

Olejniki, Iwona; Białowas, Sylwester

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The Reverse Mortgage – Consumer Attitudes

Iwona OLEJNIK and Sylwester BIAŁOWAŚ
Poznań University of Economics and Business, Poland

Abstract: The main goal of this article is to describe the attitudes towards the reverse mortgage (RM) as one of the options for acquiring additional financial resources by those who have finished their professional activity and retired. The article reports the results of our own quantitative research. The study uses data obtained from representative quantitative research conducted in 443 households in the Wielkopolska region in 2015. The research used the interviewer-led paper-and-pen interview method. The tool was a standardized interview questionnaire with a random research sample.

The results of the research show that the representatives of households present a very low level of awareness and knowledge of the reverse mortgage and therefore they do not accept this way of securing one's old age. The most important factors which could encourage consumers to use the RM include the need for additional funds to cover the costs related to unexpected health problems, the lack of funds for basic supplies or no relatives to receive one's property as a bequest.

Keywords: reverse mortgage, consumer attitudes, consumer research

JEL codes: D14, D64

1. Introduction

When analyzing one of the basic indicators of the efficiency of the Polish pension system, the replacement rate, it can be noticed that in the years 1999-2015, it was on average at the level of 57-64% (ZUS, 2016). The forecasts suggest that in the 2050 perspective, the replacement rate may decline to 44%, and in the case of a 60-year-old woman retiring at that time – even to 32% (Chłóń-Domińczak and Stachura, 2006). Given the above facts, it is evident that if the future pensioners wish to maintain their current standard of living, they will have to find additional sources of income. One of the ways to increase the income of the people in the retirement age is the reverse

Correspondence Address: Iwona Olejnik and Sylwester Białowas, Department of Market Research and Services, Faculty of Management, Poznań University of Economics and Business, Poland. Tel. 61 854 38 31, E-mail: iwona.olejnik@ue.poznan.pl, sylwester.bialowas@ue.poznan.pl.

mortgage (RM).

The main factors which will influence the popularity of the RM as a form of increasing one's income when retired include: the level of development of the financial market, the liquidity of the real estate market (including the structure of ownership and the level of debt), the efficiency of the pension system (the level of the replacement rate) as well as the demographic changes occurring in the models of the family, and the consumers' attitudes towards them (Olejniki, 2011: 56-58; Kubiszewska, 2013: 280-296; Rutecka, 2014: 262).

Given the above facts, the aim of this article is to identify the perception of the RM by the inhabitants of the Wielkopolska region, particularly the role of real estate ownership as a factor determining the quality of life, as well as specifying the level of acceptance of the RM, and the factors influencing this level.

It will be specified how a number of determinants may influence the choice of homeowners to use the RM. The article will present the results of the research conducted by paper and pen interview conducted in 443 households in Wielkopolska. The quota sample of the population takes into account its structure in accordance with age, the level of education of the household's head, the number of its members and the size of the town they live in.

2. The reverse mortgage

In 2014, the Polish Sejm passed an act on the reverse mortgage (Ustawa). Pursuant to the act, a borrower of a reverse mortgage may be a natural person who is the owner or co-owner of a property or who is entitled to the cooperative ownership right or to perpetual usufruct. The basis for establishing the amount of the RM is the market value:

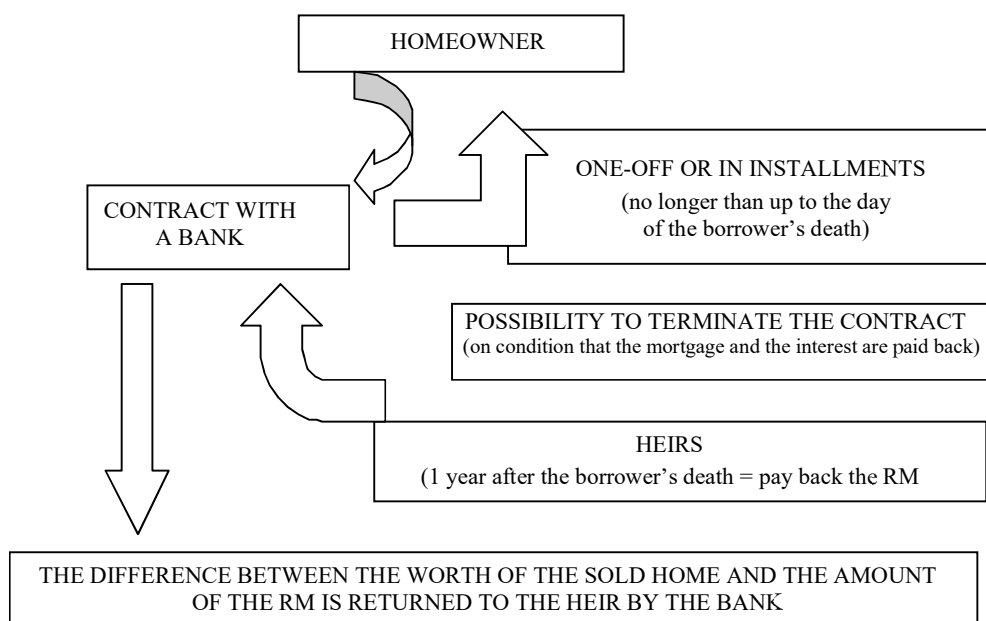
- the property belonging to the borrower or with granted perpetual usufruct, or,
- the property to which the owner is granted cooperative ownership right, which becomes the collateral for the RM.

