EXECUTIVE SUMMARY TO REPORT 586

Review of reverse mortgage lending in Australia

August 2018

About this summary

This is the executive summary to Report 586 Reverse mortgage lending in Australia (REP 586).

The report summarises the findings and recommendations from ASIC’s review of lending practices for reverse mortgages.

Our review found that reverse mortgages can play an important role in helping older Australians improve their standard of living in retirement while remaining in their home.

However, lenders can do more to improve long-term consumer outcomes and help potential borrowers make informed decisions about their immediate and future financial needs.
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**Consultation papers**: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

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- explaining how ASIC interprets the law
- describing the principles underlying ASIC’s approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

**Information sheets**: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

**Reports**: describe ASIC compliance or relief activity or the results of a research project.

Disclaimer

This summary does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this summary are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.
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Executive summary

1 Reverse mortgages allow older Australians to borrow against the equity in their home through a loan that does not require repayment until a later time, typically when the borrower has vacated the property or passed away.

2 These products are one of the main options available to older Australians who want to draw on the equity in their home while continuing to live in their property. Research suggests that 83% of older Australians strongly prefer to ‘age in place’.

Note: See the Treasury, 2015 Intergenerational report (March 2015).

3 In mid-2017, ASIC commenced a review of lending for reverse mortgages. The aim of our review was to examine this market after the introduction in 2012 of enhanced responsible lending obligations and consumer protections for reverse mortgages (enhanced consumer protections): see paragraphs 14–16.

Note: For a full summary of responsible lending obligations and protections under the National Consumer Credit Protection Act 2009 (National Credit Act), see Section D of the report.

4 Our review looked at reverse mortgage lending from 2013–17, drawing on quantitative and qualitative data to understand how this market is working in practice. This included granular data on over 17,000 reverse mortgages, 111 consumer loan files, the policies and procedures of lenders in our review, and complaints from internal dispute resolution (IDR) and external dispute resolution (EDR) databases. We also commissioned in-depth interviews with 30 borrowers and consulted over 30 industry and consumer stakeholders.

Note: For a detailed methodology, see Appendix 1 of the report.

5 For our review, we assessed five groups of lending brands separately, each of which are referred to in this report as a ‘lender’:

(a) Bankwest;
(b) Commonwealth Bank;
(c) Heartland Seniors Finance;
(d) Macquarie Bank; and
(e) the Westpac brands comprising St George Bank, the Bank of Melbourne and BankSA.

6 This review forms part of ASIC’s broader work to address key issues that affect older Australians and to help bring about positive changes for these consumers in credit and financial services: see Report 550 ASIC’s work for older Australians (REP 550).
Our broader work on these issues is consistent with growing efforts by the Australian Government and the state governments to address issues relating to Australia’s ageing population.

In May 2018, the Australian Government announced a package of reforms as part of the 2018–19 Federal Budget to support the skills, finance, health and safety of older Australians. This includes plans to expand the Pension Loans Scheme, the establishment of an independent Aged Care Quality and Safety Commission, improvements to the My Aged Care website, and a number of financial measures and incentives.

Note: See Australian Government, Fact Sheet 1: More choices for a longer life package overview (May 2018).

The Productivity Commission has released various studies on issues relating to older Australians, including aged care, the economic implications of an ageing Australia, and housing. The Australian Government has also commenced a 10-year program of reforms to improve the sustainability and affordability of the aged care system.

Note: See Productivity Commission, Housing decisions of older Australians (December 2015) (Productivity Commission report); Productivity Commission, Caring for older Australians draft report (January 2011); Productivity Commission, Economic implications of an ageing Australia (April 2015); Department of Health, Legislated review of aged care (September 2017) (PDF, 2.87 MB).

An increasing role for equity release products

The population of older Australians is growing at an increasing rate. From 2014 to 2054, the number of people in Australia between 65 and 84 years of age is likely to more than double (increasing by over 4 million, from 3.1 million in 2014 to 7.0 million), and the number of people over 85 years is expected to more than quadruple.

