The reverse mortgage conundrum: Perspectives of older households in Australia

Abstract

Ageing populations in the Western World over the last few decades have necessitated the development of financial products to assist older people face the challenges of ageing. One such product is the reverse mortgage where homeowners unlock the equity in their residential property through a mortgage loan, secured over the property. These loans normally have no mortgage payments and are aimed at an older demographic. Such mortgages have been increasing in popularity in the United States and the United Kingdom, but growth in Australia's reverse mortgage market has been slow and the majority of financial institutions that once offered such mortgages have left the market. The purpose of this article is to explore reasons for this observation. To achieve this purpose, 31 people aged 65 and older were interviewed about their views on reverse mortgage and analysed using nVivo. Analysis showed that reverse mortgages are unpopular due to strongly negative views about the product itself and perceived the risks associated with them due to the debt and potential loss of assets as well as high interest and charges. While some participants would not enter a reverse mortgage due to a desire to pass on an estate to children, others were ambivalent about this. While this negativity may be overcome through a redesign aimed toward reducing these perceived risks, inherent characteristics as a debt instrument suggest that reverse mortgages are unlikely to be attractive, to the current generation of people aged over 65.

1. Introduction

The demographic shift towards more ageing populations in mature economies, in the main western liberal democracies, is increasingly imposing major costs on public sector finances which in many countries are still under budgetary constraints as an aftermath of the Global Financial Crisis (GFC). Indeed, World Bank statistics for 2017 (World Bank, 2017) show that 15.4% of the United States (US) population is 65 or older, in both the United Kingdom (UK) and Germany the figure is higher 18.5% and 21.5% respectively and in the case of Australia, the subject country in this paper, 15.5% of the population is 65 or older. While most of the focus from a policy perspective has been on the cost of health and social care provision for an ageing population, lesser emphasis has been given to the ability of people as they age to maintain their standard of living and quality of life arising from reduced (or lack of) income from pension funds and general inflation pressures including increased energy costs. Given public sector constraints, policy-solutions need to be tailored towards other potential mechanisms and in this respect the property asset owned by a significant percentage of the ageing population provides one possible mechanism through unlocking the wealth within people's homes. Indeed, evidence from the UK, quoted by the Equity Release Council (2018a) shows that this can have favourable impacts with every £1 of wealth released through reverse mortgages generating £2.34 for the wider economy through multiplier effects.

The concept of freeing up equity or increasing liquidity is not new but is now increasingly on offer to those in homeownership through various reverse mortgage products. Research has shown a growing trend in the use of equity release schemes, notably in the US where Haurin et al (2014) discuss the variable rate of take-up and in the UK where recent information shows that the value of equity release schemes doubled from £1.61B in 2015 to £3.06B in 2017 (Equity Release Council, 2018a). As with all property/financial products there are costs, through potential fee structures depending upon the product provider, and risks. Indeed, earlier research by Ong (2008, 2009) illustrated that complex issues surround participation in reverse mortgages and that there is the risk of being left with little equity to meet financial emergencies. Some of these risks have been clearly articulated in a report by the Australian Securities & Investment Commission ([ASIC] 2018) which, nevertheless, found that reverse mortgages have helped older Australians achieve their immediate financial objectives. Even so, there is currently limited choice of mortgage providers with the number of financial institutions offering reverse mortgages in Australia being severely reduced after the GFC from over 20 to only a few, with none of Australia's large banks or their subsidiaries offering them from 1 January 2019 (ASIC, 2018; Collet, 2018; Kane, 2018). Key reasons for these institutions exiting the market is the increased scrutiny and regulation coupled with a lack of understanding on the part of borrowers regarding the financial consequences of taking out a reverse mortgage (ASIC, 2018; Kane, 2018). Indeed, all but one of the reverse mortgage providers assessed by the Australian Securities and Investment Commission have exited the market. Likewise, demand for reverse mortgages has slowly increased since the GFC, although it is notable that it was in decline during the latter part of 2017. In addition to these trends, the Australian government's Pension Loan Scheme, which has been operational for 30 years, has only 710 loans outstanding as of May 2018 prompting the government to broaden the scheme to make it more attractive (Collett, 2018).

With the reverse mortgage market being left to a handful of minor players to service a sector with slow, or declining, growth, it could be argued that the financial institutions that exited the market did so since the risks associated with offering reverse mortgages outweighed the rewards from offering them. If demand were higher, financial institutions may re-enter the market. In this sense, the focus of this paper is timely. In exploring through empirical research, the attitudes and perceptions of older people to the opportunities/risks raised by reverse mortgages and assessing the extent of knowledge regarding such financial products, this paper adds to the debate and provides an original perspective by collecting and analysing the views about reverse mortgages of those who have not taken one out to determine why demand is not sufficient to support more providers.