The act states that the payment of the RM amount may be one-off or done in instalments, during the period and in the amount specified by the contract of reverse mortgage, however no longer than up to the moment of death of the borrower. It is worth mentioning that the borrower may rescind the RM contract within 30 days of the date of entering into it, and also terminate it at any time with a 30-day notice (and paying back the total amount of the funds received so far).

Throughout the lifetime of the RM contract, the borrower shall be obliged to:

- hold an insurance policy for the property or premises against fortuitous events, if required by the bank,
- maintain the property in a non-deteriorated condition, taking into account normal wear and tear, as well as performing regular repairs and renovations,
- pay taxes and mandatory fees connected with the use of the property or the premises

Figure 1. The rules of the reverse mortgage



Source: Author's own elaboration.

The total amount becomes due and payable at the end of notice period or one year after the passing of the borrower.

In case of the borrower's death, the heirs may pay back the full amount of the payable amount within 12 months (from the day of the death of the borrower or last co-borrower). In case such payment is not made, the bank shall return to the heir(s) or to the bank deposit the amount which is the difference between the market value of the property and the total payable amount within 30 days of the compilation of an appraisal report. The court may also notify the parties to the contract that the value of the debt exceeds the market value of the property. The value of the assets of succession can include only the amount which is returned to the heirs or the executor by

the bank or the amount paid by the bank to the court deposit. The rules of the functioning of the reverse mortgage is presented in Figure 1.

