

REPORT TO

CONSUMER CREDIT FUND

FOR

CREDIT PREFERENCES AND CREDIT TRAPS FOR OLDER PEOPLE

SUBMITTED BY

COUNCIL OF THE AGEING (VICTORIA)

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EXECUTIVE SUMMARY

Introduction

Over recent times COTA Victoria has become increasingly concerned about credit issues affecting older Victorians. Through Seniors Information Victoria (SIV), a telephone and centre-based information and referral service, the increasing incidence of queries relating to credit and restructuring of finances for older people, has been identified as an emerging theme. These experiences have lead COTA Victoria to identify credit issues facing older people as a priority issue that requires further attention. In particular concerns have arisen around the increasing interest and popularity of home equity release schemes as a result of robust marketing campaigns of banks and other money lenders, to finance other investments or “lifestyle” choices.

The Credit Options and Traps for Older People Project, although modest, is significant in its findings on older people’s understanding of reverse mortgages and the potential influences on their willingness to consider this option, and provides a compelling basis to support concerns by a range of stakeholders about the vulnerabilities of some older people and the lack of regulation of this sector.

This research integrates qualitative data gathered through in-depth interviews with key stakeholders, focus groups conducted with target groups and quantitative data collected from an online survey of the target groups.

The report includes a brief review of both the local and international literature on home equity products, the Home Equity Product market, the pro’s and con’s of these products and any learning’s from overseas that could benefit Australian consumers.

The growth in this market has been considerable since 2005 with 35 products now available in Victoria, through 14 providers. It is estimated that the loans approved through reverse mortgages is now valued at over \$1 billion across Australia.

Regulation for these products falls under the Uniform Consumer Credit Code (UCCC) as they take the form of a credit arrangement although they have some characteristics of an investment product. The Corporations Act 2001 is the regulatory system for investment products, and while it does have limited application to some home reversion and shared appreciation products, it does not generally apply to reverse mortgage products.

Concerns have been raised by a range of consumer and peak organisations as to the adequacy of the UCCC to protect vulnerable people, as it was not designed to address the issues raised by equity release products.

Social and Economic Factors for the Ageing Population

Social and economic factors are significant in the consideration of the implications of the rise of RMs as an option for income for older people. While this project and other reports indicate that there is some reluctance on the part of older people to enter into these loan products, with increasingly less value placed on inheritance, reverse mortgages are gaining popularity as a means to fund a higher standard of living in retirement. This change in attitude is being driven by persuasive marketing, in conjunction with a number of factors and developments in the social and economic contexts of our society, including:

- an ageing population;
- substantial medium term appreciation in capital city housing values;
- increases in life expectancy; and
- many retired Australians, and future retirees, have a substantial investment in their family home yet relatively small superannuation entitlements.

Evidence suggests that there is likely to be increasing interest in accessing home equity to enhance retirement living standards, but that any increase would be from a low base, as relatively few individuals currently see this as a preferred option.

In contrast to this is the significant population of 'baby boomers' who will be facing retirement in the next 10 to 20 years, with different expectations of their retirement lifestyles and in many cases, insufficient superannuation and savings to support these expectations.

In addition the growing home equity release product market and the significant marketing of these products to older people and those approaching retirement may place some pressure on older people to opt for this arrangement to meet their and their family's needs and wants.

Issues Emerging from the Project

1. Financial Planning and Education

Knowledge of Other Options

It was clear from the consultation process that most people felt that a Reverse Mortgage would be their only option for future income to meet needs such as home renovations or maintenance, purchase of new cars, or enhancement of existing retirement incomes. Most people didn't know about State Government home renovation schemes, or Centrelink loans schemes for which they may be eligible.

One group identified cash converter agencies as an option if they needed immediate cash in an emergency.

Due to the socio-economic status of most people in this study, most participants felt that they had no need to consider a reverse mortgage. It is therefore difficult to ascertain the awareness of those who may have urgent financial needs, and the pressures they may feel to utilize the option of a reverse mortgage. It was clear that the heavy advertising and media coverage of reverse mortgages dominated most people's thinking in relation to their future credit and financial options.

Awareness of Future Income Needs

While some people had some understanding of how a reverse mortgage would impact on their future situation, many tended to see it as being a simple option to meet their current or potential financial needs.

Most people were aware that a reverse mortgage may result in them losing equity in their home, but felt that the inheritance aspect for their family was not important – they tended to focus on how the finances raised by a reverse mortgage could provide a 'fix' for their immediate situation.

Many participants saw a reverse mortgage as enabling them to maintain their independence and to stay in their homes for as long as possible, and to maintain good family relations by reducing the burden that may be placed on children if their parents were not as financially independent. There was some discussion of reverse mortgages being an option to meet future care needs, and some people expressed concern about where funds would come from if their needs changed after having taken out a reverse mortgage.

The impact of a reverse mortgage on pensions was raised by one focus group, but the participants did not know how to source reliable information to assist them in their knowledge or understanding.

Superannuation and tax implications are also important considerations in the decision to take out a reverse mortgage, of which people should be made aware, but were not discussed in the focus groups.

Understanding of Reverse Mortgages

Despite the survey results indicating that people had a good understanding of reverse mortgages, the discussion in the focus groups revealed that people who participated generally had poor understanding

– with the media being their main source of knowledge leading to confusion and apprehension in many participants.

2. Regulation and Advice

Overseas evidence indicates that there is a risk of mis-selling and consumers may receive poor advice on equity release products. Research undertaken by the Financial Services Authority (FSA) in the UK showed that more than 70% of product providers, independent financial advisers and mortgage brokers do not gather enough relevant information about their customers to assess their suitability for the product, and more than 60% of advisers do not advise consumers about the downsides for equity release products.

It is also apparent that bank tellers are front line salespeople for banks, and yet they have little or no training to enable them to provide sufficient and important information, or to be aware of the possible pitfalls and vulnerabilities of older people in relation to these products.

There was evidence that many people participating in the project could not identify independent sources of information or advice and the focus group facilitators reported concerns that many people were potentially vulnerable to clever marketing and salespeople who may present themselves as ‘experts’ with the consumer’s interests in mind.

While some participants in the project considered themselves fairly well informed and capable of making good decisions, many held concerns for more vulnerable older people. Some indicated that they knew older people who were in trouble financially, and that they had always been poor managers of their own finances, and were concerned that they may fall prey to arrangements that would not be in their interests. Such people were also identified as having poor social and community supports.

Participants in the projects saw the need for government regulation of the reverse mortgage market – they saw mortgage brokers as ‘salespeople’ who could not be trusted and who could potentially prey on the uninformed elderly.

Many people also called for an effective advocacy group who would be a source of reliable information.

3. Targeted Promotion

There was considerable discussion of media promotion of RMs with most people unhappy with the portrayal of older people and their attitude to their future, and the obligation that was being placed on older people to provide financial assistance to their children and grandchildren. They were concerned that the media was sending the wrong message to the community

Media and advertising was the main source of information about RMs, and some people were concerned about the targeting of older people who may be vulnerable to these pressures and have lack of understanding about the implications of RMs.

Some participants who had sought information about reverse mortgages said that they had experienced ‘information overload, and another characterized the information as: *‘Confusion, confusion, confusion.’* Some participants felt that advertising of RMs should also be subject to regulation.

4. Family Pressures

Most participants in this project were of the opinion that their children did not expect, or require the family home to be passed on to them through inheritance, and did not feel any obligation to do so. However some conceded that family financial needs may cause them to consider taking out a RM.

COTA Victoria’s experience of calls to its Seniors Information Victoria (SIV) service (see Appendix E) and its understanding of financial elder abuse, suggests that the potential exists for older people to be pressured into accessing funds through a RM for their children, when it is not in their interests to do so.

This potential may be exacerbated by the images and messages being portrayed through advertising.

Conclusions

COTA Victoria recommends increased educational programs and opportunities to increase older people's awareness and understanding of reverse mortgages through seniors organisations and advice provided by independent and recognized agencies.

In addition, strategies to strengthen consumer protections with marketing standards, along with consumer-friendly and accessible decision-making tools are also recommended, to contribute to reducing the potential traps with these products.

Future Directions: Recommendations

COTA Victoria calls on the Government to act to ensure that older people have access to information and support when considering their future financial options.

1. Financial awareness programs and strategies

- Retirement planning and financial awareness programs for older people.
- Information and education programs on financial products and options, including reverse mortgages

2. Access to independent advice and information sources including Promotion of sources of independent advice such as NICRI

- Other advocacy bodies funded to provide advice and information materials and sessions to older people
- Rating of products through CAV and other consumer bodies such as CHOICE and FCRC,
- Checklists and other tools for consumers

3. Regulation of Finance and Mortgage Broker, and Product Providers

- Implementation of ASIC and Credit Review recommendations
- Compulsory membership of brokers and providers with SEQUAL and other accredited industry bodies
- Guidelines and regulations for advertising
- Training and regulation of brokers and others involved in the promotion and selling of products
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4. Promotion of Range of Options

- Better promotion of alternative credit and finance options

1.0 INTRODUCTION

1.1 THE PROJECT BRIEF

Council on the Ageing (COTA) Victoria is a not-for-profit organisation comprising individual members of 50+ years and organisational members with an interest in seniors. COTA Victoria's vision embraces the shaping of a just, equitable and humane community in which older people, in all their diversity, are able to contribute and grow to their fullest capacity. COTA Victoria works with and for older people, to empower them to achieve universal well-being and social justice. COTA recognise the interests and diversity of older Victorians, and undertake regular consultation, encourage feedback and develop consultation mechanisms to ensure that we respond to current trends and needs of older people. We are an independent voice of older people and non-party political.

Over recent times COTA Victoria has become increasingly concerned about credit issues affecting older Victorians. Through Seniors Information Victoria (SIV), a telephone and centre-based information and referral service, the increasing incidence of queries relating to credit and restructuring of finances for older people, has been identified as an emerging theme. At the same time COTA Victoria has become involved in the issue of financial literacy skills for older women as a result of discussions with the Office of Women's Policy and Office of Senior Victorians.

These experiences have lead COTA Victoria to identify credit issues facing older people as a priority issue that requires further attention. In particular concerns have arisen around the increasing interest and popularity of home equity release schemes as a result of robust marketing campaigns of banks and other money lenders, to finance other investments or "lifestyle" choices.

COTA was interested in the factors influencing older people to take up particular credit and financing options and their satisfaction with the credit or financing options selected.

COTA Victoria applied to the Consumer Credit Fund in response to one of the initial research priority areas identified by the Consumer Credit Fund Advisory Committee, 'research into marketing of tailored credit products targeted at older consumers and especially home owners', and was subsequently successful in obtaining funding to undertake a project on the *Credit Preferences and Credit Traps for Older People*. The project was designed with a specific focus on the uptake and attitude towards reverse mortgages.

This project adds to the growing body of material that has arisen in response to the growing reverse mortgage market, and growing concerns around consumer protection and the need for regulation of brokers.

COTA notes that in its 2006 Consumer Credit Review, Consumer Affairs Victoria identified that

The Ministerial Council on Consumer Affairs should use this Review and the Australian Securities and Investments Commission's report on 'Equity Release Products' as the starting point for an analysis of the need for, and the nature of, additional consumer protection in relation to reverse mortgages. At a minimum this could include a prohibition on negative equity and a requirement that consumers receive a comprehensive information statement covering distinctive features of reverse mortgages such as interest capitalization. (p. 33)

and that

There should be nationally consistent regulation of finance and mortgage broking. (p. 38)

COTA Victoria's Credit Options and Traps for Older People Project, although small, is significant for apparently being the first time older people have been consulted and surveyed on their attitudes towards reverse mortgages, and provides a compelling basis to support the CAV position.

Project Objectives

1. To identify specific issues on credit usage for older people, and the reasons why they use particular credit options
2. To examine the reasons why older people are taking up reverse equity mortgage products
3. To produce a report on the findings of this research project and to disseminate the findings through COTA News to older Victorians and to industry players in the credit industry
4. To generate some media publicity about the findings of the research project in the popular media.

As a result of discussion with relevant stakeholders and the Reference Group established for the project, and in light of the growing number of products available and the increasing uptake of these products, the Objectives of the project were more tightly defined to focus more specifically on issues related to home equity products.

1. To examine people's level of understanding of home equity release products
2. To identify the factors that influence people's decision to enter into a particular home equity release option.
3. To examine the reasons why older people are taking up, or considering home equity release products.
4. To produce a report on the findings of this research project and to disseminate the findings through COTA News to older Victorians and to industry players in the credit industry.
5. To generate some media publicity about the findings of the research project in the popular media.

Scope of the Project

The research aimed to focus on two specific target population groups amongst people over the age of 55 years:

- people pre- and post-retirement, with particular emphasis on reverse mortgage and other equity release products
- people over the age of 70 years who are considering or have restructured their finances to pay for housing and health and community care services.

The research hypothesis behind this segmentation is that there are distinctly different financing and credit arrangements and time frames for these two target populations. The research project undertook to explore the nature of the credit and financing arrangements for these three groups and identify similarities and differences.

Reference Group

A Reference Group was established for the project, drawing expertise and perspective from a range of interested groups and stakeholders, including:

- COTA Board members
- NICRI
- Consumer Action Law Centre
- Financial and Consumer Rights Council
- Banking & Financial Services Ombudsman
- Choice

1.2 THE RESEARCH DESIGN

1.2.1 METHODOLOGY

The aim of the methodology was to obtain sufficient data via both qualitative and quantitative data gathering methodologies in order to glean an accurate idea of the attitudes of older people to the Home Equity Product market and to identify any credit traps for those entering into these product arrangements. It was hypothesized that the over 70 year old group of consumers would be more vulnerable to such 'traps' than the younger cohort. The research also set out to assist to inform regulatory bodies and if the research warrants informing legislation to protect consumers from negative outcomes associated with these products.

This research integrates qualitative data gathered through in-depth interviews with key stakeholders, focus groups conducted with target groups with quantitative data collected from an online survey of the target groups.

The report includes a brief review of both the local and international literature on home equity products around the status of the Home Equity Product market, the pro's and con's of these products and any learning's from overseas that could benefit Australian consumers of these products.

The specific approach taken to the research was as follows:

Data collection:

- Desk research-International Home Equity Product Best Practice
- Interviews with reference group and other relevant stake-holders
- Online survey (n=130)
- Focus Groups (n = 8). These focus groups were sourced from COTA members, Over 50's Association, The University of the Third Age, advertising in The Leaders newspaper and The Senior newspaper.
- Phone Interviews (n = 10)

The online survey link was sent to COTA members via a monthly newsletter as well as the link being emailed to other key stakeholders who were directed to the COTA website to complete the online survey. The online Questionnaire is included in the appendix.

The quantitative data (which included the phone data and online survey data combined) was analysed using SPSS statistical package according to the objectives of the project. The qualitative data differs from quantitative data in that it is not designed to be numerically informative, nor generalised to the broader population. Qualitative research seeks to develop insight and understanding, rather than provide absolute measures. Given the sample size, the special recruitment methods adopted and the objectives of the study, it should be clearly understood that the work is exploratory in nature. There are no statistical degrees of confidence, and findings are not projected to any larger population. The findings should be viewed as a frame of reference and as descriptive in nature.

1.2.2 THE PROJECT PARTICIPANTS

Participants for the project were sourced through a range of processes with the aim of involving a wide range of people from the pre and post retirement age groups. These included:

- COTA members, through notices in COTA's newspaper, as well as direct mail out of surveys and information about the focus groups to targeted areas;
- Promotion and articles in Leader newspapers in metropolitan areas

- ARPA Over 50's members
- University of the Third Age
- National Council of Women Victoria

Whilst the project planned to examine the attitudes of older people to a range of credit options, with a focus on home equity release products, it became abundantly clear in the initial stages of the project that those older people who were willing to be interviewed had little if any knowledge or idea that credit options other than Home Equity products were available to some older Victorians. For instance, other credit options may include the Centrelink loan scheme, and the Victorian Government Home Renovation scheme.

The participants of the project were primarily from what could be termed as an upper socio-economic echelon. Participants were overwhelmingly home-owners and were generally optimistic about their futures. Many people saw home equity release products as a potential option 'if necessary' but were not reliant on credit options to complement their incomes in retirement.

There was virtually no participation by people of a lower socio-economic background, with low levels of English, or were lower income earners whilst they were employed – these groups simply did not respond to our requests for participants. This is borne out by the location of most of the participants. Postcode data was gathered for this purpose.

When conducting social research such as in this project it is difficult to source the “invisible” group who may be users of other credit options, such as other loan arrangements that are becoming more widely available, including more dubious options such as pawnbrokers and ‘pay day’ cash advance schemes. This may be due to lower socio-economic people self-selecting as ineligible for options such as the reverse mortgage products, or due to reluctance to identify themselves as financially vulnerable or uninformed about financial needs and options for their future security. This self-selection may be supported by the survey data which showed that while a number of people were less confident about their future, most people who participated in the survey preferred not to be part of the focus groups.

The data gathered and inferences made from the interpretation of the data are compelling. However in order to capture the full picture, an attempt would have to be made to understand the situation with credit options for those older Victorians who are from a lower socio-economic level, which was beyond the scope of this current project.

1.2.3 THE REPORTING PROCESS

The results of the research are reported according to the evidence for the achievement of the objectives of the project as outlined above. The qualitative data which includes the interviews and the focus groups, is reported against the objectives and the quantitative data is reported according to whether it supported the qualitative findings or refuted them. Each objective is reported comparing the over 70's group to the under70's group.

The final section of the report comprises recommendations based on the evidence gathered around supporting older Victorians with education on Home Equity products, and informing the appropriate regulatory bodies.

2.0 REVIEW OF HOME EQUITY PRODUCTS

2.1 BACKGROUND

Equity release products (sometimes called 'home equity loans' or 'reverse equity products') allow people to borrow money against the value of their home while they still live there. There are a number of products that fall under this broad category with reverse mortgages being the most common scheme directed towards older people.

Reverse mortgages allow borrowers to borrow money against the value of their home. Borrowers usually don't have to repay the loan until they leave and move into care, sell the home, or die. Borrowers debt and interest (and any fees and charges not paid up front) build up (or compound) over time. When the loan ends the borrower, or their estate, must repay what's owing - usually out of the proceeds of the sale of the home. In most cases investors will need to be at least 60 years old and own their own home outright (or use the equity release money to pay off any existing loans) to be eligible.

The interest and fees that borrowers would ordinarily pay on a reverse mortgage each year are added to the loan balance. Over time, borrowers are charged interest on the interest (or compound interest) and that builds up the total amount that is owed.

There is a risk that the amount of the loan may increase to a point where it is more than the value of the home and create '**negative equity**'. Some, but not all, reverse mortgage products guarantee that if this happens, borrowers will not have to repay more than the value of the home (a **no negative equity guarantee**). But borrowers may lose this protection if they do not meet the terms and conditions of the loan – for example, if they don't repair and maintain the home to a standard set by the lender.

Borrowers eligible for a reverse mortgage will usually be able to borrow between 15% and 40% of the value of the home, depending on the age of the borrower – the older the borrower the more capital that can be borrowed. In the case of couples who are both owners of the property, the amount borrowed is based on the age of the youngest borrower.

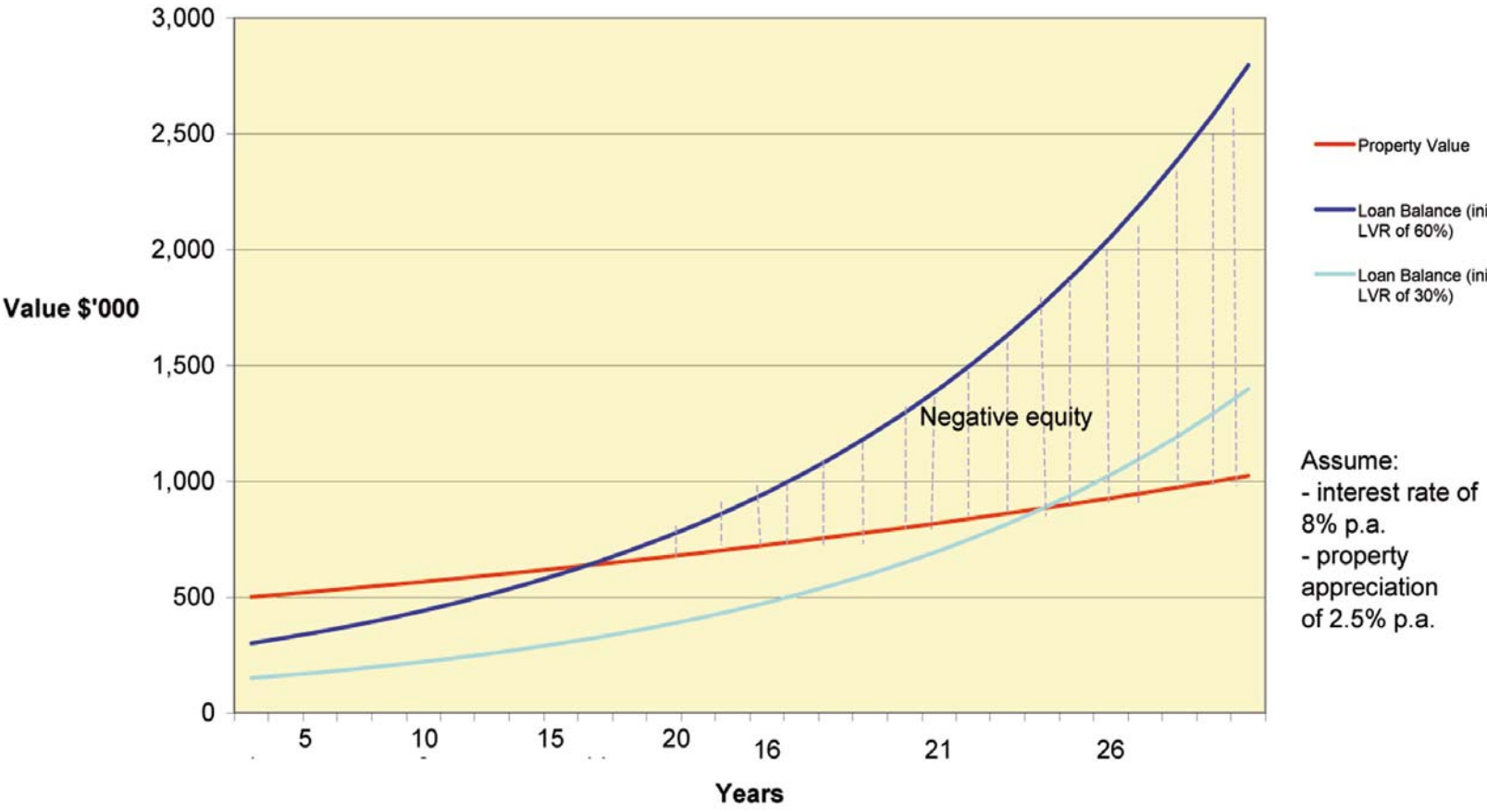
In an examination of Reverse Mortgage securitization undertaken by Minter Ellison Lawyers, the following example of two different scenarios with a reverse mortgage indicates the period of time before the mortgagee faces a negative equity situation with the loan.