The paper is structured as follows. Section two summarises the literature with a brief historical introduction to reverse mortgages followed by a discussion of benefits, risks, use and ethical considerations. The major theories useful in explaining the financial concerns of seniors, namely the life cycle hypothesis and the precautionary savings hypothesis, are summarised. A review of the theory on the concept/principles of reverse mortgages/equity release schemes, user perceptions and satisfaction with such products, analysis on the update of reverse mortgages using international examples and perspectives from Australia on how reverse mortgages are operating is also provided in this section. Section three provides a reflection on ageing and homeownership in Australia within the context of intergenerational equity and the decision whether to retain the full equity within the family home to enable bequests or release equity for living purposes. Section four compares the international home equity market. Section five discusses the qualitative methodology employed through semi-structured interviews to extract older people's opinions and perceptions of reverse mortgages and the qualitative analytical methods used to analyse and interpret the responses. Section six provides a discussion of the results focussing upon negative, positive and neutral views of reverse mortgages and the underlying reasons for such perspectives. Section seven draws conclusions and policy implications.

2. Literature: reverse mortgages perspectives and financial theories

From a historical perspective, Huan and Mahoney (2002) provide evidence of a form of home equity release in Europe dating back over 400 years and discuss how home equity reversion financial products were created in England during the Great Depression of the 1930s. The US in the 1970s was the first country to develop home-equity conversion loans or reverse mortgages to a wider audience and with other countries following the US lead, some form of home equity conversion loans are now available in most developed countries. In brief, reverse mortgages allow senior homeowners to borrow cash against the equity in their home as a lump sum, a regular income stream or a line of credit. Interest is charged but the borrower does not need to make any repayments; no income is needed to qualify, and no repayment of the loan is necessary until the homeowner moves out of the home permanently, sells the house or dies.

There are a number of potential drivers spurring the uptake of reverse mortgages. For example, Merrill, et al (1994) identified that such loans could benefit many retired homeowner households. It was not until much later that research, for example papers by Cutler (2003) and Sisk (2003), noted an increase in the number of people seeking information on reverse mortgages. Early work in the Australian context, by Reed and Gibler (2003), Reed (2004) and Reed and Wu (2007a), suggested rising house prices in Australia and longer life expectancy rates could make reverse mortgages an attractive product, with careful use. Reed and Wu (2007b) and Reed (2009) report that reverse mortgages were not yet fully understood by clients or potential clients but had risen in popularity in Australia during the pre GFC period, notably from 2005 to 2007. Indeed, Stucki (2006) argued that releasing equity through reverse mortgages has an important role to play in paying for the long-term care of the elderly and Haurin and Moulton (2017) articulated that the increasing proportion of seniors in most countries, through the increased pressure on public age pension schemes, makes equity release attractive as a means of augmenting retirement income. However, the contrary perspective, initially voiced by Gibler and Rabianski (1993), that many senior citizens have an emotional attachment to their homes, with the elderly generally preferring to live in their homes as long as possible is an important factor limiting the uptake of equity release products. Furthermore, more recent research by Nakajima and Telyukova (2017) found that medical expenses, nursing home costs, house price uncertainty and the substantial borrowing costs (relative to ordinary mortgage borrowing costs by younger, employed and income earning borrowers) are factors reducing the demand for reverse mortgages.

Some of the major risks involved in reverse mortgages have been addressed in reports by ASIC (2018, 2019) which discuss the effect that compounding interest has on the accumulated loan balance over longer time horizons, how debt increases as interest rates increase and the possible consequences on future borrowings if the home falls in value. Since banks are taking on home value change risk, interest rate risk and the risk of increased borrower longevity, the interest rates charged on reverse mortgages are generally higher than an average home loan. In this context since 2012 in Australia, reverse mortgage borrowers have a “non-recourse” clause in the loan agreement stating that they will not owe the lender more than the sale value of the home. Interestingly, both Ong (2009) in Australia and Davidoff (2006) in the US show that homeowners aged over 75 spend considerably less on home maintenance thereby potentially depreciating the eventual sale value of their properties.

Weber and Chang (2006) discuss many ethical considerations that family, friends, and lenders need to consider in assisting the borrower to make the right decision for their needs, including the autonomy, the dignity and overall welfare of the borrower. Although ASIC (2019) cautions reverse mortgage borrowers to take financial and legal advice, Weber and Chang (2006) suggest the reverse mortgage is a complex financial product not well understood by those who use it. Interestingly, while Jappelli (2010) suggests that the financial literacy of seniors in developed countries is not high, Haurin et al (2017) note that seniors had generally optimistic home price valuations of their residences.

In terms of setting reverse mortgages within a theoretical framework, the life cycle hypothesis of Modigliani and Brumberg (1954) and later Ando and Modigliani (1963) argued that households make savings choices to smooth out consumption over their lives. Thus, young households tend to spend more than they save; over later years they will save more as they earn more and increase their wealth as they continue to do this. At retirement, seniors are expected to spend their accumulated wealth. However, Banks et al (1998) and Venti and Wise (2000) maintain that the consumption of seniors is far less than the theoretical expectation at retirement and Carroll (1997) suggests that seniors are careful about spending down their wealth in their older years because of uncertainties about health. Likewise, the Australian Government Productivity Commission (2015) found that older Australians, particularly the less wealthy, continue to save into their old age because of uncertainties of health care and aged care costs. Similarly, De Nardi et al (2016) argue the risk of incurring medical expenses is an important reason why seniors maintain high wealth levels and suggests that the desire to leave a bequest to family complicates matters and is a major reason for seniors retaining wealth in their later years. Likewise, a study by Lowies et al (2019) shows that running out of money in the later, vulnerable stages of life (85 years and older) is one of the biggest fears of older people and that having money to spend on basic needs and increasing health costs in later stages of life becomes vital to an older person's wellbeing.

