

# **THE REVERSE MORTGAGE:**

For an optimum control

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Submitted to Industry Canada's  
Office of Consumer Affairs

by

  
**l'union**  
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**des consommateurs**

6226 rue Saint-Hubert, 3<sup>rd</sup> floor  
Montréal (Québec) H2S 2M2

Telephone : 514-521-6820  
Toll-free : 1 888 521-6820  
Fax : 514-521-0736

[union@consommateur.qc.ca](mailto:union@consommateur.qc.ca)  
[www.consommateur.qc.ca/union](http://www.consommateur.qc.ca/union)

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**Author**

- Sophie Roussin

**In collaboration with :**

- le comité Produits et services financiers

**Editor**

- Me Marcel Boucher

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*To facilitate reading and streamline the content of this report, we have chosen to employ the masculine to represent both genders.*

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## UNION DES CONSOMMATEURS, *strength through networking*

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Union des consommateurs is a non-profit organization whose membership is comprised of several ACEFs (*Associations coopératives d'économie familiale*), *l'Association des consommateurs pour la qualité dans la construction* (ACQC), as well as individual members.

Union des consommateurs' mission is to represent and defend the rights of consumers, with particular emphasis on the interests of low-income households. Union des consommateurs' activities are based on values cherished by its members: solidarity, equity and social justice, as well as the objective of enhancing consumers' living conditions in economic, social, political and environmental terms.

Union des consommateurs' structure enables it to maintain a broad vision of consumer issues even as it develops in-depth expertise in certain programming sectors, particularly via its research efforts on the emerging issues confronting consumers. Its activities, which are nation-wide in scope, are enriched and legitimated by its field work and the deep roots of its member associations in the community.

Union des consommateurs acts mainly at the national level, by representing the interests of consumers before political, regulatory or legal authorities or in public forums. Its priority issues, in terms of research, action and advocacy, include the following: family budgets and indebtedness, energy, telephone services, radio broadcasting, cable television and the Internet, public health, food and biotechnologies, financial products and services, business practices, and social and fiscal policy.

Finally, regarding the issue of economic globalization, Union des consommateurs works in collaboration with several consumers groups in English Canada and abroad. It is a member of Consumers International (CI), a United Nations recognized organization.

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## INTRODUCTION

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Appearing nearly four decades ago in Great Britain, the reverse mortgage began to gain popularity during the 1970s before crossing the Atlantic in the 1980s. Once considered a minor financial product, today the needs of an aging population ensure the growing success of the reverse mortgage loan. A reverse loan permits a resident owner to mortgage a portion of the net value of his property in order to increase his revenue, or, as CHIP (the Canadian Home Income Plan Corporation), a Canadian business specializing in reverse mortgages puts it, « to free up the value of a home and convert it to dollars ». The reverse mortgage loan is currently available in numerous countries, notably the U.S., Great Britain, Australia and Canada, where it is attracting more and more consumers.

The growing popularity of the reverse mortgage bring new concerns, particularly for groups working on behalf of consumer rights. If they are to effectively defend those rights, it is crucial to understand market trends from the outset, to identify and correct any potential problems before they occur by thoroughly and immediately examining this trend. What is called for is a complete review of the quality and quantity of information communicated to elderly consumers about this product; the methods used to present and sell it and potential problems consumers may face, etc. Finally, it is important to fully comprehend legislative control of the product in Canada and to compare this approach with that applied in other countries, in order to ensure that Canadian consumers are adequately protected from possible pitfalls.

Our research project proposed to identify problems associated with reverse mortgages and to examine the functionality and effectiveness of current controls in order to determine whether or not consumers require more than what is currently in place.

The first chapter examines the financial product itself : the theory behind it, its definition and functionality. In the same chapter is a brief illustration of the key elements required to develop a favourable market for the reverse mortgage.

Chapter two explores the reverse mortgage market in different countries where it was developed : Great Britain, the U.S. and Australia, along with an analysis of their experiences and solutions that can be applied to various problems that may arise for reverse mortgage consumers. Study of how reverse mortgages have been administered, analysis of problem scenarios and the solutions employed in countries where the reverse mortgage is widespread enables us to verify the degree of protection that consumers currently have and to get a perspective on Canadian administration of the product.