As no payments are scheduled, default events under a reverse mortgage are typically limited to the borrower failing to keep the house properly insured, failing to maintain the building, abandoning the property or failing to pay relevant taxes (eg council rates).

Under a reverse mortgage, the borrower grants a first ranking mortgage over the property in favour of the lender. The amount that the lender will be prepared to advance will depend on the age of the borrower, the value of the property and the interest rate charged. The greatest risk to a lender is that the capitalised loan balance exceeds the value of the property ('negative equity') caused by:

- *the lender making the loan at too high a loan to value ratio (LVR) or the borrower exceeding mortality assumptions; or*
- *a property market decline.*

An increase in the LVR has a significant effect on exposure over time. The following graph illustrates the effect of making loans at two different LVRs at an assumed interest rate of 8% and property appreciation at 2.5%.



2.2 INTERNATIONAL EXPERIENCE

Reverse mortgages first became available in Great Britain in the early 1930s. The transaction was called a home-equity reversion. This financial practice prospered as a family business until 1970 when outside investors took control of the home-equity company renaming it Home & Capital Trust Ltd. Following its success in the market in the UK it was introduced into the US market.

United Kingdom

The 2004 United Kingdom Pensions Commission Report estimates that only around 1 per cent of pensioner households currently use HEC loans. One reason suggested for the low take-up is that the interest rates charged tend to be significantly higher than for standard mortgages, partially due to the risk of lending when the final maturity date of the loan is unknown (Pensions Commission UK 2004). Nevertheless, the report found that a significant proportion of people say that they see equity in their home as a retirement asset and press reports and anecdotes suggest that this attitude is growing.

In the late 1980s thousands of retired people took out variable rate reverse mortgages and put the funds into stock market-related investment bonds, anticipating that this would enable them to pay the interest and regular additional income. However the market produced poor returns and at the same time housing values fell, leaving many consumer's with debts exceeding the value of their property, and many were subsequently evicted from their homes.

As a result of this and high take up of other equity release products that resulted badly for consumers, regulation of reverse mortgages by the Financial Services Authority has been in place since 2004. Under this regulatory system reverse mortgages are considered to be higher risk and, accordingly extensive guidance relating to the sale of these products is provided, to protect vulnerable older consumers, including requirements to ensure that the product is suitable for the consumer. However despite these reforms there is evidence that there continues to be problems of mis-selling equity release products.

France

An outcome of a Ruling by the French Government on 23 March 2006 relating to guarantees brought reforms to how mortgages function in France, was to introduce the 'reverse mortgage' to the range of mortgage loans granted by credit institutions. This measure is known as the *prêt viager hypothécaire*.

A year later in March 2007, the essential legal framework has been laid out. The amount of the notary fees and the fee for the publication of the mortgage guarantee have been adjusted, the usury rate and the terms and conditions of early repayments have been specified. Finally, two decrees dating from 20 of February 2007 provide elements relating to the requirements in terms of equity capital and the prudential supervision of the loans.

Although no reverse mortgage is actually available in France to date, the French public is relatively well informed and the regulatory possibilities that have been opened up are generating considerable interest. There is speculation on the scope of the reverse mortgage likely to be available, with questions being raised on a range of issues including the financial resources and living standards of pensioners, inheritance, and the likely impact on consumption and works of renovation on old housing stock.

New Zealand

In New Zealand, the reverse mortgage market has more than doubled in the past 12 months with the sector's outstanding loan book of \$227 million at 31 December 2006 increasing from \$89 million at the end of 2005. Settlements of new reverse mortgage loans were \$96 million in 2006. New inflows are growing at a rate of more than 55% per annum with the expected level of outstanding loans to be close to \$500 million by the end of 2007. Reverse mortgages are steadily growing as a retirement financial planning tool as increasing numbers of New Zealand retirees consider equity release products when planning for their retirement.

A summary of the New Zealand situation is:

- Reverse Mortgage (RM) market has more than doubled in size over 2006
- RM borrowers draw around 60% of allowable facility at the time of settlement
- nearly all RM loans are variable interest lump sums, with negligible income stream
- RM broker channels sold 68% of all loans
- North Island is largest penetration (71%), with Auckland the major city (22%)
- up to 55% outside of major metropolitan areas
- couples make up more than half of all borrowers
- 70-79s largest age bracket, however 60-70 year olds are a growth segment.

Another equity release product available in New Zealand is the 'buy-back scheme', and although these are not available in Australia, they are similar to sale and lease home reversion schemes. This scheme is attractive to people in financial difficulty as they enable people to access cash, by selling their home to the provider in exchange for debts being repaid and then buying it back later (usually a year) at a higher price. However many consumers were unable to obtain a loan a year later to buy back the homes and were evicted. These schemes are now subject to legislation, providing the consumer the right to lodge a caveat over the property to protect their interest.

It is recognized that education of intermediaries such as mortgage brokers on the unique characteristics of reverse mortgages is needed, and the NZ Government is working on the future regulation of the industry.

United States

The Federal Housing Administration (part of the U.S. Department of Housing and Urban Development (HUD)) insured a record 9,349 reverse mortgages in February 2007, compared to 8,824 in January 2007 and 5,841 loans in February 2006. So far, FHA has endorsed 42,191 loans during the current federal fiscal year (beginning Oct. 1), compared to 26,160 during the same period last year. (Source National Reverse Mortgage Lenders Association March 2007)

Since the inception of the US Department of Housing and Urban Development (HUD) Home Equity Conversion Mortgage (HECM) program in the US in 1989, about 100,000 older homeowners had taken out this type of reverse mortgage up to 2004. Most of the information on this population comes from loan application forms. Based on these data:

- The average age of borrowers is declining, from age 76 in 2000 to age 74 in 2004.
- About half (48 percent) of HECM borrowers in 2004 were single women. The proportion of single women who participated in this program had declined significantly from 2000, when this group represented 57 percent of reverse mortgage borrowers.
- Couples who took out a HECM loan increased from about 30 percent of borrowers in 2000 to 36 percent in 2004.

Anecdotal evidence also suggests that the market may be gradually shifting. Lenders are finding that a small but growing number of more affluent seniors are taking out a reverse mortgage to pay for a dream vacation or other leisure activities. Based on the latest data from HUD, average property values of HECM borrowers increased from \$142,000 in 2000 to \$214,000 in 2004. Some financial planners are starting to recommend reverse mortgages as an asset management tool to help their clients free up housing wealth for other investments.

Industry data on loans originated between 2000-2003 shows that 75 per cent of borrowers were age 70 or older at the time of application for the loan. About half (52 percent) of borrowers were in the 70 to 79 age group — a higher proportion than among the general population of elderly homeowners (41 percent). (Source: NCOA analysis based on data from the 2003 American Housing Survey and industry data from *Financial Freedom*.)

Most HECM borrowers have very limited financial resources other than their home. Among borrowers who took out a loan between 2000 and 2003, three quarters (76 percent) had incomes of \$25,000 or less (Figure 2.3). In 2004, the average income of borrowers was \$17,000 (Weicher 2004). This is relatively low when compared to the national household median income of \$25,634 among homeowners age 65 and older in 2003 (U.S. Census Bureau 2004).

The US Government insures all reverse mortgage loans which are made under the terms of the HECM program rules. This insurance ensures that the consumers' debt can never exceed the value of their properties and that consumers continue to receive any regular payments from the loan as long as they live in the property. The cost of this government guarantee is borne collectively by consumers who pay an insurance premium to HUD.

There are other reverse mortgage and equity release products that are not government insured, such as Fannie Mae, which has a public mission of providing low cost mortgage funds to low, moderate or middle income earners.

Much of the criticism of reverse mortgages targets financial, rather than legal, issues. Critics point out that, in various ways, the cost of borrowing for a reverse mortgage is greater than for other loan products. Further, the special features of reverse mortgages can obscure this fact, and make it difficult for potential borrowers to compare reverse mortgages to other types of loans.

Commentators frequently point out that reverse mortgages are structured as rising debtloans: since there is no requirement to repay interest periodically, it is added to the principal loan balance and compounded over the term of the loan. As a result the amount owing under the reverse mortgage increases dramatically over time. If borrowers do not repay any of the interest that accrues over the term of the loan (and this would appear to be the case in the vast majority of reverse mortgages), then a reverse mortgage can become a very expensive means of borrowing. The concern is that, at the time they enter into the reverse mortgage, borrowers do not appreciate the effect of compounding interest coupled with no repayment of interest until the loan comes due. Reverse mortgage loans are repaid in one large payment and this payment may represent a substantial amount of their equity in the mortgaged property.

Borrowers will often use the proceeds of a reverse mortgage loan to purchase an annuity. In these cases, the borrower will almost always end up receiving less in income from the annuity than the borrower (or the borrower's estate) will have to pay out in interest.

Some financial planners argue that relying on reverse mortgages is an inferior strategy, when compared to other options and different types of loans. For example, property tax deferral programs can be used to free up funds for day-to-day expenses. Such programs do not involve borrowing. If borrowing is required, then other types of loans should be considered.

2.3 HOME EQUITY RELEASE PRODUCTS IN AUSTRALIA

Australia appears to be on the verge of a boom in the supply of reverse mortgage products. An aging population, significant increases in property prices, low fixed interest returns and ever increasing life expectancy has resulted in high marketing and a growing number of products on to markets .

Three types of home equity release (HER) products are available in Australia:

- **Reverse Mortgages (RMs)** – these products allow borrowers to borrow money against the value of their home. Borrowers usually don't have to repay the loan until they leave and move into care, sell the home, or die. Borrowers debt and interest (and any fees and charges not paid up front) build up (or compound) over time. When the loan ends the borrower, or their estate, must repay what's owing (usually out of the proceeds of the sale of the home). In most cases investors will need to be at least 60 years old and own their own home outright (or use the equity release money to pay off any existing loans) to be eligible.
- **Home Reversion schemes** – the consumer sells part or all of his or her home to a reversion company. 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 leave.
- **Shared Appreciation Mortgages (SAMs)** – the consumer gives up the right to some of the capital gain on the property in return for paying reduced or no interest on that part of their borrowings.

A small number of home reversion schemes and SAMs have been introduced, but the majority of HER products available in Australia are reverse mortgages.

In addition to commercial products provided by banks, credit unions and other specialist providers, the Australian Government and State and Territory housing authorities have had reverse mortgages and shared equity schemes available for many years in an attempt to assist low income people to stay in their homes or to afford home ownership.

The Australian Government's Pension Loans Schemes available to pensioners, and some self-funded retirees who own real estate are particularly relevant to this project. Under this scheme people of Age Pension age who are not entitled to the full pension because of their income or assets can access capital tied up in their assets to obtain a loan that will provide a fortnightly pension payment up to the maximum pension rate. This scheme, however, has had very low uptake and participants in this project were generally unaware of the scheme and whether they were eligible for it.

After a hiatus of several years, reverse mortgage loans for seniors were re-introduced to the Victorian financial market in December 2002, with St George Bank offering the *Seniors Access Home Loan*. This was followed by the Commonwealth Bank's *Equity Unlock Loan* for Seniors in September 2003, and more financial institutions began to see the potential of this growing market. In its report on equity release products the Australian Securities and Investments Commission (ASIC) (2005) identified that in the 12 month period to March 2005 there had been significant growth in the equity release product market, with lending in this sector going from \$468 million to \$770 million and 8,900 new loans provided in this period. ASIC cited another report that suggested that the potential opportunity market for reverse mortgages could increase to \$12 – 15 billion by 2010.

The growth since 2005 has been even greater as evidenced by the 35 products identified by *infochoice* on its website (infochoice.com.au sourced 25 May 2007) now available in Victoria, through 14 providers. *Choice* in its investigation into reverse mortgages identified 20 providers in Victoria in April 2007. It is now estimated that the loans approved through reverse mortgages is now valued at over \$1 billion across Australia.

Regulation for these products falls under the Uniform Consumer Credit Code (UCCC) as they take the form of a credit arrangement although they have some characteristics of an investment product. The

Corporations Act 2001 is the regulatory system for investment products, and while it does have limited application to some home reversion and shared appreciation products, it does not generally apply to reverse mortgage products.

Concerns have been raised by a range of consumer and peak organisations as to the adequacy of the UCCC to protect vulnerable people, as it was not designed to address the issues raised by equity release products.

This is further compounded by the fact that many equity release products are being distributed by mortgages brokers who are far less regulated than advisers in other sectors of the financial services industry, and by bank tellers who have no or little training in these products.

The industry has made some moves to self-regulation with the establishment of SEQUAL (Senior Australians Equity Release Association of Lenders) which has a code of conduct for members and ensures a 'no-negative-equity' arrangement for consumers utilising one of the members' products. However this arrangement does not cover the whole market with only a small number of providers currently members of SEQUAL.

ASIC has jurisdiction under the Australian Securities and Investment Commission Act 2001 in relation to any misleading, deceptive and/or unconscionable conduct in the promotion, distribution and sale of equity release products.

One home reversion scheme has gone into administration, and ASIC has issued legal proceedings alleging that the providers of the product advertised it in a misleading and deceptive manner. In this case 117 consumers sold their properties to *Money for Living* and most of these people were to receive an upfront payment and ongoing monthly payments. *Money for Living* ceased making ongoing payments to the people involved, and while some properties were on sold to other investors, who were maintaining payments to consumers, this was unlikely to be ongoing in at least some cases. ASIC also alleged that consumers were told that their tenancies in the property were secure, although none of the leases were registered and no caveats were lodged to protect the consumers' interests. However this was the only scheme of this type in Australia, and other home reversion schemes are not considered to hold the same risks (ASIC 2005).

In addition ASIC has found five cases of misleading advertisements that made claims that reverse mortgages did not need to be repaid, using statements including: 'There are no repayments....', '...no loan repayments ever' and 'No need to make repayments!!'. ASIC also identified a potentially misleading claim regarding the impact of a reverse mortgage on pension entitlements which read 'Centrelink payments aren't affected.' (ASIC Media Release 07-152 June 2007)

3. THE AUSTRALIAN SOCIAL AND ECONOMIC SITUATION

3.1 SOCIAL CONTEXT OF THE STUDY

In order to better understand the results of the current research an appreciation of the current social policy in operation in Australia is needed. It is important that the results be considered relative to the prevailing social context of the day that determines many aspects of people lives, in particular those who are in marginalised and disadvantaged groups.

The Cost of Caring for our Ageing Population

In Australia we have one of the world's most rapidly ageing populations and we are heading for a situation where, by the middle of the century, around a quarter of our population will be aged 65 and over.

The key figure is the increase in people 80 years and over from 680,000 in 2004 to 2,600,000 in 2045. This growth does not occur evenly, but peaks between 2025 and 2035 (due to the 'baby boomer' generation).

This 80 plus age group is crucial in predicting demand for aged care services, as in June 2003, some 73% of residential aged care residents were 80 years and over, as were 60% of CACP recipients, and 39% of HACC clients (AIHW 2004; Department of Health and Ageing 2004). If current age specific rates of admission to aged care programs remain constant, this projected growth in the 80 plus population would foreshadow a massive increase in demand for aged care services.

The Australian Government spent some \$7.1 billion on aged care in 2005-2006, and this is estimated to rise to \$7.8 billion in 2006-2007, an estimated increase of 9.5%. Some \$5.3 billion of the 2005-2006 expenditure, was spent on residential care subsidies, with \$858 million allocated to the joint Commonwealth/State Home and Community Care Program, as well as funding for information and support about ageing, and workforce initiatives. (Department of Health and Ageing, 2006). In addition to Australian Government spending, consumers contributed around \$2 billion toward the costs of care, mainly residential care, while State and Territory Governments contributed some \$0.5 billion to community care.

In total, governments and consumers spent around \$9.4 billion on aged care in 2005-2006. Given the predicted rise in this expenditure over future years, it is crucial to look at the cost factors that are driving this expenditure, and possible ways of funding these costs. This discussion focuses on the direct costs to governments and consumers, rather than trying to encompass total direct and indirect costs to the whole community. The future cost of aged care can be looked at in terms of two main factors:

- the amount of care provided, and
- the cost of each unit of care provided.

One way of keeping older Australians in their own homes which is a significantly cheaper option for governments is via mechanisms and products such as Home Equity Release Products, which will enable people to make the necessary repairs and adjustments to their homes in order for them to remain independent longer.

Reverse mortgage schemes may be more commonly used for financing aged care if there is a greater cost to consumers than there is now. There is no evidence that people currently entering low residential aged care are using these schemes in any significant number to finance their bonds. However a number of providers have developed products specifically to assist people to move into residential care by using the equity in their homes rather than having to sell to cover the high level of funds required for bonds.

Attitudes towards accessing home equity

Apart from the social and economic changes listed above, the size of the potential market for this product in Australia is significant. Current estimates of the amount of equity held by over 60s in houses range from \$340bn to \$450bn. Given the above trends and market size it is unsurprising that there is increasing interest in this product from both providers and customers.

The growth in the availability of Home Equity Release loans, the strong growth in real estate property values in recent years and the ageing of Australia's population, in combination, raise the question: *to what extent will senior Australians seek to enhance their retirement living standards through accessing the capital in their homes and what impact might that have on family relationships?*

For many senior Australians, the home is their major asset. Although there is no requirement or expectation that they should do so, some may seek to access the capital in their home to supplement their living standards at some stage during retirement. There are a number of possibilities. For example, some might consider using a HER loan or moving into a cheaper home, either later in retirement as other savings are drawn on or when going into retirement to boost future retirement living standards. Accessing home equity could be part of a planned strategy to boost retirement circumstances or a response to an unplanned event.

Recent survey data suggests that some Australians may be developing more flexible attitudes towards viewing the capital in their homes. The emergence of a growing range of HER loan products in the Australian marketplace provides senior Australians with greater choice in how they might access that capital should they wish to do so. Nevertheless, the survey evidence also suggests that accessing home equity is not a preferred choice for many senior Australians.²

A report by Datamonitor (2005) reviewed reverse mortgage schemes in Australia and New Zealand and concluded there is increasing demand for such products, particularly among retired 'baby boomers'. However, whereas reverse mortgages may have previously been used by people in urgent financial need for home improvements, medical bills and care provision, people are more frequently using reverse mortgages to fund lifestyle changes.

3.2 ECONOMIC CONSIDERATIONS

In determining the issues that may influence the decision to access home equity, this report considers data from two sources:

- Age Pension and superannuation data
- Australian and international evidence on attitudes towards accessing home equity

The Baby Boomers in Retirement

The Australian Housing and Urban Research Institute (AHURI) conducted a national survey of older Australians on their housing intentions as part of a research project called 'Ageing in place'. The findings indicated that around 14 per cent of relatively younger respondents considered moving to a smaller home to release money to live on, but less than 10 per cent of all respondents envisaged taking out a loan on their home to pay for future needs (Olsberg 2004, p. 4).

While the AHURI survey found most respondents expected to leave assets to their estate, a significant, younger, minority expected to use up all their assets while alive (about one-fifth of males and one-third of females) (Olsberg 2004, p. 5). The survey found that 35 per cent of those aged 50 to 59 expected to use up all their assets while alive, where as only 11 per cent of those aged over 80 expected to do so (Olsberg 2004, p. 12).

A survey undertaken in 2001 found that attitudes to accessing housing wealth were equally divided. Young to middle-aged highly educated managers and professionals were those more willing to access their housing wealth. Those less willing were people older than 65 years, people on lower incomes, and singles or couples without dependents (Beal 2001, p. 130). The survey also found that retaining a home to leave a legacy for children was a preoccupation only for those aged 65 to 74 and that if younger people continue to disregard a bequeath motive, 'there is a social change in the air' (Beal 2001, p. 131).