The bequest motive arises strongly in the literature as an obstacle to the update of reverse mortgages, though Haurin and Moulton (2017) suggest with falling fertility rates in certain OECD countries and the percentage of childless couples rising, this may be reduced over time. As an example, Mitchell and Piggott (2004), in exploring the concept of using reverse mortgages in Japan, observed that the decline in fertility may reduce the bequest motive. They also point out that high levels of home equity in Japan and releasing some of that equity could improve seniors' consumption and reduce government pension support and long-term care. In Australia, Ong (2008, 2009) argues that reverse mortgages could well improve the economic well-being of elderly homeowners but warned that slow property price growth in some states may leave little to bequest or draw down in later years, particularly for those aged 75 or over. Costa-Font et al (2010) in the Spanish context concluded that the willingness to take out a reverse mortgage was more likely by those with a university education and was largely dependent on the prospect of future economic difficulties. The bequest motive however featured prominently in Spain even where less wealthy seniors would not be willing to enter a reverse mortgage contract even though they might face economic difficulties. Chou et al (2006) using Hong Kong data similarly found that the bequest motive important to middle aged Chinese with children reduces the likelihood of taking out a reverse mortgage.

A major study in Australia by Olsberg and Winters (2005) that involved a survey of 7,000 men and women aged over 50 specifically explored issues of bequests, inheritance and intergenerational relations. This research suggests that many of the respondents have moved on from early generational attitudes of "do the right thing" to "put yourself first". In this respect, over a quarter of all respondents expected to use all their assets while they were alive, and some saw reverse mortgages as the answer to releasing equity which they would use in their later years. However, Olsberg and Winters also found that while the banks expected a high take up of reverse mortgages, in the main homeowners would rather release the equity in their homes by selling and downsizing. Seemingly, much of the aversion to reverse mortgages centred on a distrust of the banks and the high levels of fees and charges. Also, many respondents were concerned that with the compounding effect of a reverse mortgage, that far from leaving their children a legacy that they might be incurring them a future debt. The study also considered intergenerational transfers in the form of gifts or loans to children, with changes in the socio-political landscape having left most older Australians feeling that they will need to substantially fund their life in retirement. As a result of such changes, many older people have moved from an attitude (towards their children) from one of sacrifice to one of self-interest. While some interviewees had previously given financial assistance, mainly in the form of loans there was increasing resentment when loans were not repaid or when they felt that children had taken advantage of them particularly if the loan enabled them to live beyond their means.

In summary, the expectation that reverse mortgages would increase in popularity as populations age has seemingly not come to fruition with Australia experiencing a relatively low uptake of them resulting in key financial institutions exiting the market in 2018. Most of the literature discussed herein predates the GFC and the subsequent exodus of reverse mortgage providers. Since then, demand for reverse mortgages has been slowly increasing but not at levels where major financial institutions regard the reverse mortgage market as being worthy of their participation, especially given the recent scrutiny by the regulator. Given this unfilled context, which is also contrary to evidence from the US and the UK, this research seeks to explore attitudes of people aged over 65 toward reverse mortgages to gain an understanding of why this financial product is seemingly unpopular and under-utilised. The next section sets the scene for the research by illustrating the high level of equity and value that exists in Australian households that potentially could be unlocked from a reverse mortgage.

3. Ageing and homeownership in Australia

Ageing population is a global phenomenon with projections showing that within the next decade, one in every eight of the world’s population will be over the age of 65 years (United Nations, 2017). Indeed except for Africa (Figure 1) all other continents are ageing at a higher rate than the global average. Australia is part of this accelerated ageing population growth with current estimates showing that by 2061 older people, above 65 years, will constitute 25% of the population and those 55 years or older, 36.5% of the total Australian population. Furthermore, it is estimated that the number of vulnerable older people (aged 85 years and over) will double to over 1 million people over the next 20 years (Australian Bureau of Statistics, 2017).