The third chapter offers a view of alternatives offered to elderly consumers who need to increase their revenue and focuses on the pros and cons of the reverse mortgage

The fourth and last chapter presents the results of an online survey whose goal was to evaluate the targeted market's awareness of different financial income products, including the reverse mortgage.

Conclusions are followed by recommendations which can be applied to resolve problems exposed in our research.

## THE REVERSE MORTGAGE

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The financial product commonly referred to as the reverse mortgage is a loan made to the owner of property with a significant net value, secured by the property. The reverse mortgage, available only to older consumers, differs from a traditional mortgage loan in that the borrower is not required to make monthly repayments, as the capital and accumulated interest does not typically become due until the property is transferred or upon the death of the borrower.

### The fundamental theory

The fundamental theory behind the reverse mortgage was developed during the 1950s<sup>1</sup> by Franco Modigliani. This « life-cycle » theory recognizes the desire of homeowners to build up their home equity in view of retirement; upon retirement, this equity can help to soften the impact of nearly inevitable reduced revenue. Two key hypotheses related to the demand for reverse mortgages are at the source of the theory :

- Interest in reverse mortgages increases with age; older consumers are less fearful of committing their capital as their life expectancy and needs diminish;
- Elderly people living alone who do not have heirs are more likely to be interested in this type of programme as they have less motivation to hold onto their capital.<sup>2</sup>

### Definition / How it works

The principal of the reverse mortgage is to grant a secured loan to the owner of a mortgage-free or high-net value property. The primary differences between reverse and traditional mortgages are related to repayment terms and borrower eligibility. Unlike a traditional mortgage, the reverse mortgage provides funds to the homeowner without an obligation to monthly repayments. No scheduled repayments are required as long as the property owner lives in his home. The borrower does not need the kind of income sufficient to support the monthly payments required by a traditional mortgage since the loan is not repaid until the property is transferred or until the death of the borrower. In Canada, reverse mortgages are only available to persons 60 year or older who own their home or who have only a small balance remaining on their mortgage loan<sup>3</sup>. This age limit is not established by law; it is guided by the transaction type<sup>4</sup> and the results of a risk evaluation done by the loaning institution specifically for this type of transaction. In other countries, the age limit is typically 62 years.

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<sup>1</sup> Modigliani, Franco et Richard Brumberg. «Utility analysis and the consumption function : an interpretation of cross-section data», in *Post Keynesian Economics*, under the direction of Kenneth K. Kurihara, New Brunswick (N.J.), Rutgers University Press, 1954, pp. 338-436.

<sup>2</sup> Le Goff, Philippe. *L'Hypothèque inversée : une solution pour le financement des retraites ?*, Bibliothèque du Parlement, 14 February 2003, p. 5. Online <http://dsp-psd.pwgsc.gc.ca/Collection-R/LoPBdP/PRB-f/PRB0259-f.pdf> (visited October 31, 2006)

<sup>3</sup> The minimum age requirement for reverse mortgage eligiibiity varies from one country to another.

<sup>4</sup> Canadian Centre for Elder Law Studies. « Report on Reverse Mortgages ». British Columbia Law Institute, British Columbia, February 2006, p. 8. Online [www.bcli.org/pages/projects/revmort/Reverse\\_Mortgages\\_Rep.pdf](http://www.bcli.org/pages/projects/revmort/Reverse_Mortgages_Rep.pdf) (visited October 31 2006)

The capital guaranteed by the loaning institution for a reverse mortgage may be paid out in several ways : as a lump sum, credit line or scheduled payments. The lump sum payment permits the borrower to receive the total loan amount as a single payment. If so desired, this amount can also be used to purchase annuity funds. If the loan is in the form of a credit line, the borrower will have access to this credit up to a predetermined limit. Finally, the homeowner may receive fixed monthly loan advances, on a predetermined schedule, up until the maximum of the loan value or until the owner's death or transfer of the property.<sup>5</sup>

