for the reverse mortgage market? Is there a role for government regulation in that market? (Research questions A2, B2, B3, C4).
- What is your organisation's relationship with financial planners around reverse mortgages? (Research questions B2, C1, C3).
- What are the main reasons for your clients accessing reverse mortgages? (Research questions C2, C3, C4).

The interviews took place between 25 September 2008 and 22 May 2009. Six interviews were recorded and transcribed. The seventh interview could not be recorded as the interviewee did not give consent, but notes were taken. The consolidated information was then analysed thematically to identify common issues and concerns.

The findings from these interviews were also used in designing the on-line survey for brokers. Given that this research's focus was on policy and regulatory change, the inclusion of inactive lenders was inappropriate for two reasons. First, a product which is no longer on the market would not be affected by changes in regulation and second, analysing an inactive product with respect to new regulation is unhelpful.

To ensure that the information provided by lenders was accurate and current, only the person in the lender's organisation who was tasked with policy regarding reverse mortgages was interviewed. Given the relatively small market for reverse mortgage loans at this time, all lenders had only one person who managed this area from a policy perspective, and often as only part of their job. Table 8 shows the lenders who were interviewed, their corporate/banking status and comments on their roles in the market at this time.

Table 8: Active reverse mortgage lenders

Lender	Status	Role in the reverse mortgage market
Australian Seniors Finance Pty Ltd (ASF)	Non-ADI	Specialist lender focused on this market and reverse mortgage loan sold either directly or through some credit unions. Hannover Reinsurance underwrites loans and funds are sourced from the CBA.
Bankwest	ADI medium-sized mainstream bank subsidiary of CBA	Reverse mortgage loan is a minor product and sold either directly or through Bankwest retail banking staff.
Commonwealth Bank of Australia (CBA)	ADI large mainstream Australian bank	Reverse mortgage loan product is a very minor product sold at branch level by retail bank staff. Now incorporates Bankwest and also provides funds to ASF.
Newcastle Permanent Building Society (NPBS)	ADI a building society	Relatively new entrant to the reverse mortgage loan business. Uses RBS white-label product and markets through its own retail structure using specifically trained staff, including its financial planners.
Royal Bank of Scotland (RBS)	ADI major international mainstream bank	Reverse mortgage loan product marketed directly, through brokers and as a white-label product for other lenders.
St George Bank	ADI medium-sized mainstream bank subsidiary of Westpac	Reverse mortgage loan product is a minor product sold at branch level by retail bank staff.
Suncorp Metway	ADI medium-sized mainstream	Uses RBS white-label product and markets through its own retail structure.

Source: Authors

3.5 Interview results

Analysis of the interviews with lenders was undertaken from a thematic perspective. Five major themes were identified:

- Current issues with the reverse mortgage market or existing reverse mortgage loan products.
- Future market opportunities and threats for the reverse mortgage market.
- Government regulation of the reverse mortgage market – existing and future.
- Role of financial planners in the reverse mortgage market.
- Clients' reasons for applying for a reverse mortgage loan.

These are expanded upon in the following sections.

3.5.1 *Current issues with the reverse mortgage market or existing reverse mortgage loan products*

There was substantial overlap among lenders on the issues that were affecting the current reverse mortgage market and products. These were: the impact of the GFC; older people's decisions around where they would live in their retirement years (summarised here as *sea change*, *tree change*, *downsize* or *stay put*); information and education about reverse mortgages; family attitudes; and the features of reverse mortgage products themselves as already discussed in Chapter 2. This section will analyse the lenders' views on the first four issues.

The impact of the GFC on lenders was expressed as concern of its impact on the market. Non-bank lenders, in particular, noted that it had made access to wholesale funds difficult and that the cost of those funds had risen markedly. This meant that it was more difficult for non-bank lenders to be competitive on interest rates and this was reducing choice for borrowers, for example '[consolidation of the industry] may lead to less choice for consumers and less competition'.

Other GFC outcomes included:

- Falls in retirees' superannuation/investment income such that some retirees have taken out a reverse mortgage loan in preference to drawing on their capital to maintain their income.
- Falling valuations of many residential properties, for example Perth, which meant that some borrowers risked reaching a negative equity situation sooner than had been anticipated if housing values continued to fall, which would have implications for lenders with respect to the NNEG. Lower valuations also have the effect of excluding some potential borrowers from accessing a reverse mortgage loan if they needed one.

However, one lender noted that despite the GFC, the security for the lender of a reverse mortgage actually increases over time, as not only do property values in the eligible postcodes usually rise, but also many borrowers borrow funds to improve the property.

Lenders as underpinning a strong reverse mortgage market in popular retirement areas identified sea/tree change and downsizing. This is underscored by many retirees choosing to move to a coastal area, for example, the north coast of NSW or the Gold Coast in Queensland, or *tree change* (move to a non-metropolitan area), for example inland areas such as the Blue Mountains in NSW or Marysville in Victoria.

Metropolitan areas were less represented in applications for reverse mortgage loans, but lenders noted that this could be due to older people in metropolitan areas having more options for downsizing in their own community. While lenders recognised that for many older people downsizing to a smaller, more manageable or cheaper home may be more appropriate than a reverse mortgage, they pointed to the shortage of supply of such housing in most places and to the financial and emotional costs of sale and purchase as real barriers to this choice for most older people and noted that 'downsizing [is] not always a good option in Australia' (Broker, Queensland).

Lenders also recognised that they could not provide reverse mortgages in some areas due to existing or projected low valuations that would make the provision of a NNEG potentially loss making for them.

3.5.2 *Information and education*

Lenders agreed that continuing education of the public and of professionals were required to counter ill-informed or biased publicity about reverse mortgages and to build acceptance of the product as a valid choice for some older people. The continuing publication of incorrect and/or negative articles has required a strong industry response, coordinated by SEQUAL, and all lenders considered that this needed to continue. They noted that there is a real need for reverse mortgage products for some older people as the current ageing population are poorly prepared for retirement. They particularly noted that negative and incorrect publicity is impacting on people's ability to make informed choices in this area. For example, one lender reported that incorrect and negative publicity had resulted in 'some people who do not have bathrooms cancelling their loan application [to install a modern bathroom]'. This situation would have particular resonance for providers of in-home care services

where occupational health and safety requirements for the provision of personal care (bathing, etc.) cannot be easily met in the absence of a functional bathroom. This aspect has been further discussed by Jones et al. (2008) in the context of home modifications and their potential to facilitate access to in-home services or reduce the need for them by increasing the independence of the client.

Lenders particularly noted the difficulties borrowers had in accessing good quality, independent legal or financial advice about reverse mortgages: '[solicitors] come at it from a fat-cat perspective', meaning that solicitors did not take into account the client's individual circumstances. All lenders expressed strong support for continuing industry-led education for solicitors and other professionals who gave advice in this area. Some lenders thought this education should be provided by industry, that is, SEQUAL, others that government should undertake it and many said that it should be mandatory.

3.5.3 *Family attitudes*

Despite the frequent negative publicity about reverse mortgages, lenders noted that the attitudes of borrowers' adult children seemed to be changing and that 'children seem to be less wedded to the expectation of an inheritance'. They even noted an increasing number of cases where the adult children undertake the research on behalf of their elderly parents. Some of the reasons for families supporting their parents' application for reverse mortgage loans included that it would prevent disparity or tension among siblings where they could not contribute equally and that 'it's their money, they can do what they like with it'.

However, lenders noted that many older people were still embarrassed about needing a reverse mortgage and tended to prefer to keep it confidential. Consumers also commented on this aspect and it is further discussed in Chapter 4.

3.5.4 *Future market opportunities and threats for the reverse mortgage market*

Lenders identified the main opportunities for growth in the reverse mortgage market as deriving from the ageing of the population, in particular the baby boomer cohort, and the fact that most Australians are retiring with insufficient superannuation or savings to sustain them over a longer life. The main threats identified were the opportunity for unethical lenders and brokers to operate in the absence of appropriate regulation and the misinformation and negative press which make older people and their families fearful of the product and unable to identify when it would be useful to them.

All lenders noted recent growth in the reverse mortgage market and that they expected that it would continue and accelerate as the *baby boomers* start to retire. This projected increased demand may ease off once the first generation with adequate superannuation starts to retire. Lenders anticipated that increased demand would also be driven by older people's desire to stay in their own homes as they age, which is supported by government policy around *ageing in place*. And lastly, lenders expected the inadequacy of the age pension to drive increased demand for equity access products generally: 'obviously an issue with [the adequacy] of the age pension'.

The most significant threat identified by lenders was that associated with inadequate regulation or *rogue* traders. With this in mind, lenders saw the ongoing role of SEQUAL as critical to providing ongoing education to the market, to professionals and to potential borrowers and their families. In this context, they strongly supported government regulation, which would strengthen the role of SEQUAL—even to the

extent of making SEQUAL accreditation mandatory for all lenders of reverse mortgage loans.

In the context of the recent narrowing of the lender base and of the range of reverse mortgage products, lenders noted the need for the development of new and more flexible products, as many people would be retiring with fewer savings than they had anticipated due to the GFC. They also identified the potential for life insurance companies to enter this market as it seemed to have an alignment with their traditional business.

3.5.5 Government regulation of the reverse mortgage market—existing and future

Lenders were asked about their views on the current regulatory environment regarding reverse mortgage loans and any changes that they thought would be helpful. No lender thought that the current regulatory regime was too onerous, but some lenders did express concern that while increased government regulation of reverse mortgage products and their sale would probably happen, it could be at a cost to the consumer and thus increase barriers for access to the product. Some lenders noted that an increased role for SEQUAL, with mandatory accreditation through SEQUAL, might be sufficient.

However, on the whole, most lenders considered that current government regulation needed updating to address some specific areas. These areas were: information and training for consumers and professionals, mandatory accreditation for lenders and brokers and enhanced regulation, and included:

- Educating consumers, especially by continuing to support the reverse mortgage Helpline currently provided by NICRI.
- Making compliance with the SEQUAL Code of Conduct mandatory for all lenders and brokers of reverse mortgage products.
- Requiring solicitors and other professionals who give advice on reverse mortgage products to undertake specific training in that area and charge a standard fee for providing this advice.
- Acknowledging that reverse mortgages are closer to being a financial product than a credit product and regulating them accordingly.
- Making financial advice mandatory for larger loans, say those over \$50 000.
- Developing a standard reverse mortgage contract which all accredited lenders would use.
- Requiring all lenders to provide an on-line calculator that gives true comparison rates for consumers.
- Updating Centrelink policy to be more flexible when the proceeds of a reverse mortgage lump sum are temporarily placed in investment or savings accounts.

All lenders emphasised that any regulatory changes, including accreditation requirements, should be undertaken as a partnership between the industry (as represented by SEQUAL) and government.

Some of these recommendations would be very low-cost to implement, for example maintaining the NICRI reverse mortgage Helpline or requiring all lenders to provide access to an on-line calculator to enable potential applicants to run various scenarios and understand the implications of their choices. Others would require some investment, for example development of a standard reverse mortgage contract.

3.5.6 Role of financial planners in the reverse mortgage market

Lenders were asked about the role of financial planners, including whether they received referrals from them. Lenders reported that financial planners were only just starting to be active in this area. They also noted that financial planners often did not understand the products sufficiently to identify when they were appropriate to their clients' needs. Most lenders considered this to be due to the fact that the commissions and other incentives from reverse mortgages, and the nature of the client group likely to need them, made the product unattractive to financial planners. One lender noted that the 'fee for service/commission argument comes into this space ... a \$50 000 loan [is not enough] compared to hundreds of thousands of superannuation'. The issue of commissions for financial planners has been extensively canvassed by the Inquiry into Financial Products and Services in Australia (Parliamentary Joint Committee on Corporations and Financial Services 2009) who's Terms of Reference were:

- The role of financial advisers.
- The general regulatory environment for these products and services.
- The role played by commission arrangements relating to product sales and advice, including the potential for conflicts of interest, the need for appropriate disclosure, and remuneration models for financial advisers.
- The role played by marketing and advertising campaigns.
- The adequacy of licensing arrangements for those who sold the products and services.
- The appropriateness of information and advice provided to consumers considering investing in those products and services, and how the interests of consumers can best be served.
- Consumer education and understanding of these financial products and services.
- The adequacy of professional indemnity insurance arrangements for those who sold the products and services, and the impact on consumers.
- The need for any legislative or regulatory change.

Several lenders, and some brokers, identified that reverse mortgage loans are more like a financial product rather than a credit product and should be regulated as such. And indeed, the terms of reference of the above enquiry cover the same ground as that explored by this research with respect to reverse mortgage products. Lenders also noted the potential conflicts of interest for financial advisors, including lenders who also provided financial advice to their clients, in also selling their clients other products, which may attract bonuses or commission for the brokers/staff who sell them.

The Newcastle Permanent Building Society cited this as their reason for choosing a white-label product, rather than developing their own, as they wished to put some distance between their financial advisors and the lender of the reverse mortgage to reduce the potential for a conflict of interest; while the Commonwealth Bank does not allow their financial advisors to offer advice to applicants for CBA reverse mortgages.

Most lenders received few if any referrals from financial planners. However, the RBS advised that about 20 per cent of its reverse mortgage referrals come through financial planners, although the RBS has no direct links with the financial planners. Other comments indicated that all lenders had experience with financial planners who were biased and/or gave poor advice regarding reverse mortgages. One lender

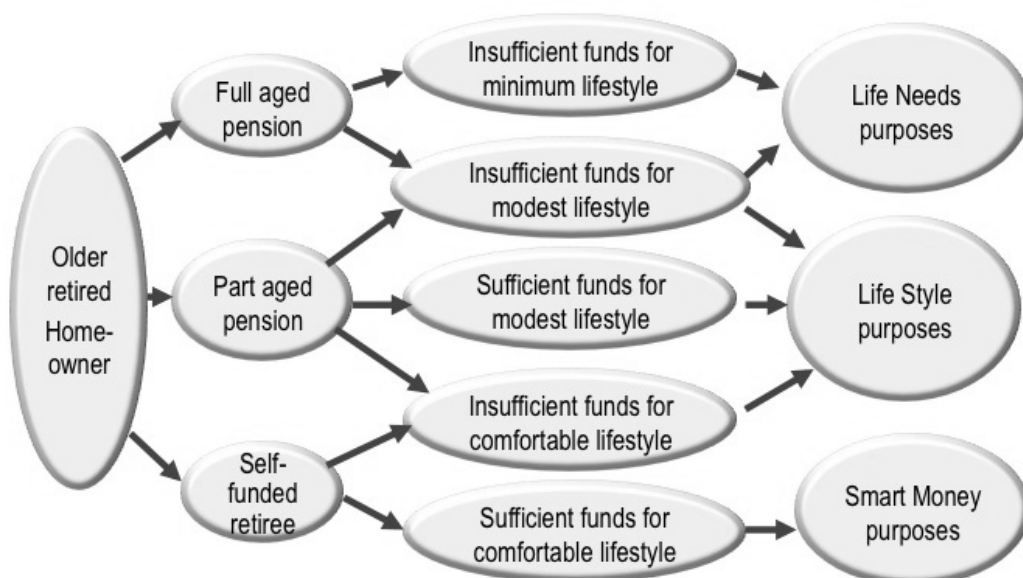
quoted the case of an applicant who, on the advice of their financial planner, withdrew their application for a modest reverse mortgage to undertake repairs to their house and top up the pension and, instead, borrowed a larger amount as a standard mortgage, invested the proceeds in an allocated pension and then saw the value of their house, of their allocated pension capital and of their income stream shrink as the GFC unfolded. This same recommendation was reported in one of the consumer focus groups, except that in that case, the advice was provided by a financial planner from a major mainstream bank that did not itself offer a reverse mortgage product, but did offer investment loans and investment products.

These are the same issues that have led to the Inquiry into Financial Products and Services in Australia and would indicate that this concern over potential conflicts of interest and the asymmetry of information and knowledge between consumers and lenders or brokers with respect to complex financial products, is not confined to reverse mortgages.

3.6 Clients' reasons for applying for a reverse mortgage loan.

Lenders were asked to identify and comment on the purposes for which consumers requested reverse mortgage loans. There was a great degree of concordance among lenders as to what the purposes of reverse mortgage loans were in the applications they received. Figure 4 illustrates the relationships between retirement income and reverse mortgage product choices. One lender described the categories as: *life needs*, *lifestyle* and *smart money*, and it has been decided to use those categories as they neatly describe the clients' perspectives on why they applied for a reverse mortgage loan. The proportion of reverse mortgage loans written against the items within these three categories varied from lender to lender, but the proportion of loans in all cases was weighted to the *life needs* category.

Figure 4: Life choices faced by older homeowners in regard to reverse mortgage products



3.6.1 Life needs

'Life needs' refers to the use of loan funds to purchase what most people would consider everyday necessities – lodging, transport, food and ongoing health care, and

includes the infrastructure to support those needs, for example a refrigerator in which to store the food, a car in which to transport oneself and a house in which to live. This category aligns with the modest lifestyle described in the Westpac-ASFA Retirement Standard tables²³.

One of the most common reason for taking out a reverse mortgage, and one that crosses strongly into government ageing policy, is that of topping up the age pension. Recently, the age pension has been increased and there have also been some one-off bonuses. The single age pension has increased to a maximum rate of \$701.10 per fortnight and a significant component of the Pension Reforms is new indexation arrangements that better respond to cost of living increases faced by pensioners²⁴. This is important as the Westpac-ASFA Retirement Standard²⁵ notes that many items that are critical purchases for older people such as unsubsidised medications and transportation—that is the cost of petrol—have increased far more than inflation or CPI. However, it should be noted that the Westpac ASFA retirement income standard benchmarks are based on changes in household disposable income without taking into account the benefits some older Australians gain from a range of non-cash benefits available to age pensioners, concessions, supplementary payments and services.

Lenders anticipate increasing demand for reverse mortgage loans to top up not only the age pension but also retirees' incomes that have fallen due to the GFC. For example, some lenders reported that consumers whose incomes have been strongly affected by the GFC preferred to preserve the capital in their superannuation or allocated pensions and instead take out a reverse mortgage as an income stream to meet their needs.