Note: See the Treasury, 2015 Intergenerational report (March 2015).

These trends will affect demand for equity release products. More than $500 billion of Australia’s home equity is held by consumers aged over 65, and about 70% of Australians aged 55–85 own their home outright. In 2014, only 62% of couples and 38% of single people were on track to reach a comfortable retirement income.


While consumer demand for reverse mortgages has risen gradually since the 2008 global financial crisis, most consumers still have negative overall perceptions about equity release products such as reverse mortgages.
‘A common view amongst retirees—and even many finance brokers and lenders—tends to be that equity release products take advantage of vulnerable elderly people, or that they are often used by family members to do so.’

Note: See Productivity Commission report, p. 154. See also ASIC, Managing change in retirement: Related financial issues and implications, September 2017.

Despite this, the Productivity Commission report has noted that the family home remains an untapped source of retirement income.

‘Most older Australian home owners on low incomes could achieve a modest retirement living standard over the remainder of their lives by drawing on their home equity.’

Note: See Productivity Commission report, p. 2.

The enhanced consumer protections

In 2012, the Australian Government introduced the enhanced consumer protections to help consumers make more informed choices about reverse mortgages and protect them from potential harm: see Table 1.

These measures were introduced to address the unique nature of reverse mortgages compared with other types of credit contracts: the product is marketed exclusively towards older Australians who are at or approaching retirement age, repayments are not required until specified events occur, the long-term effect of the loan is difficult to predict, and, before these protections, borrowers (or their dependents) might have been required to repay more than the value of their secured property at the end of the loan.

Note: See Explanatory Memorandum, Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011 (Enhancements Bill), pp. 3 and 32–33.

Our consumer research indicated that while consumers generally could not recall some of the mandatory disclosure documents that credit licensees are required to give consumers, the no negative equity guarantee has reduced risks to consumers. However, more can be done to achieve the intended objectives of these measures.
Table 1: Overview of the enhanced consumer protections

<table>
<thead>
<tr>
<th>Issue</th>
<th>Summary of protection</th>
</tr>
</thead>
</table>
| Responsible lending          | Licensees must inquire about the possible future needs of potential borrowers, which includes but is not limited to their needs for aged care and leaving equity to their estate.  
Note: See reg 28HA, National Consumer Credit Protection Regulations (National Credit Regulations).  
Proposed loans with a loan-to-valuation ratio (LVR) above prescribed percentages are presumed to be unsuitable.  
Note: See s93A, National Credit Code (Sch 1 of the National Credit Act) and reg 28LC, National Credit Regulations. |
| The ‘no negative equity guarantee’ (NNEG) | Borrowers cannot owe more than the market value of their secured property when it is sold. Lenders must return any amount paid in excess of the market value.  
Note: See Pt 5, Subdiv 1-A, National Credit Code.                                                                                                                 |
| Mandatory disclosures        | Licensees must give borrowers:  
• projections of home equity taken from the reverse mortgage calculator on ASIC’s MoneySmart website;  
• an information statement;  
• a tenancy protection warning; and  
• annual account statements.  
Note: See s133DB and 133D, National Credit Act and s18B, National Credit Code.                                                                                      |
| Enforcing a reverse mortgage | Reverse mortgage credit contracts must not provide that certain events will be a basis to start enforcement proceedings, such as a borrower failing to inform a lender that another person occupies the property.  
Note: See s133DB and 133D, National Credit Act and s18B, National Credit Code.  
Enforcement proceedings must not be commenced unless the lender has spoken to the borrower by telephone or in person about the default notice and the consequences of failing to remedy the default.  
Note: See s88(1)(d) and 88(2)(d), National Credit Code.                                                                                                                |
Summary of findings

Finding 1: Reverse mortgages helped older Australians achieve their immediate financial objectives

Each of the 30 borrowers in our consumer research indicated that their reverse mortgage enabled them to achieve their original objectives for the loan. Borrowers reported that one or more unforeseen events (e.g. divorce, losses in superannuation, poor health, early retirement and higher costs of living) had driven them to consider a reverse mortgage.