Superannuation and Pension Incomes

Data on wealth has become available in the Household Income and Labour Dynamics Australia (HILDA) Survey. In particular, among senior Australian home owners (aged over 50 years), the HILDA data suggests that, on average:

- home equity is fairly stable across the age groups (ranging between \$230 000 and \$300 000), consistent with the UK Pension Commission Report findings
- bank account balances are also fairly stable across the age groups (ranging from \$30 000 to \$50 000) and appear to be slightly higher among older groups
- older households report lower levels of other assets (investments, equities, business assets) than younger households
- household debt is low relative to asset holdings (may be due to debts being understated in HILDA) (Headey, Warren & Wooden 2004).

However, looking forward to future and the situation of the Baby Boomers as they reach retirement age, their financial position may not be as optimistic.

The media and popular thinking, suggests that the baby boomers are well-off and have money to spend. This generation is in fact the biggest group of consumers that the world economy has ever experienced, and on average is the wealthiest generation in history, but what is not reported is that this group are not 'savers' – they spend their incomes and any increases in income result in increases in lifestyle. The reality is that once this group lose their income they will experience a dramatic change in living standards.

About 70 per cent of the 'Baby Boomers' are unlikely to have adequate superannuation savings once they reach retirement, with women worse off than men. While superannuation rules aim to facilitate higher retirement payouts, most people will still have to rely on the age pension in retirement.

In 2006 the average retirement payouts were estimated at \$130,000 for men and \$45,000 for women. For people now aged 35 to 44 years, the projected superannuation payout at retirement age of 60 is \$183,000 for men, and \$93,000 for women. Women are less likely to have saved money for their retirement due to time spent out of the labour force, and because a woman's average wage is less than a man's.

The average weekly household income in Australia for the 55-64 year old age bracket is \$1,035. This reduces significantly in the 65 and over age category to \$540 per week with 68.4% in this age category relying on government pensions and allowances as their principal source on income. However, according to the Australian Bureau of Statistics, 80.2% of households in this age bracket own their principal place of residence without a mortgage.

A report by the Association of Superannuation Funds of Australia (ASFA) estimated that for people to have a modest lifestyle a single person needs approximately \$18 400 per year (\$353.05 per week), while a couple would need approximately \$25 900 a year (\$496.57 per week). To live a comfortable lifestyle, the ASFA suggests that a single person requires \$35 700 per year (\$685.26 per week), while a couple requires \$47 800 per year (\$917.16 per week).

The Age Pension provides an income of approximately \$13,000 for a single person, and \$23,000 for a couple.

According to the ASFA report, a modest lifestyle enables only basic living, and precludes such things as eating out, travel, private health insurance, running a motor vehicle or entertaining at home. Whereas a comfortable lifestyle enables a healthy retiree to be involved in a broad range of social and leisure activities; to purchase some household goods such as electrical equipment; to own and run a good car; and to partake of some national and occasionally, international travel. In all these estimates, it is assumed that the retired individual or couple owns their own home.

With life expectancies increasing, a 65 year old in 2004 could expect to live 17.8 years for men, and 21.1 years for women. By the middle of the century our life expectancy will be even greater, resulting in a potentially long period of retirement, and the need for greater financial reserves to support lifestyle and living requirements.

Intergenerational implications

Home ownership can impact on retirement living standards in a number of ways and for a variety of people. For example, it can provide rent-free accommodation (reduces the level of income needed to sustain a comfortable standard of living) and a source of wealth for those who inherit the home (who may themselves be in, or close to, retirement).

If equity held in the family home is used to fund improved retirement living standards, certain intergenerational issues may arise:

- expectations of family members for inheritance—children of senior Australians may not support their parents' choice to 'run down' their potential inheritance
- costs associated with caring for and supporting older Australians as they reach their later years—who pays for future expenses such as accommodation bonds?
- broader impact of drawing down home equity—reducing succeeding generations' access to wealth that previously was handed on. (Davey 1995, p. 77).

If people approaching retirement have more flexible attitudes towards accessing their home equity, then families will need to consider these longer-term implications in the context of the wide range of issues that impact on family relationships, such as the role of older generations as carers and the role of families in supporting older members who need care.

Other issues were investigated as part of the current project, including the perceptions of the advertising and promotion of these products amongst the respondents, the awareness of other potential options, family pressure and lifestyle expectations.

Political Context

The National Strategy for an Ageing Australia (1999) has identified three sources of retirement income for Australians:

- pensions,
- superannuation and
- voluntary savings.

It points to a future in which 'people have a responsibility to make provision for themselves if they are able to and if they expect to have a higher level of income than if they relied on the aged pension alone'. This view was reinforced in the Intergenerational Report produced by the Federal Treasury in the 2002-03 Budget.

These policy directions reflect a political climate in which social problems are being seen to be shifted to be the problems of individuals, even problems that have previously been accepted as political. For example, proposals to replace the funding of services such as employment agencies by paying the users of the service rather than providing funds for the service providing agency such as an employment agency, shift the issue from the public to the private domain. The issue then ceases to be political: it becomes an issue or a problem, for the individual person or the family.

In this political climate Australia has effectively moved from a welfare state to what commentators now coined the 'post-welfare state'. The main feature of the post-welfare state is the policy and practice of converting the political nature of social problems into the problems of individuals. The current project has indicated that the people participating in the research were predominantly from the more affluent and educated upper level created under this post-welfare state.

It is important to recognize

the underlying shift in political agendas and attitudes to funding of, and accessing finances by, senior Australians, and more specifically the implications for disadvantaged and vulnerable older people.

3.3 CONCLUSIONS

The highest projected growth rate in the Australian population is for the 85 years and over category which is projected to increase from 1% of the population to between 7-11%. With an ageing population and pensions and related benefits not meeting the lifestyle expectations of modern retirees, reverse mortgages are loan products which offer retirees a means of accessing the equity in their home without having to sell or move.

While this project and other reports indicate that there is some reluctance on the part of older people to enter into these loan products, with increasingly less value placed on inheritance, reverse mortgages are gaining popularity as a means to fund a higher standard of living in retirement. This change in attitude is being driven by persuasive marketing, in conjunction with a number of factors and developments in the social and economic contexts of our society, including:

- an ageing population;
- substantial medium term appreciation in capital city housing values;
- increases in life expectancy; and
- many retired Australians, and future retirees, have a substantial investment in their family home yet relatively small superannuation entitlements.

Evidence suggests that there is likely to be increasing interest in accessing home equity to enhance retirement living standards, but that any increase would be from a low base, as relatively few individuals currently see this as a preferred option.

In contrast to this is the significant population of 'baby boomers' who will be facing retirement in the next 10 to 20 years, with different expectations of their retirement lifestyles and in many cases, insufficient superannuation and savings to support these expectations.

In addition the growing home equity release product market and the significant marketing of these products to older people and those approaching retirement may place some pressure on older people to opt for this arrangement to meet their and their family's needs and wants.

4. FINDINGS OF THE CREDIT OPTIONS PROJECT

4.1 OVERVIEW

The findings of the research will be reported as per the results of the quantitative online survey and followed by a brief discussion as to whether this finding was supported by the qualitative data from the focus groups and interviews.

In reporting on each objective the views of the over 70 year old group (n=34) from the survey will be compared to the under 70 year old group (n=96).

The age spread from the focus groups was skewed toward the over 70 year old group however, there was a good representation of the under 70's in two of the groups in particular to ensure a balanced view was achieved.

The figures below are indicative of the demographics of the sample: marital Status, home ownership, financial optimism with retirement and employment status.

To re-iterate in excess of 80% of the sample came from the City's of Boroondara, Stonnington, Glen Eira, Bayside, Port Phillip, Whitehorse, Monash, Kingston and Mornington Peninsula, which clearly sets the sample in the upper socio-economic echelons of the population and the results will be interpreted accordingly.

Figure 1. Marital Status (over 70)?

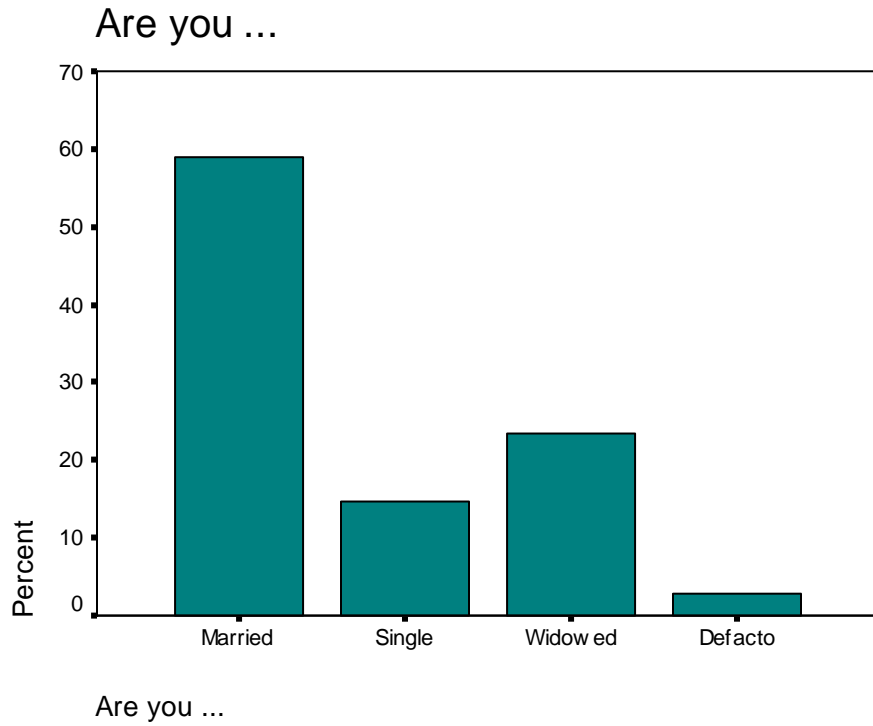


Figure 2. Marital Status (under 70)?

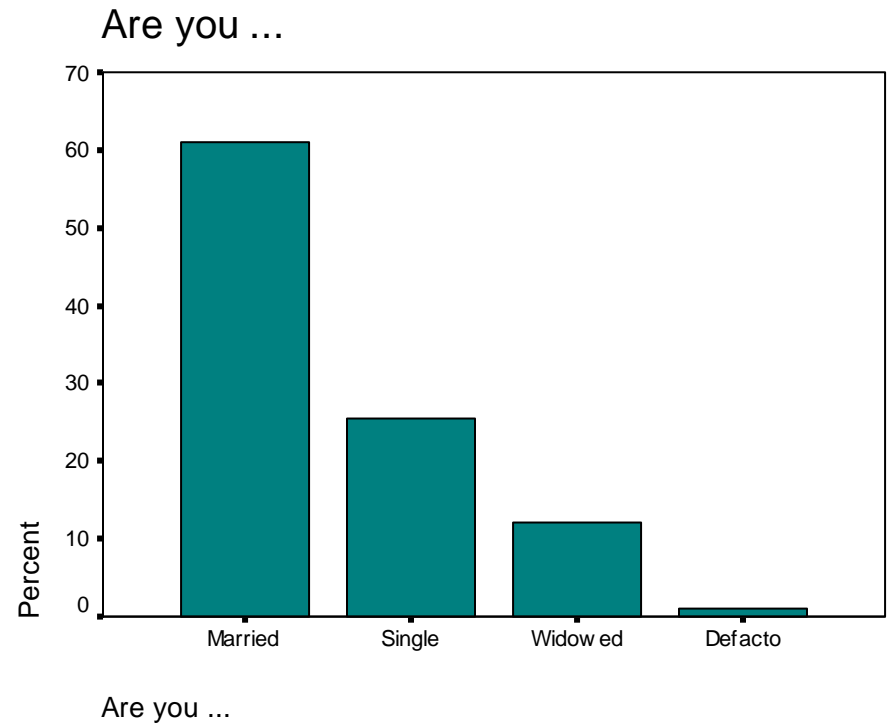


Figure 3. Home Ownership (over 70)?

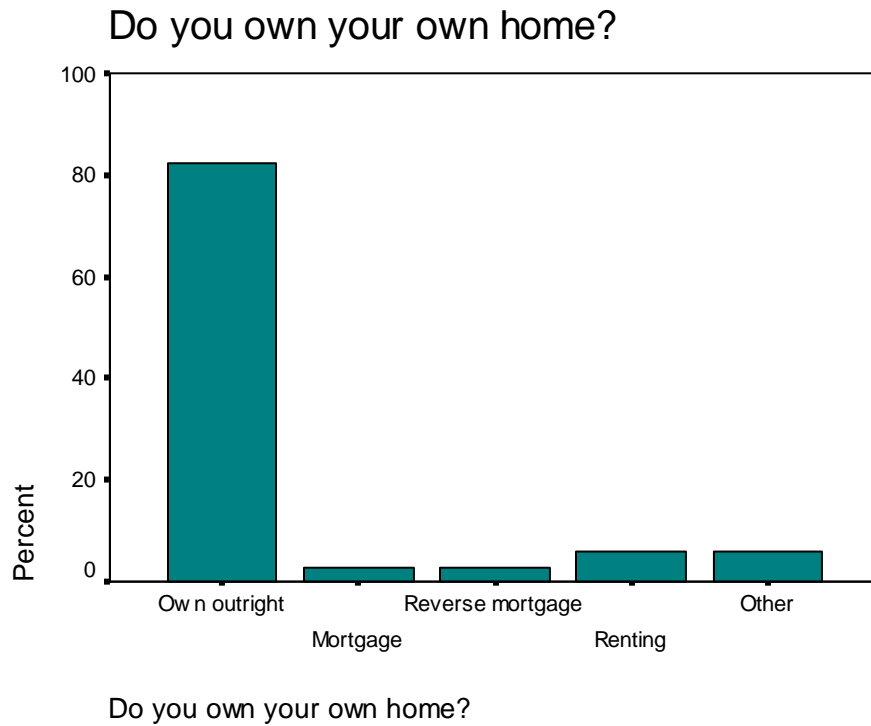
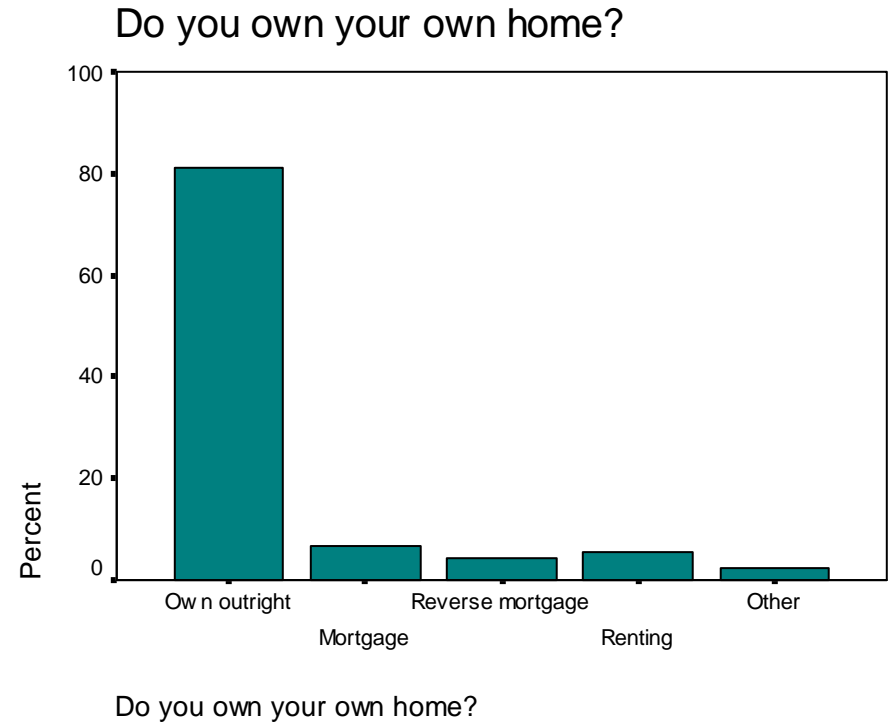


Figure 4. Home Ownership (under 70)?



The extremely high levels of home ownership and high property values according to REIV Median Price data for those local councils clearly retirement. Median Property Prices year ended May 2007 according to Valuer Generals Data are:

Boroondara,	\$591K	Stonnington,	\$605K	Glen Eira,	\$530K
Bayside,	\$520K	Whitehorse,	\$340K	Monash	\$340K
Kingston	\$530K	Port Phillip	\$605K	Mornington Peninsula	\$325K

Figure 5. Financial Optimism (over 70)?

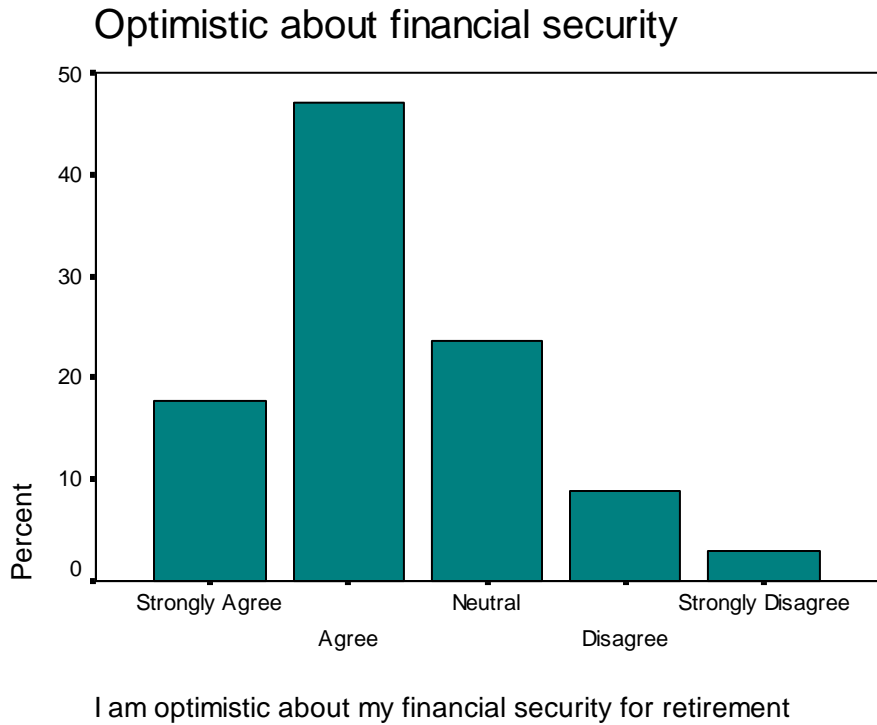


Figure 6. Financial Optimism (under 70)?

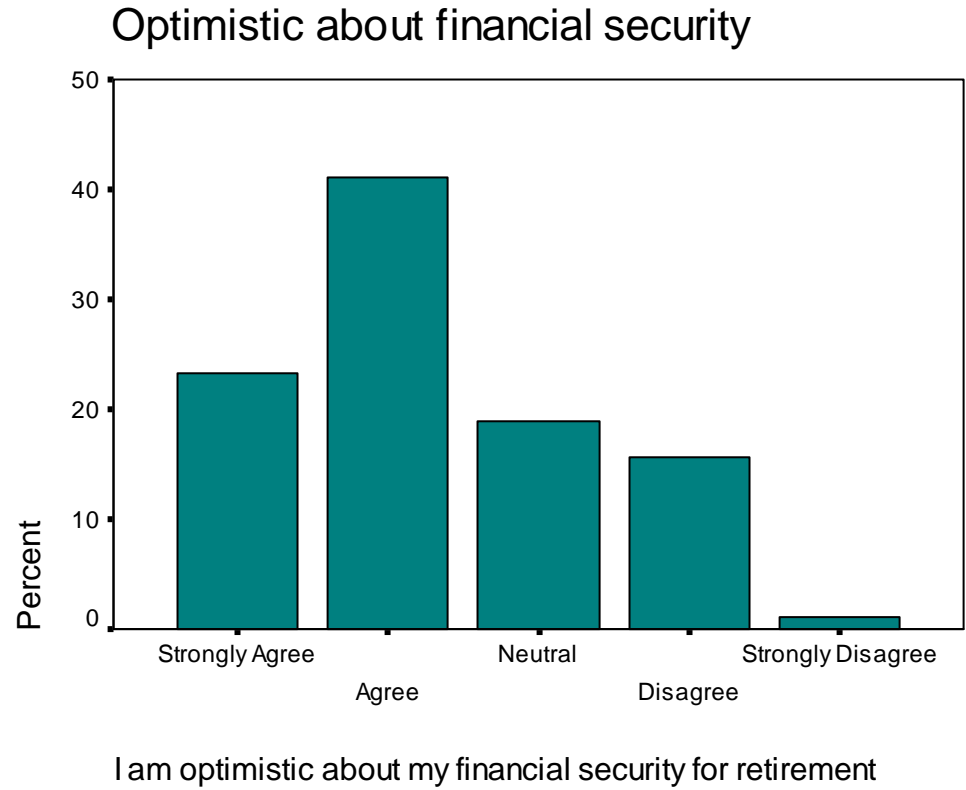


Figure 7. Employment Status (over 70)?