Older people whose sole income is the age pension or an equivalent amount also have great difficulty replacing whitegoods or updating heating and cooling systems, and so the replacement of washing machines and the installation of more energy-efficient heating and cooling systems often form part of their reasons for applying for a reverse mortgage loan. Other purposes that cross into relevant areas of government policy are transport, particularly replacing cars, especially where there is no, or no accessible, public transport, and health care, for example purchasing timely elective surgery or post-operative or short-term care in the home.

The *life needs* areas of expenditure, as reported by lenders in the interviews, are shown in Table 9.

²³ <http://www.superannuation.asn.au/mr070829/default.aspx>

²⁴ The Federal Government's introduced Pension Reforms on 20 September 2009 and an indexation increase occurred in March 2010.

²⁵ <http://www.superannuation.asn.au/mr070829/default.aspx>

Table 9: Loans for life needs purposes as reported by lenders

<i>Category</i>	<i>Purpose</i>	<i>Comments</i>
Life needs	Top up pension or superannuation income	Income stream options are used for this and often combined with a lump sum for other, more immediate purposes.
	Replace car	Often the only means of transport available to a retired person
	Small capital items	Such as washing machine, refrigerator, air conditioner
	Large bills	Council rates, insurance, etc.
	Health care	Medications, health insurance, gap payments, timely elective surgery, etc.
	Home maintenance	Especially major maintenance, e.g. replacing guttering, re-wiring, painting
	Home renovations	Mostly bathrooms and kitchens with focus on maintaining the value of the house and making it safe and up to date.
	Home modifications	Rare – but sometimes combined with renovation or maintenance

Source: Authors

In view of current government policy regarding *ageing in place*, lenders were specifically asked about clients seeking reverse mortgages for home modifications to enable them to stay in their own homes. Home modifications are also one of the policy responses to ‘falls prevention’ in older people, as falls are a leading cause of hospital admission and residual disability in older people. Lenders advised that this information was rarely sought or provided in detail and that generally home renovation, home repairs and home modifications would all register as home improvements. Jones et al. (2008) found that home repair services were the third most frequent service provided by home maintenance/modification providers and that these repairs often have a safety and health purpose, especially for the occupational health and safety requirements of aged care staff. However, consumers do not always see this as a priority for the use of their reverse mortgage funds and Jones et al. (2008) quoted one home modification provider as saying: ‘I’m thinking there they are cashing in the equity on their house on beautifying the bathroom and the kitchen and not looking at it from the accessible or able to be modified point of view’ p. 75.

3.6.2 Lifestyle

The *lifestyle* areas of expenditure are shown in Table 10 and refer to the next level of expenditure, which is more optional and tends to be one-off in nature. The lifestyle category includes holidays, debt consolidation and additional health or aged care expenditure, such as in-home care following discharge from hospital or respite care. This category of expenditure supports what the Westpac-ASFA Retirement Standard tables²⁶ would define as a *comfortable* lifestyle.

Although holidays featured as a common reason for older people taking out a reverse mortgage loan, lenders noted that many of these holidays were about preserving links with family, either interstate or overseas, and in some cases, were ‘one last trip’ for people with a terminal illness.

Lenders also noted that debt consolidation, while important, was rarely the only reason for people seeking a reverse mortgage loan. Debt consolidation was usually

²⁶ <http://www.superannuation.asn.au/mr070829/default.aspx>

required where the older person had accumulated a large credit card or personal debt from using their credit card to top up the age pension, for example replacing whitegoods or paying major bills. In some cases, older people had retired or were retrenched from the workforce prior to their standard home loan mortgage being paid off. In those cases, there was no way they could stay in their current home unless they found a way to re-finance their standard mortgage, and with no income other than the age pension or equivalent, the only option was a reverse mortgage or home reversion. In the consumer focus groups, a third way of acquiring debt in later life was identified, late-life divorce. This is discussed further in Chapter 4.

The use of reverse mortgage funds to purchase private care or top-up care to funded services was not expected. However, it seems that this is a situation that may occur more than is recognised. Perhaps the most famous example of this is Hazel Hawke, whose family used a reverse mortgage to purchase the top-up care necessary to keep her at home as long as possible (Pieters-Hawke 2009). The current data collections by lenders and brokers do not identify this purpose clearly as it may be considered a health expense or living expense by some lenders. There would be value in lenders using consistent definitions in this area.

Table 10: Loans for lifestyle purposes as reported by lenders

<i>Category</i>	<i>Purpose</i>	<i>Comments</i>
Lifestyle	Holidays	Often used for visiting family who live overseas or interstate, also <i>one last trip</i> for people with terminal illnesses
	Debt consolidation	Includes large credit card debts and residual mortgages for people retiring from paid employment.
	Short-term care (respite or illness)	For either private care or top-ups to funded care.

Source: Authors

3.6.3 *Smart money*

The *smart money* areas of expenditure are shown in Table 11 and refer to a category of expenditure which is more strategic in its purpose. These consumers use their reverse mortgage loan funds for strategic purposes, which have a future benefit, such as investments, advance transmission of inheritance and assisting their children. The reason that assisting children is included here is that the decision of an older person to assist their children financially has a clear strategic purpose and would be viewed as having a future reciprocal benefit when the children care for the older person as they become frail, as well as any immediate altruistic effect. Lenders noted that very few consumers nominated these areas as the purpose of their reverse mortgage loan funds and that those who intended using it for investment or advance transmission of inheritance in particular, were among the wealthier and more financially astute consumers. Some lenders had exclusion clauses which precluded reverse mortgage loan proceeds being used for investment purposes or being gifted to others. It is not clear to what extent these exclusions are checked after the loan proceeds are paid out. Consumers who took out reverse mortgage loans for gifting purposes would also need to take into account the Centrelink rules around gifting or disposing of assets if they were in receipt of the age pension.

Table 11: Loans for smart money purposes as reported by lenders

<i>Category</i>	<i>Purpose</i>	<i>Comments</i>
Smart money	Investment	Very rare. Some lenders exclude investment purposes but not clear that it is checked after the loan is issued
	Advance distribution of estate	Very rare. Some lenders exclude the <i>gifting</i> of the reverse mortgage loan proceeds, but not clear that it is checked.
	Assisting children financially	Some lenders exclude the <i>gifting</i> of the reverse mortgage loan proceeds, but not clear that it is checked.

Source: Authors

Although there is a stereotype in popular media that older people are taking out reverse mortgage loans to 'join the SKI club' (SKI = spending the kids' inheritance), the information provided by lenders does not support this as lenders emphasised that consumers overwhelmingly took out reverse mortgage loans to purchase the basic necessities of life and maintain a modest lifestyle, to purchase the health/care services they needed and to visit their families and maintain their relationships with their families. This theme will be further developed in Chapter 4.

3.7 Brokers

An on-line survey was developed for brokers based on the findings from the interviews with the reverse mortgage lenders (See Appendix 2 for a copy of the survey questions). The survey comprised a mix of demographic questions relating to brokers and their customers, questions regarding their experience of writing reverse mortgage loans and their views on the current products and product improvements to make reverse mortgage loans more attractive to consumers, as well as their views on the current and future market and the regulatory environment.

SEQUAL, in their role as a partner in the research, reviewed and piloted the survey with their lender members. The survey was then refined and distributed by SEQUAL to its 1400 accredited brokers. A total of 237 brokers participated in the survey and 192 completed all questions in the survey.

3.7.1 Survey results

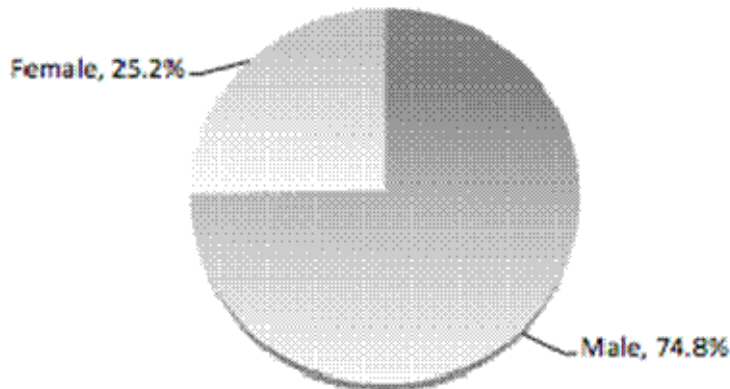
The survey questions and their responses were grouped into six categories: broker characteristics, client characteristics, product characteristics, current market, future market and the regulatory environment and its impact on the market. The survey questions relating to better understanding broker characteristics were as follows:

- Please select your gender.
- Please select your age band.
- Select from the list below the title that best describes your professional specialisation/qualification.
- In which Australian states/territories do you currently sell reverse mortgage products? (Please check all that apply)
- How many reverse mortgages have you written as part of your business? (If none, why not?)

There were 192 brokers who responded to each of these questions. The majority (75%) were male and 70.8 per cent were over the age of 45 (see Figure 5). This is as expected with the majority of brokers being male; however, the fact that a quarter of the brokers were female was considerably larger than expected, but may relate to the

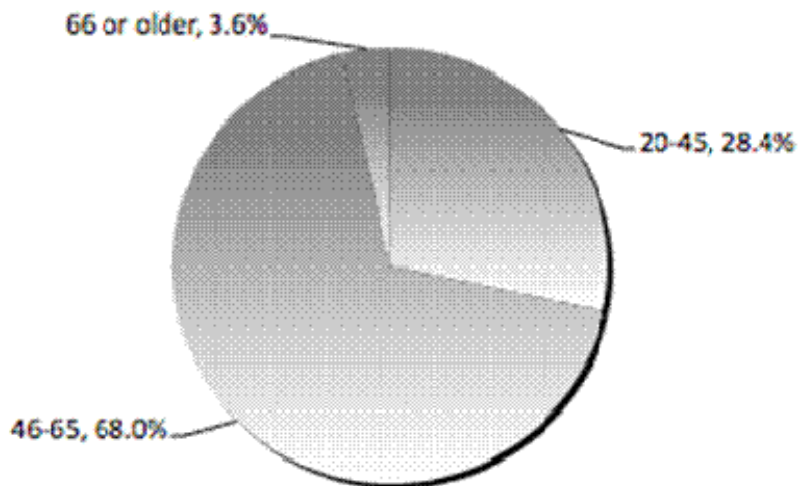
changing gender balances within the profession or a greater concern and affinity with older people, so a natural attraction to working in this area.

Figure 5: Gender distribution of reverse mortgage brokers



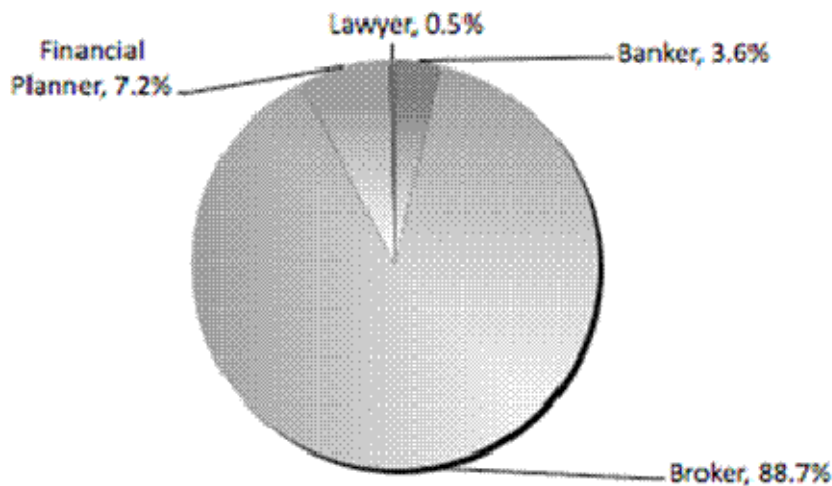
The majority (68%) identified their age as being between 45 and 65 years, with some brokers being older and about one fifth younger. In other words, the majority of reverse mortgage practitioners appear to be those with greater experiences towards the end of their careers. It is unclear why this is so, but it may be that consumers find older brokers easier to trust or perhaps because brokers closer in age to their clients are better able to establish rapport. Another explanation might be that older brokers have more interest in and passion for this loan product.

Figure 6: Age band of reverse mortgage brokers



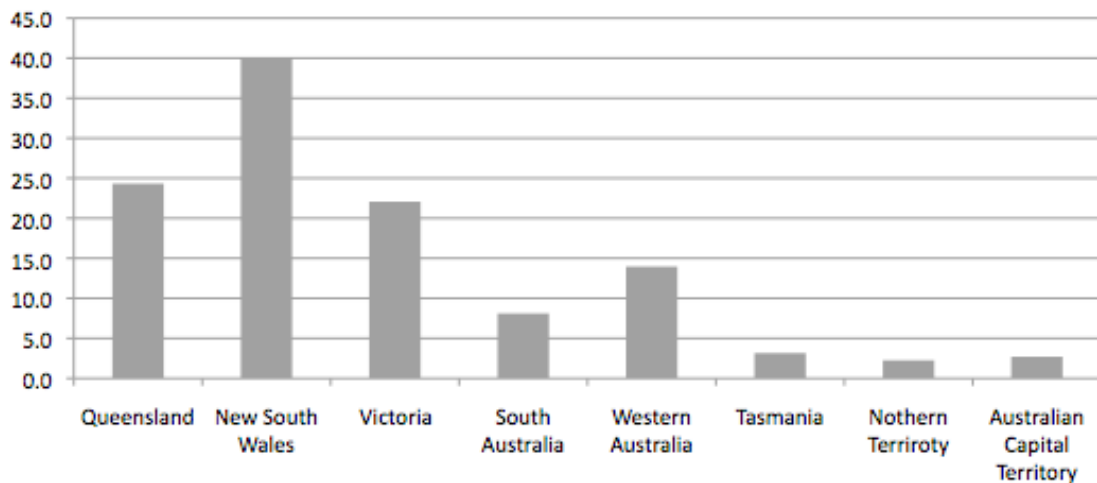
In terms of occupational titles, the majority (88%) identified their occupation as *broker* with bankers, financial planners and lawyers making up the balance (see Figure 7).

Figure 7: Occupational titles of reverse mortgage brokers



All states were represented in the brokers who responded to the survey. Almost all brokers operated only in one state; however, nine brokers reported operating in two or three states. The single largest group (42.7%) of responding brokers operated in NSW and the next largest groups in QLD (25%) and VIC (20.3%). The smallest group (1.6%) operated in the NT. This aligns with reports from the lenders that more reverse mortgage loans were written in retirement areas, as well as with the distribution of homeowners aged 60-years and over (See Figure 8). It is probable that those brokers who operated in multiple states were most likely to be situated near the borders of those states.

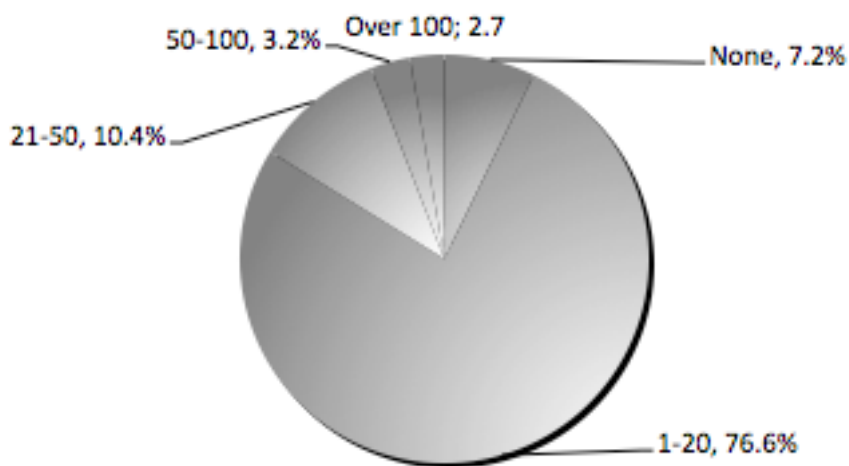
Figure 8: Reverse mortgage brokers and their operational areas



With respect to their experience of writing reverse mortgage loans, most brokers had limited experience. For example, 75.5 per cent of brokers had only written between one and twenty reverse mortgage loans and only 3.1 per cent had written more than 100. This would argue that this is still a new and developing area of business for brokers as well as for lenders. At least 12 brokers who responded had not yet written their first reverse mortgage loan. The reasons for this included: 'to date the family have elected to use other means of financing home maintenance' and 'the ones I submitted have been too large for the Financiers [sic] to handle and the others have not been within [their] postcodes'. Several brokers who had not yet written a reverse mortgage loan mentioned the need to explore all options prior to reaching a decision –

the implication of this being that the broker/client saw a reverse mortgage loan primarily as a default option. There was also one broker who reported writing reverse mortgage loans only for the purposes of Aged Care Accommodation Bonds. The relatively small experience of most brokers in writing reverse mortgage loans emphasises the need for ongoing education and professional support to build and maintain their skills in a low volume area of their business. Brokers' experience of writing reverse mortgage loans is illustrated in Figure 9.

