ASIC reviews reverse mortgage lending

ASIC
Australian Securities & Investments Commission

Reverse mortgages are a credit product in the Australian market that allow older Australians to borrow using the equity in their home. The loan does not need to be repaid until a later time, typically when the borrower has vacated the property or passed away. ASIC reviewed data on 17,000 reverse mortgages, 111 consumer loan files, lender policies, procedures, and complaints. They also commissioned in-depth interviews with 30 borrowers and consulted over 30 industry and consumer stakeholders.

Results:

Borrower's long term needs or financial objectives were not adequately addressed

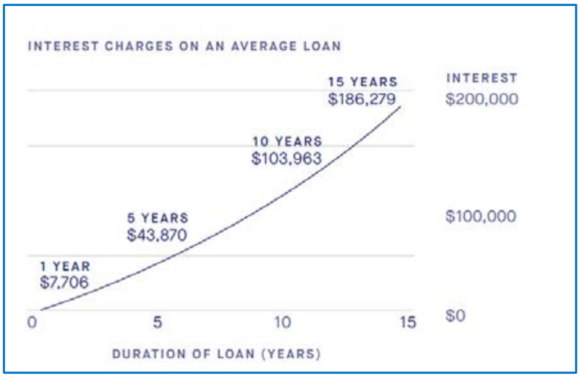
Advantages	Disadvantages
It has helped older Australians achieve their immediate financial goals	Borrowers may end up with less equity than the average upfront cost of aged care for one person by the time they reach 84.
Be independent and not have to rely on family	Borrowers have limited choices for reverse mortgages due to a lack of competition (Only 2 credit licensees wrote 80% of the dollar value of new loans from 2013 to 2017)
Maintain their quality of life and improves their lifestyle for retirement	Borrowers are left with less wealth than they imagined due to the effect of compound interest over time. Reverse mortgage lending is a more expensive form of credit compared to standard variable owner occupier home loans; the interest rates are typically 2% higher
They don't have to incur loan payments and can therefore use the money for: ▪ **Daily expenses** ▪ **Bills and debts** ▪ **Home improvements** ▪ **Car expenses**	Borrowers struggle to recognise the long term risks of their loan. The review highlighted the poor understanding borrowers had of the risks and future costs of their loan, and how they generally failed to consider how their loan could impact their ability to afford their possible future needs
It has helped people stay in their homes	Borrowers may face financial difficulty later on in life as it draws on the wealth locked up in their homes
$500bn Australian home equity held by consumers over 65 70% of Australians aged 55-85 own their own home	Changes in the growth of property prices can significantly affect how much equity borrowers will have at the end of their loan

In conclusion

The new Code of Banking Practice, recently approved by ASIC, states banks will be required to take extra care with customers who may be vulnerable.

ASIC requires:

- Lenders to improve their practices and amend their loan contracts;
- Redesign the moneysmart reverse mortgage calculator; and
- Monitor industry initiatives to reduce the risk of financial elder abuse



For more information

Refer to the article (18-248MR ASIC publishes a review of reverse mortgage lending)
Refer to the report (REP 537)
Refer to the report (REP 550)