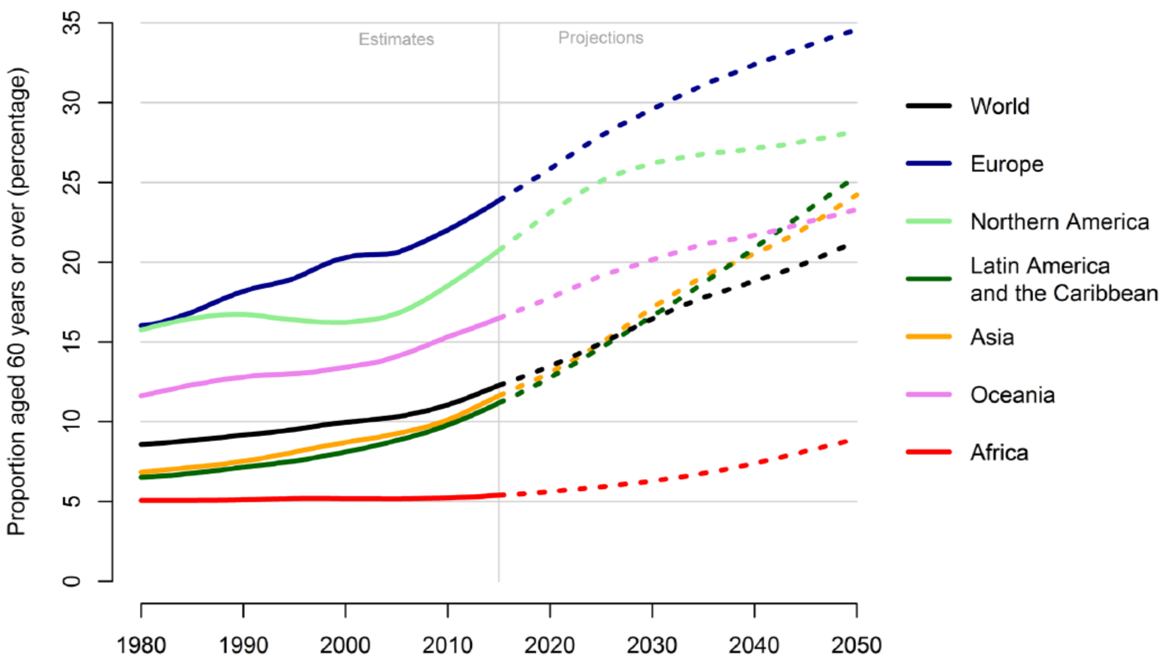

Figure 1: Percentage of population aged 60 years or over by region, from 1980 to 2050

Data Source: United nations (2017)

More compelling is the fact that younger age cohorts are declining at the same time rates. Data for Australia (Figure 2) shows that in 1901, 35% of the population were under 15 years of age. In 2015 that percentage had declined to 19%. By contrast, in 1901 only 4% of the population was 65 years and older; by 2015 that had grown to 15% (Australian Bureau of Statistics, 2014). The growth in ageing population together with the associated decline of younger age cohorts are mainly attributed to declining fertility and increasing longevity. Furthermore, global fertility rates are predicted to fall from 2.5 births per woman to 2.4 within the next decade whereas life expectancy has increased by 3.6 years over the past decade (United Nations, 2017).

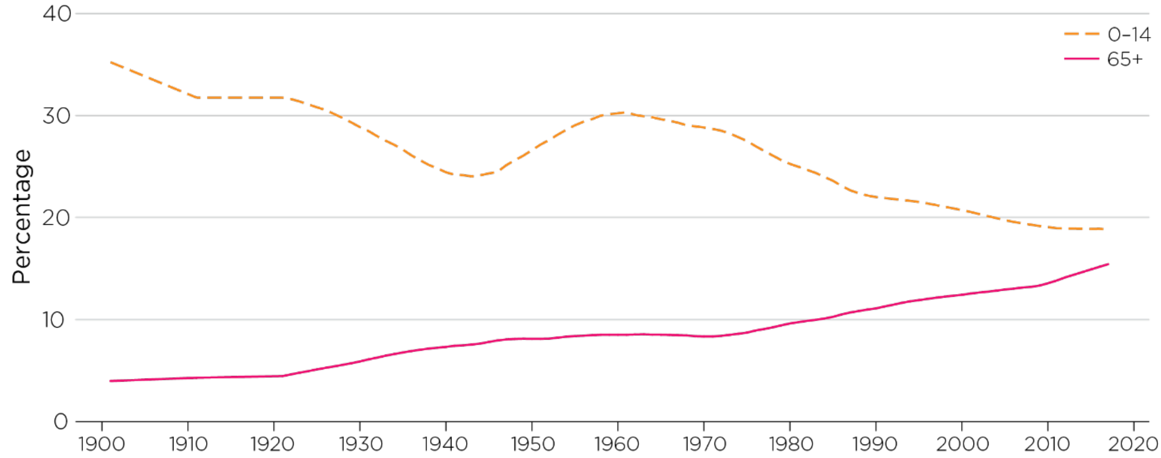

Figure 2: Proportions of population aged 0–14 years and 65 years and over, 1901–2017

Data source: ABS (2014) *Australian historical population statistics 2014*

A substantial majority of older Australians (71.5%) own their primary residence outright as opposed to younger generations (18.9%) and, as argued by O'Mahony and Overton (2014), a home owning population creates the opportunity for an asset-based welfare system where older people release home equity to provide financial support in later life stages. However, as shown in Figure 3, several older people (12.1%), presumably in retirement, still need to service an outstanding mortgage and 13.3% of the above 65-year cohort are renting. The latter two tenure groups might present the possibility of financial hardship in later stages of life as mortgage and rent obligations increase with no correspondent increase in income.

These statistics reiterate the importance of owning a home in later life stages in Australia through the financial benefits of the locked in value of the equity in the property asset owned. However, as articulated by Rowlingson and McKay (2005) a major barrier to release equity, at an older age, is the younger generation's expectations of receiving an inheritance, especially if their parents are homeowners. Indeed, as shown in Figure 3 younger generations tend to rent (33%) more than owning (18.9%) their own property. Hence the importance of intergenerational gifting as millennials are more likely to put off the purchase choice, deciding to rent for longer, in the expectation that an inheritance (or gift) will enable them to enter the housing market, with a greater deposit, later in life. This cycling of wealth between generations is supported by the findings of an international study of millennials (CBRE, 2016) which found that in the Asia Pacific region (including Australia) 59% intended to buy but could not do so due to affordability, that 60% intended to buy at some time with 61% expecting support from families to aid in finding the deposit and 5% expecting to fund that though an inheritance. Given these expectations it is not unreasonable to suggest that many older Australians will feel under pressure to retain full equity in their home to fund gifts or an inheritance for future generations. On the other hand, reverse mortgages may be a mechanism that parents use to remain in their own home while providing a gift for children to enhance the deposit amount.