Figure 9: Number of loans written by reverse mortgage brokers



3.7.2 Client characteristics

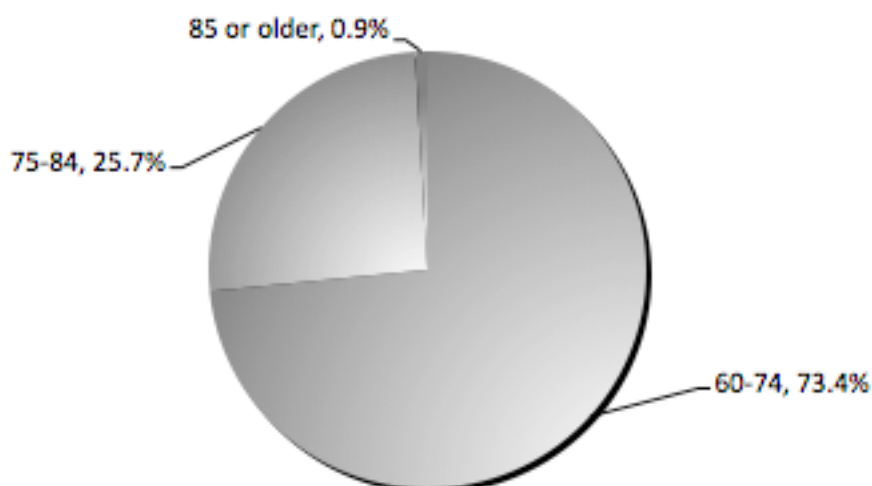
Brokers were asked two questions relating to their clients:

- What is the age range of your average reverse mortgage client (select best fit)?
- Based on your experience, please indicate on the scale below the reason(s) most often cited by older people for seeking a reverse mortgage.

The first question used age bands that align with the demographic data collected by the Australian Bureau of Statistics in the Census and in their Survey on Ageing, Disability and Carers: 60–74-years, 75–84-years and 85-years or older. This was to facilitate comparisons with data drawn from those sources. The second question was to elicit information on the purposes that clients cited in their application for a reverse mortgage loan. This data would then be compared to similar information received from lenders and from consumers.

The 192 brokers who reported on the age bands of their clients noted that 72.4 per cent of their clients were aged 60–74-years, 26.6 per cent were aged 75–84, and only 1 per cent were aged 85-years or older. This situation has strong implications for the younger clients (60–74-years) as they could expect to live another 7–15-years and risk having their housing and care choices constrained if the value of their property does not rise enough to prevent a negative equity situation occurring. With respect to clients who take out fixed rate mortgages, the implications of this young cohort being the primary users of reverse mortgage loans are further explored in Chapter 4. The age band distribution is illustrated in Figure 10.

Figure 10: Age bands of reverse mortgage clients as reported by brokers



With respect to the purposes of the reverse mortgage loans, brokers were asked to identify the extent to which they agreed that each of the listed purposes were reasons for a borrower taking out a reverse mortgage loan in their experience. The range of purposes was developed from the interviews with lenders and brokers and these are grouped into the same categories as for the lenders. These are set out in Table 12.

Table 12: Categories and purposes for reverse mortgage loans as reported by brokers

<i>Category</i>	<i>Purpose</i>
Life needs	Living expenses
	Replace car
	Health care
	Home maintenance or renovations
	Home modifications
Lifestyle	Holidays
Smart money	Investment
	Assisting children financially
	Aged care, including Accommodation Bonds

Source: Authors from on-line survey

There is strong agreement among brokers that life needs are the major reason for people to take out a reverse mortgage loan and the three purposes that are the strongest are *living expenses*, *replacing the car* and *home maintenance or renovation*. Some brokers also commented on the need for clients to access funds for health care as one purpose that they expected to increase in the future. This is consistent with the information from lenders, and also from consumers as will be discussed in Chapter 4. The emphases on the various purposes within the *life needs* category are illustrated in Table 13.

Table 13: Loans for life needs purposes as reported by brokers

<i>Life needs purpose</i>	<i>Strongly agree</i>	<i>Agree</i>	<i>Don't know</i>	<i>Disagree</i>	<i>Strongly disagree</i>	<i>Missing</i>	<i>Total</i>
Living expenses	24.8%	40.5%	7.7%	16.7%	4.1%	6.3%	100.0%
Home maintenance	26.6%	57.7%	7.2%	5.0%	0.5%	3.2%	100.0%
Home modifications to manage a disabling condition	7.7%	28.8%	29.7%	19.8%	2.3%	11.7%	100.0%
Health care	8.1%	32.9%	24.3%	20.7%	1.4%	12.6%	100.0%
Replacement of car	18.0%	53.2%	10.8%	10.4%	0.0%	7.7%	100.0%

Source: Authors from on-line survey

In the lifestyle category, 'holidays' was the only purpose that was included in the broker survey questions. This is because the interviews with lenders indicated that the other lifestyle purposes of debt consolidation (as a sole purpose and not part of living expenses) and care services were rare. Brokers also noted that holidays were not necessarily a frivolous expenditure but often purposeful. For example, one broker reported that he 'had two loans approved for couples where one partner was terminally ill [and] after their holidays and their partners had died [they] downsized to units in the same area'. Table 14 sets out brokers' responses to this category.

Table 14: Loans for lifestyle purposes as reported by brokers

<i>Lifestyle Purpose</i>	<i>Strongly agree</i>	<i>Agree</i>	<i>Don't know</i>	<i>Disagree</i>	<i>Strongly disagree</i>	<i>Missing</i>	<i>Total</i>
Holiday	6.3%	50.5%	13.1%	16.7%	3.6%	9.9%	100.0%

Source: Authors from on-line survey

With respect to the *smart money* category, brokers indicated that *assisting children financially* was the most common purpose. However, the purpose of *Aged Care Accommodation Bonds* was the next strongest. This is supported by the comments from one broker that these were the only reverse mortgage loans that she/he writes. However, one would expect that reverse mortgage loans for this purpose would be mainly for consumers who are aged 75-years or older as that is the age cohort (87%) (Australian Institute of Health and Welfare 2009) are the most likely to be entering residential aged care and therefore to need an Accommodation Bond. In fact, less than 30 per cent of reverse mortgage clients of the responding brokers were aged 75-years or older. This would indicate that consumers do not yet have a strong awareness of reverse mortgage loans, as being one way to finance Aged Care Accommodation Bonds or that there are alternate ways to finance these bonds that are more attractive to consumers. The specific responses of brokers are set out in Table 15.

Table 15: Loans for smart money purposes as reported by brokers

<i>Smart money purpose</i>	<i>Strongly agree</i>	<i>Agree</i>	<i>Don't know</i>	<i>Disagree</i>	<i>Strongly disagree</i>	<i>Missing</i>	<i>Total</i>
Aged care, including Accommodation Bonds	11.7%	25.7%	23.4%	24.8%	4.1%	10.4%	100.0%
Helping children or other family members	13.1%	40.5%	13.5%	18.9%	1.4%	12.6%	100.0%
Investment	2.3%	9.5%	19.8%	35.1%	19.8%	13.5%	100.0%

Source: Authors from on-line survey

Overall, brokers confirmed that, based on their experience, the reasons most likely to lead to a consumer taking out a reverse mortgage loan were the same as those identified by lenders: living expenses, replacing the car, home repairs and renovations, holidays and assisting children financially.

3.7.3 Current issues with existing reverse mortgage loan products and the current market

The brokers were specifically asked where their referrals for reverse mortgages came from and their views of what influenced demand for reverse mortgages. The relevant questions were:

- What are your primary referral sources for the reverse mortgage enquiries you handle?
- What factor(s) [of those listed] do you think most influence the numbers of older persons interested in a reverse mortgage?
- Are there any other significant factor(s) not listed in the previous question that are likely to influence the demand from older persons for reverse mortgage products?

The 192 responding brokers identified that their most common sources of referral were *self* (62.3%) and *direct advertising* (39%). *Other* (34.1%) and *financial planners* (29.2%) were the next largest groups with the smallest proportion being from the SEQUAL website (10.1%) (see Figure 11 for a summary of these).

Figure 11: Primary referral sources to reverse mortgage brokers



Brokers were asked to indicate all the factors that they thought would influence older people interested in a reverse mortgage from a list of choices. The allocation of each factor to each category is shown in Table 16. These have been grouped into three categories: Demographic changes, Rising costs and Access to information.

Table 16: Categories and factors that influence older people seeking reverse mortgage loans

<i>Category</i>	<i>Factor</i>
Demographic changes	Increase in the older population
	Decrease in the availability of family carers
	Availability of accredited lenders
Rising costs	Rising living costs
	Rising aged care costs
Access to information	Increased publicity and education about reverse mortgages
	Recommendation by mortgage broker
	Recommendation by friend or acquaintance
	Recommendation by financial planner

Source: Authors from on-line survey

The factors that brokers considered relevant in driving demand for reverse mortgage loans, in descending order of significance, were:

- rising living costs
- increase in the older population
- increased publicity and education about reverse mortgages
- recommendation by friend or acquaintance
- rising aged care costs
- recommendation by mortgage broker
- recommendation by financial planner
- availability of accredited lenders.

Brokers did not see a decrease in the availability of family carers as significant in increasing demand for reverse mortgages. This may be because they would not see it as part of their role to inquire into a borrower's personal circumstances.

However, analysis of brokers' comments on any additional factors which could influence demand for reverse mortgages reinforced some of the above factors and identified some additional ones such as:

- The impact of movements in interest rates and housing valuations.
- An anticipated increase in people reaching retirement and still having a standard mortgage or other debt that could not be serviced on their retirement income.
- The GFC and its impact on housing valuations, superannuation incomes and older people's attitudes to debt in this environment.
- The reduction of choice in the market due to the withdrawal of some lenders and some products from the market.

Brokers' opinions as to the strength of each of these factors in driving demand for reverse mortgages are shown in Tables 17, 18 and 19.

Table 17: Demographic changes and factors which influence demand for reverse mortgages

<i>Demographic factor</i>	<i>Strongly agree</i>	<i>Agree</i>	<i>Don't know</i>	<i>Disagree</i>	<i>Strongly disagree</i>	<i>Missing</i>	<i>Total</i>
Increase in the older population	21.2%	45.9%	12.2%	10.4%	1.4%	9.0%	100.0%
Decrease in the availability of family carers	18.5%	59.9%	9.9%	5.9%	0.5%	5.4%	100.0%
Availability of accredited lenders	9.5%	32.9%	26.1%	19.8%	1.8%	9.9%	100.0%

Source: Authors from on-line survey

Table 18: Rising costs and factors which influence demand for reverse mortgages

<i>Cost factor</i>	<i>Strongly agree</i>	<i>Agree</i>	<i>Don't know</i>	<i>Disagree</i>	<i>Strongly disagree</i>	<i>Missing</i>	<i>Total</i>
Rising living costs	25.7%	57.7%	9.9%	3.6%	0.0%	3.2%	100.0%
Rising aged care costs	20.7%	37.4%	22.5%	10.8%	0.9%	7.7%	100.0%

Source: Authors from on-line survey

Table 19: Access to information and factors which influence demand for reverse mortgages

<i>Information factor</i>	<i>Strongly agree</i>	<i>Agree</i>	<i>Don't know</i>	<i>Disagree</i>	<i>Strongly disagree</i>	<i>Missing</i>	<i>Total</i>
Increased publicity and education about reverse mortgages	18.5%	59.9%	9.9%	5.9%	0.5%	5.4%	100.0%
Recommendation by mortgage broker	6.8%	41.4%	18.9%	18.9%	2.7%	11.3%	100.0%
Recommendation by friend or acquaintance	15.8%	56.8%	14.4%	4.5%	0.0%	8.6%	100.0%
Recommendation by financial planner	5.9%	41.9%	25.7%	13.1%	1.4%	12.2%	100.0%

Source: Authors from on-line survey

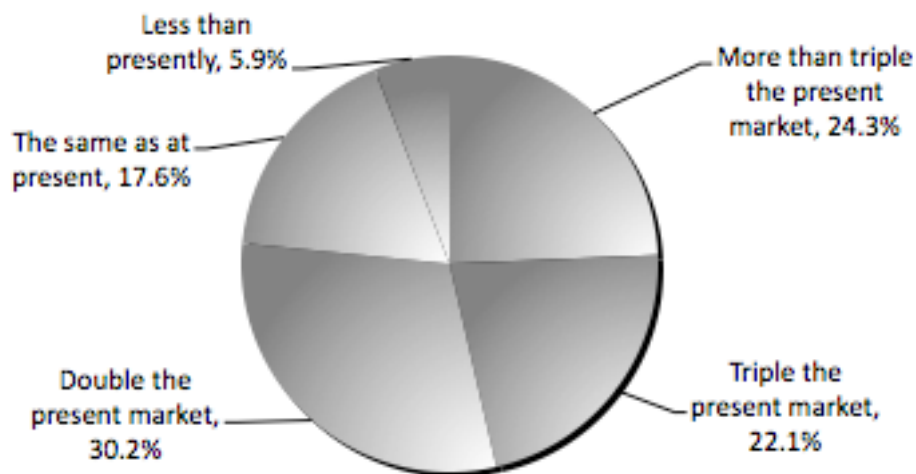
3.7.4 Future market for the reverse mortgage market

Brokers' views of the potential growth in the reverse mortgage market and the reasons for it were sought using the following questions:

- What do you think is the potential size of the reverse mortgage market?
- What improvements would make reverse mortgage products more attractive to brokers?
- What process, product, policy or marketing changes would make reverse mortgage products more attractive to older people?

Figure 12 illustrates the brokers' views on these questions. These views were fairly consistent with those of the lenders. Over 29 per cent of brokers expected the market to double in size, while 25 per cent thought that it would more than triple. Only 17.7 per cent thought it would stay the same as at present, and a miniscule 5.2 per cent thought it would drop. In summary, three-quarters of the responding brokers expected the market to double or more in the coming years.

Figure 12: Growth potential of the reverse mortgage market



Broker's comments on the factors which could inhibit growth in this market included the impact of the GFC on housing valuations and retirees' incomes, the *fear factor* and clients accessing accurate information about the products, the difficulty of making

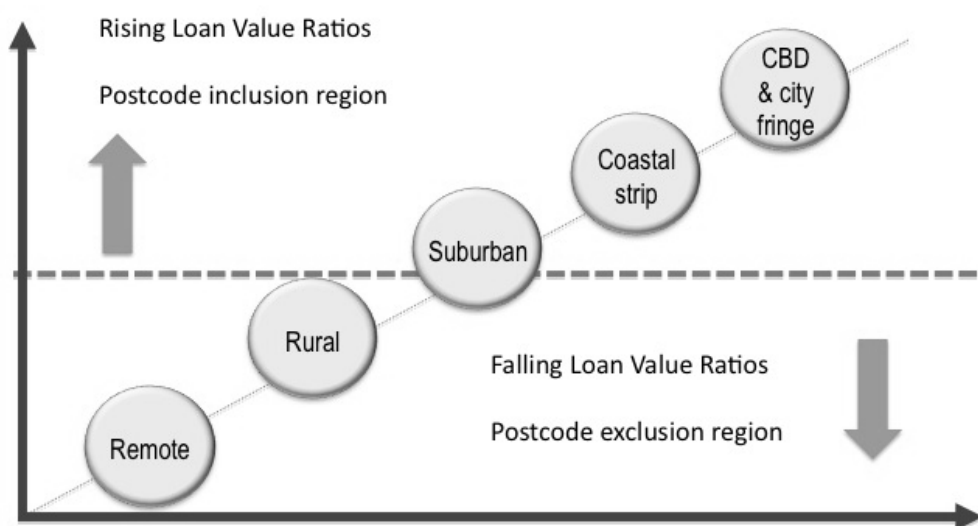
ends meet, especially for single age pensioners and the reduction in lenders, brokers and product choice. On the other hand, brokers identified the ageing population and the increasing access to information about reverse mortgages as factors that would drive increased demand for the products. However, the market will not grow if more brokers are not able or willing to sell the product. Therefore, brokers were asked for their views on what could make reverse mortgage products more attractive to brokers. The ninety-nine brokers who responded to this question made suggestions for increasing brokers' willingness to sell reverse mortgage products that fell into four areas:

- Better commissions/fees.
- Making the seeking of independent legal/financial advice a simpler process.
- Improved marketing including simple, easy to read information and documents.
- Product improvements such as higher LVRs, increased postcode flexibility and lending against retirement village units, less differential between standard home loan interest rates and reverse mortgage rates and reduced up-front and no ongoing fees.

Steps are underway to improve the marketing through the efforts of SEQUAL and the commission/fee question is certain to be covered under the outcomes of the Uniform Consumer Credit Code (UCCC) changes. Some lenders also indicated that they were looking for ways to enhance and improve their reverse mortgage products.

A significant issue in understanding who can access and thus benefit from reverse mortgages is the LVR drivers. There is a clear relationship between land values and where you live. As can be seen in the diagram below the postcode inclusion areas where reverse mortgages are viable are limited to those with rising LVRs, effectively excluding remote and rural Australians.

Figure 13: Relationship between location and eligibility for a reverse mortgage loan



This divergence between the interests of mortgage practitioners and those of government should be unsurprising as we reported in the positioning paper that an Australian survey (SEQUAL 2008a) found that middle and higher income bands are interested in reverse mortgages in order to maintain their current standard of living. This situation results from the fact that the actuarial reality of reverse mortgage loans is that there will be limits to LVRs and postcodes to prevent the premature triggering

of a negative equity situation. With respect to the difficulties and costs of clients seeking independent legal and financial advice, this is an area where changes could be made if desired.

Brokers were also asked about their views of changes that would make reverse mortgage products more attractive to older people. Brokers came up with many suggestions here, but they covered three themes, some of which overlapped with what they thought would make the products more attractive to brokers. The themes were:

1. Product improvements such as greater repayment flexibility, lower fees, options to apply only once and include increasing valuations and variable payment options all in the one loan, increased availability of equity protection, reduced interest rate, higher LVRs, greater postcode flexibility and lowering the lowest eligible age to 55-years.
2. Process improvements such as simpler paperwork and marketing materials, standard contract for reverse mortgages so that it is easier for consumers, simplifying the process for getting independent advice from solicitors/financial planners.
3. Better information for consumers, their families and professionals including the promotion of SEQUAL-accredited brokers.

While the last point is being addressed and may be supported by the proposed changes to the UCCC, product and process improvements can only occur with the industry working together. The lowering of the minimum eligible age of the youngest borrower is a fraught area as it would be in direct conflict with current government policy regarding encouraging people to defer retirement until age 67 and, implicitly, defer drawing on their retirement incomes until then as well.