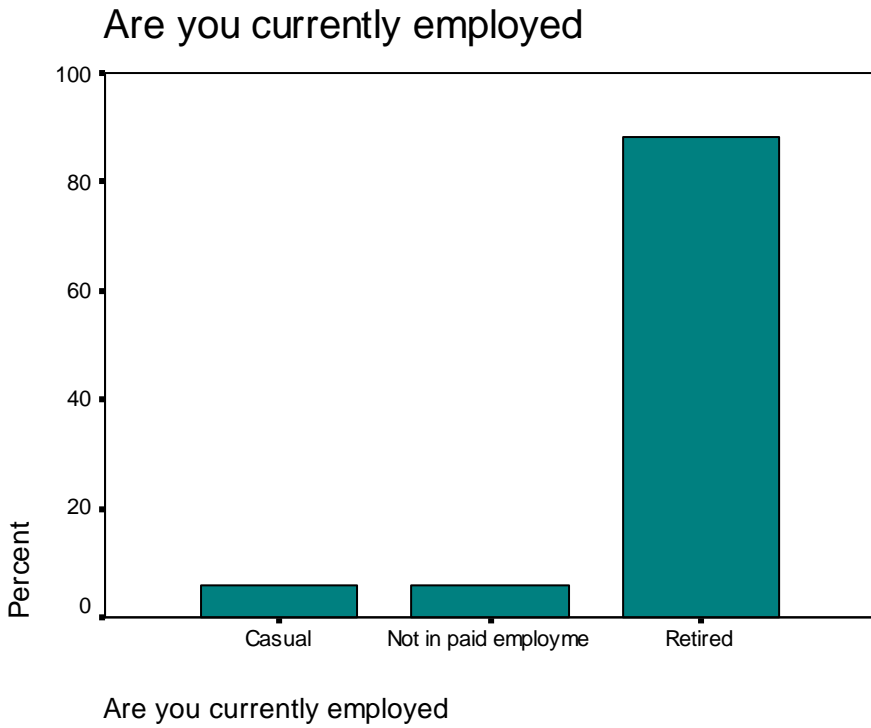
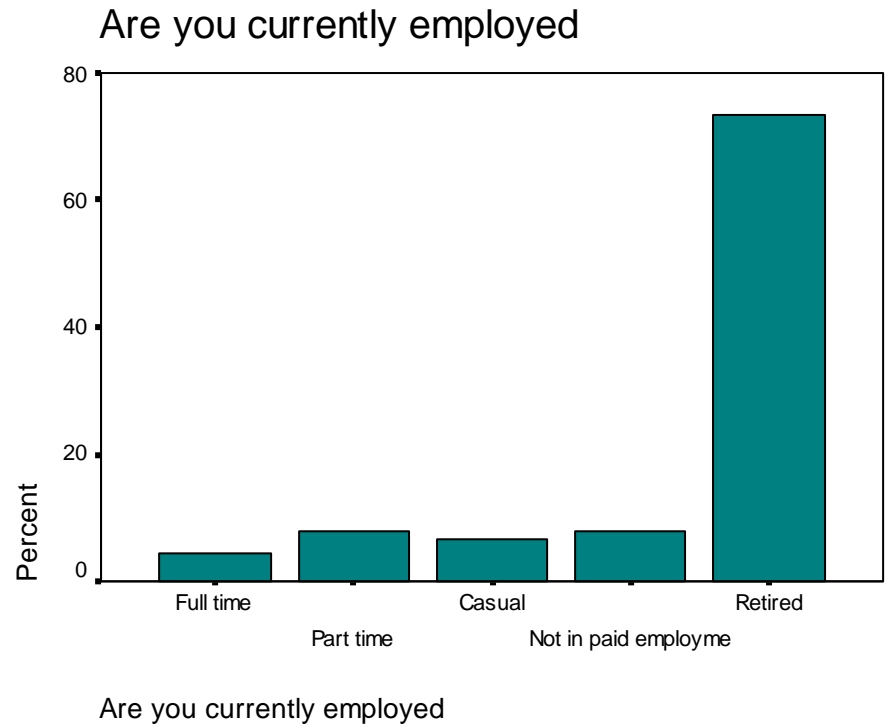


Figure 8. Employment status (under 70)?



4.2 OBJECTIVE ONE: UNDERSTANDING OF HOME EQUITY PRODUCTS

Figures 9 and 10 suggest that the majority of participants in the survey understood how reverse mortgages work.

However figures 11 and 12 indicate that whilst participants may have a general understanding of reverse mortgages the majority in each group self rate this understanding as minimal with the under 70's group rating their understanding as less adequate than the over 70's group.

This finding was supported with most of the interviews and all the focus groups bar one. Those participants in the focus groups who did have a good understanding of reverse mortgages were those who had taken one out.

This limited understanding is underscored by the fact that most people had gained their knowledge of RMs primarily from media, (Figures 13 & 14) with most people not taking further steps to learn about the products. Less than 20% of the total sample had sought additional information about home equity products (Figure 15), which was supported by the focus group data.

In addition there was a very strong indication of not trusting the media or the advertising in all of the focus groups.

Of the 9 focus groups, only 3 groups held a positive view of RM's, were informed and proactive in their approach to their understanding and decision-making with regards to their future financial needs and options.

Understanding of the home equity market:- (See Focus Group 1) which included two people with RM's and one person having seriously considered it.

- *Good understanding*
- *Predominantly positive view*
- *Used financial planners, media and banks as sources of information*
- *Understood more intricate details of the products such as requirement for regular valuations*
- *SEQUAL were considered trustworthy as where member product organisations*
- *Retention of title in their name was considered important.*

Apart from those participants who did have a reverse mortgage (n=9 from the survey data and n =3 from the focus groups) a small number of participants had gone through the process of seeking more information about them but decided not to go ahead. Those who had sought more information utilized 'professional advice', such as financial planners and banks. The reasons cited for not going ahead ranged from one woman finding work and not needing to pursue this option (albeit that she agreed that should the need arise later she would be happy to take a RM). Others had simply gone down the path in order to understand the process. They also were of the view that an RM was a much superior option than downsizing and selling the house. Thus the understanding of the RM process with these individuals was much more robust, than most people who participated in the project.

However the data from the rest of the focus groups overwhelmingly supports the case that the understanding of these products, broadly speaking, is very poor and often it is a case of a little knowledge is dangerous.

Those who were most negative about the products, were distrustful of them seeing them as 'rip offs' and in fact dangerous. They did not trust many sources of information and were confused about the products, the range of choices and the advertising and media information about them.

Five of the participants had made some efforts to seek more information about reverse mortgages however, of those five only one had actively investigated the concept further. This investigation comprised of ringing St Georges bank, Bendigo Bank and one other credit union. This participant viewed this level of research as robust and thorough and described his actions as “gathering his own resource file”. He stated that “while the information was easy to gather – it did contain a lot of statistics which he said he was skeptical of. The facilitators interpreted this as disturbing as this participant potentially had a limited capacity to evaluate and make informed decision following what he perceived as a thorough investigation. The other four participants who claimed to have sought further information said that they had experienced information overload and another challenged the terminology and said he would more aptly describe it as “Confusion, Confusion, Confusion”

Another participant expressed that this situation was similar to the mobile phone market where he perceived there was too much choice. This abundance of choice led to confusion which coupled with a lack of understanding stands as a potentially vulnerable situation.

(Focus Group 4)

The following is an account from another focus group.

- *Poor understanding*
- *Predominantly negative view*
- *Used media (newspapers, TV) as sources of information*
- *Had taken on the view of the press and believed that these products were to be avoided*
- *Could not understand why anyone would bother with a reverse mortgage*

(Focus Group 2)

The focus group facilitators found some of these attitudes alarming, and viewed the participants as vulnerable to so-called ‘expert’ advice:

On the whole this group had a very poor understanding of these products and more importantly had not no idea where to gain reliable information. They displayed very low levels of motivation to seek information for themselves, rather they wanted the information delivered to them. This is possibility the most disturbing finding with this group and the facilitators perceived that if a person posing as an expert offered them information they would be very vulnerable to being sold something that did not suit their needs. Thus the group are particularly vulnerable. This view was supported by the contact for the group.

(Focus Group 3)

All focus group participants indicated that they would like to see a centralized information source that was reliable and trustworthy, and suggested an aged care advocacy agency being perceived as the most trustworthy to take on the role.

“it would be good if there was a government booklet about how to go about making sure the product is safe for us”

Figure 9. Understand how RM work (over 70)?

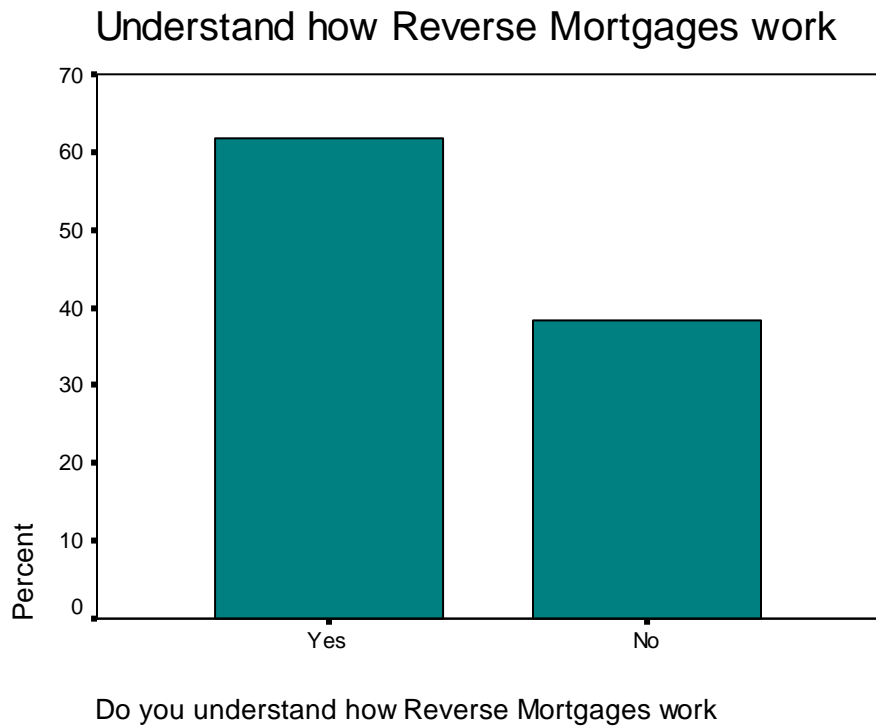


Figure 10. Understand how RM work (under 70)?

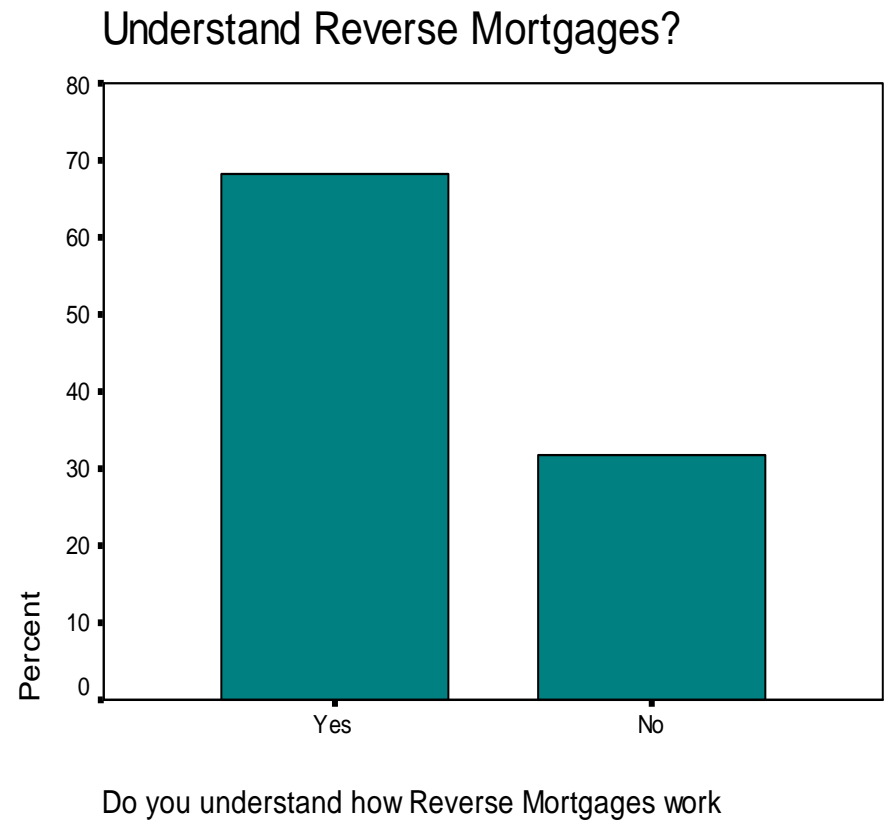


Figure 11. Rate your understanding of RM (over 70)?

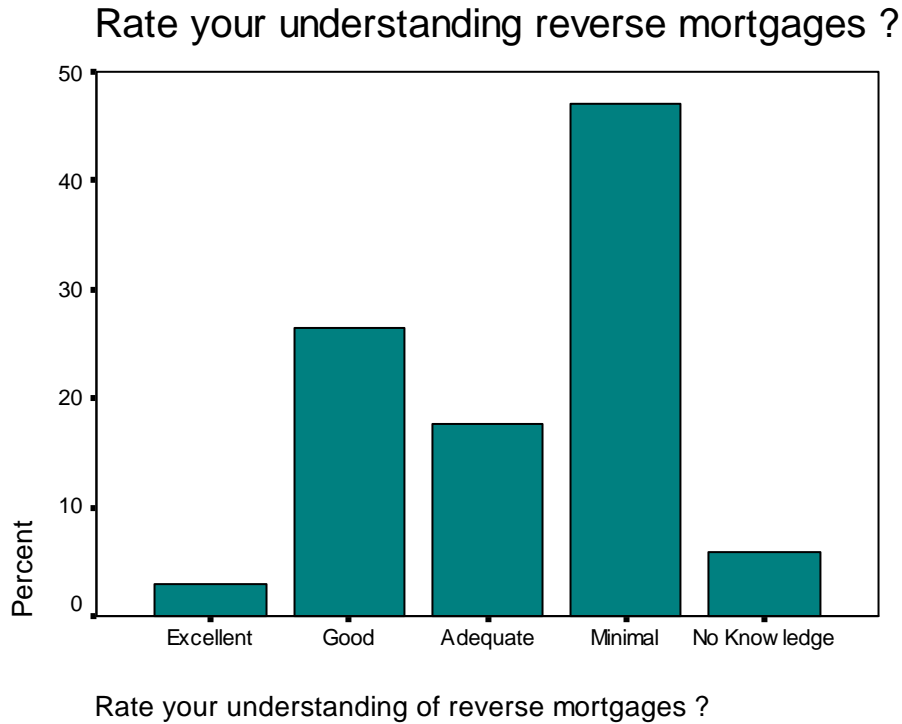


Figure 12. Rate your understanding of RM (under 70)?

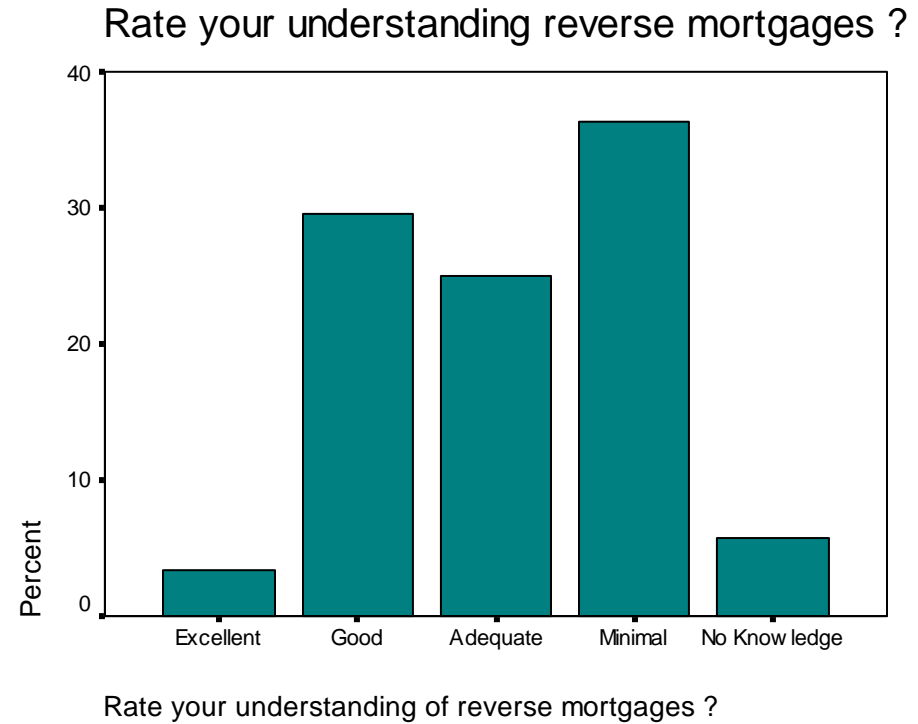
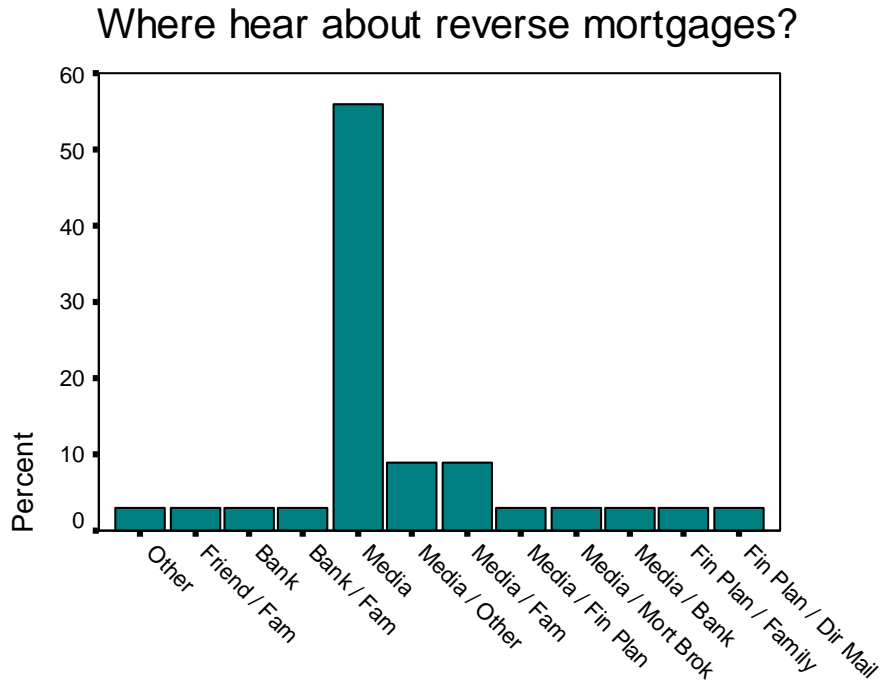
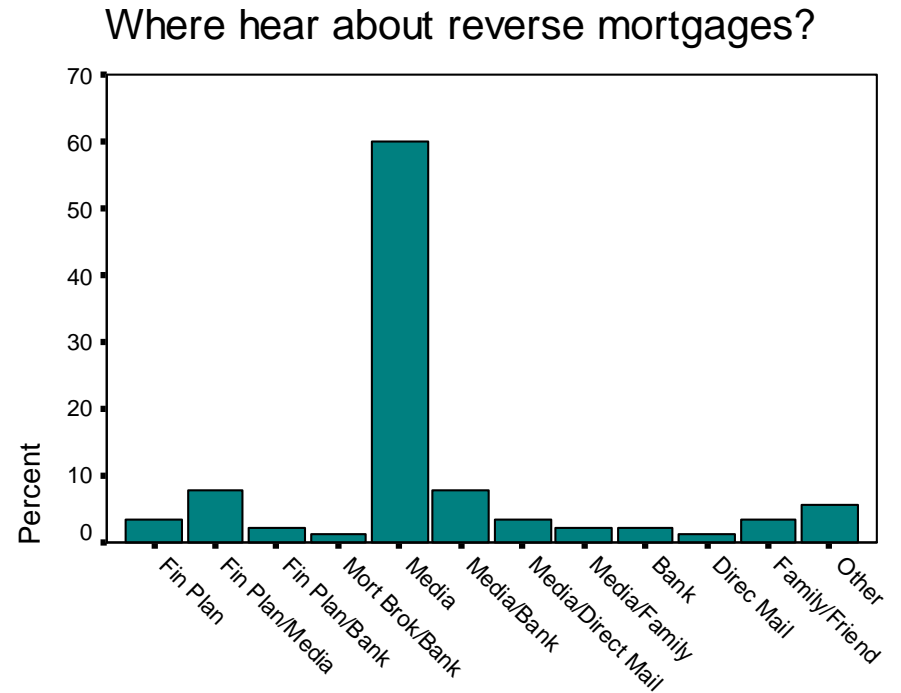


Figure 13. Where did you hear about RM's (over 70)?