The reverse mortgage involves various costs and fees that must be paid by the borrower. The homeowner must, at his own cost, obtain a property evaluation upon which to base the mortgage. Certain creditors may require the borrower to hire legal representation in order to conclude the transaction. For example, in Canada, the primary vendor of reverse mortgages, the Canadian Home Income Plan (CHIP) requires the borrower to consult with an independent notary with whom he reads and signs the contract before transmitting it to CHIP. Evaluation, notary, administrative and certificate of occupancy fees may run approximately \$2,000<sup>6</sup>. The reverse mortgage is a primary level mortgage; if the property is not free of all liens, the owner must resolve these commitments at his own cost, with funds from the mortgage or other means at his disposition.

The homeowner retains responsibility for property maintenance according to terms of the contract, as well as any other financial obligations related to the property.<sup>7</sup>

Institutions offering reverse mortgages typically establish the loan amount based on the home value and the borrower's age. The amount is usually between 10 and 40% of the property's estimated worth<sup>8</sup>. Older borrowers may be entitled to borrow a higher amount. In the case of a couple borrowing, the amount loaned is based on the age of the youngest borrower. It is assumed that the younger borrower has a longer life expectancy and the home will therefore grow in value over the long term. Other factors may be taken into consideration in establishing the loan amount : the health of the borrower, current interest rates, the family situation and market conditions at the time of the transaction.<sup>9</sup>

In general, interest rates associated with reverse mortgages are higher than those of traditional mortgages. Since no payment is required, the capital and interest accumulates over time, which increases the debt. This debt increase usually occurs more quickly than the increase in value of the property, which gives the reverse mortgage its reputation as a « rising debt, falling equity » loan, unlike regular mortgages which are « falling debt, rising equity » loans. Figures A-1 and A-2 illustrate the opposing rate of equity in the two cases : the rise of equity in the regular mortgage and its descent with its accumulated interest in the reverse mortgage.

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<sup>5</sup> Le Goff, Philippe. *op. cit.* 2, p. 8.

<sup>6</sup> Girard, Michel. «Hypothèque inversée : une affaire renversante !», *La Presse*, Montreal, Quebec, Canada, p. E4.

<sup>7</sup> *Op. cit.*, 4.

<sup>8</sup> The amount loaned by CHIP is a minimum of \$20,000 and can reach \$500,000. Canadian Residential Revenue Programme, « L'ABC de CHIP ». Online. <http://français.chip.ca/index.cfm?id=184> (visited 21 May 2007)

<sup>9</sup> Flash Retraite Québec, Capsule 53, *L'hypothèque inversée: un pensez-y bien!* Online. [http://www.rrq.gouv.qc.ca/fr/flashretraiteqc/capsule\\_retraite\\_053.htm](http://www.rrq.gouv.qc.ca/fr/flashretraiteqc/capsule_retraite_053.htm) (visited November 2, 2006).



Figure A-1: Forward Mortgage

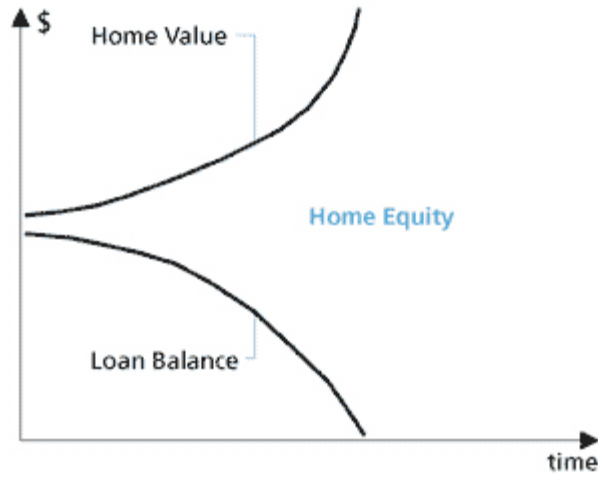
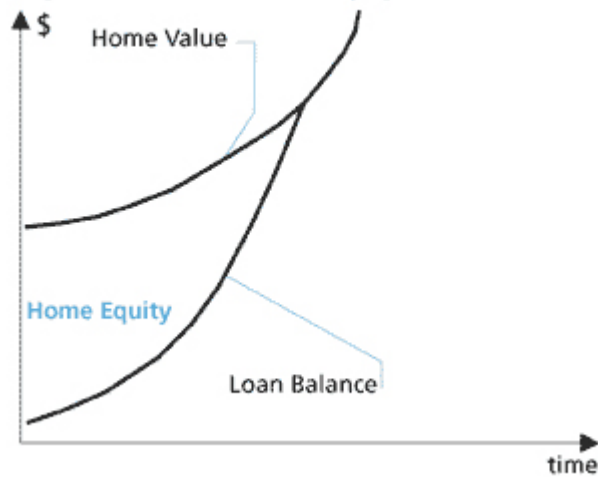