3.7.5 Government regulation of the reverse mortgage market

The Australian Government is currently reviewing and updating the UCCC (Parliament of Australia 2009). Since reverse mortgage loans are currently regulated as a credit product, the proposed changes will cover reverse mortgage lenders and loans (see Chapter 5 for details of these changes).

In this environment, it would have been assumed that all brokers would be aware of the imminent proposed changes, which would affect their daily business. This was not the case. Some brokers' responses revealed a lack of knowledge of the relevant legislation and regulations: 'there really is not current legislation that has an impact' and 'not sure of all legislation relevant to this market'. A few brokers expressed concern that the proposed changes to regulation (the UCCC) would make business more difficult and may impose extra costs on brokers and consumers. However, most comments supported regulation as necessary to protect clients and the industry: 'need strong regulations to protect clients' and 'the more regulations we have the better for the industry'.

With respect to current or future regulation of the reverse mortgage practitioners and the market, brokers were asked: 'To what extent does the current legislative and regulatory framework impact the reverse mortgage market?'

Brokers had differing views in this area and were more likely than lenders to comment on too much regulation. Over 60 per cent of responding brokers considered the current regulatory environment to be neutral in its effects on the reverse mortgage market and 33.3 per cent considered it to be positive. Only 6.2 per cent saw the current regulatory environment as negative in its effects on the reverse mortgage market. However, from brokers' comments on this item, it would seem that many of

them did not distinguish between government regulation and SEQUAL accreditation or lender requirements. Brokers who recommended additional regulation/accreditation identified areas such as:

- Updating the current legislation to make it more relevant in the current environment.
- Mandating the requirement for independent legal and financial advice as it gives clients confidence in the product and helps prevent financial exploitation of older people by their families.
- Mandating SEQUAL accreditation for lenders and brokers of reverse mortgage loans (including compliance with the Code of Conduct and the NNEG).
- Reducing the number of regulators covering this area to increase focus.

In comparing the brokers' comments with those of the lenders, there is a clear difference in their understanding of the regulatory environment. However, there is one area where their proposed changes overlap and that is a common view that SEQUAL accreditation should be mandatory for brokers and lenders.

3.8 Summary and implications

All lenders and brokers emphasised the need for continuing education for consumers, mortgage practitioners and professionals who give advice in this area, especially solicitors and financial planners. There was also strong support for mandatory accreditation of all mortgage practitioners of reverse mortgages. More detailed findings from the lender interviews and the mortgage broker surveys can be summarised under the research question headings as follows:

3.8.1 What is the nature of the reverse mortgage industry in Australia at present?

The reverse mortgage industry in Australia is as yet not fully developed. The GFC has led to a contraction in the number of lenders and the withdrawal of some products from the market and this has the potential to impact on the growth of the market. However, the GFC will likely be outweighed by other factors driving growth in the market as the population ages.

All lenders and brokers considered that the current range of reverse mortgage products was limited and limiting. They were able to identify improvements that could be made to reverse mortgage products that would increase their flexibility and expand the number of older people who would be able to use them if needed. These are set out in Chapter 2

Lenders and brokers agreed that the reverse mortgage market was likely to increase substantially in coming years—some 25 per cent of brokers estimating that it would more than triple in size over the next decade. They expected this increase to be driven by demand arising from the ageing population and the rising cost of living, acknowledging the insufficiency of retirement incomes for many Australians and the inadequacy of the age pension as a sole income source. This expansion would be underpinned by the provision of better information and education about reverse mortgages and their appropriate use.

At this stage older people who have reverse mortgages seem to be clustered in the *young aged* group of 60–74-years. This has implications for government aged care policy around *ageing in place* and the role of informal (family) carers, as it would be hard to implement those policies if older people sold their homes, where their family carers/support network are, in order to move to a cheaper location with no support

network or easy access to their current or potential family carers. In addition, if housing valuations do not rise as anticipated, then these ‘young aged’ may find their housing and care choices constrained when they become *old old* (over 85-years), as they would risk having reached a negative equity situation and potentially have no equity left to enable them to pay an Accommodation Bond in the aged care facility of their choice. There appeared to be no discernible difference in the demographic characteristics of reverse mortgage borrowers across lenders or brokers other than their postcode.

3.8.2 What factors have influenced growth in the use of reverse mortgages by older persons?

Lenders and brokers were consistent in nominating the factors that made reverse mortgage products attractive to consumers and this is set out in Chapter 2. They also nominated the features that made the product attractive to the financial services sector. With respect to the legislative and policy frameworks that impact on reverse mortgages, there was a real difference in understanding between the lenders and the brokers. Lenders revealed a more sophisticated knowledge of the current legislative and policy frameworks, including the mooted changes to the UCCC and the potential for that to impact on the industry—positively or negatively. On the whole though, both lenders and brokers supported regulation in this area to protect clients and to protect the industry itself. The specific areas which they identified as facilitating improvement, were:

- Educating consumers, especially by continuing to support the reverse mortgage Helpline currently provided by the NICRI.
- Requiring solicitors and other professionals who give advice on reverse mortgage products to undertake specific training in that area and charge a standard fee for providing this advice.
- Making compliance with the SEQUAL Code of Conduct mandatory for all lenders and brokers of reverse mortgage products.
- Acknowledging that reverse mortgages are closer to being a financial product than a credit product and regulating them accordingly.
- Making financial advice mandatory for larger loans, say those over \$50 000.
- Developing a standard reverse mortgage contract which all accredited lenders would use.
- Requiring all lenders to provide an on-line calculator that gives true comparison rates for consumers.
- Updating Centrelink policy to be more flexible when the proceeds of a reverse mortgage lump sum are temporarily placed in investment or savings accounts.

3.8.3 How does the use of reverse mortgages influence retirement decisions and planning?

Overall, it appears that reverse mortgages don’t seem to affect decisions to leave the workforce but do provide more financial options in retirement. Lenders and brokers reported that the ongoing provision of information and education of consumers and professionals was the key to assisting people to identify the product that was right for them. However, one area of concern is that a small number of brokers indicated in their survey responses that they only sold one product. This would have implications for choice for consumers, in addition to those arising from the contraction in the number of lenders and products as a result of the GFC. By way of contrast, a number

of brokers commented on the fact that they researched a number of products and recommended the one(s) that best met the client's needs.

The largest group of referrals to brokers are self-referrals. This would indicate that older people are finding out about reverse mortgage products from advertising, word of mouth and their own research efforts and this was supported by the data obtained from the consumers in the focus groups (see Chapter 4). A number of lenders and brokers noted changing attitudes in families and an increasing tendency for families to do the research for or with the older person.

Lenders and brokers reported their clients having very similar purposes for their reverse mortgage loan proceeds. The major category was 'life needs', which includes purposes such as: topping up age pension or superannuation income (including preservation of capital during the GFC), replacing car or small capital items, health care including elective surgery, and repairing/renovating the home to make it safer or more comfortable. Home modifications specifically were rarely mentioned as a major reason for seeking a reverse mortgage, and this was supported by the data obtained from the consumers in the focus groups (see Chapter 4).

The 'lifestyle' category included holidays; debt consolidation and purchasing respite or short-term care for illness. The debt consolidation category is one where both lenders and brokers anticipate increased demand due to more people arriving at retirement with outstanding standard mortgages or acquiring credit card debt, which cannot be serviced on their retirement income. In the media, older people taking out reverse mortgages to take holidays are portrayed as *spending the kids' inheritance*. However, both lenders and brokers noted that these holidays were often to visit their families interstate or overseas (thus maintaining family links) and in some cases were indeed the 'holiday of a lifetime' but taken because one partner had a terminal illness.

Both lenders and brokers anticipated that the ongoing provision of information and education would increase demand from older people for these products when they were required. However, at this stage there is no evidence that older people are planning their retirement around a reverse mortgage. This is supported by input from consumers on this issue (see Chapter 4).

Both lenders and brokers indicated that they did not have enough information to be able to distinguish between reverse mortgage loans for home maintenance, those for home renovations and those for home modifications. However, they did note that the loans, when used for those purpose (usually a mix of them), constituted improvements to the property and increased its value. This was particularly so for improvements to bathrooms and kitchens – which are the commonest renovations undertaken, and major home maintenance such as re-wiring and new gutters. Neither lenders nor brokers saw themselves as having a role in encouraging consumers to consider home modifications and the suitability of their current home with respect to *ageing in place*—even though that was a clear goal for many of the clients who wanted to 'stay in their own home'.

In summary, there is potential for substantial growth in the reverse mortgage market to meet demand from older people who reach retirement with insufficient private funds to top up the age pension and afford a modest lifestyle. This growth could be impacted by information and education, changes in interest rates and housing valuations, the availability of lenders and products, the flexibility of products to meet clients' needs and changes to the regulatory environment. At this stage, there appears to be no direct connection between the decisions that older people make regarding a reverse mortgage and government housing or aged care policies. This has

implications for older people's choices with respect to *ageing in place* as they move through the cycles of ageing from *young old* to *old old*.

4 CONSUMER VIEWS

4.1 Introduction

Following on from the interviews with lenders and the survey of mortgage brokers, focus groups were convened with current and prospective reverse mortgage holders. The focus groups recruited from a reverse annuity provider and state Councils on the Ageing, were designed to elicit information from consumers around five key questions drawn from the research questions:

- What made the product attractive to them (research question B1).
- How they identified suitable products and what characteristics encouraged or discouraged their uptake (research question C1).
- How they had, or planned to use the proceeds (research question C2).
- How the reverse mortgage influenced their retirement decisions and planning (research question C3).
- How they used their reverse mortgage to make their housing more suitable (research question C4).

Based on a survey of SEQUAL member organisations, there are currently over 37 500 reverse mortgages on issue in Australia with a total loan value of \$2 500 000 000 (Hickey et al. 2008). Of these, 35 per cent were in NSW, 19 per cent in QLD, 16 per cent in WA, 14 per cent in VIC, and 12 per cent in SA. The aim was to interview at least one group of eight to ten participants in each of the major markets; group size being based on the number generally considered the ideal for a focus group. This chapter provides a summary of information obtained from the consumer focus groups and interviews as it related to the research questions.

4.2 Background

Privacy considerations prevented the research team having access to the names or contact information of any consumers. Therefore, each of the seven SEQUAL-accredited lenders who agreed to participate in the research was asked at interview: 'Would you agree to forward to your clients an invitation to participate in focus groups regarding reverse mortgages?' These lenders were also provided with a sample of the letter that would be sent to the consumers inviting them to participate in a focus group. All participating lenders agreed to forward the letter to their clients; including the project information statement and client consent form. Two of the retail banks (Commonwealth Bank of Australia and St George Bank) noted that they would first need to seek authorisation within their hierarchy to send out the letters.

As a partner in the research, SEQUAL undertook, on behalf of the research group, to send the consumer invitations to the lenders for forwarding to their clients. At the time of the letters going out, SEQUAL's accredited members still included Bluestone Equity Release, Over Fifty Group Limited and VISION Equity Living, even though they had withdrawn their products from the market and were not writing any new loans. SEQUAL included these three former lenders in the mail-out, but none of them forwarded the letters to their clients.

However, in the final event, of the seven SEQUAL-accredited lenders who had agreed to forward the letters to their clients, only one appears to have done so. The Royal Bank of Scotland (RBS), which had just taken over ABN AMRO, did forward the letter to all of its clients and these consumers in combination with those recruited via other advertising did represent significant diversity in their experiences of using reverse

mortgage products. The other lenders who agreed to participate in the research, the Commonwealth Bank of Australia (CBA), St George Bank, BankWest, Australian Seniors Finance Pty Ltd, Newcastle Permanent Building Society and Suncorp Metway Bank, decided for various reasons not to forward the invitation to their clients. As noted in Chapter 3, the Police and Nurses Credit Society declined to participate in the research. Of those banks that decided not to forward the letter to their clients, their reasons varied. They included insufficient time to seek authorisation within the bank hierarchy, key staff being on leave, and a change of mind as to their participation in this aspect of the research.

See Appendices 3–8 for a copy of the letter to the lenders, the invitation letter to consumers and its attachments, the project information statement, the client consent form and a copy of the questions that formed the core of the focus groups and individual interviews.

Potential participants were invited to call a 1800 telephone number if they were willing to participate in a focus group or wished to know more about the research project. Original focus group planning aimed to recruit for focus groups in Sydney, Melbourne, Adelaide, Brisbane, Newcastle, Hervey Bay, Perth and Canberra. These areas were chosen as having a high concentration of people in the relevant age group 60–95-years. A minimum focus group size of six people was considered desirable in order to facilitate discussion and draw on a wider range of experiences.

The number of consumers who enrolled to participate in a focus group was much lower than expected. The reason for this became apparent when it was realised that *only* RBS had actually forward the invitation to their clients. Therefore, as a subsidiary measure, the Councils of the Ageing (COTA)²⁷ in each state were contacted and asked for their assistance in promoting the focus groups to their members. Despite the short timeframe, some additional consumers were enrolled for the focus groups, but insufficient still in some areas. Therefore, the planned focus groups in Sydney, Melbourne, Adelaide, Newcastle and Canberra were cancelled and any consumers who had expressed interest in those areas invited instead to participate in a telephone interview using questions identical to those used in the focus groups. This same approach was used for people who rang and expressed interest in, but could not attend, a focus group due to frailty or other reasons.

Focus groups were held at Hervey Bay, Brisbane and Perth. The Sydney focus group was initially postponed due to a low number of participants, and in the end was cancelled and the one attending participant interviewed instead. The Melbourne focus group was turned into interviews when only two people attended. All focus group participants received a \$20 gift voucher as a contribution to expenses.

The fact that RBS was the only lender who forwarded the invitation to their clients had strong implications for the outcomes of the focus groups in that there was a preponderance of participants who had taken out a reverse mortgage from RBS (formerly ABN AMRO).

4.3 Methodology

Following Bartlett et al. (2001), the issue of the sample size was considered by the project group; however, given that 'statistical representativeness is not a prime requirement when the objective is to understand social processes' (Nicholas et al. 1995) this was not considered to be an impediment to completing a successful analysis. What is considered to be more significant is a description of the assumptions

²⁷ The COTAs are state-based peak bodies representing the wide-ranging needs and interests of older people in their state.

and methods adopted, particularly with regard to data analysis. (Cohen & Crabtree 2008).

Primary considerations in qualitative research are the need to protect against researcher bias and to enhance the reliability of the findings (Cohen & Crabtree 2008; Nicholas et al. 1995). These considerations informed the study design, data collection and analysis choices. The focus group format was chosen, as it is a social event and generally one that participants enjoy. In this setting, it provides valuable information on how people talk about a topic and how they respond in a situation where they are exposed to the views and experiences of others (Catterall & Maclaran 2007).

This has implications for interpretation of the resulting data, in that the analysis needs to capture not just key themes but some sense of the quality of the group dynamics and needs to be representative of not only individual experiences but also of collective ones. To facilitate the later analysis of the data, a protocol was developed for arrangement of the focus groups, ensuring that each group was run consistently.

Thematic analysis was chosen as the research method as it 'captures important sections from the data relative to the research questions and aims, and represents levels of patterned response or meaning' within the data set (Braun & Clarke 2006). This method of analysis assisted in facilitating a deeper understanding of the issues and experiences of older people, the nature of the reverse mortgage market in Australia, and the views of financial intermediaries of reverse mortgage products.

The purpose of coding in thematic analysis is to aggregate the data under topics or themes so that each category can be studied individually (Tesch 1990). In order to ensure the re-test reliability of these analyses, a meticulous record of interviews and observations is required, along with detailed documentation on the process of analysis (Nicholas et al. 2000). For this study, focus groups and interviews were digitally recorded, and then coded thematically using a coding framework developed from the research aims.

4.4 Focus group and interview findings

A total of sixteen people participated in the focus groups and nine were interviewed individually. Although the consumer group was much smaller than anticipated, the stories they told were very similar from location to location. It is also interesting to note that the issues raised by consumers were similar to comments made to a national hotline funded by the Federal Government's Equity Release and Reverse Mortgage Information Service that receives about 150 calls per week.²⁸

4.4.1 Participant characteristics

Participants ranged in age from 61 to 93 years of age. The majority were female (62%) and about half held a reverse mortgage with RBS (originally ABN AMRO), 10 per cent had a Bluestone reverse mortgage, and 10 per cent had a reverse mortgage with Australian Seniors Finance. Somewhat surprisingly, one-third of the focus group participants were in attendance to learn more about the products that were available as prospective users.

As noted above, due to the fact that RBS were the only lender who sent the invitation to their clients, the sample was biased in favour of consumers who were clients of RBS. All of the RBS client participants had taken out their reverse mortgages with ABN AMRO prior to it being taken over by RBS. RBS clients did express some

²⁸ The comments of ERRMIS are contained in their submission to the Henry Tax review available from http://taxreview.treasury.gov.au/content/submissions/retirement/National_Information_Centre_on_Retirement_Investments_20090227.pdf

concern about the takeover, noting that they felt they should have been formally advised of RBS' takeover of ABN AMRO and any implications for them, rather than just seeing a change of entity on the letterhead of their quarterly statements.

Where participants had mortgages with other entities, they found out about the focus groups from the advertising via the state-based Council of the Ageing Agencies or from friends who were RBS clients and were attending themselves. This group, who came as a result of the COTA publicity, were more inclined to recount negative stories than the group of RBS clients. However, given the small numbers and the inherent bias of the sample this could not be analysed any further.

Consumers were not asked about their marital status, although several couples did attend together. However, in discussion it emerged that one of the factors that had led some people to a reverse mortgage was the effect of late-life divorce on their retirement plans and income. For example, some, like Ellen, found themselves with a house they could no longer afford to maintain, while others had to suddenly find somewhere to live: 'Late life divorce leaves lots of us desolate'.

The additional costs for an older person living on the single age pension, compared to a couple, have been well researched recently as part of the review of the age pension²⁹. However, the costs of maintaining a house on the single age pension are, and will continue to be, high as a proportion of that level of income. Consumers like Eric also found out how difficult it is to get finance to build or buy a home when you no longer are in paid employment.