Our loan file review also identified several loans for borrowers who showed indicators of financial need before taking out the loan.

Case study 1: A loan for day-to-day expenses

Jenny was 74 years old and living solely on a pension. Her loan documents indicated that she had only $664 in her transaction account and $15,260 of credit card debt when she applied for a reverse mortgage.

The documents stated that she took out a $50,000 reverse mortgage to refinance her credit card debt, make home improvements, and cover day-to-day living expenses.

The consumer research indicated that reverse mortgages enabled borrowers to:

(a) maintain their current living arrangements with less financial stress;
(b) obtain short-term finance;
(c) have a general safety net for living expenses; or
(d) afford a better quality of life.

Case study 2: Extra money for a better quality of life

Caroline moved to her current home to be close to her children, but found her pension did not allow her to spend time with them or go on holidays.

‘I thought why should I sit here and twiddle my thumbs when I’ve only a few years left, so I arranged for some extra money to allow me to just enjoy my time.’

Each of these borrowers reported believing that a reverse mortgage had been their ‘only option’ for achieving their immediate financial objectives. A strong emotional attachment to the home and a desire to continue ageing in place was frequently cited as a significant priority, which ruled out downsizing as an alternative option.

‘It’s a big stretch to say just uproot everything and move up North [to Queensland]. While I might have family there, they have their own lives and friends and I’d have nothing and no one familiar so I’d just be sitting in an apartment by myself staring at the wall.’
Finding 2: The enhanced consumer protections have eliminated the risk of negative equity

Before the introduction of a ‘no negative equity guarantee’ (NNEG), borrowers faced a risk of eventually owing more on their loan than they could recover from selling the secured property. Because this risk was borne entirely by borrowers, the Australian Government observed that, in the absence of the NNEG, lenders can be ‘less conservative in their lending practices and more aggressive in enforcement actions’.

Note: See Explanatory Memorandum, Enhancements Bill, p. 206.

The NNEG was introduced to protect borrowers from this risk by preventing lenders from receiving more from the loan than the market value of the secured property. This means that borrowers can continue living in their home without any risk of being unable to pay off the loan balance when they sell it.

Our findings suggest that the intended objectives of the NNEG have been achieved. During the period we reviewed, lenders imposed limits on the maximum LVR of new loans. These limits were more conservative than the rebuttable LVRs that are prescribed in the enhanced consumer protections, and limited the interest charges that could accrue to new loans.

As a result, our data analysis suggests that only two out of 15,053 loans are likely to reach a loan balance that exceeds the market value of the secured property by the time the borrower reaches 84 years of age, assuming that interest rates on these loans stay the same and property prices rise by 3% per annum.

Our data analysis also indicated that the NNEG may protect a small minority of borrowers if interest rates rise substantially, if residential property prices do not grow (or fall), or if a combination of these events occur. For example, if the interest rate on all the reverse mortgages in our review rise by 3%, and property prices stay the same, then 6% of borrowers are likely to benefit from the NNEG by the time they are 84 years old.

Finding 3: Some borrowers may not recognise the impact of equity erosion on their possible future needs

Despite the introduction of the NNEG, borrowers still faced a risk of being left with insufficient equity in their homes to pay for their future financial needs. In particular, our data analysis indicated that a substantial proportion of borrowers may be at risk of being left with substantially less home equity if the interest rate on their loan rises, or if property prices grow more slowly than expected.

For example, we tested a fixed amount of equity that a borrower might require when they reach the age of 84, the average age of entering into aged care. Figure 1 illustrates how fewer borrowers will have at least $200,000 of remaining home equity by age 84, if one or both of these events occur.
Figure 1: Percentage of borrowers with at least $200,000 of remaining home equity by age 84, if economic conditions change

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Property Prices Rise 3% p.a.</th>
<th>Interest Rates Stay the Same</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1</td>
<td>96%</td>
<td>90%</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>90%</td>
<td>74%</td>
</tr>
<tr>
<td>Scenario 3</td>
<td>74%</td>
<td>53%</td>
</tr>
<tr>
<td>Scenario 4</td>
<td>53%</td>
<td></td>
</tr>
</tbody>
</table>

Note: See Table 18 in Appendix 3 of the report for the underlying data shown in this figure (accessible version).