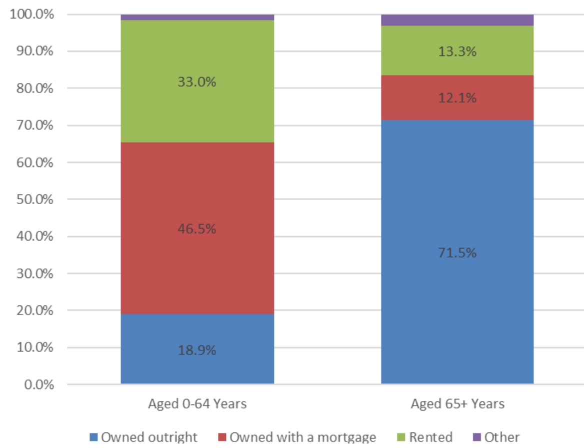

Figure 3 Tenure status of Australians (Census of Population and Housing 2016)

Note: Percentage of each age group living in properties with different tenure types as a proportion to total persons of that age group. Tenure types Not Stated and Not Application have been excluded.

This section of the paper has amply illustrated that Australia has an ageing population with significant value locked into their places of residence. This raises questions as to whether the desire to bequeath this value to the next generation is responsible for the seeming failure of reverse mortgages to be taken up at expected rates in Australia (Rowlinson and McKay, 2005) or is this outcome more a reflection of fees and charges (Olsberg and Winter, 2005) or other factors. Before discussing the methodology used in this study, a brief international comparison of home equity is made in Section 4 specifically in relation to the costs, fees and risks associated with reverse mortgages.

4. International comparisons on home equity

In terms of international comparisons on home equity, pensions and retirement income, the most comprehensive study exploring these relationships and the potential impact on public policy is the seminal paper by Haurin and Moulton (2017). This paper explores the consequences of the increasing ratio of those retired to individuals working in respective countries with the concern that private and public savings are not sufficient. To emphasise the public policy dilemma, Haurin and Moulton, quoting OECD data, note that the share of public pension tax revenues to all tax revenues is as high as 0.38 in Germany, 0.24 in the US and 0.19 in the UK. Within this context, home equity release has been viewed as a potential solution with policy tools, both regulatory and fiscal, designed to enable retirees to release capital by homeowners.

In the case of the US, Haurin and Moulton (2017) discuss how the wide range of reverse mortgage providers embraces a mix of both private and public sector provision. The latter includes the largest scheme in the US, the Home Equity Conversion Mortgage (HECM). HECM is federally regulated by the Department of Housing and Urban Development (HUD) in setting guidelines regarding borrower and property eligibility, and federally insured thereby relieving the borrower and lender of selected risks, borne by the Federal Housing Administration (FHA) mutual mortgage insurance fund. However, the offsetting of risk, involves additional costs including an upfront mortgage insurance fee and a monthly fee that is added to the loan balance (Haurin and Moulton, 2017). Despite this level of risk mitigation, Haurin and Moulton conclude that although HECMs have a presence in the US market, seniors access their home equity infrequently. Haurin and Moulton (2017, p. 263) argue that "the small size of the reverse mortgage market is not explained by a lack of supply of loanable funds or constraints imposed by lenders; rather, it is low demand". In this respect it is apparent that the low demand in the US is influenced by high costs (Redfoot et al, 2007) which include fees, mortgage insurance, interest and costs required to maintain the condition of the property. HECMs in particular are considered to have higher origination costs. According to Lucas (2015), even a cursory look at the fees and interest rates on HECMs supports the perception that loans may be expensive for borrowers and profitable for lenders. Lucas outlines that borrowers pay between US$2,500 and US$6,000 at origination to the lender, an annual insurance premium of 1.25% of the outstanding mortgage balance to the FHA and incur other smaller upfront fees. Data from June 2019 on new originations show interest rates varying between 1.625% to 6.621% (Department of Housing and Urban Development, 2019).

In the UK, like the US, there is a range of products that fall under the umbrella of reverse mortgages with two main types of equity release Lifetime Mortgages and Home Reversion Plan (Equity Release Council, 2018b) regulated by the Financial Conduct Authority (FCA). Lifetime mortgages allow borrowing against the value of the home-owner's property and is akin to a standard residential mortgage. For lifetime mortgages, interest rates are tailored to specific user circumstances and are fixed or, if variable, have an upper limit which is fixed for the life of the loan. The Home Reversion Plan is where all or part of the equity in the property is sold in exchange for a lump sum or monthly income. The main downsides to reverse products are that interest amounts build up substantially over time with substantial early repayment charges. Typically interest rates on reverse mortgage products in the UK are within the range 3.5% to 7% (in 2019) and additional costs, including fees, are within the range £1000 to £4000 (UK Care Guide 2019).