Eric's story

Eric is divorced and lives alone. He retired in his middle fifties due to ill health. As a result of the unexpected early retirement and the late-life divorce, Eric's retirement income was not what he had expected.

Eric had sufficient funds to buy some land and build his house, but found that he had underestimated the cost of bringing the building up to Certification standard and of the internal fit-out.

Eric approached several banks, mortgage brokers and credit unions but found that, although the LVR was only a small proportion of the land value of the property, most were not prepared to lend on an unfinished house.

After some Internet research and checking the Choice website and reports, Eric approached a reverse mortgage company. They agreed to a reverse mortgage to provide Eric with the funds required to finish the house and set him up comfortably.

Eric took out a variable rate loan and is very happy with his decision as it means that he can stay in his house for as long as he wishes. Eric is also happy that now that the house is finished and has increased in value, he would be able to access additional funds for replacing his car or other emergencies when the time comes.

4.4.2 How consumers chose their reverse mortgage product

The majority of participants indicated that their first approach for information about a reverse mortgage was usually to their bank, credit union or building society. This was because they saw themselves as already having a relationship with that institution and assumed that it would be able to advise or assist them. A number of participants recounted how disappointed they were in the service their financial institution offered in these circumstances. Alternately, some participants approached a local broker who had advertised in the region or been recommended by friends or acquaintances who

²⁹ http://www.centrelink.gov.au/internet/internet.nsf/individuals/ssp_pension_increase.htm

had also looked into reverse mortgages. A few participants recounted long and intensive Internet searches with many clarifying phone calls to identify the best product for them.

There was great variance in terms of the research that participants, and often their families, undertook to identify a reverse mortgage product suitable for their needs. Some participants approached only the broker who had advertised in their local press and relied on that broker for all their information; others undertook an extensive research process including accessing relevant internet sites and talking to financial advisors and other professionals. One participant noted that their 'research process took well over 6 months'. Participants indicated that the search was not always easy: 'everyone is trying to sell a product', 'difficult to find information for some if not savvy and able to use the internet' and 'government info lines no help – not hugely interested'. The recent funding by government of a reverse mortgage helpline with the NICRI³⁰ could be expected to improve the last scenario in future.

However, even the more financially literate and astute participants noted that there was potential to improve the quality, simplicity and relevance of the material provided. For example, two areas of frustration for some participants were the variations in valuations between lenders, which impacted on the amount they could borrow, and postcode exclusions of some locations. In many cases, this information was not available from the lender's website and needed to be separately sourced each time for each lender.

Opinions were mixed about the information search and application process. Several participants commented on how helpful and informative the SEQUAL and Choice websites were for gaining an understanding of the available products and their features. The more astute participants had also used the Fido calculator on the ASIC website to run scenarios for themselves. None of the participants knew about or mentioned the Centrelink Pension Loans Scheme reverse mortgage. This is not surprising, as the limited scope of that product would not have met their needs as described in that for which they had used or would use the proceeds of a reverse mortgage loan.

Most participants had approached the Centrelink Financial Information Services (FIS) officers for advice on their individual situation and the potential impact on their age pension eligibility or income under different scenarios. In a few cases, they were given conflicting advice, and in others they felt that the FIS officer did not really understand the parameters of reverse mortgage loans in terms of advising them. However, many participants had found it helpful.

Participants were generally happy with the application process and commented on how their broker came to their home and made the process very simple. However, a few mentioned the inordinate amount of time it took to process the loan – particularly when borrowing from large banks. This is consistent with statements from brokers about the time that some lenders take to process loans.

Other participants, particularly those with fixed rate reverse mortgages, believed their lender and/or their broker had been deceptive about the implications of break fees associated with fixed interest loans. Some participants also noted that they had found the *fine print* of the legal documents confusing, had experienced difficulty finding a lender willing to service their region and in one case expressed concerns about being directed to a solicitor whom they believed did not act in their best interest.

³⁰ <http://reversemortgage.nicri.org.au/go/reverse-mortgages/nicri/reverse-mortgages/reverse-mortgages>

Almost all participants in the focus groups were scathing in their comments on the availability of informed and independent advice about reverse mortgage products from solicitors or financial planners. They noted that, although they accepted the importance of getting independent legal advice, they resented paying for advice when they knew more than the solicitor or when the solicitor was relying on the broker for his information about how reverse mortgages worked. Consumers were of the view that solicitors needed to be better trained in this area. No participants mentioned having received advice from a financial planner prior to looking at a reverse mortgage. However, a few participants expressed reluctance to approach financial planners regarding reverse mortgages, as they viewed the financial planner as having a potential conflict of interest that could lead to them recommending other investment products for which the financial planner received (better) commission.

Some participants also reported that banks had turned them away, because their house was not in the right postcode but were subsequently able to get a loan through another lender. Another area of refusal or misinformation for participants was where the bank's own staff did not know that their institution offered a reverse equity product. For example, one consumer had been advised by their bank that rather than take out a reverse mortgage, they should take out a standard mortgage, invest the proceeds in an allocated pension or other investments and use the income to service the standard mortgage as well as supplement their income. One consumer in the focus group pointed out that, if they had taken this advice, due to the GFC, they would now be in the position of having a substantially increased debt, a reduced income as well as repayments they could not meet and would actually be worse off than they were before. Other participants had their bank recommend that they sell their home, invest the proceeds and rent instead. These participants too pointed out that, in the context of the GFC, this would have been the worst possible path to take as they would now have found themselves with reduced assets and an ongoing rental payment which would be eating up their reduced income.

Jessica's story illustrates the issues arising from the conflict of interest present when financial advisors, including bank staff acting in this role, are also the people who sell or promote the products they are recommending.

Jessica's story

Jessica was finding it difficult to manage on the single age pension and was worried about the credit card debt she was accumulating from the large bills, such as rates and insurance, which she could not pay from her pension. Jessica decided to talk to her bank about her situation as she thought they would know what options were available to her.

The bank staff advised Jessica that she should sell her house, invest the proceeds and move into rented accommodation. This bank did not offer a reverse mortgage product, but did offer a range of investment products.

Jessica was not happy about selling her house, which held many happy memories for her and provided a place for her children and grandchildren to stay when they visited her from interstate. In addition, there was no suitable rental accommodation in her area, and she did not want to leave behind all her friends and neighbours, especially when they provided support to each other on a daily basis.

Jessica asked around among her friends and decided to investigate a reverse mortgage as an option. Jessica's children were comfortable with her decision to use her assets to support her needs in this way, as, with several teenagers in high school and university, they were not able to assist her financially at that time.

Jessica took out the reverse mortgage, paid off her credit card debt and now has a small supplementary income to the age pension to enable her to afford a modest lifestyle and to stay in her own home. Jessica's children and grandchildren enjoy visiting her in the family home when they can. Jessica also enjoys having around her the friends and neighbours she has known for a lifetime.

Jessica is very happy that she did not accept the advice of her bank but continued looking for a better solution.

4.4.3 Consumer concerns

Following the GFC and the resulting fall in interest rates in 2008–2009, participants with fixed-interest reverse mortgages were shocked at the break fees they would incur in paying off a loan early or converting to a variable interest mortgage if they decided to or needed to move to another situation. Consumers with fixed rate loans from Bluestone in particular commented that they did not feel that the *fine print* had been sufficiently explained to them regarding the impact of break fees. One consumer expressed her regret poignantly: 'At the time I was desperate and did not want to worry my family ... I would not do it again – those companies need to explain the small print'.

Consumers were of the view that with fixed rate mortgages, participants needed to have explained to them various scenarios – especially if they took out the longer-term and lifetime fixed rates with comments such as: 'A big price to pay for [only] \$30 000', 'Break fees hugely expensive if [you] want to pay out [the mortgage] earlier'.

Ellen's story illustrates the impact that a consumer's lack of understanding of the nature of fixed interest rates or their impact if the consumer needs to downsize or move early in the life of the loan.

Ellen's story

Ellen had a very disagreeable surprise just as she reached retirement age – her husband initiated a divorce. Ellen's priority in the property settlement was to retain the family home, which was located in an upmarket area in a capital city, to allow her ongoing access to her family, friends and interests. Ellen did retain the family home but then found that she did not have the income to repair or maintain it.

Ellen had seen advertisements in the local press for a reverse mortgage product offered by Bluestone and thought that it could assist her.

Ellen approached her reverse mortgage product provider through their local broker and was told that she could borrow the funds she required. They also advised her that she should seek independent legal advice. Ellen did not know any solicitors, so she asked the broker to provide her with the name of one, which he did.

The solicitor to whom Ellen was referred did not go through the contract with her but simply told her where she needed to sign.

Ellen had taken out a loan with an interest rate that was fixed for life. The interest rate was set at the fixed rate home loan market rate plus 1.0 to 1.5 per cent for the reverse mortgage component for the life of the loan. The market was then at its peak. The implications of this were not explained to Ellen in terms that she could understand, either by the broker or the solicitor.

Ellen undertook the repairs and renovations to her home to maintain its value in the market. However, her health started to deteriorate and she soon found that the management of a large house was too much for her.

Ellen then found that the break fees on the fixed rate mortgage were so great that were she to seek to downsize, she would have insufficient funds to pay for a retirement village unit and have some funds left to invest and create a comfortable lifestyle for herself.

The lender refused to accept any interest payments and would not negotiate on the break fees.

Ellen bitterly regrets taking out the reverse mortgage and said that in retrospect, she would have done better to sell her home and downsize when she was fit and well and invest the balance instead to create additional income.

Consumers with variable interest rate reverse mortgages were disappointed that their rates did not fall as quickly as they had anticipated they might—or as quickly as they had risen when interest rates were rising. However, on the whole, participants with variable interest rate loans were much happier with their decision than those who had fixed rate loans. This was particularly so in those participants who had changed lenders, since the variable interest rate enabled them to do this at minimal cost. Samantha's story illustrates this point well.

Samantha's story

Samantha is a widow who retired about 11-years-ago at the age of 60. She lives in a capital city and found that although she could meet her basic needs on the age pension, she could not afford to repair or maintain her home or replace her car. She also could not afford to have any holidays or visit friend's interstate.

So about 10-years-ago, Samantha contacted several major banks to ask about loan options. Her children were supportive. They saw the loan as an appropriate response to her situation as only some of them were able to assist at that time; but a reverse mortgage would mean that they would contribute equally from their future potential benefit from their mother's estate. Samantha also sought independent legal and financial advice but found that there was really no one who was experienced with the product.

The only suitable product available at that time where Samantha lived was a reverse mortgage from a large Australian Bank. Samantha took out the loan, repaired and updated her home and replaced her car. As a result, Samantha is still living in her own home and remains independent, mobile and active in her community. She also saw a significant increase in the value of her home over this period so was not worried about the increasing balance and interest as her equity also grew.

Samantha took out a reverse mortgage with a variable interest rate and a monthly fee. She was very happy with the service she received and confident that she had made the right decision.

About 5-years-ago, Samantha went to a seminar and discovered that another overseas bank offered a reverse mortgage with a lower interest rate and no monthly fees. Samantha arranged to transfer her loan from her existing bank to the new one. She also updated her legal advice, as that was a requirement of the new lender.

Samantha says that both banks were really helpful and the transition went very smoothly. She is still very happy with her decision and also with the new variable interest rate and paying no monthly fees. Samantha would recommend a reverse mortgage like hers to other people with similar needs.

Some participants knew of the impact of the GFC on the consolidation of the sector and the withdrawal of some lenders from the market. In this context, there was some discussion in the focus groups about the stability of financial institutions, especially for

those participants who had taken their reverse mortgage out as an income stream. However, on the whole, reverse mortgage holders with variable interest rate reverse mortgages were more inclined to see themselves as having benefited from the drop in interest rates generally.

The issue of ongoing fees was raised by a number of participants – especially those who had reverse mortgages with lenders other than RBS (ABN AMRO) who do not charge an ongoing fee. As already noted in Chapter 2, the effect of ongoing fees being compounded over the life of the loan was an issue of concern for participants, even though on the scale of the loan this was not necessarily a large amount, with comments such as: ‘psychological effect of the three monthly bill with the compounding interest’.

It had been anticipated that the attitudes of their families to the reverse mortgage and its impact on inheritance and so on, would be one of the participants’ concerns. However, only one participant noted that this was a concern – and that was because she had not advised her children due to embarrassment at her circumstances and they were very upset when they found out as they could have assisted her. Most participants found their family supportive: ‘Mum and Dad, you’ve earned the money – it’s yours’, or, especially in the cases of those who were divorced and/or remarried, irrelevant. Comments around this theme included: ‘unfashionable to leave your money to your kids’, ‘I’m never going to have to pay the interest, it’s coming out of my children’s inheritance’.

In this context, some participants (and lenders) related stories about the use of reverse mortgages to distribute inheritance in advance at the same time as assisting adult children. Barry’s story illustrates some of the issues.

Barry’s story

Barry was a comfortably retired widower and had enough for a comfortable lifestyle in retirement and was on good terms with all three of his children.

One of Barry’s children asked for assistance to purchase a new family home. Barry decided that it would be unfair to assist only one child and risk diluting the inheritance of the others. Barry took out a reverse mortgage, and gave each of his children an equal share of the proceeds.

All three children are happy. One has a new family home and the other two have invested the funds for the education of their children.

A few participants expressed concern about the impact of the reverse mortgage and the compounding interest as it related to their risk of longevity and commented: ‘Got to plan to spin it out—if you spend all your equity early—you’ve got nothing there’ or ‘need to take your age into account’. In view of the relative youth of many reverse mortgage holders, this concern is justified. However, it seemed that many of the participants had not yet considered what they would do if/when they had used all the equity in their house and yet still did not have enough to afford the lifestyle they had chosen. This illustrates the hidden assumptions in both mortgage practitioners and older participants that property prices would on the whole continue to rise.

4.4.4 How consumers use their reverse mortgage loan proceeds

The financial flexibility of using equity from their home to finance a range of needs was the primary attraction of a reverse mortgage loan for all of the participants. While most had at least one immediate expense in mind when they took out the reverse mortgage, many commented on how they liked knowing that they could draw down

against the mortgage for future expenses and referred to it as a 'rainy day' facility or in terms such as '[provides] a line of credit for capital items'.

Participants identified a wide range of purposes, and plans for future use, of their reverse mortgage loan proceeds. These were consistent with the purposes previously noted by both lenders and brokers.

Many participants used an initial lump sum for replacing their car or major appliances; others used the funds to pay a child's university fees, for family funeral expenses or outstanding medical bills, including paying the medical expenses associated with an injury incurred while on holiday overseas. Several participants used a portion of the funds to take a domestic or international holiday, including visiting family interstate or overseas. Comments on the use of their lump sum proceeds included: '[provides] a line of credit for capital items', 'part of the SKI club'.

There was also substantial use of the funds to top up pensions or superannuation income, either through income streams or instalment drawdowns. Consumers talked about this aspect of their reverse mortgage loan in very positive terms such as: 'to me, it's a lifesaver', '[gives me] a reasonable standard of life'.

Other participants accepted the reverse mortgage as necessary for them in their current circumstances: 'a necessary evil', 'only [some] of my children are in a position to assist – this is fair'.

Only one participant had specifically sought and used the proceeds of his loan for investment purposes. He was financially astute and aware of the risks; consequently, he was also philosophical about the subsequent impact of the GFC and thought that his decision would be vindicated once the market recovered.

In order to compare the findings from our discussions, Figure 14 shows the results from the industry-wide survey undertaken by Deloitte. The figures show that the three major uses of the fund were home improvements, providing extra income or reducing debt.

Sally's story

Sally is a widow who lives with her middle-aged son who suffers from a mental illness. After her husband died she was able to take out a reverse mortgage using a product with a line of credit facility. She first used the proceeds from the reverse mortgage to fund an overseas holiday with her daughter. She really enjoyed the opportunity to take such an enriching holiday. When she returned she later used a further tranche of funds from the reverse mortgage to undertake much-needed improvements to her house. She was able to improve the living quarters for her son and also make the home 'more suitable'. She described the reverse mortgage, as a 'godsend' that had enabled her to get access to well-appreciated funds that otherwise would not be available.

Sally's children were very supportive of her use of the reverse mortgage. However, she is very conscious of not wanting to spend too much on the reverse mortgage because she wants her son to have a sizeable inheritance.

Sally would recommend a reverse mortgage like hers to other people with similar needs. She particularly liked not having to fill out a new application each time she needed some more funds. She could just email her broker.

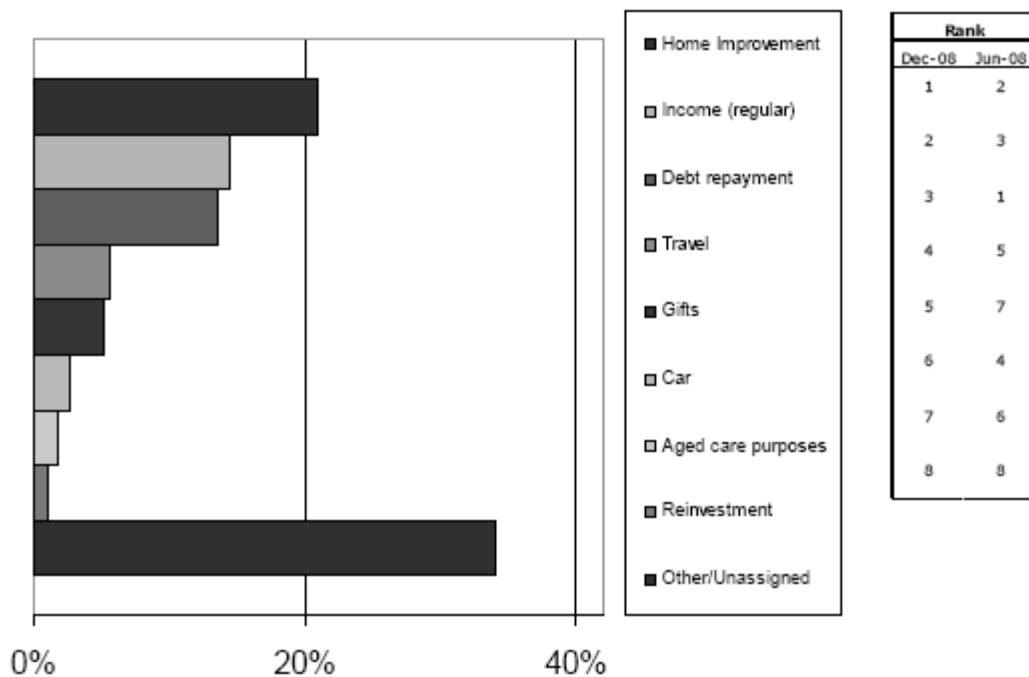
4.4.5 Housing modifications

The focus groups and interviewees were asked about whether they had used or would consider using their reverse mortgage proceeds to modify their home to make it more

accessible or allow them to *age in place*. One had used the funds to complete the construction of a house and several had used funds to paint, refurbish or remodel a kitchen or bathroom, or extend the outside living area of their home; however, none had used their loan proceeds for modifying their house to accommodate their *ageing in place* (Commonwealth Department of Health and Ageing 2005) at this time. A few participants noted the availability of government programs that are specifically designed to pay for costs associated with making a home more accessible, and felt that they would rely on those programs to organise and fund modifications if or when they were required, noting: 'we [pensioners in Queensland] have access to a government scheme to help with home modifications'.