Figure A-2: Reverse Mortgage



Source : AARP, A « *Rising Debt* » Loan. Online.  
[http://www.aarp.org/money/revmort/revmort\\_basics/a2003-03-31-risingdebt.html](http://www.aarp.org/money/revmort/revmort_basics/a2003-03-31-risingdebt.html) (visited 5 June 2007)

## Context

Currently, most developed countries have conditions which favour the development of the reverse mortgage market : aging populations, fixed assets and augmenting real estate prices, insufficient retirement/senior incomes and changing attitudes.

*«It is widely known that the fastest growing group is not young people - it is senior citizens. When senior citizens apply for loans their goals are often the mirror image of those of younger people. Many senior citizens own major assets. They often own real estate outright - unencumbered by a mortgage. And they have often seen the value of*

*their real estate rise considerably since it was purchased. Due to retirement, though, senior citizens' incomes are diminished.»<sup>10</sup>.*

**The aging population.** Characterized by a longer life expectancy and a revised definition of age groups, today developed countries are confronted with an aging population :

*« Today, one person out of ten on the planet is over 60 years old : this ratio will go to one person out of five in the year 2050 and one out of three in the year 2150. At that time, according to projections, the number of people over the age of 60 will reach nearly two billion, greater than the number of children (0-14 years). The over-60 group will itself age, with 21% being over 80 years old in the year 2050, while today that figure is 12%. The number of people over 100 year will go from 210,000 in 2002 to 3.2 million in 2050. »<sup>11</sup>*

The aging of the population, the key factor to a successful reverse mortgage market, should accelerate over the coming years as « baby-boomers » reach retirement age.

**Reduced or insufficient retirement-age income.** The main sources of revenue for seniors are pensions, private retirement funds, paid work and interests or dividends from savings and investments made over their lifetime. Most developed countries have established generous retirement funding systems. Nevertheless, the retirement transition signifies an end to a regular paycheque and a reduction of income for which retirees generally need to compensate. In Québec, for example, the rate of retirement revenue replacement from 1992 to 2000 – a comparison of total post-retirement revenue (including all forms of revenue : work, retirement funds, investment or other income) and pre-retirement – was shown to average 70%<sup>12</sup>.

In an economic context characterized by low interest rates, elderly income is also respectively lower. Seniors can no longer count on making up the difference between their working and retirement income with interests or dividends coming from private or public retirement funds, which are no longer as profitable as was hoped for.

**Fixed assets.** Seniors typically possess more financial assets than younger persons, usually accumulated over the years. These assets may be liquid or fixed :

*« Liquid assets are not the greatest wealth of older families. It is not surprising that for more than two-thirds of older families who own their home, their home is their most valuable asset – with an average value of \$120,000 in 1999. Most older homeowners no longer pay a mortgage. »<sup>13</sup>*

Those possessing primarily fixed assets may use the value of their home to pay rent or for a property that better fits with their changed income, or to obtain necessary cash to meet other needs.

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<sup>10</sup> *Op. cit.* 4.

<sup>11</sup> United Nations Organization (UNO). *United Nations releases new statistics on population ageing*, 28 February 2002. Online. <http://www.un.org/News/Press/docs/2002/note5713.doc.htm> (visited October 31, 2006).