Figure 2 illustrates that even fewer borrowers will have at least $380,000, which is the average self-funded upfront cost of aged care for one person.

Figure 2: Percentage of borrowers with at least $380,000 of remaining home equity by age 84, if economic conditions change

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Property Prices Rise 3% p.a.</th>
<th>Interest Rates Stay the Same</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1</td>
<td>67%</td>
<td>53%</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>53%</td>
<td>34%</td>
</tr>
<tr>
<td>Scenario 3</td>
<td>34%</td>
<td>24%</td>
</tr>
<tr>
<td>Scenario 4</td>
<td>24%</td>
<td></td>
</tr>
</tbody>
</table>

Note: See Table 19 in Appendix 3 of the report for the underlying data shown in this figure (accessible version).

Poor awareness of this risk can lead borrowers to take out a larger reverse mortgage, or to withdraw money more quickly from a line-of-credit facility in a reverse mortgage. The interest charges that accrue over time can reduce the capacity of these borrowers to afford important future expenses, such as aged care accommodation, medical treatment, and day-to-day living expenses.
This is concerning because our data analysis indicates that borrowers tended to apply for the maximum credit limit that had been permitted by their lender, as illustrated in Figure 3. Most borrowers in our consumer research reported that they had been happy to accept whatever loan amount they were offered, and some borrowers reported that their broker or lender had recommended applying for the maximum possible credit limit.

Note: Some borrowers may have applied for the maximum credit limit due to the conservative loan limits introduced by lenders in response to the NNEG. Some lenders occasionally exceeded these credit limits on an exceptional case-by-case basis.

Figure 3: Credit limit as a percentage of the maximum permitted loan size (by loan type)

This lack of long-term planning can particularly affect younger borrowers who are more likely to remain in their home for longer before discharging their loan.

When we asked borrowers about how their decision to take out a reverse mortgage might affect their long-term financial situation, many indicated that they had not seriously considered their possible future needs. Our loan file review also suggested that most borrowers had not considered the long-term implications of taking out a reverse mortgage.

The borrowers in our consumer research did not express any concern that the compound interest on their reverse mortgage could make it more difficult for them to afford future expenses after their loan is paid off.

Note: This behaviour is consistent with our previous findings in REP 537 that only 32% of borrowers have a financial plan for the next 10–15 years: see Report 537 Building seniors’ financial capability (REP 537) at p. 14.
Licensees are required to take reasonable steps to inquire into a borrower’s future needs and objectives. This additional requirement is imposed because the effect of compound interest and the potential impact of a reverse mortgage on a borrower’s ability to afford future expenses can be significant. If a proposed loan makes it difficult for them to meet their long-term needs, the loan may be unsuitable.

Our loan file review indicated that the application processes of all five lenders focused primarily on the borrower’s short-term objectives, while limited or no attention was paid to their possible future needs. Inquiries made by licensees lacked sufficient detail and followed a ‘tick-box’ formula. Lenders also did not document any inquiries about whether borrowers had a short-term exit strategy or intended to remain in the loan indefinitely.

Approximately 92% of the loan files we reviewed did not record the possible future needs of the borrower in sufficient detail and contained no evidence that the broker or lender had discussed how a loan may affect the borrower’s ability to afford possible future needs.

Licensees have an important role to play in ensuring that potential reverse mortgages are not unsuitable, particularly since borrowers also faced obstacles to receiving independent professional guidance about these risks. Our consultations with lenders and industry bodies representing brokers, financial advisers, accountants, legal practitioners and financial counsellors found that these professionals (referred to in this report as ‘guidance providers’) had been reluctant to give guidance about reverse mortgages.