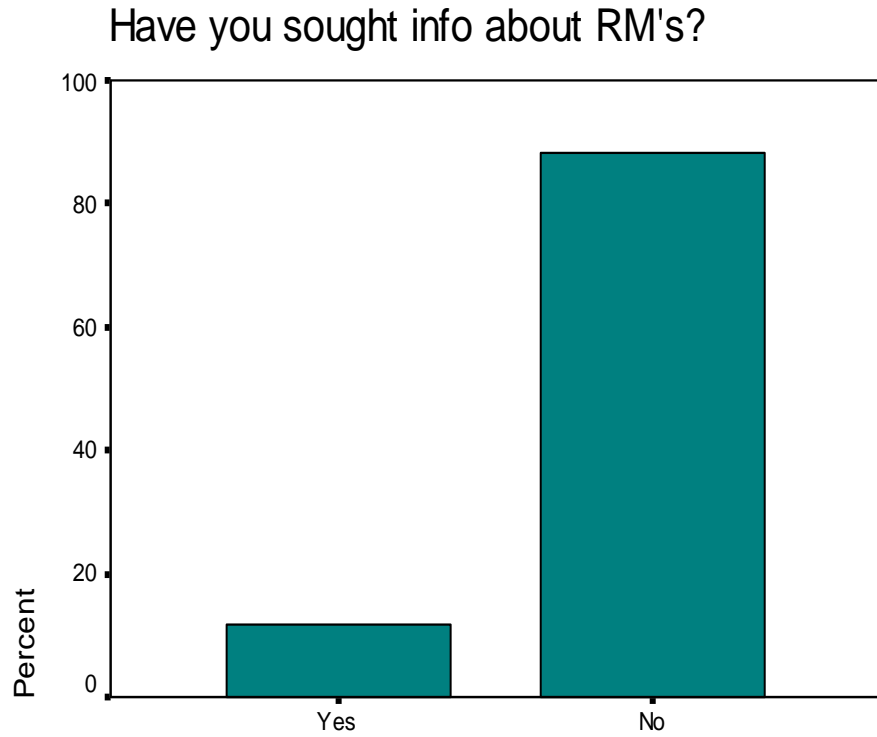
Where have you heard about reverse mortgages?

Figure 14. Where did you hear about RM's (under 70)?



Where have you heard about reverse mortgages?

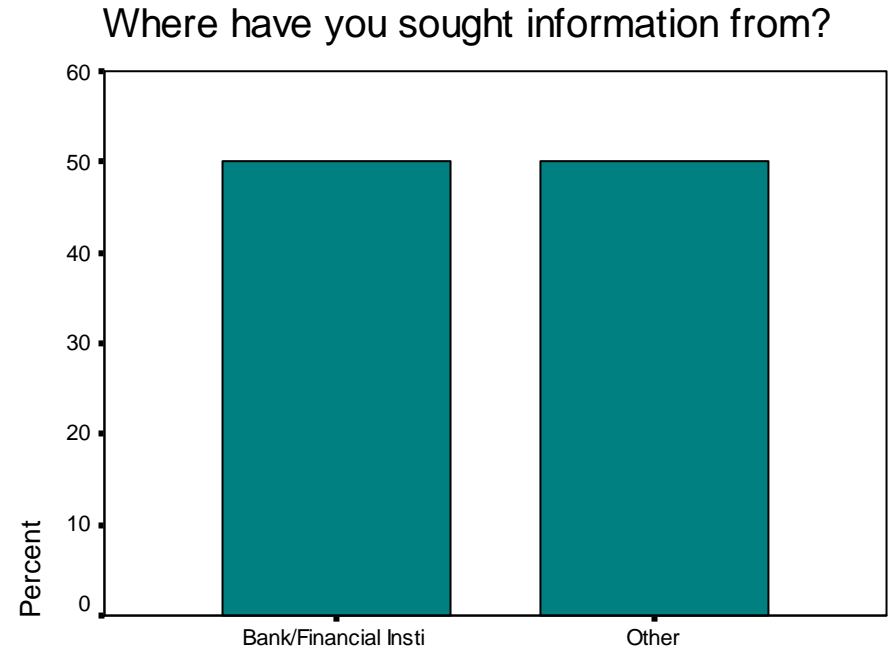
Figure15. Have you sought info about RM's?



Have you sought more information about reverse mortgages?

•

Figure16. Where have you sought info about RM's?



Where have you sought information from?

4.3 OBJECTIVE TWO: FACTORS INFLUENCING PEOPLE TO ACQUIRE A HOME EQUITY PRODUCT

The focus group discussions afforded the opportunity to explore the factors that influenced people to take out, or to consider taking out a RM, in more detail, with a number of themes emerging.

Many people participating in the focus groups felt that they did not, and were unlikely to need to consider taking out a reverse mortgage, due their relatively comfortable circumstances. However, even those who saw themselves in this fortunate situation recognized that it may be something they would have to consider in the future.

Level of understanding of financial situation and the RM products

Generally participants who had a good level of understanding of Reverse mortgages, and a good understanding of their financial situation were more positive about the products as a reasonable option for them in the future. This was true of those who had a reverse mortgage, but also those who didn't.

Eg. Focus Group 1 in which some participants had an RM

- *Good understanding*
- *Predominantly positive view*
- *Used financial planners, media and banks as sources of information*
- *Understood more intricate details of the products such as requirement for regular valuations*
- *SEQUAL were considered trustworthy as were member product organisations*
- *Looked at other options such as downsizing*
- *Felt the products were safe*
- *Felt that the products gave them options*

On the whole this group did not have a negative view of home equity release products and saw them more as a viable option for people such as themselves who were well informed and well able to research these products and make informed decisions about whether they were a viable and good option for their needs as they age.

Eg Focus Group 6

- *Reasonable understanding of the products*
- *Predominantly positive view as they saw that they could help people*
- *Understood that the products would increasingly become legitimate option for older people*
- *Reassurance of being able to continue living in the home was of paramount importance*

- *They could see that the products will be useful to people who had a lot of equity in their homes*
- *They saw that this was possible a better option than downsizing due to costs of selling and re-buying*
- *Felt that the products gave them options around staying in their home longer*

Feeling of security

The financial security that could be achieved through a reverse mortgage also emerged as an influence for some people.

Some people expressed concern at their perceived increases in the cost of living and identified reverse mortgages as a way to create a buffer against financial hardship:

..by having the money in the bank at the ready made them feel very secure in case something happened. They had a product where they used the money as a redraw facility and only used and paid interest on the component that they needed. They had used a small amount of the available funds for some maintenance on their house. When they took out the reverse mortgage, they sought professional advice from a financial planner, their lawyer and discussed the idea extensively with their children.

There seemed to be a general belief amongst participants, that there would be increasing up-take of reverse mortgages, and that these products would be perhaps the only option for many people to achieve a degree of comfort and independence as they aged.

Difficulty of getting good information/ Confusion about products

Overwhelmingly however, there was a negative view of reverse mortgages, and brokers who were promoting the products, expressed in uncertainty, confusion, and apprehension about the products. In some cases they did not see them as a viable option for the future because of the anxiety they felt about being 'ripped off'.

Many people had difficulty in knowing what was a reliable source of information, had limited understanding of the products, and concerned about the long term consequences for them if they took out a reverse mortgage

Many people had difficulty in knowing what was a reliable source of information, had limited understanding of the products, and concerned about the long term consequences for them if they took out a reverse mortgage

- *Reliance on sourcing their information about the products from local and senior specific print media*
- *Naïve attitude and beliefs about the issue*
- *Prepared to take print media advertising as factual expert advise*
- *Did not know which professionals to seek out for reliable advise*
- *No capacity for discerning evaluation of information*
- *Fear of losing their house and having no where to live*
- *Fear of the future and limited optimism*

(Focus Group 3)

Other participants felt it was not something they would enter into, due to their negative perceptions, but felt that other people were more vulnerable and likely to face difficulties.

The group felt that it would be difficult to gain an accurate view of the 'real situation' with these products and those they viewed as more likely to go for the products (as get into trouble because they were a "rip off") tended not to be involved in the community and also tended to have poor social and community supports through isolating themselves.

On the whole this group provided good insight into the issue as they saw themselves as intelligent and financially savvy – yet they believed the view of the media such as the tabloid television station current affairs programs.

(Focus Group 2)

The concerning aspect of these attitudes and perceptions of reverse mortgage products and brokers, was that people appeared vulnerable to 'specialist advisers' and persuasive sales techniques.

This group saw the issue as something formidable and overwhelming. They were confused and again looking for someone to give them the "right" answers. (Focus Group 4)

Their views were clouded by the confusion to which they openly admitted, and which had rendered them to a state of paralysis in their thinking. (Focus Group 3)

The facilitators of the focus groups found this anxiety and confusion to be very disturbing, and identified it as reflecting a position of 'extreme vulnerability'.

Media

There was considerable discussion about the media representation of reverse mortgages, in particular citing the television advertisements depicting the grandparent presenting the grandchild with a brick that the older woman gets from her handbag and tells the child it is for their future education. The other advertisement that received a lot of attention was of an older man entering the car yard with his brick to purchase a car saying he will take the red one.

Most participants found this advertising to be offensive and were quite incensed that media portrayed them as 'owing' their children something. Interestingly however, some participants indicated that they may consider a reverse mortgage if their children were in need of their financial assistance.

This was a common reaction from participants in the project :

The participants found the media representation to be 'stupid' and as presenting an "old perception" that you owe your children and grandchildren. One male participant said the ads insinuates that you should have a feeling of responsibility toward providing well for your children and grandchildren, however, the ads do not represent an accurate understanding of the differing generational attitudes.

(Focus Group 2)

The participants were incensed and offended by the advertising with the bricks. They said that the focus of the advertising portrayed that the RM providers will give them money so that they can give it to their children and grandchildren while they are still alive. They believe that this puts an added pressure on them to leave something to their children, and causes them to feel guilty.

(Focus Group 4)

They felt the media advertising with these products was disgraceful and that they were verging on elder abuse. They reported that all of their families were more than happy for them to make their own decisions about how they spent their money, whereas the advertising was suggesting that they should be spending their money on their children.

(Focus Group 7)

Family Pressure

Despite the fact that almost all the participants expressed the view that they didn't feel that they owed anything to their children, and that their families supported them in accessing the equity in their home for their own use, if they wished to, many people recognized family needs as a potential influence on them.

Certainly the concerns expressed about advertising of reverse mortgage products, indicated participants felt that some people may be vulnerable to family pressures to assist their children and grandchildren financially.

They identified that the media were responsible for the current views of RM's and they felt that the media and advertising was blatantly targeting the elderly. They thought that the media should be regulated more rigorously and that there needed to be more accountability with the messages they portrayed. The group felt that the advertising was sending the wrong message to the community and they all agreed their families were not expecting to receive an inheritance and that quite the opposite their children encouraged them to use what they needed for their lifestyle requirements. (Focus Group 6)

4.4 OBJECTIVE THREE: REASONS FOR ACQUIRING HOME EQUITY PRODUCT

Discussion of the survey results is difficult due to very small numbers of participants who had a Reverse Mortgage (n=9). However, at a cursory level, Figures 18 and 19 indicate that people over the age of 70 took out RMs for large expenses such as care and home renovation expenses rather than due to insufficient income funds, while those under the age of 70 took out an RM due to insufficient funds as often as for home renovation and car expenses.

As may be expected those who had RMs were generally satisfied with the product and their decision to take up this option. Participants in the focus groups who had RMs were generally well informed, and had 'done their homework' on the products and the implications of this form of credit.

A number of themes in relation to reasons why people would take out a reverse mortgage were identified through the discussion groups.

Maintaining Independence

The main issue for most participants in their consideration of taking out a reverse mortgage was to maintain their independence.

Most people expressed a desire to stay in their homes as long as possible, and saw a reverse mortgage as a possible means to achieve this. Associated with this was the desire not to be a burden on their children, and some people saw a reverse mortgage as potentially providing the funds to pay for care and support, while maintaining good family relations.

They considered 'care' to be anything from no longer being able to do the garden, to requiring home help or personal care in the home.

They expressed the importance of close family relationships. ... Cases were cited where older children of elderly people were stretched to the limit by the demands of their ageing parents and they did not want this to occur with them.

(Focus Group 1)

This group had a very positive view of home equity products as they and their families were of the view that the assets were far better being utilised for their health and well being. Their children were described as having the view that as long as their parents were in their own homes and living the lifestyle they were accustomed to then their parents were far more likely to remain independent for a longer period. It was viewed as a win-win situation.

These participants wanted to be independent and if they needed repairs done to the house or the garden spring cleaned then they wanted to be able to pay for someone to do it rather than relying on their children who were extremely busy with work and families. They recognized that things were different now and that it was not that their children would not want to help, but it would add unnecessary pressure to family relationships.

Lifestyle

Generally lifestyle factors such as holidays, improved income or purchase of items to improve quality of life, were not identified as the main reasons in the consideration to take out a reverse mortgage.

However there was some ambivalence in relation to this factor, with some participants recognizing that reverse mortgages could provide benefits to them in terms of improved quality of life, through home maintenance, some creature comforts and remaining connected to their community.

The male participant in this group who had taken out a reverse mortgage was very financially savvy and considered that the reverse mortgage was a great product and enabled he and his wife to continue to enjoy their lifestyle without having to compromise too much. They had taken it out to purchase a new car. They realized that they were sitting on a considerable asset in their home and that it was of no use to them once they were 'not here' and that they may as well use the equity in it to ensure that they could continue to enjoy their lives.

(Focus Group 1)

Lifestyle issues were generally seen as being linked to independence:

They had consulted with their families and their children were unanimously of the view that they should use the home equity for their own use and that the idea of "holding it to pass on to the children" was a nonsense. They expressed the view that it was a win/win situation as they were not dependent upon their children, their children could get on with their own parenting roles and they could enjoy their 3-4 months in the northern states each year.

Some concern was expressed about the increasing cost of living and the pressures this would put on pensioners and low-income older people.

Focus Group 7

- *Felt that the products had potential and a legitimate use for asset rich individuals who were short of ready cash for rates payments and home maintenance*
- *Home maintenance was the prime reason why they would take a product*
- *Maintain lifestyle such as being able to pay bills, rates and other things such as occasional home help as they aged*
- *Want to maintain independence for as long as they could*
- *Considered their own home and community to be of paramount important to their health and well-being and over satisfaction with their lives*

Figure18. Reason for RM (over 70)?

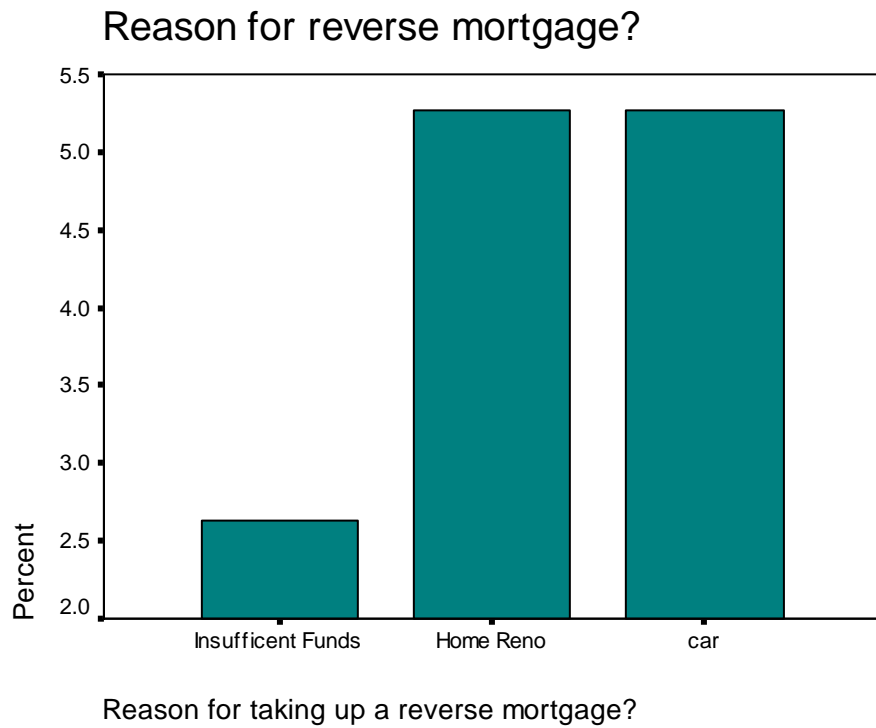


Figure 19. Reason for RM (under 70)?

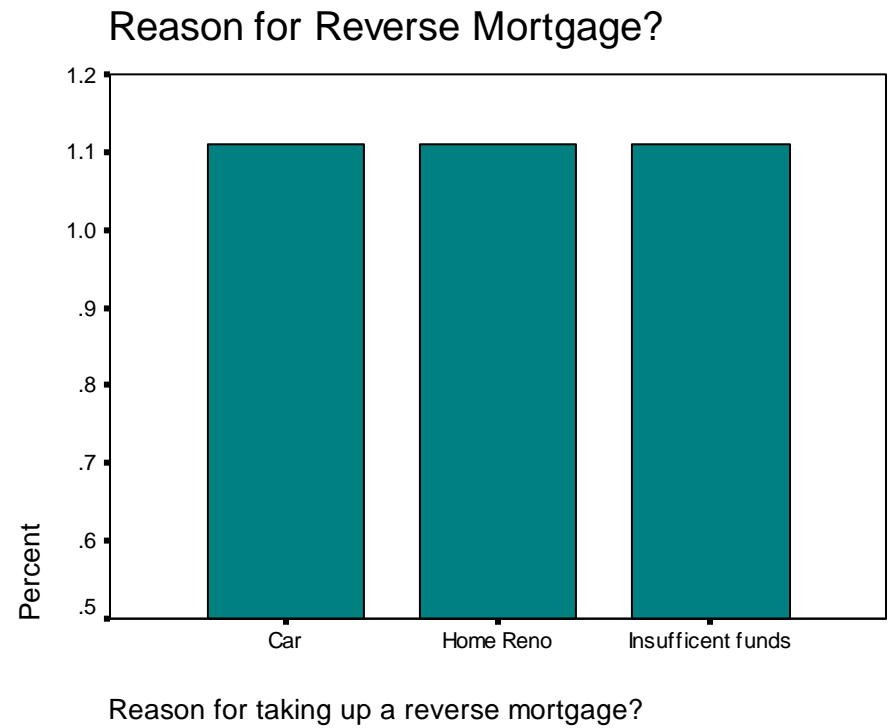


Figure 20. How Long had RM (over 70)?

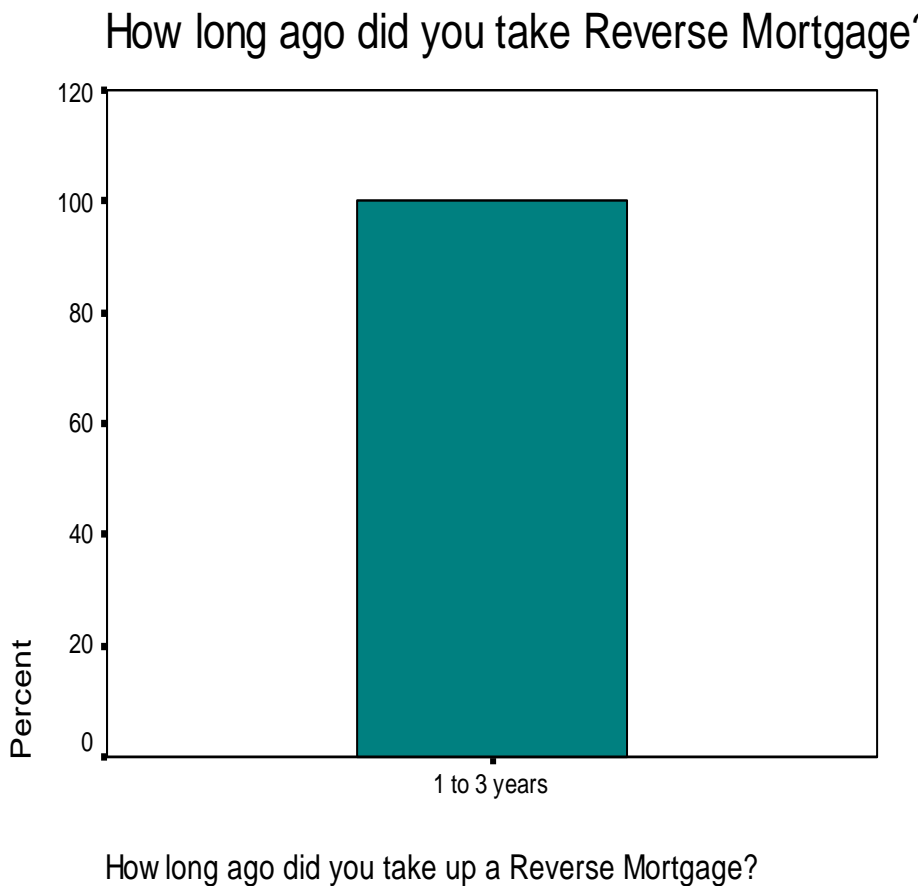


Figure 21. How long had RM (under 70)?