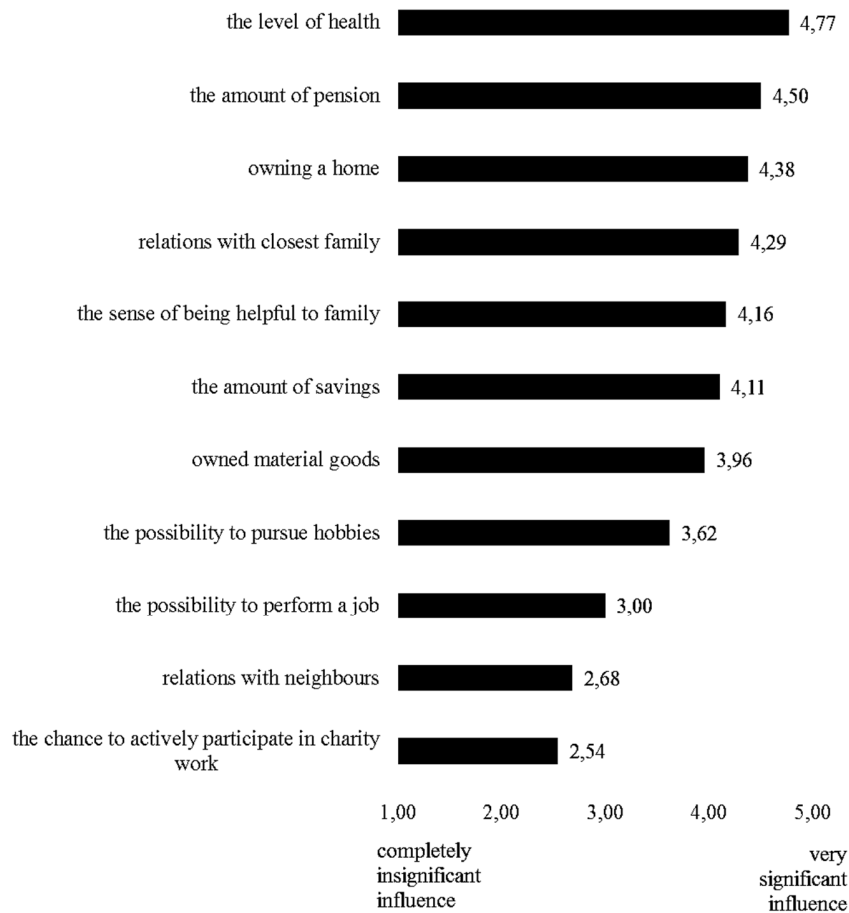
3. Research results

The first factor to be analysed when identifying the impact of cultural factors on the attitudes of the representatives of households towards the RM was the importance of the owned property for the quality of life. In the study, the respondents specified the significance of their home as well as other factors which may influence the quality of their life when retired.

The factors rated by the representatives of households (on a one-to-five ordinal scale, where 1 means completely insignificant influence, and 5 means very significant influence), included:

- relations with closest family,
- relations with neighbours,
- owned material goods,
- the level of health,
- the amount of pension,
- the amount of savings,
- the possibility to pursue hobbies and develop interests,
- the possibility to perform a job,
- owning a home (its condition, location, standard),
- the sense of being helpful to family, the sense of belonging,
- the chance to actively participate in charity work,
- and other (including: sufficient amount of time for holidays/travelling, relations with one's partner, access to rehabilitation, proximity of one's children's home, place of living (city/country) (Figure 2).

Figure 2. Factors determining the quality of life in old age in the opinions of the inhabitants of Wielkopolska



Source: own study on the basis of conducted quantitative study.

It should be emphasized that according to the respondents the three most important factors influencing the quality of life when retired, included the state of health and the amount of received pension, but also the fact of owning a home - its condition, location and standard. Such a high place occupied by owning a home (higher than, for example, the relations with one's family) indicates a strong emotional attachment to one's own home. At the same time, it may be the basic factor limiting the acceptance of the RM by consumers. A property is not perceived as a capital asset, which can be exchanged for payment streams making it possible to improve one's financial situation, but as an absolute right, a place of living and estate which will become a bequest for one's family in the future. However, one may agree with P. Kowalczyk-Rólczyńska (2015: 120),

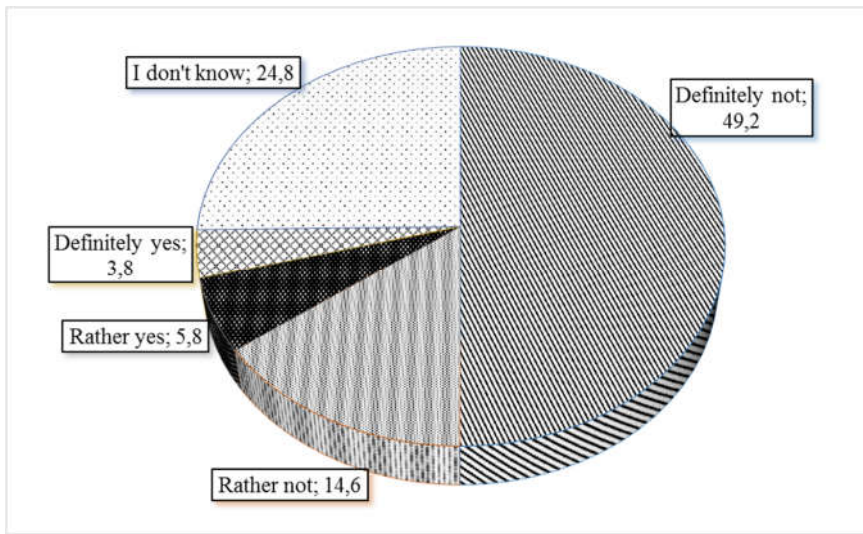
who says that “in the future residential properties, not such a long time ago widely regarded as goods passed in each family from generation to generation”, are now becoming goods belonging to just one generation as a result of the reduction of one of the traditional functions of the family – taking care of its elderly members, among other factors.

A relevant factor conditioning the use of the RM is the awareness and a certain amount of knowledge regarding this product. Subsequent stage of the research included identifying the spontaneous knowledge about reverse mortgage (Olejniki, 2016: 97-98). The obtained results show that as many as 61% of the respondents declare that they have absolutely no knowledge about the RM, and 12% have some associations, but no solid knowledge about it. Only 27% of the respondents have a certain amount of knowledge, usually very basic, about this subject. They mostly associate the RM with a bank loan granted to elderly people who sign their home over to the bank in return for receiving additional funds to complement their pensions. The respondents were unable to provide any other details about the product. Occasionally, they mentioned the fate of the home after the owner's death.