<sup>12</sup> Drolet, Pierre. *Transition Travail-Retraite*, Service des statistiques et des sondages, Régie des rentes du Québec, November 2005, p. 31, Online. [http://www.rrq.gouv.qc.ca/NR/rdonlyres/FE9ECB8C-D5D9-4919-97D1-33BE644D56AE/0/travail\\_retraite.pdf](http://www.rrq.gouv.qc.ca/NR/rdonlyres/FE9ECB8C-D5D9-4919-97D1-33BE644D56AE/0/travail_retraite.pdf) (visited 23 May 2007).

<sup>13</sup> Statistique Canada. *L'emploi et le revenu en perspective*, novembre 2003, vol. 4, no. 11. Online. <http://dsp-psd.pwgsc.gc.ca/Collection-R/Statcan/75-001-XIF/0110375-001-XIF.pdf> (visited 23 May 2007).

« *Fluctuating prices in the housing market affect home value as it is currently measured. In fact, residential property is often the homeowner's primary asset.* »<sup>14</sup>

**Rising real estate prices.** « *Since 1996, residential real estate prices have risen significantly in most Western countries. [For example], the United Kingdom and Spain saw an increase of 110%, with an increase of 71% in France and 52% in the US.* »<sup>15</sup> Among other effects, rising prices have increased the demand for property, lowered interest rates, fierce competition between financial institutions seeking new clients and extended loan durations that allow homebuyers to borrow greater amounts to be repaid over a longer period.

Knowing that a large portion of seniors' wealth is secured by their home, higher real estate values can substantially increase the value of these assets and become an appealing source for funding.

**Changing attitudes.** Over generations the population has changed its way of thinking about the importance of leaving an inheritance to its children. According to Karen Bienaski, in charge of the Canadian Home Income Plan, « We have done research and found that fewer people are set on leaving money to their children. It is not their priority. »<sup>16</sup>

This change in attitudes may explain why home equity is currently seen by seniors as a potential source of capital.

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<sup>14</sup> Organization for Economic Co-operation and Development (OECD) «Prix des logements et activités économiques», *Perceptives économiques de l'OCDE*, no. 68, 2000. Online. [www.oecd.org/dataoecd/44/46/2086152.pdf](http://www.oecd.org/dataoecd/44/46/2086152.pdf) (visited January 4, 2007).

<sup>15</sup> Direction Générale du Trésor et de la Politique Économique. «Prix de l'immobilier résidentiel et sphère financière», *Diagnostics Prévisions et Analyses Économiques*, no. 90, November 2005. Online. [http://www.finances.gouv.fr/directions\\_services/dgtpe/dpae/pdf/2005-091-90.pdf](http://www.finances.gouv.fr/directions_services/dgtpe/dpae/pdf/2005-091-90.pdf) (visited January 4, 2007)

<sup>16</sup> Bell Sympatico Msn. *Finances : L'hypothèque inversée peut servir les aînés propriétaires à court d'argent*. 8 January 2006. Online. <http://finances.sympatico.msn.ca/Financespersonnelles/ContentPosting.aspx?contentid=1381c291e4f34f44ad04fe75ba31c9a8&show=False&number=3&showbyline=False&subtitle=&detect=&abc=abc> (visited February 14, 2006).

## THE REVERSE MORTGAGE IN PRACTICE

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This chapter proposes an overview of the reverse mortgage market in four countries – Great Britain, the U.S., Australia and Canada – with the intention of determining market dynamics, legal controls and information provided to consumers in each of these countries. The regulation applied to reverse mortgages are generally the same in each country as those we have previously defined; any differences have been noted.

In Canada, the reverse mortgage market is in the embryonic stage. The relatively widespread use in the U.S. and Great Britain, and to a lesser degree, in Australia, have helped Canada to develop its expertise on the subject. A more comprehensive analysis of the situation in these countries could help to better identify potential scenarios that may confront Canadian consumers who are interested in this type of loan. Did consumers in these countries encounter particular problems? What solutions were proposed to them? What mechanisms were in place to protect seniors from abuse? What lessons can be learned from experiences in these countries?