This reluctance was attributable to negative perceptions about the product, limited awareness about the product, and a desire to avoid the perceived risk of providing unlicensed credit assistance by recommending the product. Comprehensive financial advice can also cost $2,500–3,500, which can be too expensive for some borrowers, especially those who are already showing indicators of financial need.

Note: See Report 224 Access to financial advice in Australia (REP 224).

Under the enhanced consumer protections, licensees must give potential borrowers a printed copy of projections that illustrate the possible effect of a reverse mortgage on the equity that a borrower will have in their home. Our loan file review indicated that some licensees could have done more to match the default assumptions in these projections to suit the specific circumstances of each potential loan. We recognise that our guidance will need to be updated to reflect this finding.

Note: See Information Sheet 185 Using ASIC’s reverse mortgage calculator (INFO 185).
Finding 4: Options for borrowers were limited due to a lack of competition

Our data analysis indicated that the market for reverse mortgages is highly concentrated. Application fees, transaction fees and interest rates for reverse mortgages were generally higher than for other types of consumer credit, such as standard home loans.

Case study 3: Reverse mortgages and standard home loans

In 2017, one lender in our review charged a $950 establishment fee and a $12 monthly service fee for a reverse mortgage, compared to a $600 establishment fee and a $8 monthly service fee for a standard home loan. The interest rate on this product was also higher than the variable rate for an interest-only home loan.

Few alternatives to a reverse mortgage are available for older Australians who would like to draw on the equity in their home while continuing to live there. Lenders and other industry participants cited more intensive capital adequacy requirements, longevity risk, limited access to wholesale funding and low interest rates as reasons why many new lenders are unlikely to offer a reverse mortgage or other equity release product in the near future.

In the 2018–19 Federal Budget, the Australian Government announced that it will extend the current Pension Loans Scheme. Those on a full or part age pension and eligible self-funded retirees will be able to use home equity to receive a fortnightly payment (including age pension payment) of 150% of the maximum age pension. These loans are offered at a lower interest rate (currently 5.25%) compared to commercially available reverse mortgages, but can only be accessed as an income stream.

We note that new types of equity release products, such as fractional equity release products, are also emerging in this market, but these products may also have risks such as the reduction of equity over time.

Finding 5: Lenders have a role in reducing the risk of financial elder abuse

Financial elder abuse occurs when one person illegally or improperly exploits or uses the money or resources of an older consumer. Borrowers were on average 75 years old when they took out a reverse mortgage, which can place them at high risk for financial elder abuse.

Our loan file review identified 15 loan applications where a lender could have detected a sign of possible financial elder abuse and made further inquiries to identify whether abuse may have been occurring.
Possible signs included:
(a) repayment on a loan being made by an adult child;
(b) money transferred to a non-borrower;
(c) money provided to a child;
(d) the involvement of children in the application;
(e) only non-borrowers receiving mandatory independent advice; and
(f) file notes indicating abuse by a sibling of the borrower.

Case study 4: Loan application initiated by family member

John, aged 86, took out a $50,000 reverse mortgage. He had a power of
attorney established in August 2015, two months before his reverse
mortgage was approved in October 2015.

The lender required borrowers to obtain independent legal advice and the
declaration for this advice was signed by John’s grandson. Another
grandson who was a financial adviser signed the independent financial
advice declaration.

However, in each loan where we detected a sign of possible financial elder
abuse, we found no documented evidence that the lender had made or
documented any further inquiries into whether the borrower may have been
taken advantage of by a caregiver or family member.

Although our review identified a potential risk of financial elder abuse, our
review of the loan files identified no evidence of actual financial elder abuse.

Industry bodies are recognising the significant role that licensees should play
in reducing the risk of financial elder abuse. The Australian Law Reform
Commission (ALRC) has highlighted that financial institutions are in a ‘good
position to detect and prevent the financial abuse of their older and at-risk
customers’. The Australian Banking Association (ABA) has issued a revised
Banking Code of Practice that commits members to take ‘extra care’ with
vulnerable customers who are experiencing elder abuse or financial abuse.