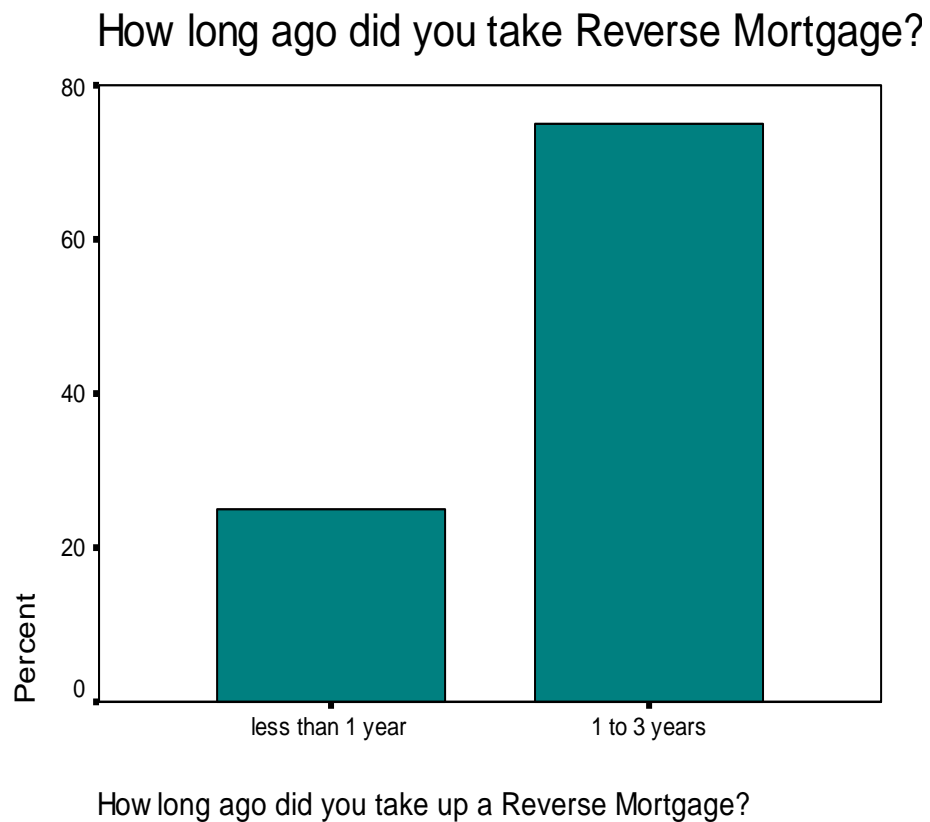
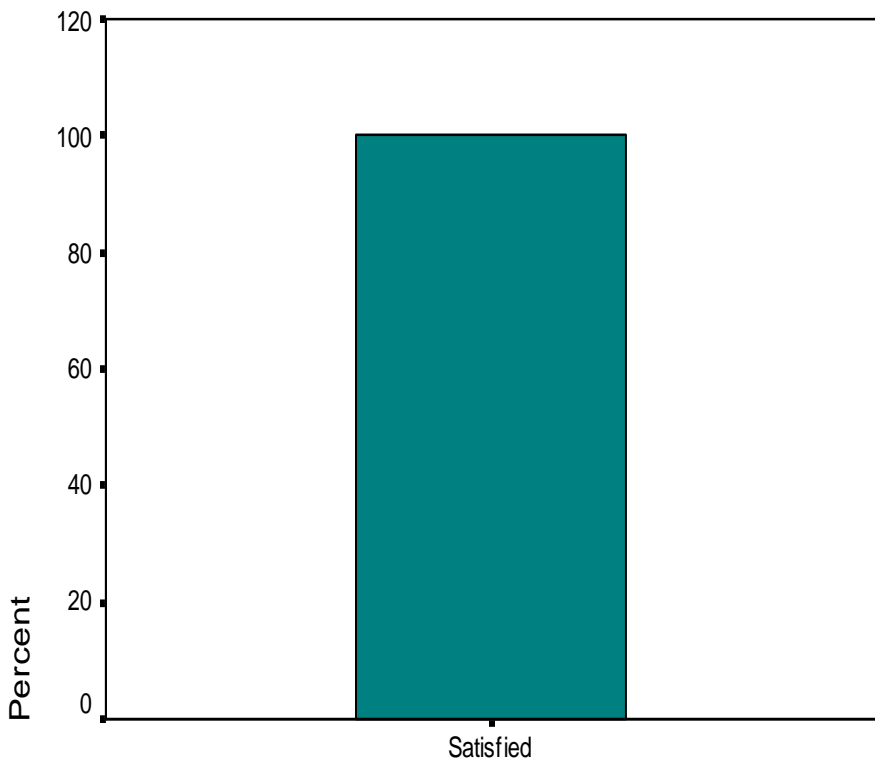


Figure 22. Satisfied with RM (over 70)?

Are you satisfied with RM you have taken up?

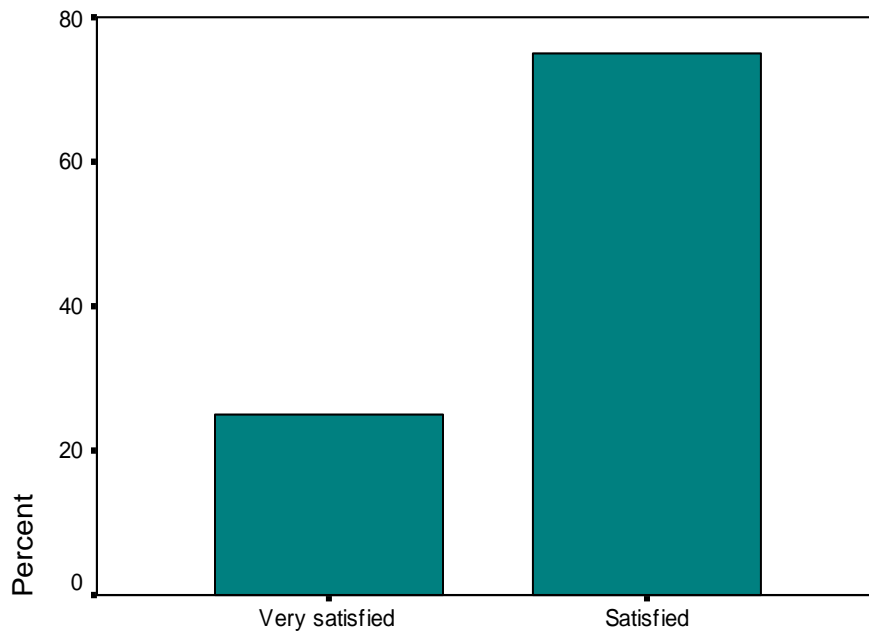


Are you satisfied with the product you have taken up?

Figure 23. Satisfied with RM (under 70)?

(under 70)?

Satisfied with RM product you have taken up?



Are you satisfied with the product you have taken up?

4.5 PERCEIVED TRAPS AND PITFALLS OF HOME EQUITY PRODUCTS

Those people who had sought additional information about reverse mortgages generally identified the information they received as adequate. People over the age of 70 years were as likely to identify the information as 'more than sufficient', and as 'adequate' (Figure 24). People on the other hand appeared less satisfied with the information they received, with only small proportions identifying the information as 'comprehensive' or 'more than sufficient' (Figure 25).

Amongst participants in the focus groups, those with a good understanding of financial matters, indicated that they had a good understanding of the potential pitfalls in reverse mortgages. For example one woman who had an RM, had already worked out at what point she and her husband would still have enough equity in their home to be able to afford to buy into the retirement village of their choice.

Some people expressed concerns about the impact on their pensions, and if there was a change in their circumstances, and they needed to relocate to an aged care facility, and others understood that they were required to maintain the property and the failure to do so could result in a breach of the contract.

However, most of the participants had very limited understanding of the intricacies of the products, with most people only having basic understanding of the fact that a RM would result in no equity being left in the house to pass on to their children.

The concerns most consistently expressed were in relation to

- more vulnerable older people –

they felt they were astute older people who were 'switched on' and would not be subject to 'being ripped off'. They did acknowledge that for older people who were more vulnerable and less informed and capable of finding out the facts for themselves then they may be at risk from less than ethical products and providers. (Focus Group 1)

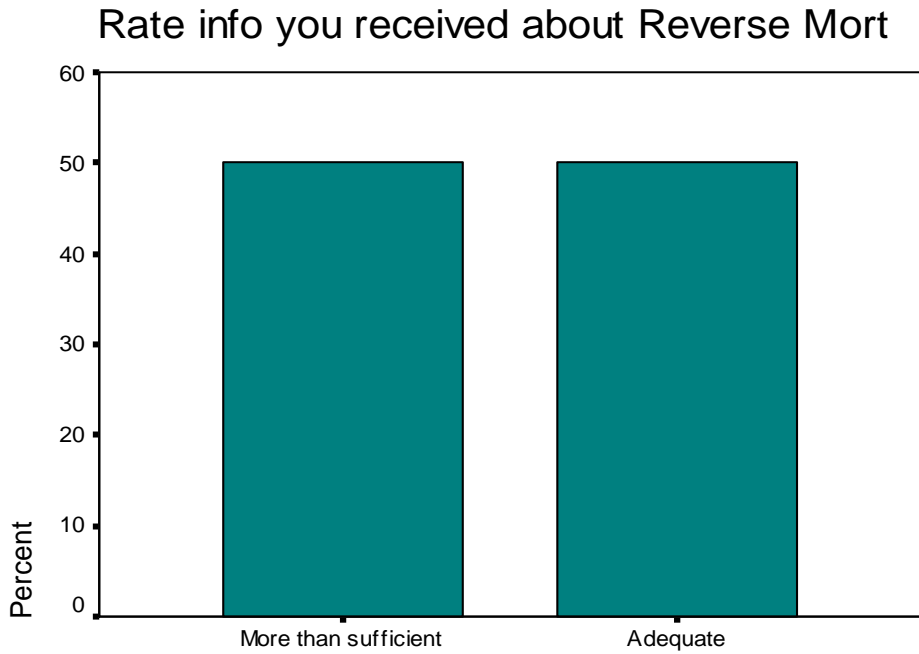
- regulation –

Overwhelmingly they saw the need for government regulation of the RM market. They saw RM salespeople as not to be trusted and that they were generally good sales people who could potentially prey on the uninformed elderly. Needed reassurance that they would not be "thrown" out of their homes. They saw that tight government regulation was absolutely necessary and that it should be in place for the sellers of these products. They saw the need for an effective advocacy group for older Australians to ensure the regulation/legislation covered all issues of concern to older people. (Focus Group 5)

This group were concerned that older people may often not really be capable of understanding the full implications and financial planners can prey on them. They stated that the advertising of these products should be closely regulated, as there should be close regulation of the product sellers.

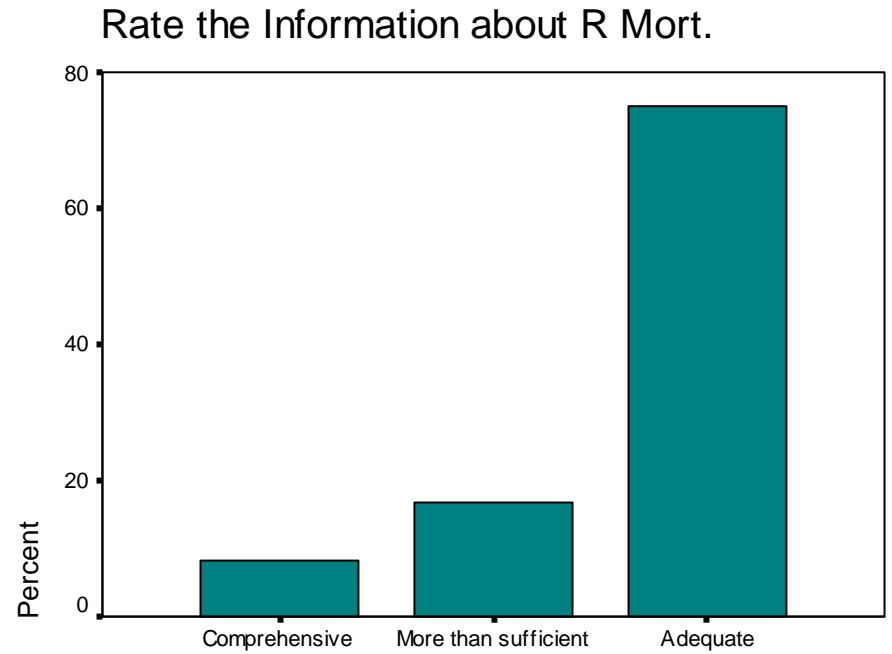
(Focus Group 8)

Figure 24 Rate information about RM (over 70)?



Rate information you received about a Reverse

Figure 25. Rate information about RM (under 70)?



Rate the level of information you received R Mort

4.6 PERCEIVED BENEFITS OF HOME EQUITY PRODUCTS

The participants in the survey who were over the age of 70 years were slightly more likely to recommend a RM to others, than those under 70 years (Figures 26 and 27).

A most interesting result from the survey was the indication of willingness to consider a reverse mortgage in the future, with those over the age of 70 years much more likely to consider this option than those under the age of 70 years (Figures 28 and 29). More people in this younger group indicated that they would not consider a reverse mortgage.

However, when the numbers of those who were unsure whether they would consider a reverse mortgage are included, the figures indicate that there is considerable willingness to consider a reverse mortgage in the future in both age groups. This reflects other work which suggests there is a changing attitude to accessing the family home as an option for income. It may also reflect the expectation of participants that they may need to find other sources of income, and that RMs are their only alternative.

The general view of the group was that increasingly products such as RM's and other home equity option would become more utilised. This was due to their perception that the cost of living was increasing and the costs basis for elderly people kept increasing as they became less able to do things for themselves.
(Focus Group 6)

While many participants in the focus groups saw themselves in the fortunate position of not needing to consider a reverse mortgage in the future, some saw the potential benefits that a reverse mortgage could provide some people. Others were confused about reverse mortgages and were not necessarily clear about the benefits a RM could afford.

Those who held positive attitudes to reverse mortgages, and were more informed about financial matters, were more likely to see the benefits, and were willing to consider a RM as a viable option.

Factors influencing their decision

- *They could see that the products will be useful to people who had a lot of equity in their homes*
- *They saw that this was possibly a better option than downsizing due to costs of selling and re-buying*
- *Felt that the products gave them options around staying in their home longer*
- *Felt that as they got older they became more dependent on consistency and staying in their current home was very important.*

Reasons why they took up/ would take up reverse mortgage products

- *Maintain lifestyle and good health*
- *New Car if needed*
- *Home maintenance if needed*
- *Maintain independence for as long as they could*
- *To stay in their own home*
- *Stay in their community*

Figure 26. Would you recommend RM (over 70)?

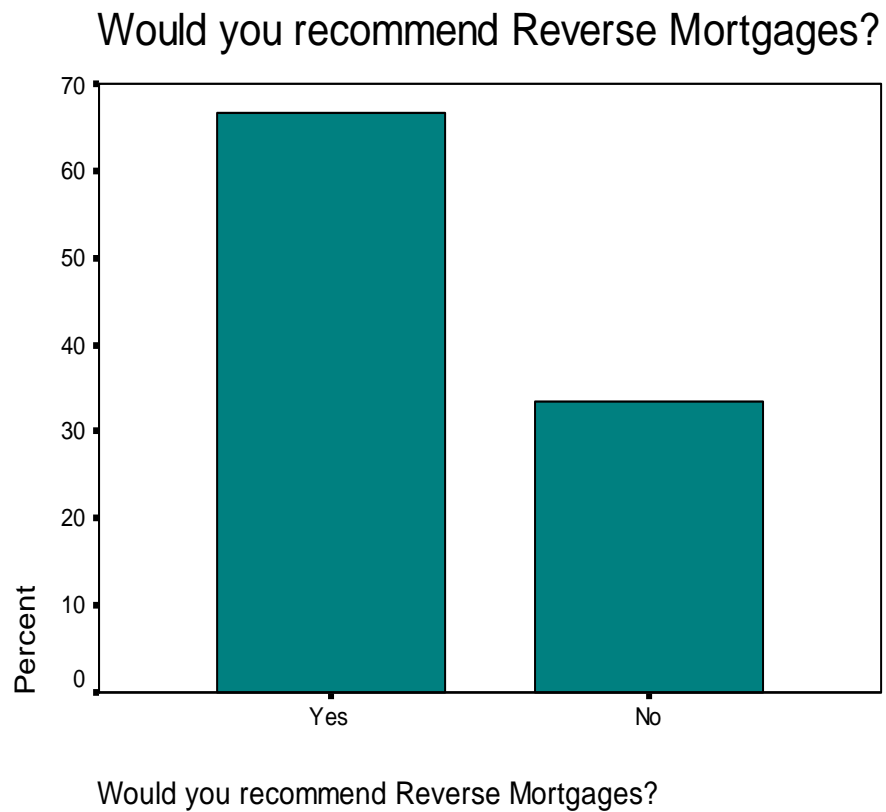


Figure 27. Would you recommend RM (under 70)?



Figure 28. Consider RM in future (over 70)?

Would you consider a Reverse Mortgage in the future?

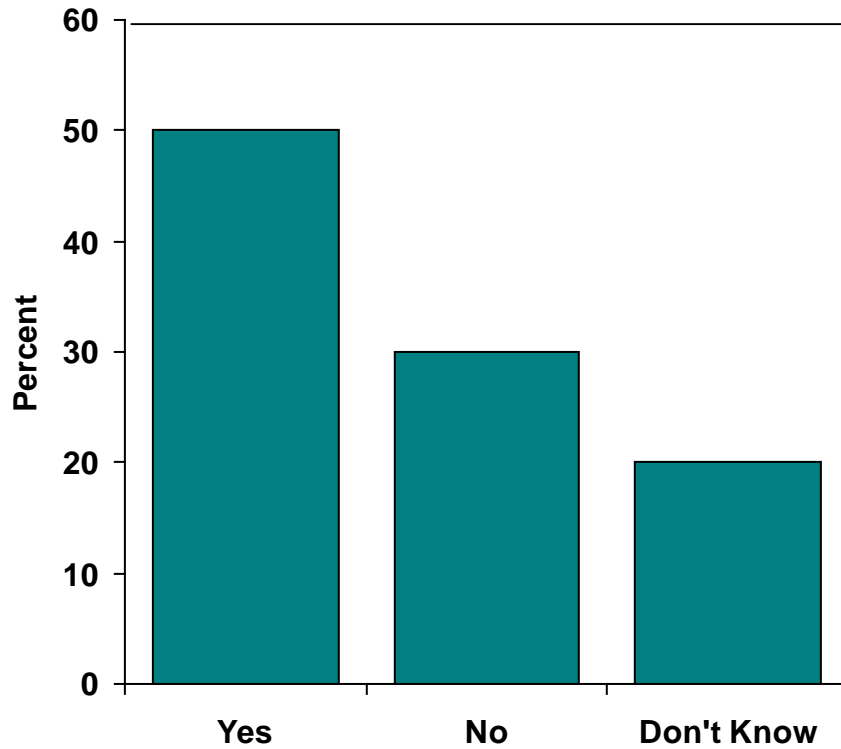
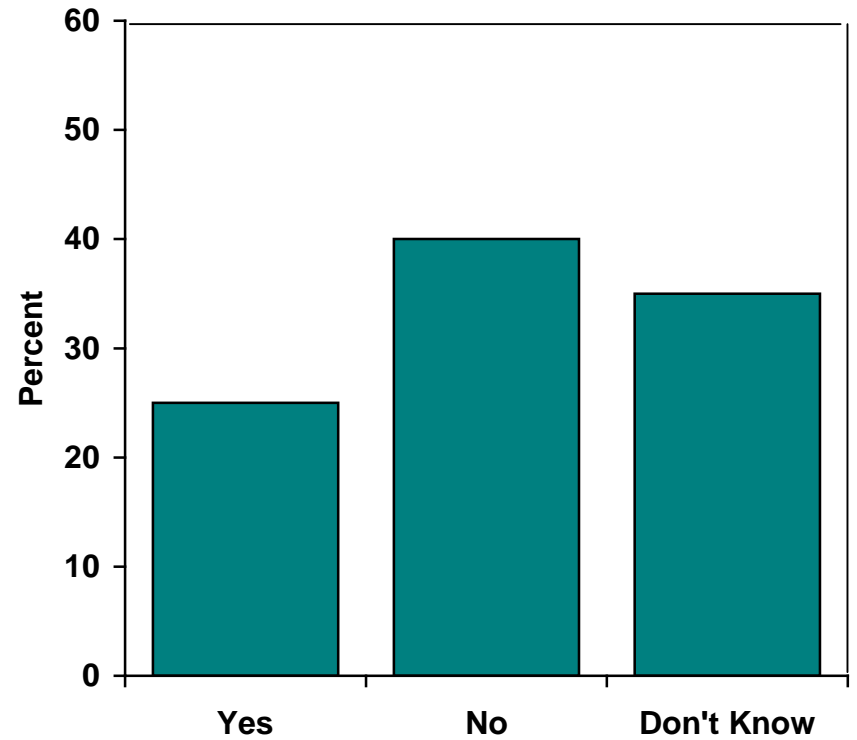


Figure 29. Consider RM in future (under 70)?

Would you consider a Reverse Mortgage in the future?



5. POTENTIAL TRAPS FOR OLDER AUSTRALIANS IN EQUITY RELEASE PRODUCTS

COTA Victoria's Credit Options and Traps for Older People project, was modest in scope, but nonetheless significant for consulting with older people on their attitudes to and understandings of reverse mortgages, and the factors which may influence their decision to take up a reverse mortgage.

This project adds to the growing number of investigations into home equity release products, and the increasing concerns about the potential vulnerability of older people and lack of consumer protection in relation to these products.

The findings of the project confirm the need for concern about the heavy advertising of these products and the potential vulnerability of many older people to the promotion of these products, their lack of understanding of the products and the belief that a reverse mortgage is the best option to meet their income needs.