### Great Britain

Great Britain presents the same favourable market conditions for the reverse mortgage as most developed countries : an aging population and climbing property values.

The English population is aging, as elsewhere in the Western world :

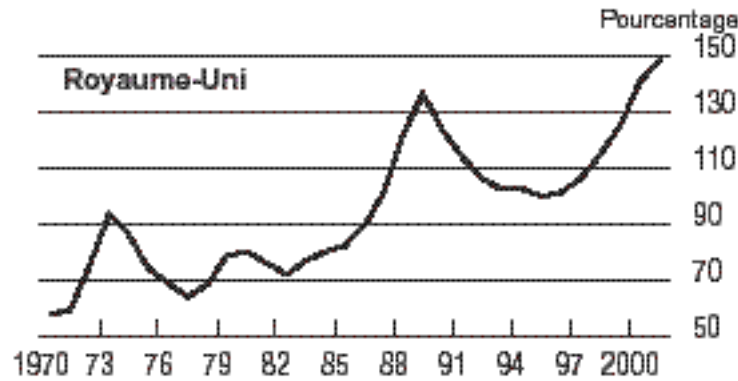
*«The UK population is ageing. [...] The proportion of the population aged 65 and over has increased, but the proportion below the age of 16 has generally decreased over the last thirty years. The percentage of people under age 16 fell from 25 per cent in mid-1971 to 19 per cent in mid-2005. Over the same period, the percentage aged 65 and over increased from 13 per cent to 16 per cent. Within this age group even greater increases were seen for those aged 85 and over. The proportion of those aged 65 and over who were aged 85 and over increased from 7 per cent in mid-1971 to 12 per cent in mid-2005. The number of people aged 85 and over grew by 64,000 (6 per cent) in the year to 2005 to reach a record 1.2 million. This large increase reflects improving survival and the post World War One baby boomers now reaching this age group. Population ageing will continue during the first half of this century, since the proportion of the population aged 65 and over will increase as the large numbers of people born after the Second World War and during the 1960s baby boom become older.»<sup>17</sup>.*

Great Britain has also experienced an impressive leap in property values over the past few years.

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<sup>17</sup> National Statistics. *Ageing 16% of UK population are aged 65 or over*, 24 août 2006. Online. <http://www.statistics.gov.uk/cci/nugget.asp?ID=949>. (visited 14 November 2006).

### Evolution of UK housing prices, 1970-2001



Source : Revue économique de l'OCDE n° 35, 2002/2

These past years, housing prices have soared without precedent. According to the Halifax Bank, the country's leading real estate lender, the average home price throughout Great Britain has nearly doubled (+187%) over the last ten years and more than doubled in London (+240%).<sup>18</sup>

### Reverse mortgage offerings in the United Kingdom

In the United Kingdom, the reverse mortgage is known as a *lifetime mortgage*. Two lenders control 90% of marketshare : Norwich Union and Northern Rock. Loan terms are equivalent to those previously described. While lenders, nearly across the board, require borrowers to have reached the age of 62, one, Norwich Union, required that they be from 65 to 80 years in order to participate<sup>19</sup>.

### Legal regulation

English experience with the reverse mortgage goes back 30 years ; authorities have faced different problems<sup>20</sup> over this time, and have worked to apply solutions. For example : *when prices moved against consumers and their debt exceeded the value of their properties, many were evicted. As a result, in both the UK and the USA, there has been some specific regulation of equity release products.*<sup>21</sup> In effect, during the loan period, the debt generally grew faster than the home's value due to accumulated interest added to the capital. There came a point where the debt was greater than the value of the home. In the initial versions of the loan, introduced in the UK during the 1980s, repayment was required, resulting in some very painful situations. This is why these loans now employ a stipulation that, at the termination of the loan,

<sup>18</sup> Agence France-Presse. *Payer sa maison... toute sa vie*, 13 November 2006. Online.