The situation in Australia has many similarities to both the US and UK. According to ASIC (2018) most loans are a line of credit (70.2%), with lump sum (13.8%) and progressive drawdown (9.2%) less frequently preferred equity release options. Again, interest rates, which according to ASIC are typically at a rate of 1-2% higher than standard homes loans and calculated on a compounding basis, present the highest risk element to users, leading to an erosion of equity in the property. In this respect an illustration provided by Canstar (2019) highlights potential costs involved, with average upfront fees of AU$872.50 and average ongoing fees of AU$77.65 per month, coupled with a variable interest rate of 6.25% on a $90,000 loan can, over a 10 year period, result in interest payment of AU$82,175 and fee payment of AU$9,608. A key point of difference in Australia, compared to the US and the UK, is that by 1 January 2019, only two financial institutions offering reverse mortgages remain in the marketplace (Collett, 2018, Kane, 2018). It is against this background that the next section of the paper discusses the methodology used to address these and other questions by exploring attitudes and motivations of people aged over 65 to reverse mortgages.

5. Methodology

The empirical research underpinning this paper is qualitative in context drawing upon a rich source of opinion and perceptions from interview evidence. Since this research is concerned with reverse mortgages, the target demographic interviewed is composed of people aged over 65 years. Participants were part of a larger study concerned with the financial capability of older South Australians aged over 65 in choosing financial products from financial institutions. Interviewees were invited to participate in this broad study through a small print advertisement that was dropped in their letter box at retirement villages or left at the foyers of non-government organisations that older people tend to visit. Approximately 250 advertisements were placed in this way leading to 31 individual interviews being conducted using a semi-structured technique where participants were asked whether they had heard of reverse mortgages and, if affirmative, their opinions on this financial product. While participants were all located in the metropolitan area of South Australia's capital city, Adelaide, the views of the participants are likely to be generalisable across Australia since the federal government policy encourages older Australians to age in place and unlock equity in the family home where necessary (ASIC, 2018). Furthermore, reverse mortgage products that have been offered by financial institutions are very similar Australia-wide with little geographic variation and are regulated by the same agency throughout the country (ASIC, 2018).

An inherent part of the semi-structured interview process was to ask probing questions designed to drill down into the reasons for the responses given with the objective of the questions to explore views about reverse mortgages. Given the exploratory nature of this research into attitudes and views of older people with respect to reverse mortgages and the lack of any other comparable study in an Australian context, it was vital that all questions were clearly articulated and understandable by the target group and that interviewing procedures focussed on these specific goals. All interviews were recorded and subsequently transcribed by a professional transcription service into a format suitable for qualitative analysis.

Each complete interview transcript was imported into *nVivo* (version 12 or Macintosh) analysis software and searched using the term 'reverse' to identify the part of the interview where reverse mortgages are discussed, typically at the end of each interview. These parts were read to gain familiarity with their content and coded into broad themes: negative views of reverse mortgages, positive views or a neutral view or no view. This raised the question regarding the specifics behind these views, what exactly was positive, negative or neutral? More detailed coding to address such questions led to the division of quotes into primary (mother) nodes based on positive, negative or neutral responses and secondary (child) nodes providing more detail of such responses such as whether reverse mortgages were viewed positively or negatively due to, for example, aspects of reverse mortgages or the person's circumstances. A second level of child nodes was created to code, for example, what particular aspects of reverse mortgages or what particular circumstances led to a negative or positive view. The mother-child-child node arrangement allows a drilling down into specific reasons behind participants' views while also enabling categorisation. Coding focused on themes rather than specific coding units such as words, or groups of words and the like. *nVivo* counts which interviewees and quotes are coded to particular nodes and these are tabulated in the next section. Semi-structured interviews allow the interviewees to respond as they see fit and for the interviewer to probe for further information. As a result, an interviewee may express many views about reverse mortgages that might be positive, negative or neutral in various ways. Each view was counted separately. Consequently, the number of responses exceeds the total number of interviewees. Furthermore, interviewees were able to express an identical view more than once, therefore the frequency of responses may be greater than the number of interviewees expressing such a view with the frequency of expression regarded as a proxy for how strongly interviewees held that view.

6. Results and discussion

Coding in accordance with the analytical procedures discussed in the methodology yielded broad attitudes to reverse mortgages in terms of positive, negative and neutral perspectives and is used to provide an overarching structure to interviewee responses with inferences gained by drilling down into the reasons for these views and providing a degree of objectivity through frequency.

The analysis (Table 1) leads to the inference that reverse mortgages have not flourished as a product in Australia as older people are overwhelmingly negative in their opinion due to either aspects of the product (14 interviewees) or concerns about negative consequences arising from entering into a reverse mortgage (14 interviewees). Significantly fewer interviewees regarded reverse mortgages positively with the nature of the product considered by only 3 of the interviewees as appropriate and 5 interviewees indicating that a reverse mortgage would be helpful in their particular circumstances. Neutral responses also teased out further why reverse mortgages are not popular with 5 interviewees indicating that their particular circumstances were not suitable to taking up a reverse mortgage. In addition, 3 interviewees in this neutral category expressed unfamiliarity with reverse mortgages. The literature, for example the work of Rowlingson and McKay (2005), has focussed upon willing assets to the next generation. The initial broad analysis of this study suggests possibly less emphasis on the importance of this with 6 interviewees seemingly not caring about passing on an asset. These interviewees were generally of the view that their children had received enough over their lives or were otherwise doing well and did not need or expect an inheritance.