Statistically significant descriptors related to the level of knowledge included education, age, income of the household, the fact of having children, and the size of town/city. Those who have knowledge about RM are mostly respondents with a university degree (37%), aged 45-59 (42%), achieving the highest incomes (41%) and having two children (34%), living in cities of 50-200 thousand inhabitants (47%). No statistically significant correlations were found between the knowledge about the RM and the respondents' gender, the size of the household or the phase of the family's life cycle.

In order to assess the level of interest in the RM, assuming that the potential consumers have an adequate level of knowledge of this subject, the respondents were presented the main facts about the functioning of the RMs before the subsequent stage of the study (using Figure 1 presented earlier in the article).

The results of the conducted research indicate that consumers generally tend to present negative attitudes towards using the RMs. Every second respondent rejects the possibility to use this service, and further 15% of the respondents rather do not accept this solution. Only 4% of respondents strongly support using the RMs (Figure 3) .

Figure 3. Intention to use reverse mortgage by the inhabitants of Wielkopolska

Source: own study on the basis of conducted quantitative study.

Analyzing the reasons for the lack of acceptance of this financial product, it can be seen that what dominates is the intention to leave the owned home to one's children or relatives as a bequest. Other important reasons of the low potential interest in this solution are the lack of trust in banks as the institutions offering this product, being skeptical towards the features of the RM and its terms and conditions, but also optimistic expectations towards one's financial situation and, consequently, no need to use the RM. An objective factor, less frequently named by the inhabitants of Wielkopolska is the lack of property rights to one's home, but also too many years left to retiring to consider this solution. The inhabitants of Wielkopolska indicated also other, “better” than the RM, ways to achieve additional income when retired, including those connected with the owned home: selling the owned property and buying a smaller one, renting out a room or selling the property and moving to a residence home.

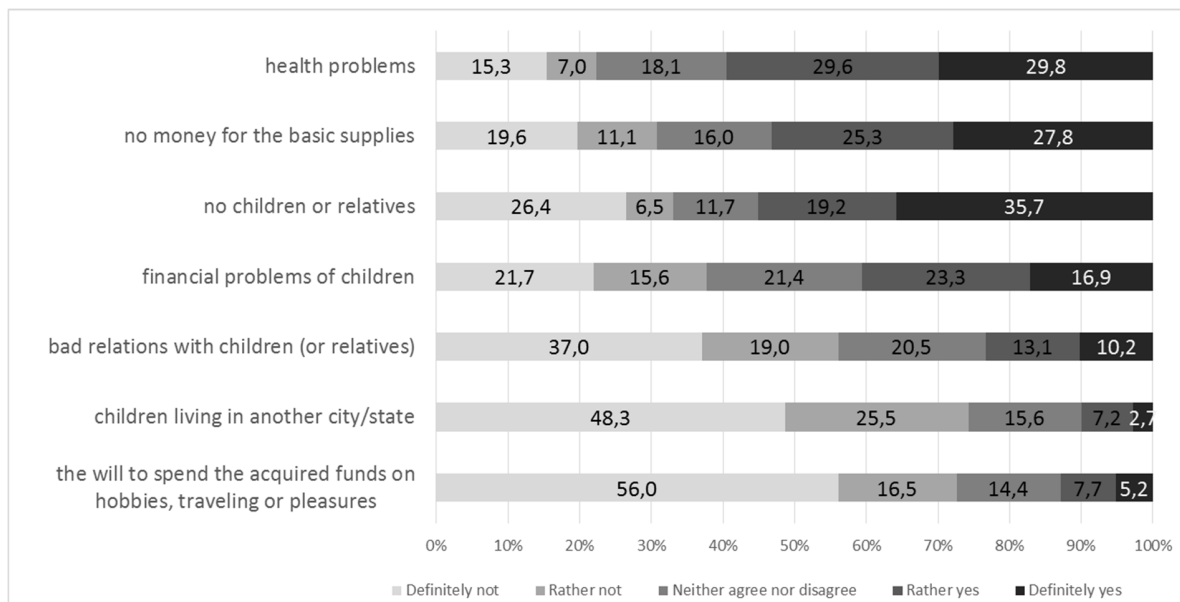
In the study, also significance of various factors, which could encourage consumers to use the RM was specified. The rated factors (in the 5-level Likert scale from 1 – definitely not, to 5 – definitely yes) included:

- no children or relatives, who might receive the home as a bequest,
- bad relations with children (or relatives),
- no money for the basic supplies (food, medicine),
- the will to spend the acquired funds on hobbies, traveling or pleasures,

- children living in another city/state,
- health problems (own, partner's children's) and the need for additional funds,
- financial problems of children and the wish to help them (with funds acquired from the RM),
- other, among which respondents spontaneously named: the will to receive quick money; owning a home, which enables using the RM; children earning well and thus no necessity to give them a home and or help them financially in any way; direct threat to one's life and the loss of health; the necessity to pay back other dues.