A number of themes emerged from the consultation and survey process, which have been identified as areas of concern, and for the basis of recommendations to Government for future actions.

1. Financial Planning and Education

Knowledge of Other Options

It was clear from the consultation process that most people felt that a Reverse Mortgage would be their only option for future income to meet needs such as home renovations or maintenance, purchase of new cars, or enhancement of existing retirement incomes. Most people didn't know about State Government home renovation schemes, or Centrelink loans schemes for which they may be eligible.

One group identified cash converter agencies as an option if they needed immediate cash in an emergency.

Due to the socio-economic status of most people in this study, most participants felt that they had no need to consider a reverse mortgage. It is therefore difficult to ascertain the awareness of those who may have urgent financial needs, and the pressures they may feel to utilize the option of a reverse mortgage. It was clear that the heavy advertising and media coverage of reverse mortgages dominated most people's thinking in relation to their future credit and financial options.

Awareness of Future Income Needs

While some people had some understanding of how a reverse mortgage would impact on their future situation, many tended to see it as being a simple option to meet their current or potential financial needs.

Most people were aware that a reverse mortgage may result in them losing equity in their home, but felt that the inheritance aspect for their family was not important – they tended to focus on how the finances raised by a reverse mortgage could provide a 'fix' for their immediate situation.

Many participants saw a reverse mortgage as enabling them to maintain their independence and to stay in their homes for as long as possible, and to maintain good family relations by reducing the burden that may be placed on children if their parents were not as financially independent. There was some discussion of reverse mortgages being an option to meet future care needs, and some people expressed concern about where funds would come from if their needs changed after having taken out a reverse mortgage.

The impact of a reverse mortgage on pensions was raised by one focus group, but the participants did not know how to source reliable information to assist them in their knowledge or understanding.

Superannuation and tax implications are also important considerations in the decision to take out a reverse mortgage, of which people should be made aware, but were not discussed in the focus groups.

Understanding of Reverse Mortgages

Despite the survey results indicating that people had a good understanding of reverse mortgages, the discussion in the focus groups revealed that people who participated generally had poor understanding – with the media being their main source of knowledge leading to confusion and apprehension in many participants.

2. Regulation and Advice

Overseas evidence indicates that there is a risk of mis-selling and consumers may receive poor advice on equity release products. Research undertaken by the Financial Services Authority (FSA) in the UK showed that more than 70% of product providers, independent financial advisers and mortgage brokers do not gather enough relevant information about their customers to assess their suitability for the product, and more than 60% of advisers do not advise consumers about the downsides for equity release products.

It is also apparent that bank tellers are front line salespeople for banks, and yet they have little or no training to enable them to provide sufficient and important information, or to be aware of the possible pitfalls and vulnerabilities of older people in relation to these products.

There was evidence that many people participating in the project could not identify independent sources of information or advice and the focus group facilitators reported concerns that many people were potentially vulnerable to clever marketing and salespeople who may present themselves as ‘experts’ with the consumer’s interests in mind.

While some participants in the project considered themselves fairly well informed and capable of making good decisions, many held concerns for more vulnerable older people. Some indicated that they knew older people who were in trouble financially, and that they had always been poor managers of their own finances, and were concerned that they may fall prey to arrangements that would not be in their interests. Such people were also identified as having poor social and community supports.

Participants in the projects saw the need for government regulation of the reverse mortgage market – they saw mortgage brokers as ‘salespeople’ who could not be trusted and who could potentially prey on the uninformed elderly.

Many people also called for an effective advocacy group who would be a source of reliable information.

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3. Targeted Promotion

There was considerable discussion of media promotion of RMs with most people unhappy with the portrayal of older people and their attitude to their future, and the obligation that was being placed on older people to provide financial assistance to their children and grandchildren. They were concerned that the media was sending the wrong message to the community

Media and advertising was the main source of information about RMs, and some people were concerned about the targeting of older people who may be vulnerable to these pressures and have lack of understanding about the implications of RMs.

Some participants who had sought information about reverse mortgages said that they had experienced 'information overload, and another characterized the information as: *'Confusion, confusion, confusion.'*

Some participants felt that advertising of RMs should also be subject to regulation.

4. Family Pressures

Most participants in this project were of the opinion that their children did not expect, or require the family home to be passed on to them through inheritance, and did not feel any obligation to do so. However some conceded that family financial needs may cause them to consider taking out a RM.

COTA Victoria's experience of calls to its Seniors Information Victoria (SIV) service (see Appendix E) and its understanding of financial elder abuse, suggests that the potential exists for older people to be pressured into accessing funds through a RM for their children, when it is not in their interests to do so. This potential may be exacerbated by the images and messages being portrayed through advertising.

Conclusions

COTA Victoria recommends increased educational programs and opportunities to increase older people's awareness and understanding of reverse mortgages through seniors organisations and advice provided by independent and recognized agencies.

In addition, strategies to strengthen consumer protections with marketing standards, along with consumer-friendly and accessible decision-making tools are also recommended, to contribute to reducing the potential traps with these products.

ASIC has made recommendations for a set of rules for reverse mortgage providers, such as those developed in the UK, and outlined below. COTA Victoria endorses these and the call for setting down of ethical codes of conduct for the sellers of Home Equity Products, which should include banks.

- Rules concerning financial resources and other prudential requirements.
- Detailed rules that focus on a seller's firm's systems: for example, details of what must be included in a firm's complaints procedure, since these are not relevant on a day-to-day basis.
- Providers's policies and procedures on authorisation, supervision, enforcement, decision making or handling complaints against itself.
- Material governing the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS) {Australian equivalent}
- Fee and levy rules: firms are invoiced for the fees and levies that they must pay.
- Training and competence rules: firms must ensure product sellers staff attain and maintain the relevant competence requirements.
- Financial promotions of reverse mortgages or associated insurance products and services

The following are areas identified as potential traps and issues for consumers that should be discussed by the mortgage broker or adviser, and considered by consumers before acquiring a home equity product:

- Is a reverse mortgage the best option?
- Have alternatives been considered including downsizing?
- Has the consumer talked to children/anyone provided for in the estate?

- Does the loan amount exceed the consumers' current requirements?
- Does the consumer understand the effects of compounding interest and been shown scenarios using different interest rates and changes in property values?
- Has the consumer considered future needs like long-term aged care or the move to a retirement village?
- Is the consumer the sole owner of the house or are there other permanent residents such as a spouse or relative, and does the consumer understand the position or potential impact on these other parties?
- Has the consumer contacted Centrelink to discuss the impact on the entitlements?
- Is the consumer aware of features such as payment and interest rate options?
- Does the consumer understand the requirements of the loan, such as maintenance, payment of rates and building insurance?
- Has the 'No Negative Equity Guarantee' and conditions on it been explained?
- Does the consumer understand, or are they aware, under what circumstances the lender can require the borrower to vacate the house?
- Is the consumer aware of, and understand, default clauses?

In addition, when funds are released in home equity reversion loans they become susceptible to tax and being assessed for pension-eligibility purposes. These issues can affect a consumer's entitlement to a pension or part pension, and the associated benefits and concessions, and can also affect the amount of daily care fees that will be levied if the retiree has to enter an aged care facility.

The following issues should be brought to the attention of people considering a reverse mortgage :

- whether it will be in the retiree's best interests to obtain the funds as a lump sum or regular payments, and
- when (if ever) is the best time to acquire an equity release product.

It is clear that with the increasing numbers of products now available, that the marketplace has become more competitive, with providers seeking ways to attract potential customers. The messages being delivered, the images portrayed, and the inability of some people to differentiate between advertorials, and reliable sources of information, raises concern about the nature of advertising targeting older people and the promotion of and access to independent information and advice.

6 FUTURE DIRECTIONS: RECOMMENDATIONS

COTA Victoria calls on the Government to act to ensure that older people have access to information and support when considering their future financial options.

1. FINANCIAL AWARENESS PROGRAMS AND STRATEGIES

- **Retirement planning and financial awareness programs for older people.**
- **Information and education programs on financial products and options, including reverse mortgages**

2. ACCESS TO INDEPENDENT ADVICE AND INFORMATION SOURCES INCLUDING

- **Promotion of sources of independent advice such as NICRI**
- **Other advocacy bodies funded to provide advice and information materials and sessions to older people**
- **Rating of products through CAV and other consumer bodies such as CHOICE and FCRC,**
- **Checklists and other tools for consumers**

3. REGULATION OF FINANCE AND MORTGAGE BROKER, AND PRODUCT PROVIDERS

- **Implementation of ASIC and Credit Review recommendations**
- **Compulsory membership of brokers and providers with SEQUAL and other accredited industry bodies**
- **Guidelines and regulations for advertising**
- **Training and regulation of brokers and others involved in the promotion and selling of products**

4. PROMOTION OF RANGE OF OPTIONS

- **Better promotion of alternative credit and finance options**

APPENDIX A: FOCUS GROUP REPORTS

Focus Group 1 : Friday 20th April 2007 Block Arcade COTA

N= 6 Female = 5 Males = 1

Ages: 3 over 70

2 under 65

General discussion prior to commencement of focus group

The participants in this focus group were all quite vocal and were very active and involved in a considerable number of activities; from paid employment, volunteering, career for older relatives, traveling to being internet savvy and the owners of mobile phones. A distinction with this group was that there were two participants in their early sixties one of which who was still in paid employment. All owned their own home and all described themselves as fortunate in that they had sufficient funds to maintain the lifestyle they desired albeit that was a relatively modest lifestyle. The group were well informed and were abreast with current issues and had robust opinions about certain things, such as changes to public transport and the impact of the new Eastern link road which they were fully informed and aware of the impact to their lives.

Themes

Understanding of the home equity market:

- Good understanding
- Predominantly positive view
- Used financial planners, media and banks as sources of information
- Understood more intricate details of the products such as requirement for regular valuations
- SEQUAL were considered trustworthy as where member product organisations
- Retention of title in their name was considered important.

Factors influencing their decision

- They thoroughly investigated the options
- Sought professional advice
- Looked at other options such as downsizing
- Consulted with family who agreed
- Felt the products were safe
- Felt that the products gave them options
- Felt more secure with cash in the bank

Reasons why they took up, would take up reverse mortgage products

- New Car
- Home maintenance
- Maintain lifestyle, not prepared to give up comforts and in fact wanted more comforts such as good heating and cooling
- Want to maintain independence for as long as they could

- Considered that the happier they were the healthier they were
- Considered downsizing to be very expensive exercise and did not want to leave neighborhood
- They are less flexible now and less likely to give things up, wanted comforts
- Health concerns and needs – such as funding for specific health needs home carer

Views of the products since acquiring them

- Happy with the product
- Felt that the hype and fear around the products was perhaps overstated, however they did state that they considered themselves very educated and knowledgeable and had done the due diligence prior to taking the product out
- Felt that for individuals less educated, less financially savvy – traps could be a reality
- Felt that the products suited their generation who were not prepared to live totally frugally as their parents did
- Did not believe they owed their children an inheritance and the view from their children supported this.

Two of the participants currently have a reverse mortgage. Both were married and close to 80 years of age and still maintained active vibrant lives.

The male participant who had taken out a reverse mortgage was very financially savvy and considered that the reverse mortgage was a great product and enabled he and his wife to continue to enjoy their lifestyle without having to compromise too much. They had taken it out to purchase a new car. They realized that they were sitting on a considerable asset in their home and that it was of no use to them once they were 'not here' and that they may as well use the equity in it to ensure that they could continue to enjoy their lives. They had consulted with their families and their children were unanimously of the view that they should use the home equity for their own use and that the idea of "holding it to pass on to the children" was a nonsense. They expressed the view that it was a win/win situation as they were not dependent upon their children, their children could get on with their own parenting roles and they could enjoy their 3-4 months in the northern states each year. In addition this participant was confident that he understood all contractual components of the reverse mortgage product and had sought the appropriate advice on these aspects of the product.

The female participant who had a reverse mortgage, had taken it out with her husband to provide themselves with a cash buffer in the bank. They expressed that by having the money in the bank at the ready made them feel very secure in case something happened. They had a product where they used the money as a redraw facility and only used and paid interest on the component that they needed. They had used a small amount of the available funds for some maintenance on their house. When they took out the reverse mortgage, they sought professional advice from a financial planner, their lawyer and discussed the idea extensively with their children.

Whilst both of these individuals were very happy with their reverse mortgage, they did acknowledge that they felt they were astute older people who were 'switched on' and would not be subject to 'being ripped off'. They did acknowledge that for older people who were more vulnerable and less informed and capable of finding out the facts for themselves then they may be at risk from less than ethical products and providers.

The members of the group who had not taken out a reverse mortgage were well aware of the products and one participant had almost taken out a reverse mortgage but found part-time work instead. These participants felt that at this point they had not need for a reverse mortgage due to they way in which they were managing their

financial affairs currently. However, there was considerable discussion around future needs in terms of when the time came that they were not longer able to live totally independently and required a level of care. They were well aware of the costs associated with varying levels of care and considered that a reverse mortgage would be a viable option. They considered 'care' to be anything from no longer being able to do the garden, to requiring home help or personal care in the home.

The whole group expressed a desire to stay in their own homes for as long as possible and once again the primary reason for this was independence, comfort and increased mental, physical and emotional well-being whilst they were in their comfort zone of their own home. They expressed the importance of close family relationships where their children respected their views and they also respected their childrens views. Cases were cited where older children of elderly people were stretched to the limit by the demands of their aging parents and they did not want this to occur with them. Therefore rather than burden their children with the home maintenance and garden maintenance they saw a reverse mortgage as providing them with the funds to maintain their independence longer and also maintain their good family relations.

On the whole this group did not have a negative view of home equity release products and saw them more as a viable option for people such as themselves who were well informed and well able to research these products and make informed decisions about whether they were a viable and good option for their needs as they age. However, they could see the downside to these products in the wrong hands and with vulnerable, un-informed older people.

Focus Group 2: Monday 23rd April 2007 Wantirna (City of Knox)

N= 8 Female = 4 Males = 4

Ages: 1 over 70 yrs

5 aged 65–70yrs

2 under 65 yrs

General discussion prior to commencement of focus group.

This group was comprised of very active and involved individuals. The participants were all well known to one another and had in most cases known each other for a considerable number of years. They described themselves and the area they lived in as middle class. They were well informed on a wide range of topics and current issues they were all well traveled both overseas and within Australia. The men had been in management positions and the women had been employed throughout their lives. All had ranging from their 30's to 40's and had grandchildren from about 14 and under.

Themes

Understanding of the home equity market:

- Poor understanding
- Predominantly negative view
- Used media (newspapers, TV) as sources of information
- Had taken on the view of the press and believed that these products were to be avoided
- Could not understand why anyone would bother with a reverse Mortgage

Factors influencing their decision

- The local media and stories of financial brokers exploiting the products
- Did not seek to expand their knowledge as they did not see the products as useful
- If they needed money in the future, they would downsize their house
- Their families were supportive of their actions
- Four of the participants were divorced and now had new partners – were tenants in common with the property (value is less)
- Felt the products were fraught with danger

Reasons why they took up, would take up reverse mortgage products

- They would not take up the products
- They could see that they may be useful to other people

None of the participants currently had a reverse mortgage, although all of the participants had heard of reverse mortgages. 3 of the female participants said that they had read about them.

1 of the female participants produced a news item she had found the previous day in the herald sun, but had not yet read the article.

1 woman said that she had a good understanding of how they operated. 1 man said that they sounded like a 'rip off' to him so he had never paid any attention to what they entailed. Another male participant agreed that he also thought of them to be a 'rip off' and he and his wife had gone along to the bank to find out about them and investigate their options but had decided it was not viable due to the high interest. He was asked by a female

participant if that was really a concern and would he worry about nothing being left after he died. He said No I am spending it now.

Again there was general discussion between the group about their understanding of how reverse mortgages worked and from our understanding their views had been gleaned by “scare-mongering in the tabloids and tabloid television.

MEDIA

There was general discussion about the media representation of reverse mortgages citing the television advertisements depicting the grandparent presenting the grandchild with a brick that she gets from her handbag and tells the child it is for their future education. The other TV Ad was of an older man entering the car yard with his brick to purchase a car saying he will take the red one.

The participants found the media representation to be 'stupid' and as presenting an "old perception" that you owe your children and grandchildren. One male participant said the ads insinuates that you should have a feeling of responsibility toward providing well for your children and grandchildren, however, the ads do not represent an accurate understanding of the differing generational attitudes.

Participants said they had helped their kids to become established themselves so felt they had already done their bit to assist their kids. They added that most of their children were now in well paid professional roles and what the participants considered to be good positions of employment.

They were discerning and critical about their sources of information and the integrity of their sources. They did not trust mortgage brokers, and did not really have a much higher view of financial planners. They felt that the banks may be the best source of information, but at the end of the day they did not trust the concept of the products and therefore would view any information through those lenses.

When probing for more information with this group, they conceded that for some people they may be an option – but they considered themselves and described themselves as well-off and in a good position to fund their lifestyle needs into the future as they age. However they admitted that they maybe exceptional and all could cite cases of people they knew who were not in such a comfortable position as they were and in fact were in financial trouble. All of these participants had always been very active community members and were well-educated and financially very savvy.

This group may not be representative of the older cohort and they were the first to suggest that. They also reported that they found that those cases they knew of where older people were in trouble financially, that they had always been poor managers of their own finances. Not only were they poor managers of their finances, but these people tended not to be involved in the community, or the Over 50's Association or any other group as these participants were.

The group felt that it would be difficult to gain an accurate view of the 'real situation' with these products and those they viewed as more likely to go for the products (as get into trouble because they were a “rip off”) tended not to

be involved in the community and also tended to have poor social and community supports through isolating themselves.

On the whole this group provided good insight into the issue as they saw themselves as intelligent and financially savvy – yet they believed the view of the media such as the tabloid television station current affairs programs.

Focus Group3 : Wednesday 23rd May 2007 Senior Citizens Hall participants
members Nunawading U3A

N= 12 Female = 8 Males = 4
Ages: 70+

General discussion prior to commencement of focus group.

None of the participants had reverse mortgages and when asked about credit option could only refer to reverse mortgages. There was no knowledge of other options such as Centrelink loans but they did mention cash converters as an option if they needed immediate cash in an emergency. The participants in this focus group were quite highly anxious, there was considerable anticipation about getting the answers as to what these products were all about. Overwhelming they found there a considerable flood of media exposure predominantly through advertising about this issue. This view was expressed in a manner which caused concerns to the facilitators of the focus group. The anxiety felt by the participants was palpable to the facilitators. What was perhaps disturbing was that they were looking for answers and specialist “advice” about these products and which one to choose. They describe flood of media attention on this topic as highly confusing. We as observers found this particularly disturbing as it reflect a position of extreme vulnerability on the part of the participants.

This was confirmed with the person from U3A who was the nominated contact following the conclusion of the discussion. Her words were:

“if you had recommended a product you would have definitely had some sign up”

Themes

Understanding of the home equity market:

- Extremely poor understanding
- Predominantly negative and fearful view
- Used media as source of information
- Felt the products were dangerous and that they would lose their home
- Had no idea about the difference between bank and non bank products
- Significant concerns about what would happen if they had a RM and became incapacitated

Factors influencing their decision (in this case to be very confused about the products)

- Reliance on sourcing their information about the products from local and senior specific print media
- Naïve attitude and beliefs about the issue
- Prepared to take print media advertising as factual expert advise
- Did not know which professionals to seek out for reliable advise
- No capacity for discerning evaluation of information
- Fear of losing their house and having no where to live
- Fear of the future and limited optimism

Reasons why they took up, would take up reverse mortgage products

- Want to maintain independence for as long as they could
- Health concerns and needs – such as funding for aged care facility

This group were not able to project forward to viewing these products as a potential solution to health and other changes as they aged. Their views were clouded by the confusion to openingly admitted which had rendered them to a state of paralysis in their thinking. This is of paramount concern as it reflects one of the major potential traps and problems with Home Equity Products. This population would be particularly vulnerable to a product presentation where they was a claim as to expertise, such as mortgage brokers presenting to groups of seniors and being perceived as professional experts.

The views of this group were disturbing to say the least and the following example illustrates this point.

A female participant responded to an advertisement in the local Leader newspaper inviting people to call and learn about Reverse Mortgages. She described the interaction as extremely unsatisfactory because the conversation was following a script which rendered her unable to ask specific questions that were relevant to her. She had phoned on the belief from the advertised that she would get answered and be helped to make a decision. This a disturbing element out in the marketplace that is targeting the vulnerable and from this woman's experience is falsely representing that there the advertised offer was to gain professional advice. She perceived that it was a call centre man by uninformed and inexperienced staff who were attempting to sell her a product. She was not able to recall the name of the company.

This comment prompted a wide and animated discussion about the preponderance of this type of advertising in the print media that this group is predominantly reliant upon for their information. They mentioned in particular the local media, and The Senior publication. When questioned about the reliability of the information they were reading they hesitated before stating that they trusted most of the information and then probed about the advertising they timidly suggested that maybe they didn't. They suggested that there must be something in it for the paper. This view was perceived to have been put forward for the benefit of the facilitators. The facilitators perceived this an indication that this group were not typically able to discern reliable information from unreliable information. There was a lot of misplaced trust and reliance on experts and specialist, however they were not able to discern who those experts are in relation to the issue of reverse mortgages.