Finding 6: Some loans might not protect other residents in
the home

If the borrower vacates the property or passes away, borrowers or their estate
can often only afford to pay off the loan balance of a reverse mortgage by
selling the secured property. This can require non-borrowers still living in
the home (non-borrower residents) to move out unless the contract contains a
‘tenancy protection’ provision allowing them to remain in the home for a
period of time.
Case study 5: No tenancy protection for non-borrower spouse

Married couple Ali and Brenda lived in their own home, but had few other assets besides a car and caravan valued at $18,000 and negligible savings. Their only income was the age pension.

Ali took out a reverse mortgage for $30,000 against the family home. The loan was only in his name and did not contain a tenancy protection provision for Brenda.

If Ali passed away or needed to move to aged care, it is likely that the reverse mortgage could only be paid off by selling the property and Brenda would need move out and find a new home.

Only one lender in our review offered consumers a limited option to include a tenancy protection provision in their loan contract. This protection lasted for one year after the death of the borrower, the lender could refuse an application seeking tenancy protection, and the nominated non-borrower resident had to be a relative of the borrower and over 70 years old at the time of the application.

Borrowers with the other four lenders in our review could protect non-borrower residents only by adding their name to the loan contract.

If one or more potential borrowers want to protect the ability of a specified person to continue living on the property even after the borrowers have vacated the home, in some cases a proposed reverse mortgage may be unsuitable if it will endanger the tenancy of that specified person.

In 42% of loan files we reviewed, the lender failed to document any inquiries about the suitability of a proposed loan that lacked tenancy protection, where at least one non-borrower resident lived in the home when the loan was taken out.

Under the enhanced consumer protections, lenders must give potential borrowers a prescribed tenancy protection warning if the loan does not include a tenancy protection provision. However, most of the borrowers in our consumer research did not recall discussing or considering tenancy protection. Borrowers indicated that they had generally relied on their discussions with other people, rather than the documents they were given, to understand their loan.

In our consumer research, only one borrower indicated that they had discussed tenancy protection with their lender and had taken action to protect a non-borrower resident from possible eviction.

Finding 7: Contracts contain potentially unfair terms

The standard form terms and conditions in reverse mortgage contracts are subject to laws which prohibit unfair contract terms.

We reviewed the most recent version of each lender’s standard terms and conditions provided to ASIC. We found all five lenders’ contracts contained terms that have the potential to be unfair.
Table 2 summarises several potentially unfair contract terms we identified in our loan file review, including:

(a) entire agreement clauses in three lenders’ contracts;
(b) a broad indemnification clause in one lender’s contract that they have agreed to remove;
(c) broadly drafted unilateral variation clauses; and
(d) clauses of non-monetary default that potentially allow lenders to take actions that are disproportionate to the nature of the breach.

Note: For full details of these terms, why we consider them to be potentially unfair, what action we have taken to date and what further action we will take, see Table 13.

Where a contract contains a clause that is potentially unfair, we will ensure it is removed or modified by the lender. Some lenders have already made these changes to their contracts.

### Table 2: Potentially unfair terms in reverse mortgage contracts

<table>
<thead>
<tr>
<th>Type of clause</th>
<th>What we found</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entire agreement clauses</strong></td>
<td>Three lenders’ contracts contained an entire agreement clause. One of these three lenders has removed this term and the second is reviewing this clause; the third no longer provides reverse mortgages.</td>
</tr>
<tr>
<td><strong>Unilateral variation clauses</strong></td>
<td>All lenders’ contracts contained unilateral variation clauses. Three contracts had broad variation clauses allowing them an unfettered discretion to vary any term or condition of the contract without borrower consent. These clauses are particularly concerning in reverse mortgage contracts. Although borrowers can terminate the contract by repaying the loan balance in full at any time, in practical terms borrowers who wish to remain in their own home may have limited options to refinance due to lender market concentration or equity erosion. Some elderly borrowers may also be dealing with physical or mental decline, which may inhibit their ability to refinance.</td>
</tr>
<tr>
<td><strong>Non-monetary default clauses</strong></td>
<td>Four of the five lenders’ contracts contained a clause of default relating to borrower misrepresentation, which had the potential to operate in an unfair manner by capturing inadvertent minor untrue statements that do not materially alter the lender’s credit risk. Three lenders’ contracts contained broad default clauses for any breach of contract which encompassed a range of breaches with varying degrees of severity that did not always pose a material risk to the lender.</td>
</tr>
</tbody>
</table>
Further action