Broad view	Broad Reason	No of interviewees	Frequency of responses
Negative	Consequences	14	23
	Nature of product	14	23
	Unspecified	6	12
Positive	Consequences	5	7
	Nature of Product	3	3
	Unspecified	7	10
Neutral	Circumstances	5	5
	Lack of familiarity	3	3
	Don’t care about estate	6	10

Table 1 Broad views of reverse mortgages, reasons and frequency of response

Central to this analysis are questions regarding what aspects of reverse mortgages are regarded as negative or positive, what specific consequences are interviewees concerned about, in what circumstances might a reverse mortgage be helpful and under what circumstances is it ill-suited to even consider a reverse mortgage. In this regard, the analysis is structured to provide insights into these questions.

Two reasons dominate negative views of reverse mortgages; diminished estate and the desire to avoid debt (Table 2). As typified by the quotes below, some older people are concerned with the loss of an asset, mainly for the purpose of passing it onto children through an inheritance or the worry that recipients would inherit the reverse mortgage and interest payments.

"Because I want the money left in my house, I want to leave it for my daughter."

"They'd inherit the reverse mortgage plus interest."

However, as observed in the literature there is a lack of consensus on the desire to will a property unencumbered to the next generation with only 5 of the interviewees expressing a concern over this compared to 6 interviewees who were not concerned about estate (as indicated in Table 1 above). This contrasts with the views of Rowlingson and McKay (2005) but is consistent with those of Olsberg and Winters (2005) which suggest that desire to bequeath assets to children is not the main barrier for older people entering into reverse mortgages. Indeed, more important than having an estate to pass onto the next generation is the desire to avoid debt (6 interviewees) with evidence from the following quotes that some participants were loathed to incur debt after having worked hard for many years to pay off their home loan.

"No, it's only more money you've got to pay back then."

"Well you've got a mortgage and you want to reverse it? I think you want to pay it off, not reverse it. Want to get rid of it."

Specific Reason	**No of interviewees**	**Frequency of responses**
Desire to avoid debt	6	9
Diminished estate	5	7
No money at the end	1	2
Won't have an asset	1	1

Worried will lose house	3	4

Table 2 Negative views related to expected consequences of entering a reverse mortgage

The other three negative reasons in Table 2 articulate the general concern of losing the house, not having an asset or having no money at the end of the process. Collectively these reasons demonstrate concern about security. While reverse mortgages do not allow an older person to borrow more than the equity remaining in their home, such a 'safeguard' is unlikely to alleviate these concerns.

"I don't know, I'd just be worried about losing my house."

In addition, a number of other unspecified negative reasons (Table 3) were voiced ranging from what might be regarded as a neutral negative (not a great idea) to a strong negative (wouldn't consider them).

"… my husband and I actually did go and ask and advisor about doing that [taking out a reverse mortgage] and the information we were given, which I can't really remember in detail, it all boiled down to it's not a great idea."

"I can't think of a situation dire enough that I would contemplate doing anything like that."

With respect to the latter quote, two participants similarly expressed that they would not touch reverse mortgages with a 'forty-foot barge pole' suggesting strong suspicion of the product.

Specific Reason	**No of interviewees**	**Frequency of responses**
No clear advantage	2	2
Not a great idea	2	5
Wouldn't consider them	4	5

Table 3 Unspecified negative reasons

The level of distrust is further highlighted by some extremely negative views relating to the nature of the product (Table 4). In this respect, three separate (and independent) interviewees described reverse mortgages as dangerous and as a scam (not necessarily the same people). The detail behind why they are regarded as dangerous or a scam is not known but it may be due to high interest rates and fees and charges associated with them. If so, this would be consistent with research of Olsberg and Winters (2005), however views about fees and charges and high interest may not be the only reason for such strong views. Another possibility is that there is a lack of trust in financial institutions creating extreme scepticism about a product that encourages older people to get into debt after having worked hard to eliminate it. This research was conducted during a time when the financial sector was subject to a Royal Commission into their conduct and many stories of systemic poor and unethical behaviour were being discussed on the press.

"And if it's actually the start-up fee when I said the real interest rate. Um if you, if you're paying out say $6,000 or $7,000 for a um basically an application fee, um then if you know as an older person maybe you're only going to live for ten years so that's effectively and extra $600 a year um and that you actually pay it up, up front. Now had you been able to invest that $6,000 um it would have actually given you a better return, so the real interest rate is, can be well above the 6% or 7%."

"That's just terrifying for me because there's so many terms and conditions and they're not always stable. Things change. So those things worry me greatly too. Or will worry me greatly. I don't think I'd want to use them."

One comment referred to the possibility of simply taking out a normal loan, like a line of credit, instead of a reverse mortgage. This was regarded a simpler, easier and superior solution, especially if the line of credit is already in place and an older person simply has to draw down on it.

"Well you could just about get an overdraft anyway couldn't you."