[http://www.lapresseaffaires.com/nouvelles/texte\\_complet.php?id=8,2004,0,112006,1311472.html&ref=economiques](http://www.lapresseaffaires.com/nouvelles/texte_complet.php?id=8,2004,0,112006,1311472.html&ref=economiques) (visited 13 November 2006).

<sup>19</sup> Norwich Union, organization website, Online <http://www.norwichunion.com/> (visited 16 November 2006).

<sup>20</sup> In the 80's, many borrowers placed in bond part of their loans, hoping the interests thus generated would cover the interests accumulating on their loan. The bonds did not generate the profits they hoped for, while the interest rates went up and the value of the houses went down. Consequently, many borrowers saw the amount of the loan exceed the value of their house.

<sup>21</sup> Australian Securities & Investments Commission. *Equity release products : An ASIC report*, November 2005, p. 5.

the amount owed by the borrower or his heirs may not exceed the value of the property and that any « negative equity » situation does not obligate the borrower to reimburse the lender<sup>22</sup>.

Since October of 2004, the Financial Services Authority of the United Kingdom regulates mortgages, including reverse mortgages. In the new regime put into place by the British government with the Financial Services and Markets Act of 2000, reverse mortgages have been designated a high-risk product and are closely watched by the FSA in order to protect aging consumers who are most vulnerable. Regulations also apply to organizations selling or administering the product, as well as those who counsel consumers about mortgages, with certain exceptions made for some law firms, intermediaries and financial counselors as well as organizations specifically offering information, as opposed to those offering advice. British legislation includes :

- *Product regulation*  
The law requires that throughout the duration of the loan, information be presented illustrating the costs and risks as well as encouragement to seek outside advice if the consumer is uncertain with his choice.
- *Regulation of intermediaries and consultants*  
The law requires that those who offer the reverse mortgage ensure that it will benefit the consumer (for example, the lender must determine from the outset whether or not a reverse mortgage is appropriate to the borrower's financial situation and whether or not another product will be more beneficial .

Loan providers must be trained and have the necessary qualifications to analyze the various elements related to the product, for example : the possibility of resale in order to purchase a smaller home, tax and pension implications and negative aspects of the product.<sup>23</sup>

In 1991, the leading English reverse mortgage lenders formed a self-governing regroupment called Safe Home Income Plans (SHIP). SHIP created a voluntary code of good conduct requiring lenders to respect four principles :

- make transparent all legal aspects of the loan;
- make all costs transparent;
- offer access to independent legal assistance to the borrower;
- establish a cap on debt relative to home value.<sup>24</sup>

### Handling of complaints

SHIP planned a process for dealing with complaints that would respect its members. In case of a misunderstanding between a borrower and SHIP member, the plaintiff must directly contact the member and attempt to solve the problem. The member would apply the procedures set out by SHIP, or the FSA, if the member lender fell under its jurisdiction. SHIP notes that most

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<sup>22</sup> Taffin, Claude. « Le « prêt viager hypothécaire » ou l'accession inversée », *Variations*, no. 26. Online. [http://www.ensae.org/gene/main.php?base=61&base2=1&detail\\_article=554](http://www.ensae.org/gene/main.php?base=61&base2=1&detail_article=554) (visited May 24, 2007).

<sup>23</sup> *Ibid*, pp. 23-24.

<sup>24</sup> Jachiet, Nicholas, Jacques Friggit, Claude Taffin and Bernard Vorms, *Rapport sur le prêt viager hypothécaire et la mobilisation de l'actif résidentiel des personnes âgées*, France, June 2004, p. 6. Online [http://www.documentation.minefi.gouv.fr/directions\\_services/dgtpe/publi/rap\\_viager\\_hypothecaire\\_0604.pdf](http://www.documentation.minefi.gouv.fr/directions_services/dgtpe/publi/rap_viager_hypothecaire_0604.pdf) (visited October 31, 2006).