61 Older Australians should have fair and equitable access to equity release options such as reverse mortgages.

62 Although our findings indicate that reverse mortgages helped most borrowers achieve their immediate financial goals, we also identified several actions that we will require lenders to adopt to ensure that loans are not unsuitable for the longer-term needs and objectives of borrowers.

63 Table 3 summarises further action for:
(a) lenders to improve their approach to meeting the responsible lending obligations and to address the risks for consumers when they make decisions about potential reverse mortgages; and
(b) those who give guidance to consumers about a reverse mortgage (e.g. financial counsellors, financial advisers, lawyers and accountants) to improve their ability to help clients understand the choices available.

64 Lenders have already made some changes in response to ASIC’s concerns about potentially unfair contract terms and we will ensure that all remaining terms are removed.

65 To help ensure that potential borrowers are adequately equipped to make fully informed choices about benefits, cost, risks and alternatives, we will:
(a) commence a working group involving lenders and other industry participants to ensure that our expectations for improved lending practices for reverse mortgages are satisfied;
(b) monitor the protections that lenders implement or have implemented to reduce the risk of financial elder abuse; and
(c) review the design of ASIC’s MoneySmart reverse mortgage calculator within the next six months, to help prompt potential borrowers to consider the features and risks of a reverse mortgage.
Table 3: Key issues for lenders and guidance providers

<table>
<thead>
<tr>
<th>Issue</th>
<th>Key actions for lenders</th>
<th>Key areas of focus for guidance providers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Findings 1 and 2:</strong> Borrowers achieved their immediate objectives, without a risk of owing more than the value of their property (See Sections B–C of the report)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Finding 3:</strong> Some borrowers may not recognise the impact of equity erosion on their possible future needs (See Section D of the report)</td>
<td>Lenders should document more detailed inquiries about consumers’ future needs and objectives, including (but not limited) to their needs and objectives for aged care and inheritance. Applications and questions in loan interviews should be framed in ways that facilitate genuine discussion and reflection by the borrowers about these issues. If a borrower cannot afford or locate a paid financial guidance, lenders should refer them to free information sources where appropriate.</td>
<td>Guidance providers should help potential borrowers: • calculate and develop a long-term understanding of their possible future financial needs and objectives in specific (not abstract) detail; • estimate the effect that a proposed loan could have on borrowers’ ability to afford these long-term needs and objectives; and • consider whether alternative solutions such as downsizing and receiving family support are preferable to a reverse mortgage.</td>
</tr>
<tr>
<td><strong>Finding 4:</strong> Borrowers had limited options due to market concentration (See Section E of the report)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Finding 5:</strong> Lenders have a role in reducing the risk of financial elder abuse (See Section F of the report)</td>
<td>Lenders should implement training and have effective procedures in place to detect and address possible instances of financial elder abuse.</td>
<td>Guidance providers should be alert to indicators of possible financial elder abuse and know how to approach this issue with clients if indicators are apparent.</td>
</tr>
<tr>
<td><strong>Finding 6:</strong> Some loans might not protect other residents (See Section G of the report)</td>
<td>Lenders should inquire and record whether a consumer needs tenancy protection, or whether the loan should have several borrowers. If a borrower wants to protect a non-borrower resident, without tenancy protection the loan may be unsuitable.</td>
<td>Guidance providers should investigate whether their client may require some form of tenancy protection.</td>
</tr>
<tr>
<td><strong>Finding 7:</strong> Contracts contain potentially unfair terms (See Section H of the report)</td>
<td>Lenders should remove potentially unfair contract terms.</td>
<td>N/A</td>
</tr>
</tbody>
</table>