Specific Reason	**No of interviewees**	**Frequency of responses**
Dangerous	3	3
Disgusting	1	1
Don't like them	3	4
High interest and fees	3	5
Scam	3	4

Terms and conditions	1	3
Use an alternative	3	3

Table 4 Negative views relating to the nature of the product

In contrast to the strong degree of negativity, positive responses are few (Table 5) and indeed even one of the unspecified positive responses comes with a negative qualifier regarding the possibility of it creating an overall burden. However, there was some recognition that reverse mortgages could be useful for people who are asset rich and income poor with the ability to have access to cash. In this context one older interviewee related a story about a friend who was relatively cash poor and would have found a reverse mortgage useful.

"And they had a lovely unit, but they had no money."

Broad reason	Specific Reason	No of interviewees	Frequency of responses
Positive circumstances	Asset rich, income poor	2	3
	Avoid burdening others	1	1
	Can use if circumstances change	3	3
Positive product views	Gives you ready cash	3	3
Positive consequences	OK if it benefits/no burden	4	4
Positive unspecified	Good idea	2	3
	No reason given	1	2

Table 5 Positive responses to reverse mortgages

More neutral responses (Table 6) include having no need for a reverse mortgage due to having enough funds and housing circumstances such as joint ownership or tenure which prevent the individual from being eligible to take out a reverse mortgage. A couple of participants simply admitted that they do not understand reverse mortgages (Table 7), and another raised the issue of how the money gets replaced. While this represents a lack of understanding of reverse mortgages, since the money does not necessarily get replaced, there is a fear regarding debt that lies behind this lack of understanding. This reinforces the conclusion that reverse mortgages are unpopular due to the desire to avoid debt.

"Well the source of ready money is there but where's it get replaced? How does it ever get replaced? I don't know."

Specific Reason	No of interviewees	Frequency of responses
Can't sell my house	4	4
No need for it	1	1

Table 6 Neutral views related to circumstances not being suitable

Specific Reason	No of interviewees	Frequency of responses
Don't understand them	2	2
How do you pay it back	1	1

Table 7 Neutral responses related to not being familiar with reverse mortgages

7. Conclusion

This paper has established both the downsides (risk, cost) and upsides (releasing cash, income) of reverse mortgages. The paper has also identified the growth of reverse mortgage products internationally, in countries such as the US and UK, however the experience of Australia is different. Despite, undoubted latent demand, as evidenced by demographic trends and locked-in value in their homes, the appetite for reverse mortgages is seemingly stagnant in Australia with financial institutions withdrawing from the market. These findings are in contrast to the earlier work of Reed and Wu (2007b) and Reed (2009) noting an increase in the popularity of reverse mortgages in Australia from 2005 to 2007. It is within this context that this research sought to explore the opinions and perceptions of people aged over 65 in South Australia with respect to reverse mortgages.

Prior to this study, research suggested that barriers to older people taking up reverse mortgages are high fees and charges and with a desire, as Ong (2008) noted, to passing an asset to their children. While some participants in the study also expressed these concerns and therefore supportive of the literature, others expressed contrary views regarding the need to will assets. Indeed, more prevalent was a desire to avoid debt and to retain an asset (either the house itself or the equity in it) for security rather than for bequests. The analysis shows that many older people hold reverse mortgages in contempt and are concerned about associated terms and conditions. Genuinely neutral views tended come from older people who are simply not in a position to enter a reverse mortgage, mainly due to lacking complete control over the property. The only positive to emerge about reverse mortgages is the potential that that the release of equity may lead to a better quality of life through providing cash, but there is reservation that it may also burden older people in the longer term.

With most financial institutions exiting the reverse mortgages market in Australia, it may be too late to affect an uptake, but from a policy perspective what could institutions do to alter the current level of negativity and develop a new reverse mortgage product or modify existing ones? In 2012, ASIC introduced a number of enhanced consumer protections to encourage reverse mortgage providers to lend responsibly and provide mandatory disclosures to borrowers (ASIC, 2018). ASIC also restricted the ways in which a reverse mortgage can be enforced and also introduced the 'no negative equity guarantee' whereby borrowers cannot owe more than the market value of the property when it is sold (ASIC, 2018). This occurred even though many lenders had been implementing their own loan to value ratios to ensure that some equity always remained in the home. Even without these measures, ASIC (2018) analysis shows that borrowers are only likely to lose their home equity in extreme circumstances such as a large increase in interest rates or a large decline in house prices. The results of this study suggest that many older people are unaware of these measures and are unable to predict or evaluate the likelihood that their fears would come to pass. Increasing financial literacy with respect to reverse mortgages and their regulation would help in this regard. Since ASIC's recommendation that lenders take greater responsibility for educating borrowers with respect to these details was met with some lenders exiting the reverse mortgage market, education must now be provided in an alternative fashion.

Attempts at educating the market may prove fruitless due to the lack of trust and confidence in the banking industry and its regulation in the wake of the Royal Commission into the banking industry which exposed poor lending practices on the part of many financial institutions and the inept regulation of such practices (Commonwealth of Australia, 2019). Some smaller financial institutions such as credit unions, who operate for the benefit of members rather than shareholders, came out of the Royal Commission with their reputations intact. Therefore, a potential solution to encourage the adoption of more reverse mortgages may be to encourage these institutions to develop their own reverse mortgage product that meets the needs of older members and which also addresses the concerns about interest rates and fees.

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