This lack of awareness of the need to set them up if they wished to age in place, was common to all the participants and consistent with the findings from the lender interviews and broker survey of the general situation. This is an area where government policy to promote *ageing in place* needs to be supported by a stronger consumer education program to explain exactly what that means in practice.

Figure 14: Industry-wide survey undertaken by Deloittes in 2008



Source: Hickey et al. 2009; p. 21.

4.4.6 Influence on retirement plans

None of the participants indicated that a reverse mortgage had formed part of their financial planning prior to retirement and, in fact, all of the participants had retired before they took out their reverse mortgage. A few of the prospective participants who were not yet retired indicated that the focus group's discussion about reverse mortgages would be useful to them in considering their retirement plans, especially how to avoid needing one.

However, several participants commented that their financial situation had changed after they retired and viewed their reverse mortgage as a means of supporting ongoing expenses, such as council rates, and providing a safety net for unanticipated expenses. The reasons for these changes included premature retirement leading to early draw-down of retirement savings, late-life divorce, reduced superannuation or

investment income due to the GFC, and having underestimated the funds they would require for managing an appropriate lifestyle in retirement. This last group fell into two camps, those who had enjoyed a comfortable lifestyle prior to retirement and wished to maintain it, and those who had underestimated the shortfall between the age pension or their superannuation and the funds required for supporting a modest lifestyle³¹. Mary and John's story is illustrative of the impact that unanticipated changes in one's circumstances can have on retirement plans.

Mary and John's story

Mary and John had saved throughout their lives and were well-placed to retire in their sixties, totally self-sufficient and with a good nest egg. Unexpectedly, John's employer downsized his workforce, making all workers over fifty redundant. This included John and meant that he retired almost 10-years earlier than planned.

Mary and John moved to a coastal area for their retirement. However, after they had built their house and settled in, the area underwent a boom and they now found themselves paying higher council rates than when they lived in a capital city.

Mary and John also found that after 10-years of retirement, their superannuation funds were so diminished they could not afford to pay their council rates, had no money for replacing capital items such as car and whitegoods, could never afford to take a holiday to visit their family interstate.

After extensive research on the Internet and talking to banks and mortgage brokers, Mary and John decided to take out a reverse mortgage. Initially, they were not eligible, as Mary was not yet 60-years-old, so had to wait a year or so to apply. Their children supported Mary and John's decision, as they were all financially independent and viewed the house as their parents' asset to do with as they wished. John and Mary sought independent legal advice but found that, as a result of their research, they knew more about the product than their solicitor.

Mary and John are pleased that they took out a reverse mortgage with a variable interest rate as this enables them to use the lump sum draw-down's facility when required—they find this especially helpful when large annual expenses are required such as when the council rates come due.

4.5 Summary and implications

In summary, consumers, as represented by the participants in the focus groups and interviews, made the decision to investigate or take out a reverse mortgage loan for the same reasons that lenders and brokers had identified: an unexpected change in their circumstances and/or an ongoing shortfall between their income and their expenses.

Consumers' research took the form of asking their bank or financial institution—with varying responses and some misinformation; asking friends and family for their advice or recommendation; approaching local brokers; and, for some, doing their own research on the internet. This was rarely supported by advice from a financial planner, and most consumers found it difficult to get informed independent advice from a solicitor who was familiar with reverse mortgages or took into account the individual consumer's circumstances. Most consumers consulted with a Centrelink FIS officer about the effect that the reverse mortgage would have on their pension status, but none knew about the Centrelink Pension Loans Scheme or seemed to be eligible for it.

³¹ <http://www.superannuation.asn.au/mr070829/default.aspx>

Consumers reported that their families were mostly supportive of their decision to take out a reverse mortgage. A few family members agreed directly while others were excluded from the discussion by the consumer themselves for reasons of embarrassment or privacy. However, those consumers whose families were not supportive are also those who may have decided not to take out a reverse mortgage.

Similar features were viewed by consumers and mortgage practitioner's alike as attractive in a reverse mortgage product, that is, competitive interest rates, low or no fees, high LVRs and flexibility in payment options. They also identified that the reputation of the lender or broker, and their relationship with the consumer, was important to them in developing trust in the advice they were given. In this they were impressed by the provision of full and complete information in easily accessible formats, including good websites. Although some commented on the time it took to process the loan, this information was not available to them when they made their choice of lender.

It was clear that participants who had taken out fixed rate reverse mortgages had a poor understanding of the way that these worked and were not prepared for the risks and the break fees when the loan is still young or interest rates fall. The implication of this is that consumers who prefer to take out a fixed rate interest loan have more need of independent financial advice, including the mapping of different scenarios, to be sure that they understand and accept the different risks in this form of loan contract.

Consumers also confirmed that they used the proceeds of their reverse mortgage loans for the same purposes as identified by lenders and brokers: life needs (topping up the pension, replacing the car or small capital items, health care and renovating or maintaining their home), lifestyle (holidays, paying out residual standard mortgage) and for a few, smart money (assisting children, investments). Many also noted that they had reserved funds within the reverse mortgage proceeds to use for 'a rainy day'.

None of the participating consumers indicated that a reverse mortgage had played any part in their retirement plans. In all cases, the decision to take out a reverse mortgage was caused by a change in their circumstances post-retirement, such as reduced income due to the GFC or late-life divorce, or realising that their income, for example the age pension, was not sufficient to support a modest lifestyle. This also is consistent with the findings from the mortgage practitioners.

Participating consumers also indicated that none of them had used their reverse mortgage proceeds to fund home modifications arising from disability or ageing; nor had they used the reverse mortgage funds to prepare their house for them to age in place. This finding has strong implications for government policy. One of the constraints on providing care to older people in their own homes can be inadequate safety, from an occupational health and safety perspective, in the home environment. In addition, the incidence of falls in older people is high in unsafe home environments; and falls are a major cost-driver for the health sector, as well as leading to many older people being admitted to residential care sooner than would otherwise be the case. Although funds are provided through programs like the Home and Community Care Home Modification program to assist frail elderly people with home modification costs, they are not intended to be rolled out as large-scale prevention interventions like the Department of Veterans Affairs 'Home Front' program. Many of the participating consumers were in fact living in relatively new houses they had built themselves. In those cases, the additional costs of implementing, for instance, universal design principals would have been minor at the construction phase. This lack of awareness in consumers as to how to prepare for *ageing in place*, when they express a strong preference for 'staying in my own home', would indicate that there is a disjunction

between the government policy of *ageing in place*, what it means in practice and how it is perceived by consumers.

5 POLICY ISSUES

5.1 Introduction

This study has outlined the development of the reverse mortgage industry in Australia. Despite a reduction in the supply of finance associated with the GFC, the demand for reverse mortgages is still strong³². As reported in earlier chapters, reverse mortgages can provide a valuable financial instrument for supplementing income and modest lump sum draw-downs of capital during retirement. This final chapter raises policy issues in terms of broader housing and aged care policies and specific responses to policy issues in terms of reverse mortgages.

5.2 Implications for housing and aged care

From a public policy perspective, older peoples' choice of residence potentially could be influenced by reverse annuity mortgages and this in turn could have an impact on their access to and use of aged care support services. In addition, from a public policy perspective, older peoples' choice of residence has an impact on their access to and use of aged care support services. With respect to the choice of downsizing or sea/tree changing, two factors in current aged care policy are relevant: the availability of informal (usually family) carers, who provide most of the basic support services to older people as they age, and *ageing in place* (Commonwealth Department of Health and Ageing 2005).

An informal carer is defined as 'a person such as a family member, friend or neighbour who provides regular and sustained care and assistance to the person requiring support' (Australian Institute of Health and Welfare 2007). The Australian Institute of Health and Welfare has noted that the lack of availability of an informal carer is specifically linked to increased risk for frail older people who live alone and thus may prevent or inhibit their *ageing in place*. Since it is usually not possible to take their family with them, many older people who sea/tree change may find themselves foregoing current or future access to the range of services typically provided by informal carers: information gathering, advocacy, domestic assistance, personal care, transport, shopping, home maintenance, social support, case management and support to access health services. In the context of a reverse mortgage, for example, there may be a risk for some older people that a failure to pay their bills such as council rates, could trigger the exclusion clause regarding the NNEG. The presence of an informal carer often ensures that an older person receives timely and appropriate assistance with minor things such as bill paying and any cognitive decline may be noticed sooner and alternative strategies such as an enduring power of attorney put in place.

The concept of *ageing in place* is a pillar of Australia's current aged care policy and strongly supported by the community. *Ageing in place* is defined by the Department of Health and Ageing as: 'The provision of aged care services to a person who remains in their current residential setting (whether home, hostel, or nursing home) even if their care needs rise' (Commonwealth Department of Health and Ageing 2005). In practice, this is interpreted as people remaining in their own home and receiving increasing levels of service there, thus delaying a move to an aged care facility. Policy around *ageing in place* builds on an older person's integration into their local community and access to supportive social and cultural infrastructure such as shopkeepers, local clubs and sporting organisations, religious and cultural

³² An indication of the interest in reverse mortgages is the demand for information from NICRI – they sent out 7000 information booklets in the 4 months to the end of May 2009.

organisations, doctors, pharmacists and dentists. For many older people this infrastructure is a key part of their daily lives and provides additional informal support.

Therefore, older people who choose to move to another community when they retire need time to 'put down roots' and build this social infrastructure in the new location. The combination of these two factors—reduced access to family support and the need to build a new, personal, social infrastructure—can lead to some older people becoming isolated and requiring more aged care services, and sooner than would otherwise be the case. This is particularly so if the older person can no longer drive. Accessible public transport is not a key feature of the infrastructure of popular retirement destinations. For this reason, the housing policy perspective for older people involves *ageing in place* when the home is affordable, suitable and safe—or else downsizing to a more appropriate housing option in the same community. From the perspective of facilitating both *informal care* and *ageing in place*, it is clear from our research that for many people reverse mortgages have been a useful product. They have allowed people access to cash that they have used for the variety of purposes outlined in Chapter 4. As that chapter revealed, many of the holders of reverse mortgages we talked to were extremely positive about the product.

If reverse mortgage products are to be accessed to enable *ageing in place*, by supplementing the housing and care needs of older homeowners, greater guidance and support is required, particularly for the most frail and vulnerable. However, a disturbing aspect of the research has been how many respondents had some negative stories associated with their reverse mortgages product. Some of our findings, mirror the stories from ASIC's (2007) earlier study of reverse mortgage customers.

5.3 Negative features of reverse mortgages to be addressed through public policy

There are a number of findings from the studies that are worth reviewing prior to considering policy issues. These are discussed under a series of headings below.

5.3.1 Knowledge of reverse mortgage products among mortgage brokers

Chapter 4 highlighted that a number of respondents complained about the lack of knowledge of some mortgage brokers and solicitors about reverse mortgage products. One respondent commented that they weren't sure who was the customer and who was the seller since they clearly knew more about the products than the broker. Others commented that they felt their money was wasted on a solicitor for the same reason. It is possible that things have improved with respect to brokers since our respondents took out their mortgages as a result of industry education programs, such as SEQUAL's program to provide Industry Accreditation as a Reverse Mortgage Consultant (RMC) and ASIC's (2009) new guide which provides advice about selecting a mortgage broker.

SEQUAL has recently started providing education programs to financial planners and solicitors. However, these are in their infancy and would not be expected to have a noticeable effect for some time.

5.3.2 Knowledge of reverse mortgage products among mortgage holders

A number of respondents seemed uncertain about the nature of their mortgage. While this is not uncommon among mortgage holders per se, let alone a holder of a specialist product like reverse mortgages, the issues about financial literacy are particularly important among a potentially vulnerable older population (see Lusardi & Mitchell 2005). There are a number of risks associated with selling a reasonably

complicated financial product to a vulnerable group with low levels of financial literacy. The case studies outlined in Chapter 4 really highlight very clearly the nature of those risks and the large negative impacts that can be experienced.

Policies need to take into account the age of some people entering into complex financial arrangements and emotional and cognitive vulnerabilities of some seniors in advanced late life. There is a particular duty of care in making sure that the reverse mortgage holders understand the nature of the financial risks they are taking. For example, Chapter 4 highlighted the issue of the problems that some reverse mortgage holders have, raising the necessary resources to enter institutional care.

Clearly, recent Federal initiatives such as the establishment of the specialist helpline at NICRI, have been important and may have improved the independent advice available to potential reverse mortgage customers. It is hoped that the specialist helpline can continue because clearly there is a need for up to date independent advice that is not available to a range of consumers. Particularly disturbing is the lack of confidence of some consumers in financial planners after the recent poor publicity about the industry and its association with failed investment products that relied on high commissions for financial planners to achieve market penetration.

Chapter 4 has highlighted that for some consumers who were not happy with their reverse mortgage, greater consideration of the option to downsize their house might have been appropriate. For instance, it may be helpful to look at both peer support and/or advocacy and support for the frailest and most vulnerable to consider a range of accommodation, care and financial options. It has been noted that greater support for older people and their informal asset managers requires improved monitoring especially where substitute decision-makers are involved (Tilse 2005).

Those with some experience in the field such as organisations like NICRI could:

- Examine the feasibility, costs and benefits of providing individual guidance on ways of resolving housing and care needs of older homeowners, and providing personal support for those homeowners and/or their asset managers in pursuing optimal solutions.
- Review good practice on providing information and advice on care services, particularly as they relate to the condition and safety of the home, to enable people to remain in their own home longer, and disseminate this to community care providers, local authorities, consumer organisations and other interested parties.

5.4 Confusion about break or exit fees

The major negative issue that arose during the study was the lack of knowledge among mortgage holders about the situation with break or exit fees. As described in Chapter 2, break fees or break costs are the fee owed to the lender if you pay out a fixed-interest home loan before the term. Break costs may or may not be charged depending on interest rate movements at the time. Given the record low interest rates at present, any reverse mortgage holder who attempts to pay back their loan and has a fixed interest rate on their loan is subject to a break fee. Some of the mortgage holders we had talked to had signed up for lifetime fixed rates and hence when they had attempted to pay out their reverse mortgage discovered that they were subject to very large break fees, in some cases larger than their original loan.

A break fee in itself is not a bad thing if reverse mortgage holders had entered into their contract having full knowledge of the nature of the risks that fixed interest loans, particularly lifetime fixed interest loans exposed them to. However, some of our respondents were unaware of break fees when they signed their mortgage. More

worryingly some seemed unsure of whether they had signed up for a fixed or variable rate loan. Chapter 4 describes the situation of Ellen, who had done a lot of research on reverse mortgages and had spent a lot of time questioning her mortgage broker about the risks and the nature of the loan but was not told by her broker about break fees. Her advice was that if the reverse mortgage included a fixed interest rate then warnings about break fees in 24-point bold should appear on the front page of the mortgage document.

This same issue has been raised in a submission from the NICRI to the Retirement Income Panel. The submission reported concerns raised by reverse mortgage holders to NICRI's consumer helpline, the Equity Release/Reverse Mortgage Information Service.

It is hard to understand why some of our respondents have ended up with lifetime fixed mortgage products given the high interest rates at the point in time when they signed their reverse mortgage³³. One possible explanation is the incentive of trailing commissions paid to mortgage brokers. The issue of break fees has become more of an issue given the recent very low interest rates as a result of the GFC. Some suggestions about how to deal with the issue of break fees are discussed below.

5.5 Some possible policy changes

There is currently a major reform process for National Consumer Credit regulation. Stage one of the process, which will be completed over the next few months, will see commonwealth legislation taking over from existing state legislation. A major change will also occur in relation to the licensing of credit providers – a national licensing regime will commence for consumer credit and credit-related brokering services such as mortgage brokers. Mortgage brokers will thereafter be licensed and regulated by ASIC. Licensees will have to conform to a number of general conduct requirements, including responsible lending practices. In addition, every provider of consumer credit and credit-related brokering services would be required to be members of an external dispute resolution body. It is assumed that those dispute resolution bodies will be independent, which would preclude that role being undertaken by an industry body, such as SEQUAL.

5.5.1 Increased regulation

In relation to the financial abuse of older people, an issue raised in Chapter 4, it may be appropriate to put in place some special regulations to protect aged consumers, particularly when a power of attorney applies. Some useful suggestions about the wording of these protections are provided by First Mortgage Services (2009) in their submission about the first exposure draft of the National Consumer Credit Protection Bill 2009.³⁴

Stage two of the reform process for National Consumer Credit regulation will have some additional regulation of reverse mortgage loans, although at this stage the details are not finalised. Stage two will be completed in 2010. It is likely that Stage two will regulate to ensure that some of the elements of the SEQUAL Code of Conduct, which is currently a voluntary industry agreement, will be mandated. Note that some of these elements (such as membership of an external dispute resolution body) are already being addressed in Stage one of the reforms. In the light of the problems

³³ For example, one respondent in Chapter 4 had signed a lifetime fixed interest rate mortgage after the last interest rate cycle had peaked.