The group agreed that their family's were not expecting to receive an inheritance and that their children would rather they use their resources for their own needs while they were still here. This was a view shared emphatically by the group. Some reported that there saw this as a win for them as their parent could look after themselves longer. This was a comment that was not viewed negatively.

They are not happy about the portrayal of the advertising which uses the brick for grandchildren's education, as they view as not their responsibility. They consider that they themselves have fulfilled their responsibility to their own children's education and in turn it is their children responsibility to educate their own offspring.

The group were very concerned about the impact of these loans on their pension and if there was a change in circumstances and they need to relocate to an aged care facility. On the whole this group had a very poor understanding of these products and more importantly had no idea where to gain reliable information. They displayed very low levels of motivation to seek information for themselves, rather they wanted the information delivered to them. This is possibly the most disturbing finding with this group and the facilitators perceived that if

a person posing as an expert offered them information they would be very vulnerable to being sold something that did not suit their needs. Thus the group are particularly vulnerable. This view was supported by the contact for the group.

Focus Group 4 : Wednesday 23rd May 2007

Senior Citizens Hall participants members Nunawading U3A

N= 14 Female = 9 Males = 5

Ages: 60-70

General discussion prior to commencement of focus group.

None of the precipitants had a reverse mortgage and had little if any knowledge of any other credit options available to them. This group was marginally more informed and optimistic in comparison to the older group from the same organisation. However they also displayed disturbing levels of reliance upon questionable sources of information such as advertising and advertorials from local newspapers and television. All of the participants had retired but remained active within the community and by their participation in the University of the Third Age believed that in their own commitment to life long learning. It was anticipated that such a group would be much more informed, knowledgeable and discerning about such issues. The group were more or less more informed compared to other focus group undertaken as part of the project. This group saw the issue as something formidable and overwhelming. They were confused and again looking for someone to give them the “right” answers. They were expectant and during the discussion on numerous occasions asked the facilitator the answer specific question about the products expect the facilitator to be able to categorically answer such questions. As a result of the facilitator not being able to give them answers and specific advice on individual products two participants chose to leave. Others with increasing levels of frustrations demanded full disclosure of the credentials of the facilitator. This was perceived to result from the fact that this issue was highly emotive and disturbing to this group. This was due interpreted as emanating from their lack of understanding and confusion due to the media deluge around this issue.

Themes

Understanding of the home equity market:

- Very poor understanding
- View based on questionable information sources such as print/TV media advertsing
- Limited capacity to identify reliable sources of information
- Were of the view that the costs of loan outweighed the benefits and could be left with nothing
- Could see that there may be short –term benefits from a RM but long term would be detrimental to their estate.
- This group has mortality issues, these loans being terminated upon their demise was very unpalatable.
- Fear of demise influencing objectivity of the group to see potential benefits of the products

Factors influencing their view of reverse mortgages

- Inability to objectively separate good information from product advertising
- Lack of understanding of who to access for reliable information
- Lack of appropriate research skills
- Few have access to computers and fear of the internet
- Information must be free and readily available (excludes them accessing Choice report for example –

library when suggested were deemed inconvenient)

- Were more likely to compromise standard of living over taking a RM

Reasons why they took up, would take up reverse mortgage products

- Loss of independence and funds for future aged care
- Home maintenance

No mention of travel, lifestyle sustainability, home improvements or other reason cited by other focus group participants.

Five of the participants had made some efforts to seek more information about reverse mortgages however, of those five only one had actively investigated the concept further. This investigation comprised of ringing St Georges bank, Bendigo Bank and one other credit union. This participant viewed this level of research as robust and thorough and described his actions as “gathering his own resource file”. He stated that “while the information was easy to gather – it did contain a lot of statistics which he said he was skeptical of. The facilitators interpreted this as disturbing as this participant potentially had a limited capacity to evaluate and make informed decision following what he perceived as a thorough investigation. The other four participants who claimed to have sought further information said that they had experienced information overload and another challenged the terminology and said he would more aptly describe it as

“Confusion, Confusion, Confusion”

Another participant expressed that this situation was similar to the mobile phone market where he perceived there was too much choice. This abundance of choice led to confusion which coupled with a lack of understanding stands as a potentially vulnerable situation. This may lead them to make decisions to avoid confusion which the marketing research identifies as a likely response.

The participants were incensed and offended by the advertising with the bricks. They said that the focus of the advertising portrayed that the RM providers will give them money so that they can give it to their children and grandchildren while they are still alive. They believe that this puts an added pressure on them to leave something to their children, and causes them to feel guilty. They have had the discussion with their children who are happy for them to spend their money on their own needs and to make their own decisions about what those needs or desire may be. Thus the advertising creates a state of cognitive dissonance which they experience as a state of confusion as they suggest maybe their view is wrong as it is not supported by the media campaigns.

Overall this group had very little understanding of the product and its application. They were seen as a particularly vulnerable group by the facilitators and clearly these individuals and others like them are potentially at risk of exploitation by people who are intent on selling this product for their own gain such as some mortgage brokers. This does not reflect the industry as a whole however there are elements who could target these type of people due to their vulnerability.

Focus Group 5 : Thursday 26th April 2007, National Council of Women Victoria; Seniors Information Flinders Lane, Melbourne

N= 9 Female = 9

Ages: All over 65

None of the participants had RM nor did they have any other form of credit. The participants in this focus group were predominantly from rural Victoria and whilst they knew about home equity loans their knowledge was limited. For example they thought that they had to pay the interest. They were unsure as to where to go to get information about RM's. They did have a perception that the loan could exceed the property value over time. Saw the need for budgeting with other expenses to limit the requirement for a RM.

Overwhelmingly they saw the need for government regulation of the RM market. They saw RM salespeople as not to be trusted and that they were generally good sales people who could potentially prey on the uninformed elderly. Needed reassurance that they would not be "thrown out of their homes. They saw that tight government regulation was absolutely necessary and that it should be in place for the sellers of these products. They saw the need for an effective advocacy group for the older Australians to ensure the regulation/legislation covered all issues of concern to older people.

Themes

Understanding of the home equity market:

- Limited understanding of RM
- Predominantly negative view, although this group was well educated and informed
- They would seek professional advice from banks, financial planners and seek legal advice
- Understood that there was a considerable element of vulnerable people in the group that needed to be protected from the traps of these loans.
- Retention of title in their name was seen as a given

Factors influencing their decision

- They saw the advertising as appealing to a sole older person, but not to couples
- They were worried about losing their house
- Knew that they had to maintain the house with a RM and were worried about how to achieve that
- Consulted with family who agreed that their money was their own
- Felt the products needed to be regulated heavily by the government and until that time they would be reluctant to take out a RM
- Felt that the products were a viable option for some people so long as they were fully informed as advised

Reasons why they took up, would take up reverse mortgage products

- New Car
- Home maintenance
- Maintain lifestyle, not prepared to give up comforts and in fact wanted more comforts such as good heating and cooling

Focus Group 6 – Thursday 26th April 2007, National Council of Women Victoria; Seniors Information Flinders Lane, Melbourne

N= 7 Female = 7

Ages: 5 over 70 2 under 70

Two of the participants knew a little about RM's. The general view of the group was that increasingly products such as RM's and other home equity option would become more utilised. This was due to their perception that the cost of living was increasing and the costs basis for elderly people kept increasing as they became less able to do things for themselves. For example one lady said she was not longer able to do the gardening as she had trouble getting up when she bent down and was worried that she may get stuck and not be able to get up one day. She was now paying a gardener. They identified that the media were responsible for the current views of RM's and they felt that the media and advertising was blatantly targeting the elderly. They thought that the media should be regulated more rigorously and that there needed to be more accountability with the messages they portrayed. The group felt that the advertising was sending the wrong message to the community and they all agreed their families were not expecting to receive an inheritance and that quite the opposite their children encouraged them to use what they needed for their lifestyle requirements.

Themes

Understanding of the home equity market:

- Reasonable understanding of the products
- Predominantly positive view as they saw that they could help people
- Used financial planners, media and banks as sources of information as opposed to relying on advertising
- Understood that the products if sought through a reputable bank were most likely OK
- Understood that the products would increasingly become legitimate option for older people
- Reassurance of being able to continue living in the home was of paramount importance

Factors influencing their decision

- They could see that the products will be useful to people who had a lot of equity in their homes
- They would seek professional advice and the advice of older Australian advocacy groups
- They saw that this was possible a better option than downsizing due to costs of selling and re-buying
- Felt that the products gave them options around staying in their home longer
- Felt that as they got older they became more dependent on consistency and staying in their current home was very important.

Reasons why they took up, would take up reverse mortgage products

- Maintain lifestyle and good health
- New Car if needed
- Home maintenance if needed
- Maintain independence for as long as they could
- To stay in their own home
- Stay in their community

Focus Group 7: Thursday 26th April 2007, National Council of Women Victoria; Seniors Information Flinders Lane, Melbourne

N= 8 Female = 8

Ages: 8 over 70

This group had a good understanding of RM's and in that they understood that the products did not require payments and that the interest was compounded over the life of the loan. They understood that a case of negative equity was possible but unlikely unless too high a percentage of the value of the property was borrowed, or interest rates sky-rocketed. They were unsure of where to go for the best advice for these products but cited banks, financial planners and lawyers as a good place to start. They felt the media advertising with these products was disgraceful and that they were verging on elder abuse. They reported that all of their families were more than happy for them to make their own decisions about how they spent their money, whereas the advertising was suggesting that they should be spending their money on their children.

Themes

Understanding of the home equity market:

- Good understanding
- Very educated and have a good understanding of finances and possibilities and opportunities provided by the overall concept of RM
- Would use financial planners, bankers., and other professional for advice
- Understood some of the intricacies of the products such as negative equity
- Would only consider a reputable lender such as a major bank
- Would only consider taking a RM after due diligence

Factors influencing their decision

- They would thoroughly investigate the options if they were to take a RM
- They would seek professional advice and more than one opinion
- Would compare this option to downsizing their property for example
- Would seek counsel from advocacy group aligned to a national group
- Would consult with their family /children as they view this relationship as paramount in their lives
- Felt that the products had potential and a legitimate use for asset rich individuals who were short of ready cash for rates payments and home maintenance

Reasons why they took up, would take up reverse mortgage products

- Home maintenance was the prime reason why they would take a product
- Maintain lifestyle such as being able to pay bills, rates and other things such as occasional home help as they aged
- Want to maintain independence for as long as they could
- Considered their own home and community to be of paramount important to their health and well-being and over satisfaction with their lives

Focus Group 8 Thursday 26th April 2007, National Council of Women Victoria; Seniors Information Flinders Lane, Melbourne

N= 8 Female = 8

Ages: 3 over 70 5 under 70

The participants in this focus group were all quite vocal and were very active and involved in the community. All participants had heard of RM's from the media. They suggested that they would seek professional advice from an accountant or financial adviser. They understood that they were required to maintain the property under a RM and the failure to do so could result in a breach of the contract. This was quite high level understanding considering none of the group had taken out a RM. They identified that financial planners knowledge was not always current and up to date. They viewed this as a potential concern as the RM market in their view was changing rapidly. As a result they expressed a concern that financial advisers and so called specialists could charge unnecessarily large sums for what could possibly be unreliable advice.

This group were concerned that older people may often not really be capable of understanding the full implications and financial can prey on them. They stated that the advertising of these products should be closely regulated, as there should be close regulation of the product sellers.

Themes

Understanding of the home equity market:

- Excellent understanding of the products and the potential traps of the products.
- The view was neither positive or negative it was a balanced view
- Would see their accountants as possibly the best people to advise them
- Understood more intricate details of the products such as the requirement of regular maintenance to the property as a condition of the loan
- Knew of SEQUAL and understood that these member lenders were the most reputable

Factors influencing their decision

- Family pressure
- Pressure of advertising
- As family home increases in value it is logical to provide for existing lifestyle.
- The property not being able to be sold during the life of the mortgagee

Reasons why they took up, would take up reverse mortgage products

- New car
- Home Maintenance
- Help children
- Holiday
- General housekeeping, bills and rates
- Pressure to care for a relative

This group were highly educated and had considerable knowledge of the RM market despite none of the group having taken out a RM. They had some excellent suggestions such as the use of their own accountant for advice and that sometimes financial planners fees are prohibitive for questionable advice that may not be current.

Focus Group 9: Thursday 26th April 2007, National Council of Women Victoria; Seniors Information Flinders Lane, Melbourne

N= 7 Female = 7

Ages: 6 over 70 1 under 65

The participants in this group had little understanding of Home Equity products. They were perhaps a little naïve which was evidenced in their suggestions of who to seek advice from. They suggested that real estate agents would be a reliable source of information for these products. They had heard of RM's through the media and they cited stories from tabloid television current affairs programs, about how terrible these products were as people were "having their fingers scorched" after taking them out. They could see that some people may view the products as useful, such as people with medical conditions who incurred significant pharmaceutical costs. They had little idea of how the products worked and what the mortgagee commitments would be should they take up a RM.

Themes

Understanding of the home equity market:

- Poor understanding
- Predominantly Negative view
- Did not comprehend where to source information about RM products as they perceived real estate agents as a viable source
- Had no understanding of the intricacies of the products
- Took their information from tabloid television

Factors influencing their decision

- They would not take up a RM but could see that others may
- They were quite anxious about the taking out a reverse mortgage

Reasons why they took up, would take up reverse mortgage products

- Home maintenance
- Contribute to ongoing and increasing costs as they age
- To maintain independence for as long as they could
- To provide for aged care accommodation

APPENDIX B: ONLINE QUESTIONNAIRE

Thank your for participating in our Survey

Please provide some information about yourself:

- i. Please indicate your age group
 Below 50 50-60 61-70 71- 80 80+
- ii. Please provide the postcode of where you live _____
- iii. What is your gender?
 Male Female'
- iv. What is your marital Status?
 Married Single Widowed Defacto
- v. Are you currently employed?
 Full Time Part Time Casual
 Not in paid employment Unemployed Retired
- vi. Do you own your own home?
 Own outright Mortgage: Is title in your name solely; jointly with spouse;
 Reverse Mortgage Renting alone Tenant in common - with spouse; with another party
 Other _____
- vii. I am optimistic about my financial security for retirement
 Strongly agree Agree Neutral Disagree Strong Disagree

1. Do you understand how Reverse Mortgages work?

- Yes No

2. Where have you heard about reverse mortgages? (please tick one or more if applicable)

- Financial Planner
 Mortgage Broker
 Media
 Bank/Financial Institution
 Direct Mail
 Family or Friend
 Other _____

3. How would you rate your understanding of reverse mortgages ?

- Excellent Good Adequate Minimal No Knowledge

4. Have you sought more information about reverse mortgages?

- Yes No If no, please go to Question 11

If **yes**, where have you sought information from

- Financial Planner
- Mortgage Broker
- Bank/Financial Institution
- Other _____

5. Have you taken up a reverse mortgage?

- Yes No

If **No**, what was your reason for not taking it up? _____

_____.

If you answered no, please go to Question 9

6. If you have a Reverse Mortgage, what was your reason for taking it up? ? (tick one or more if applicable)

- Holiday
- Help Children out Financially
- Buy a business
- Supplement lifestyle
- Insufficient funds to maintain lifestyle
- For investment product
- Care for elderly relatives or others
- Home renovations/maintenance
- Purchase a car
- Other _____

7. If you have a Reverse Mortgage, how long ago did you take it up?

- less than 1 year 1 to 3 years 3 to 5 years more than 5 years

8. If you have a Reverse Mortgage, are you satisfied with the product you have taken up?

- Very satisfied Satisfied Neutral Dissatisfied Very Dissatisfied

9. How would you rate the level of information you received about a Reverse Mortgage product ?

- Comprehensive More than sufficient Adequate Less than adequate

10. Would you recommend a reverse mortgage to friends/family/colleagues?

- Yes No

11. Would you consider taking out a Reverse Mortgage in the future?

- Yes No Don't know

12. Would you be willing for us to contact you to discuss Reverse Mortgages in more detail ?

- Yes No If **yes**, please provide your contact details below

Are you interested in participating in a focus group about Reverse Mortgages?

- Yes No If **yes**, please provide your contact details below

APPENDIX C: SENIORS INFORMATION VICTORIA (SIV) REVERSE MORTGAGES REPORT 2007

Between 1 August 2005 and 28 March 2007 Seniors Information Victoria received 196 enquiries regarding reverse mortgages.

Enquiries came from older person themselves, relatives (usually a son or daughter) or friends. People ranged in age from 60 to 90. We also had a call from a financial planner, asking “which is the one that Jeff Kennett is promoting?” and from a Centrelink FIS worker who wanted to know where people could get information on reverse mortgages.

The majority of enquiries were from people who were seeking general information about reverse mortgages. In response to this we offered to send out an info pack consisting of: a listing of the current providers with a brief summary of what each comprises, NICRI and CAV factsheets, ASIC reverse mortgage checklist, and possibly a copy of newspaper article(s) that we considered to be balanced in their appraisal. We encouraged people to contact NICRI if they decided to pursue one of the loans.

A small number of callers rang about a specific loan provider and wanted to get more info about them, or wanted to get other info to get comparisons. The ‘most mentioned’ provider has been Australian Seniors Finance, but Money for Living, Bendigo Bank, St George, Over 50s Mutual, Commonwealth and Macquarie were also mentioned. We again offered to send the info pack, and strongly encouraged people to speak with NICRI.

Reasons given for considering a reverse mortgage included:

- To buy a new or newer car - 8
- To cover home repairs – 6 (None of the callers who needed home repairs knew about the State government’s home renovation loans.)
- To resolve personal debt – 5 (With these calls we gave details of local financial counselling services or Financial and Consumer Rights Council.)
- To assist their children - to buy a first home or because child is in debt - 3
- To modify home, purchase equipment or pay for support services, where person has degenerative medical condition and was preparing ahead for increased needs – 4
- To buy a new home –3
- To pay for residential care fees – 1
- To pay for funeral (in advance) – 1

We also received a small number of calls from people who were in the process of taking out one of the loans, and had been informed that they would need to show the contract to a financial planner and/or solicitor. One caller rang SIV asking whether the fees she had been quoted by her solicitor were correct. One fee was \$150 for phone discussion, but to read the contract in its entirety and consult with her would be \$440. This added a considerable amount to the cost of taking out the loan.

SIV conducted two “Need to Know” information sessions on reverse mortgages, in August 2005 and April 2006. These sessions ran for 1.5 hours and were facilitated by NICRI’s Basil La Brooy. The sessions were booked out well in advance. (Two sessions that had been run in 2004 were also booked out).

Some examples of individual situations:

Car

Couple would like to borrow \$20K to buy a new car, but are diffident about the way the interest builds up on reverse mortgages. Discussed their options with them (few), but mainly around comparing costs of keeping the car (maintenance), and the lowering equity in their home. Both on pensions for some years and find that they cannot save much.

Couple need a reliable car, living on pension only and not able to repay a loan. Husband is 73 and neither of them is able to work. 'Scared' about reverse mortgages but keen to get more information. Have info from CBA and Bendigo Bank but still 'scared'.

Personal debt

Caller trying to assist her mother who has acquired a lot of debt; not yet sure what the extent of it is, but it seems that her mother may have taken out a reverse mortgage loan, and also has lost money through gambling, and not able to pay her bills.

Person calling on behalf of her parents. Her parents are being pestered by a credit card company that has gone offshore, claiming that parents owe about \$1000. They are looking at a reverse mortgage to pay off the debt.

Person needed money quickly to finance a debt. Had already called Monashlink re their financial counselling service and was told there is a ten-week wait for appointments.

Caller's mother in hospital, continually worrying about her credit card bill, and her inability to pay. Is there another type of loan that could be available other than reverse mortgage? Caller concerned that if mother had access to more money than needed to pay debt she may lose it at the pokies. Mother's debt was \$14,000 to \$15,000.

Caller thought she had heard recently of money that is to be made available to pensioners to help them pay off debts. She has a credit card debt and is getting frustrated as all she ever manages to pay off is the interest, and that is at \$60 a month.

Assisting Family Members

Caller wanted to know if he could take out a reverse mortgage on an investment property. One of his children is in financial trouble, it will be their property eventually and he wondered if this was an opportunity.

Caller's only asset is his home, but he would like to give money to his son now to enable him to buy a house.

Home Repairs

Caller rang on behalf of her father, who needs work to the value of maybe \$25,000 on his house.

Person gathering info for a friend, whose house badly needs painting. Will cost about \$15-20,000 and doesn't have any other means to pay for it.

Buying a home

Caller wanting to move closer to her children. Has been looking at retirement villages, but the one she is most interested in costs more than what she could sell her house for.

Person needing to get a loan of about \$30,000 to buy a unit (she has about \$160,000).

Health

Caller rang for information for her brother. He is in mid 70s, and is in financial strife due to illness in his family.

Caller's wife has inoperable lung cancer. They want to do some modifications to their home to assist in her care.

Caller's mother is in the early stages of dementia. She does not want to go into an aged care facility, so is looking at a reverse mortgage to fund the home care that she will eventually need.

A note on people getting information about reverse mortgages

Caller had phoned number after number after number - and none of them knew anything (including the taxation department), about reverse mortgages. He had been using the seniors card directory and found no one with info.

Caller had been looking into retirement villages: at one of the villages, where the cost of the units was approximately \$100,000 more than she could afford, the salesperson suggested to caller that she take out a "reverse mortgage" in order to buy the retirement village unit.

APPENDIX D: REFERENCE LIST

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