Figure 4 presents the influence of particular factors on the intention to use the reverse mortgage.

Figure 4. Factors influencing the intention to use the reverse mortgage



Source: own study on the basis of conducted quantitative study.

The most important factor which could encourage someone to use the MR is the need to acquire additional money in order to cover the costs related to unexpected health problems of one's own or one's close family members (3.51 points out of 5 max.). To compare, the research conducted by A. Styś and P. Łyszczak (2013: 121) on the group of pensioners attending University of Third Age reveals that the funds obtained by means of the RM would be used mainly to improve the general standard of living, e.g. better food, home renovation, or financing a medical treatment privately instead of relying on the NHS and waiting for too long.

On the second place there are two factors: no funds for basic supplies, and no children (relatives) whom one could leave a property (3.30 points both). The least important reason for which the respondents would decide to use OKH includes the will to acquire additional funds which could be allocated for the fulfillment of the needs of lower importance (travelling, hobbies and other pleasures - up to 56% of the respondents rejected this factor; one's children moving out to another city/state – 48% of the respondents declare that this aspect definitely does not constitute a reason for which they would use the RM.

4. Conclusion

One of the main obstacles to the development of the RM in the Polish market of financial services is the low level of acceptance for this solution as a result of various cultural and psychological circumstances. Next to health and the amount of pension, owning a property is perceived as one of the three basic determinants providing an adequate standard of living in retirement. A flat or house is also wealth treated in the Polish society as a potential bequest for descendants, rather than capital which may be treated as something granting retirement security. It is definitely an “inalienable” good, which creates emotional attachment, provides for one's well-being and should remain free from debt. It is not perceived as an asset with a material value which is possible to be consumed or realised.

The research mentioned in this article shows that the representatives of households present a very low level of awareness and knowledge of the RM, which translates into the lack of the acceptance for this solution as an option for financially securing one's old age. Potential increase in the interest in the RM will require from the potential providers of this service to emphasize the fact that this transaction is safe and that this solution makes it possible to realise the capital which is “frozen” in a property without the need to leave its premises. As it was pointed out in the article, the major factors which could encourage using the RM include the need for additional funds which could be earmarked for covering the costs of unexpected problems with health – those of one's own or of one's family members, the lack of money for basic supplies, or being childless or having no relatives to whom the property could be given as a bequest.

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Odwrócony kredyt hipoteczny – postawy konsumentów

Streszczenie

Głównym celem artykułu jest identyfikacja postaw konsumentów wobec odwróconego kredytu hipotecznego jako jednej z możliwości uzyskania dodatkowych środków finansowych po zakończonej aktywności zawodowej i przejściu na emeryturę. W artykule wykorzystano wyniki własnych badań ilościowych przeprowadzonych metodą wywiadów bezpośrednich PAPI. Reprezentatywne badania przeprowadzone zostały wśród 443 gospodarstw domowych w Wielkopolsce w 2015 roku. Narzędziem wykorzystanym w badaniach był standaryzowany kwestionariusz wywiadu, zaś dobór do próby miał charakter kwotowy. Wyniki badań wskazują, że przedstawiciele gospodarstw domowych cechują się bardzo niskim poziomem świadomości i wiedzy o odwróconym kredycie hipotecznym (OKH), a tym samym brakiem akceptacji tego rozwiązania jako ewentualnego sposobu zabezpieczenia własnej starości. Najważniejszymi czynnikami, które mogłyby skłonić do skorzystania z OKH są potrzeba posiadania dodatkowych pieniędzy, które można byłoby przeznaczyć na pokrycie kosztów związanych z niespodziewanymi problemami zdrowotnymi, brak pieniędzy na artykuły pierwszej potrzeby oraz brak krewnych, którym można byłoby pozostawić nieruchomość w spadku.

Słowa kluczowe: odwrócony kredyt hipoteczny, postawy konsumentów, badania ilościowe.