³⁴ Available from http://www.treasury.gov.au/consumercredit/content/consultation/submissions/downloads/national_consumer_credit_regime/First_Mortgages_Service_Pty_Ltd.pdf

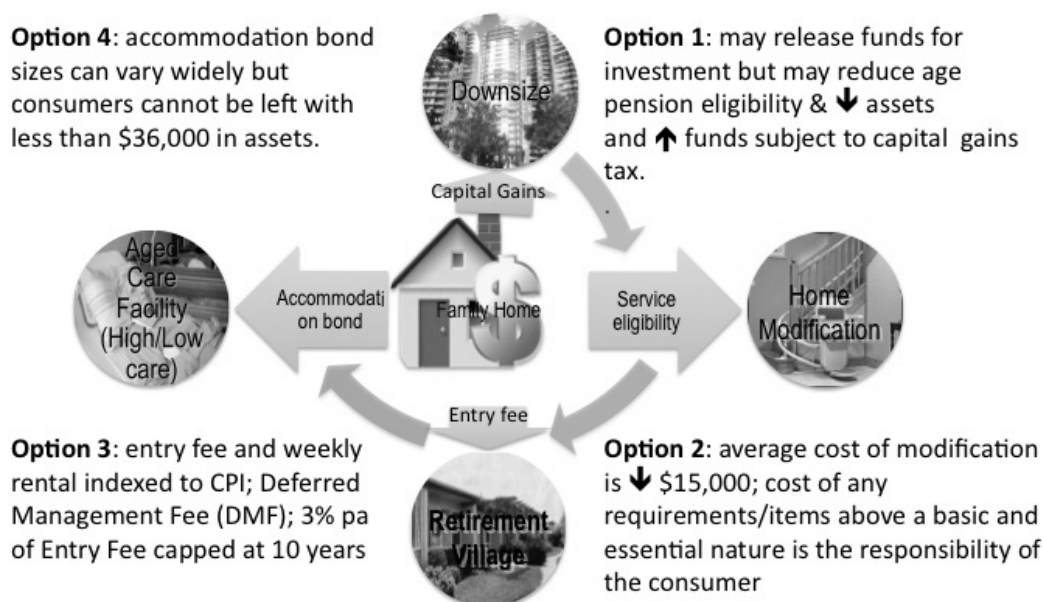
highlighted in this and previous studies, it would appear that more regulation of the sector is warranted, although it has to be said that the self-regulation applied by SEQUAL appears to have significantly improved the outcomes for the sector.

5.5.2 Improved advisory services concerning late life housing and care finance options

As mentioned in the executive summary, the pension system is currently under review but it appears that the family home at least in the short-term will remain exempt in the means test for the age pension. Understanding the interplay between assets, income and pensions is complex, as is evaluating if a reverse mortgage is the best option for an older person. This is because loopholes exist in how assets and income are defined, which means that it is currently possible to swap superannuation for a more expensive home in order to qualify for the age pension, then draw down on that home later to supplement the full pension income. However, as this research has shown, if older people are doing this, it is not the norm, as the reality for older people in seeking advice re equity release products is that these decisions are made often at times of stress like divorce or following health or financial shocks, and are driven not by smart planning but as the result of poor retirement planning combined with unexpected longevity or financial shock.

Unfortunately a bad choice may limit quality of life and/or other accommodation and care choices further down the track. Figure 15 illustrates how sale of the family home can lead to capital gains and limit pension eligibility. Undertaking home modification is an additional cost burden when required and entry fees and Accommodation Bonds for low- and high-care place choices require access to cash. Therefore it is highly unlikely that solicitors or financial advisors at present would have sufficient knowledge of existing aged care finances structures and options to take this range of scenarios adequately into account when advising clients about the value of reverse mortgages.

Figure 15: Retirement accommodation options for older people



Further, our consumers reported that when they had consulted a solicitor as part of the process of signing up for a reverse mortgage, even without all the issues of future care expenses, they experienced a range of problems. Chapter 4 has highlighted a number of cases where it would have been appropriate for them to consult a financial advisor in addition to a solicitor.

Every effort should be made to encourage potential customers of reverse mortgage products to seek independent advice. Getting appropriate advice depends on educating consumers and their being able to get trustworthy and independent advice from the NICRI, and requiring solicitors and other professionals who give advice on reverse mortgage products to undertake specific training in that area and charge a standard fee for providing this advice.

Other potential strategies may include:

- Continue to fund the NICRI reverse mortgage helpline and revise the NICRI Fact Sheet to emphasise the need for older consumers to investigate the option of downsizing as well.
- Commission Financial Information Service (FIS) officers from Centrelink to provide advice on reverse mortgage products, taking into account individual consumer's circumstances and options. Many of the *at-risk* group are likely to be current or potential clients of Centrelink. The FIS officers have the advantage of not having a conflict of interest in providing advice in this area as well as experience in working with older people. The additional FIS positions could potentially be funded by a small levy on each reverse mortgage. This could also fund the production of a Fact Sheet about how reverse mortgages are treated under Centrelink's Assets and Income testing.
- Make it mandatory for solicitors and financial planners who give advice about reverse mortgages to complete a short course on them and their risks. This could be provided by their relevant industry organisations in partnership with SEQUAL and ASIC.
- Make it mandatory for reverse mortgage holders to be given a copy of ASIC's independent guide to reverse mortgages (2009), the NICRI booklet and the proposed Centrelink Fact Sheet; updating Centrelink policy to be more flexible when the proceeds of a reverse mortgage lump sum are temporarily placed in investment or savings accounts.

In addition, a variety of interest groups (e.g. Council of the Ageing, Centrelink, superannuation providers, etc.) could be commissioned to run education campaigns on reverse mortgages using the ASIC guide as the main resource. This should include showing older consumers how to construct various budgets to identify whether or not they would be better off to downsize rather than take out a reverse mortgage to renovate a house they may not have the income to maintain. The need for a broader campaign about financial education for the target group is also highlighted by the number of retired people who have lost money with various dubious investment schemes in recent years and may therefore be seeking a reverse mortgage to top up their income.

5.5.3 Break fees

The risks with break fees on fixed rate reverse mortgage loans need to be highlighted much more. SEQUAL has taken up this issue and is preparing a revised product disclosure statement for its members. It is important that this statement, in line with the suggested changes to the NICRI booklet, contains some simple examples to show the likely size of break fees using some possible scenarios. The particular risks with a lifetime fixed interest product should be highlighted in these scenarios. This is one area where potentially the ASIC guide might be more explicit. Although it provides a prominent warning about the risks of exit fees, it does not provide any scenarios. Perhaps this could be addressed in the next edition of their guide. The issue of costs and risk is an important one and lack of clarity about exit costs can be particularly problematic. For this reason it will be important to:

- Make financial advice mandatory for larger loans, say those over \$50 000.
- Develop a standard reverse mortgage contract, which all lenders would use.
- Require that all lenders provide an on-line calculator which gives true comparison rates for consumers; and that these include calculation of exit costs under different time parameters.

5.5.4 Monitoring of outcomes among reverse mortgage holders

There is a requirement for continued monitoring of the situation of reverse mortgage holders given the nature of the product and of the client group. It will also be important to examine more carefully how close reverse mortgages are to being a financial product rather than a credit product and regulating them accordingly. ASIC could appropriately take on this responsibility given that they will be responsible in the near future for regulating equity release (and other credit) products, as well as businesses that sell, arrange or advise on them. ASIC could also undertake an analysis of the outcomes so far from the NICRI reverse mortgage helpline and incorporate the views of a small sample of new and existing reverse mortgage holders.

The aspects of these proposed changes would be to:

- Establish a national licensing regime to require providers of consumer credit and credit-related brokering services and advice to obtain a licence from ASIC.
- Extend the powers of ASIC to be the sole regulator of the new national credit framework with enhanced enforcement powers.
- Require licensees to observe a number of general conduct requirements, including responsible lending practices.
- Require mandatory membership of an external dispute resolution (EDR) body by all providers of consumer credit and credit-related brokering services and advice.
- Extend the scope of credit products covered by the UCCC to regulate the provision of consumer mortgages over residential investment properties.
- Reform mandatory comparison rates and default notices.
- Enhance the regulation and tailored disclosure of reverse mortgages.
- Make compliance with the SEQUAL Code of Conduct mandatory for all lenders and brokers of reverse mortgage products.

5.6 Future research strategies required

The use of reverse equity is a significant topic and is worthy of further investigation. For instance, the framework for analysis used in this research was derived from our review of Australian policy and a systematic review of relevant literature and the data on the Australian Industry that indicated significant growth up to the GFC and was affected by how the Australian Government determined banking guarantees (see our positioning paper for more detail). As the remit of this research was limited to better understanding older persons' retirement decisions, a more detailed evaluation of the growth factors including the impact of taxation on household decisions would be good. This more detailed evaluation of the economic and welfare subsidy markets would enable greater clarity in international comparison, as this is dependent on a careful matching of these factors. Also of interest would be the economic investigation of drivers impacting both supply and demand balances. For example, this would assist in better distinguishing how household income, cost of living and the availability of more attractive consumer products interact. A broader examination of the full range of financial levers on supply and demand within a carefully mapped future trend analysis

may prove helpful in better understanding the most helpful social security impacts and changes. Another critical area for future investigation includes an investigation of the value and scale of public–private partnership for those on the lowest incomes. How for instance, might such partnerships be framed, marketed, delivered and evaluated.

5.7 Conclusion

While it is clear that there are many very satisfied holders of reverse mortgage products, the nature of the product and of the client group presents a number of risks. The research undertaken as part of this study indicates that a number of issues with the current operation of the reverse mortgage market could be improved. The biggest issue at the moment is one of the imbalances of information and hence power between the buyers and sellers of reverse mortgage products. Regulation directions could involve those that reduce risks for older consumers by ensuring suitability of the match between the available product choices and consumer need with the most vulnerable in mind. A number of education strategies are suggested to improve the awareness of consumers about the nature of the products. It is also suggested that an ongoing monitoring strategy be implemented so that the impact of any new measures can be evaluated.

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APPENDICES

Appendix 1: SEQUAL Code of Conduct

Each Member of SEQUAL agrees its equity release product(s) will adhere to, and be measured against the following Code of Conduct in dealing with Senior Australians their families and advisers. As a minimum, Members of SEQUAL shall:

1. Treat all Borrowers with respect and dignity.
2. Participate in an ASIC approved External Dispute Resolution Scheme.
3. Ensure that all products carry a clear and transparent '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.
4. Strongly encourage Borrower(s) to discuss the transaction with family members and to seek independent financial advice from a qualified financial adviser.
5. Strongly encourage Borrower(s) if entitled to Centrelink benefits, to discuss the transaction with Centrelink to ensure they fully understand the impact.
6. Ensure that the Borrower(s) obtains independent legal advice performed by the solicitor of their choice. Prior to the completion of the transaction, the Borrower(s) or their solicitor will be provided with full details of the benefits the Borrower(s) will receive, and the obligations they are entering into.
7. Clearly and accurately identify all costs to the Borrower(s) that are associated with the transaction.
8. Not assert or imply to a Borrower(s) that the Borrower(s) is obligated to purchase any other product or service offered by the Member or any other company in order to enter into an equity release product.
9. Provide in writing, a fair and complete package of equity release documents, covering the benefits and obligations of the product. This will include making available to the 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 that all loans are written under the Uniform Consumer Credit Code (UCCC), irrespective of the use of proceeds from the loan.

All Members will comply with the Privacy Act, Trade Practices Act any other relevant Code or Regulation at law.



Appendix 2: Broker survey

REVERSE MORTGAGE PRACTITIONERS SURVEY

Report Index	View By Respondent >
The above information statement provides some background to this project and outlines how the information you provide will be used, as well as how your confidentiality will be assured. Continuing with the survey indicates that, having read and understood the information you are giving your informed consent to participate.	Go
Please select your gender	Go
Please select your age band?	Go
Select from the list below the title that best describes your professional specialisation/qualification?	Go
In which Australian States/Territories do you do you currently sell reverse mortgage products? (please check all that apply)	Go
What is the age range of your average Reverse Mortgage clients (select best fit)?	Go
Based on your experience, please indicate on the scale below the reason(s) most often cited by older people for seeking a Reverse Mortgage.	Go
What factor(s) do you think most influence the numbers of older persons interested in a reverse mortgage? (Please check all that apply)	Go
Are there any other significant factor(s) not listed in the previous question that are likely to influence the demand from older persons for reverse mortgage products?	Go
What do you think is the potential size of the Reverse Mortgage market? (Please indicate your reasons in the comment space below)	Go
What are your primary referral sources for the Reverse Mortgage enquiries you handle?	Go
Which Reverse Mortgage products do you recommend? (please check all that apply)	Go
How would you rate the attractiveness to older persons of the Reverse Mortgage products listed below?	Go
Optional comment on current reverse mortgage product attractiveness to older persons?	Go
What are your reasons for recommending a particular Reverse Mortgage product? (please check all that apply)	Go
To what extent does the current legislative and regulatory framework impact the Reverse Mortgage market? (Please indicate your reasons in the comment space below)	Go
What improvements would make Reverse Mortgage products more attractive to brokers?	Go
What process, product, policy or marketing changes would make Reverse Mortgage products more attractive to older people?	Go
How many Reverse Mortgages have you written as part of your business? If none, why not?	Go
If you would like to receive a copy of the results of this survey, please provide your email address in the box below.	Go

The above information statement provides some background to this project and outlines how the information you provide will be used, as well as how your confidentiality will be assured. Continuing with the survey indicates that, having read and understood the information you are giving your informed consent to participate.	Response Total
Yes, I would like to continue with the survey	192
Statistics based on 192 respondents 0 filtered; 0 skipped.Total # of respondents 221 .To see all answers you need to apply 29 additional credits	

[^ Top](#)

Please select your gender	Response Percent	Response Total
Male 	75%	144
Female 	25%	48

Statistics based on **192** respondents **0** filtered; **0** skipped.Total # of respondents **221**.To see all answers you need to apply **29** additional credits

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Please select your age band?		Response Percent	Response Total
20-45		29.2%	56
46-65		67.2%	129
66 or older		3.6%	7

Statistics based on **192** respondents **0** filtered; **0** skipped.Total # of respondents **221**.To see all answers you need to apply **29** additional credits

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Select from the list below the title that best describes your professional specialisation/qualification?		Response Percent	Response Total
Banker		3.6%	7
Broker		88%	169
Financial Planner		7.8%	15
Lawyer		0.5%	1
Accountant		0%	0

Statistics based on **192** respondents **0** filtered; **0** skipped.Total # of respondents **221**.To see all answers you need to apply **29** additional credits

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In which Australian States/Territories do you do you currently sell reverse mortgage products? (please check all that apply)		Response Percent	Response Total
Queensland		25%	48
New South Wales		42.7%	82
Victoria		20.3%	39
South Australia		7.3%	14
Western Australia		13.5%	26
Tasmania		3.6%	7
Northern Territory		1.6%	3
Australian Capital Territory		2.6%	5

Statistics based on **192** respondents **0** filtered; **0** skipped.Total # of respondents **221**.To see all answers you need to apply **29** additional credits

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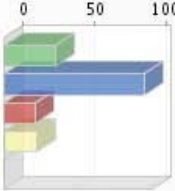
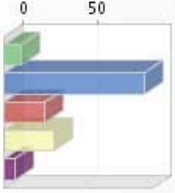
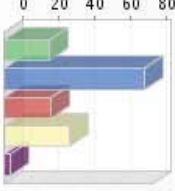
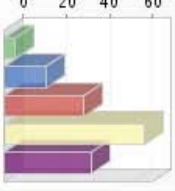
What is the age range of your average Reverse Mortgage clients (select best fit)?		Response Percent	Response Total
60 - 74		72.4%	139
75-84		26.6%	51
85 or older		1%	2

Statistics based on **192** respondents **0** filtered; **0** skipped.Total # of respondents **221**.To see all answers you need to apply **29** additional credits

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Based on your experience, please indicate on the scale below the reason(s) most often cited by older people for seeking a Reverse Mortgage.

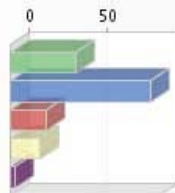
	strongly agree	agree	don't know	disagree	strongly disagree		Response Total
View						strongly agree ■ agree ■ don't know ■ disagree ■ strongly disagree ■	
Living Expenses	27.2% (49)	43.3% (78)	7.2% (13)	17.8% (32)	4.4% (8)		180
Home maintenance	28.5% (53)	59.1% (110)	7.5% (14)	4.8% (9)	0% (0)		186
Home modifications to manage a disabling condition	8.3% (14)	34.3% (58)	30.8% (52)	24.3% (41)	2.4% (4)		169
Aged care, including Accommodation Bonds	13.3% (23)	28.3% (49)	24.3% (42)	29.5% (51)	4.6% (8)		173
Health care	8.9% (15)	38.1% (64)	27.4% (46)	24.4% (41)	1.2% (2)		168

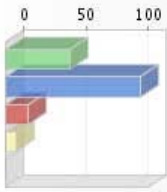
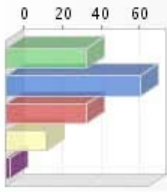
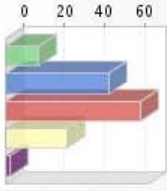
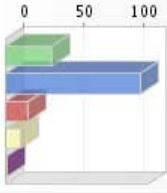
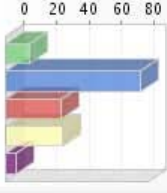
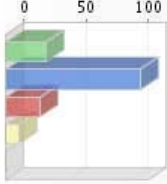
Replacement of car	20.3% (36)	55.4% (98)	11.9% (21)	12.4% (22)	0% (0)		177
Holiday	6.4% (11)	54.9% (95)	15.6% (27)	19.1% (33)	4% (7)		173
Helping children or other family members	14.9% (25)	46.4% (78)	15.5% (26)	21.4% (36)	1.8% (3)		168
Investment	3% (5)	11.4% (19)	22.3% (37)	39.2% (65)	24.1% (40)		166

Statistics based on 192 respondents; 0 filtered; 0 skipped. Total # of respondents 221. To see all answers you need to apply 29 additional credits

[▲ Top](#)

What factor(s) do you think most influence the numbers of older persons interested in a reverse mortgage?
(Please check all that apply)

	View	strongly agree	agree	don't know	disagree	strongly disagree		Response Total
							<ul style="list-style-type: none"> strongly agree ■ agree ■ don't know ■ disagree ■ strongly disagree ■ 	
Increase in the older population		23.7% (42)	50.8% (90)	13% (23)	10.7% (19)	1.7% (3)		177

Rising living costs	27.6% (51)	58.4% (108)	9.7% (18)	4.3% (8)	0% (0)		185
Rising aged care costs	23.7% (42)	39.5% (70)	23.7% (42)	11.9% (21)	1.1% (2)		177
Decrease in the availability of family carers	9.6% (16)	30.7% (51)	40.4% (67)	18.1% (30)	1.2% (2)		166
Increased publicity and education about Reverse Mortgages	21% (38)	61.9% (112)	9.9% (18)	6.6% (12)	0.6% (1)		181
Recommendation by mortgage broker	8.1% (14)	48.3% (83)	19.8% (34)	20.3% (35)	3.5% (6)		172
Recommendation by friend or acquaintance	18.1% (32)	61% (108)	15.3% (27)	5.6% (10)	0% (0)		177

Recommendation by Financial Planner	6.5% (11)	48.5% (82)	30.2% (51)	13% (22)	1.8% (3)		169
Availability of accredited lenders	11.6% (20)	37% (64)	28.9% (50)	20.8% (36)	1.7% (3)		173

Statistics based on **192** respondents **0** filtered; **0** skipped. Total # of respondents **221**. To see all answers you need to apply **29** additional credits

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Are there any other significant factor(s) not listed in the previous question that are likely to influence the demand from older persons for reverse mortgage products? **Response Total**

[View](#) [72](#)

Statistics based on **72** respondents **0** filtered; **120** skipped. Total # of respondents **221**. To see all answers you need to apply **29** additional credits

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What do you think is the potential size of the Reverse Mortgage market? (Please indicate your reasons in the comment space below) **Response Percent** **Response Total**

More than triple the present market		25%	48
Triple the present market		22.9%	44
Double the present market		29.2%	56
The same as at present		17.7%	34
Less than presently		5.2%	10

[View](#) Comment [73](#)

Statistics based on **192** respondents **0** filtered; **0** skipped. Total # of respondents **221**. To see all answers you need to apply **29** additional credits

[Export Graph](#) [▲Top](#)

[View](#) What are your primary referral sources for the Reverse Mortgage enquiries you handle? **Mean** **Response Total**

View Self referral by client	62.3	158
View Financial Planner	29.2	84
View Direct Advertising	39	73
View Client Seminars	14.3	54
View SEQUAL website	10.1	49
View Other	34.1	78

Statistics based on **192** respondents **0** filtered; **0** skipped. Total # of respondents **221**. To see all answers you need to apply

29 additional credits

[▲ Top](#)

Which Reverse Mortgage products do you recommend? (please check all that apply)		Response Percent	Response Total
View	ABN AMRO	66.7%	128
	Australian Seniors Finance	14.1%	27
	Bank West	34.4%	66
	Bluestone Equity Release	33.3%	64
	Commonwealth Bank of Australia	34.4%	66
	Mariner Retirement Living	7.8%	15
	Over Fifty Group Limited	35.4%	68
	Police & Nurses Credit Society	6.2%	12
	St George Bank	32.3%	62
	I do not use any Reverse Mortgage products	1.6%	3
View	Other (specify)	18.2%	35

Statistics based on 192 respondents 0 filtered; 0 skipped, Total # of respondents 221. To see all answers you need to apply 29 additional credits

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How would you rate the attractiveness to older persons of the Reverse Mortgage products listed below?

View	attractive	neutral	unattractive	attractive ■ neutral ■ unattractive ■	Response Total
ABN AMRO	69.4% (125)	28.3% (51)	2.2% (4)		180
Australian Seniors Finance	16.2% (25)	73.4% (113)	10.4% (16)		154
Bank West	29.3% (49)	61.7% (103)	9% (15)		167

Bluestone Equity Release	28.6% (46)	47.2% (76)	24.2% (39)		161
Commonwealth Bank of Australia	32.3% (54)	47.3% (79)	20.4% (34)		167
Mariner Retirement Solutions	11.1% (17)	74.5% (114)	14.4% (22)		153
Police & Nurses Credit Society	8.8% (13)	76.4% (113)	14.9% (22)		148
Over Fifty Group Limited	37.4% (61)	49.7% (81)	12.9% (21)		163
St George Bank	29.8% (48)	56.5% (91)	13.7% (22)		161

Macquarie Bank	7.7% (12)	65.4% (102)	26.9% (42)		156
New castle Permanent	3.3% (5)	82% (123)	14.7% (22)		150
Suncorp	4.7% (7)	79.1% (117)	16.2% (24)		148
Vision Equity Living	25.9% (41)	60.1% (95)	13.9% (22)		158

Statistics based on **192** respondents **0** filtered; **0** skipped. Total # of respondents **221**. To see all answers you need to apply **29** additional credits

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Optional comment on current reverse mortgage product attractiveness to older persons?

Response Total







[View](#)

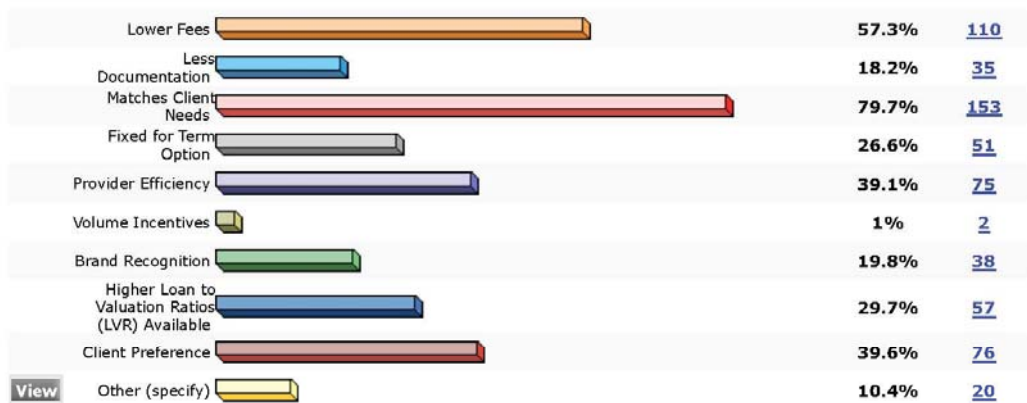
53

Statistics based on **53** respondents **0** filtered; **139** skipped. Total # of respondents **221**. To see all answers you need to apply **29** additional credits

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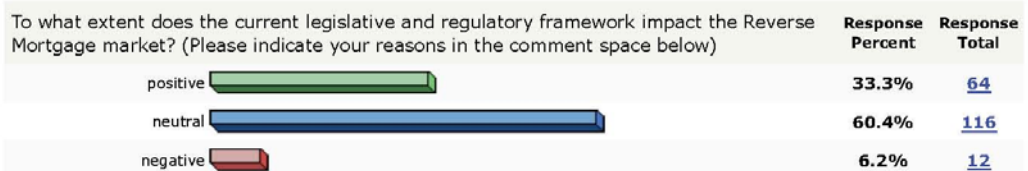
What are your reasons for recommending a particular Reverse Mortgage product? (please check all that apply)

	Response Percent	Response Total
Exclusion clauses 	9.4%	18
No negative equity 	80.7%	155
Reputation of lender 	71.9%	138
Higher Up-Front Commission 	2.1%	4
Increasing Trail Commission 	2.1%	4
Lower Interest rate 	66.7%	128



Statistics based on 192 respondents 0 filtered; 0 skipped.Total # of respondents 221.To see all answers you need to apply 29 additional credits

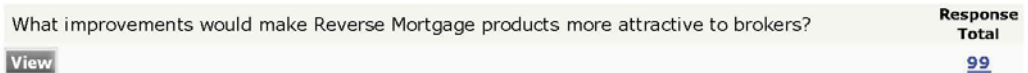
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[View](#) Indicate your reason(s) for the above selection?

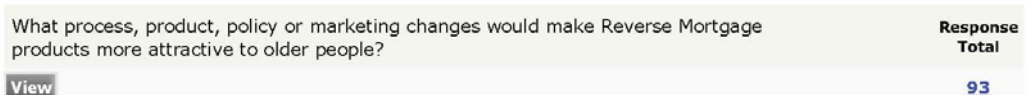
Statistics based on 192 respondents 0 filtered; 0 skipped.Total # of respondents 221.To see all answers you need to apply 29 additional credits

[Export Graph](#) [← Top](#)



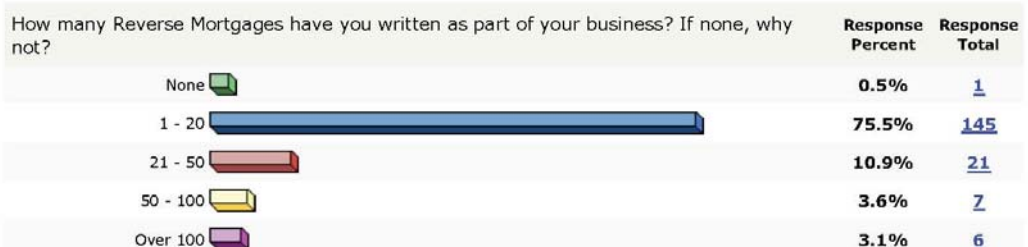
Statistics based on 99 respondents 0 filtered; 93 skipped.Total # of respondents 221.To see all answers you need to apply 29 additional credits


[← Top](#)



Statistics based on 93 respondents 0 filtered; 99 skipped.Total # of respondents 221.To see all answers you need to apply 29 additional credits

[← Top](#)



View If none, why not? 

6.2% [12](#)

Statistics based on **192** respondents **0** filtered; **0** skipped. Total # of respondents **221**. To see all answers you need to apply **29** additional credits

[Export Graph](#) [^ Top](#)

If you would like to receive a copy of the results of this survey, please provide your email address in the box below.

**Response
Total**

View

[110](#)

Statistics based on **110** respondents **0** filtered; **82** skipped. Total # of respondents **221**. To see all answers you need to apply **29** additional credits

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Appendix 3: Letter to lenders with consumer invitations to focus groups

15 April 2009

Dear

RE “Reverse mortgages and older people: Growth factors and implications for retirement decisions” – A research project funded by the Australian Urban Housing Research Institute (AHURI)

Thank you very much for your recent participation in an interview for this research project. As discussed at the interview, we are now progressing to the focus groups for Reverse Mortgage clients. As you would be aware, for privacy reasons, your clients can only be contacted through yourselves and we would appreciate your assistance to invite these clients to participate in focus group discussion sessions.

We have attached the following documentation, for this purpose:

- The letter to clients,
- The client project information statement, and
- The client consent form.

In order to maintain our project timeline, we ask that you to send these letters to your reverse mortgage clients within the next two weeks and thank you in anticipation of your kind co-operation. At this stage it is planned to hold six focus groups around Australia, in Sydney, Newcastle, Hervey Bay, Brisbane, Canberra, Melbourne and Perth but this may vary depending on the number and location of participating clients. Clients will be asked to contact the research team on an 1800 number if they wish to book for a focus group. Clients who do not wish to or are unable to attend a focus group may still have their say via a telephone discussion if they wish.

IMPORTANT: The input from clients is an essential part of the research and the larger the sample size, the more representative their views and therefore their relevance to the development of government policy in this area. Therefore, to ensure a sufficient sample size from this process, we will also advertise in major newspapers for focus group participants. There is a risk that this latter process may deliver a negatively biased sample. Therefore, your assistance in forwarding these invitations to your clients is a critical factor in achieving a more balanced input and a superior result.

Should you wish to further discuss this matter, please do not hesitate to contact:

Kevin Conlon, SEQUAL CEO, on 0411 094 495, email Kevin@sequal.com.au or, either of the following research team members: Toni Adams on 0420 902 607, email toniadams@unsw.edu.au and Dr Catherine Bridge on 02 9385 5357, email c.bridge@unsw.edu.au.

Again, thank you for your assistance with this important project.

Yours sincerely

Kevin Conlon
Chief Executive Officer

Appendix 4: Invitation letter to lenders' clients for focus groups

<<insert date>>

Dear (insert name or "Holder of a Reverse Mortgage"),

We are writing to invite you to be part of an important project about reverse mortgages.

We would like to hear your views and know about your experiences as the holder of a reverse mortgage.

The research project is being funded by a national housing research body, the Australian Housing and Urban Research Institute (AHURI), who are interested in understanding more about the experiences of households with reverse mortgages. Our research team is based at the UNSW/UWS AHURI Research Centre (Ethics approval number: 85033). We are inviting you to join a discussion group of between 8–10 people in (insert city) on (insert date) commencing at (insert time). Refreshments will be provided and the discussion session will be no more than 90 minutes long. Each person who attends will receive a \$20 Coles/Myer voucher to cover any out of pocket expenses incurred in travelling to the venue and as a thank you.

You can accept the invitation to attend this discussion group by calling the project team on their free call number 1800 305 486.

IMPORTANT: All of the information you provide will be confidential.

The provider of your reverse mortgage has agreed to send you this letter so that you are aware of the opportunity to be part of this important project but they will take no further part in the survey.

For your interest, some more details of the survey are included in the attached information sheet.

We look forward to hearing from you.

Yours faithfully,

Appendix 5: Project information statement

THE UNIVERSITY OF
NEW SOUTH WALES

PROJECT INFORMATION STATEMENT

Project Title: Ageing and Housing – Reverse mortgages
and their influence on retirement decisions and planning

Approval No: 85033



Participant selection and purpose of study

You are invited to participate in a study of the reverse mortgage market, its popularity and potential impact on retirement decisions and planning in Australia. You were selected as a possible participant in this study because you are either a current, past or potential reverse mortgages client or mortgage broker.

Description of study

If you decide to participate in a focus group and or individual interview, we will interview you for the purpose of providing a comprehensive appraisal of reverse mortgages and home reversion schemes as they begin to emerge as a significant financial product for senior Australians and as a policy issue for range of government agencies. If you agree to participate, all individual and focus group interviews will be audio recorded.

Confidentiality and disclosure of information

Any information that is obtained in connection with this study and that can be identified with you will remain confidential and will be disclosed only with your permission, or except as required by law. All individual interviews and focus group transcript data will be de-identified and pseudonyms used. If you give us your permission, the de-identified research data will be published in a report for the Australian Housing and Urban Research Institute (AHURI).

Recompense to participants

There will be no financial recompense for your time, and we cannot and do not guarantee or promise that you will receive any direct benefits from this study.

Your consent

Your decision whether or not to participate will not prejudice your future relations with The University of New South Wales or other participating organisations. If you decide to participate, you are free to withdraw your consent and to discontinue participation at any time without prejudice by completing the statement below and returning this entire form to Dr Catherine Bridge, Faculty of the Built Environment, UNSW, Sydney NSW 2052.

Appendix 6: Client consent form

FBE HREAP FORM 4 – PROJECT CONSENT FORM January 2007

PROJECT CONSENT FORM



FACULTY OF THE
BUILT ENVIRONMENT

Project Title: *Ageing and Housing – Reverse Mortgages and Their Influence on Retirement Decisions and Planning*

You are making a decision whether or not to participate in a research project.

This PROJECT CONSENT FORM enables you to indicate your preparedness to participate in the project. By signing this form, your signature indicates that you have decided to participate.

You will be given a PROJECT INFORMATION STATEMENT that explains the project in detail, and that statement includes a revocation clause for you to use if you decide to withdraw your consent at some later stage. The PROJECT INFORMATION STATEMENT is your record of participation in the project.

This PROJECT CONSENT FORM will be retained by the researcher as evidence of your agreement to participate in this project.

Please complete the information in this box.

Please indicate which of the following options you agree to by ticking one of the following options:

- I consent to being quoted and identified
- I do not want to be quoted or identified but am prepared to participate anonymously

.....
Signature of Research Participant

.....
Please PRINT name

.....
Date

Name of researcher: Dr Catherine Bridge

Appendix 7: Banker semi-structured interview questions

Ageing and Housing – reverse mortgages and their influence on retirement decisions and planning

Approval No: 85033

THE UNIVERSITY OF
NEW SOUTH WALES



FOCUS GROUP/INTERVIEW SCHEDULE OLDER PEOPLE PARTICIPANTS

DEMOGRAPHIC QUESTIONS:

Question 1.

How old are you?

Question 2.

What is your gender?

Question 3.

Do you live in a city, regional area, or rural area?

Question 4.

What kind of home do you own (unit, house, town house)?

REVERSE MORTGAGE QUESTIONS:

Question 1.

What kind of reverse mortgage products have you enquired about?

Question 2.

Did you request information from SEQUAL about a reverse mortgage by telephone or online?

Question 3.

How much prior knowledge did you have about reverse mortgages?

Question 4.

Who is the reverse mortgage for, and what will it be used for?

Question 5.

How would you rate the information you received on reverse mortgage products?

Question 6.

What information would you like to be given regarding reverse mortgages?

AHURI Research Centres

Queensland Research Centre

RMIT Research Centre

Southern Research Centre

Swinburne-Monash Research Centre

UNSW-UWS Research Centre

Western Australia Research Centre



Australian Housing
and Urban Research Institute

Australian Housing and Urban Research Institute

Level 1, 114 Flinders Street, Melbourne Victoria 3000

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