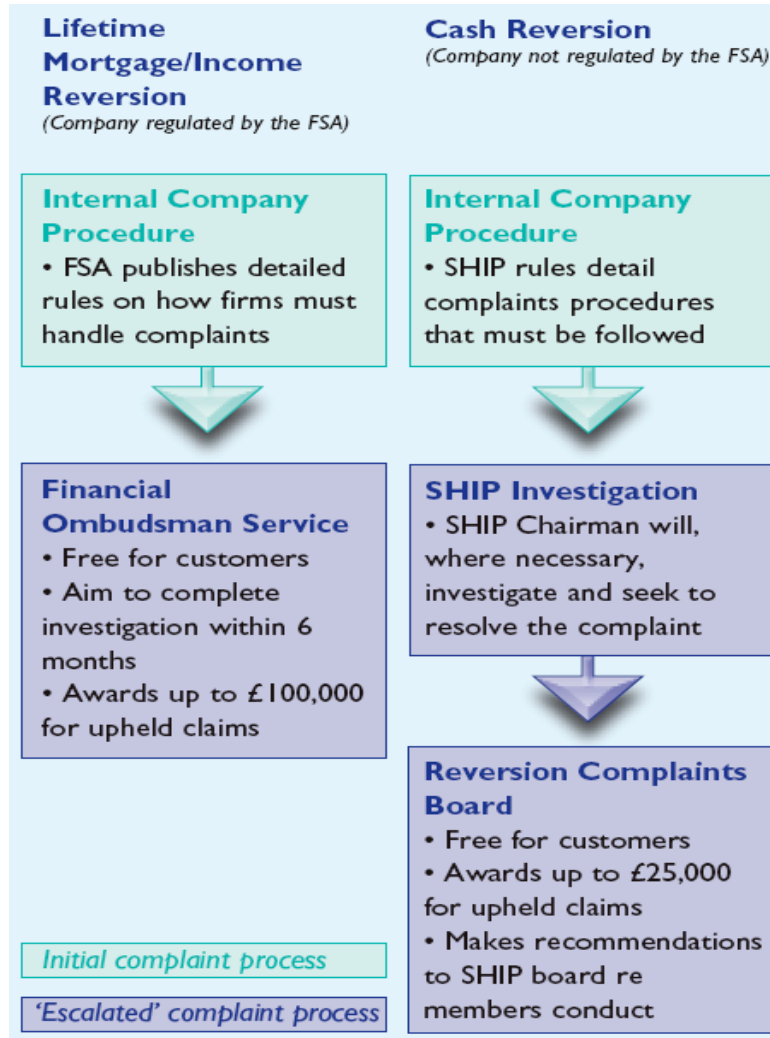
lending members are also regulated by the FSA. In the case of dissatisfaction with the results of an inquest, it would be possible for the plaintiff, if the firm that was the object of the complaint was regulated by the FSA, to refer his complaint to the ombudsman of Financial Services. If the firm was not FSA-regulated, the complaint would come before the president of SHIP, who, following an inquest, would work with both parties to arrive at an acceptable solution for all. If a case should prove impossible to resolve, it would be referred to the *Reversions Complaints Board* (RCB). This independent bureau was specifically created by SHIP to deal with situations not covered by the FSA.<sup>25</sup>

*“The Reversions Complaints Board is a specific body, established by SHIP but independently run, specifically to resolve complaints in respect of Home Reversion Plans provided by SHIP members who are not regulated by the FSA. It is a self-regulatory body designed to offer further protection to plan holders in the interim period prior to Home Reversions becoming fully regulated. (Her Majesty’s Treasury announced its intention in May 2004 to regulate Home Reversion Plans – consultation about this is still ongoing).”<sup>26</sup>*

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<sup>25</sup> SHIP, Complaints Procedure. Online. <http://www.ship-ltd.org/complaints/index.shtml> (visited May 25, 2007).

<sup>26</sup> SHIP, Complaints Guidance for Equity Release Customers. Online. [http://www.ship-ltd.org/img/ship\\_complaints.pdf](http://www.ship-ltd.org/img/ship_complaints.pdf) (visited June 5, 2007).



Source : SHIP, Complaints Guidance for Equity Release Customers. Online. [http://www.ship-ltd.org/img/ship\\_complaints.pdf](http://www.ship-ltd.org/img/ship_complaints.pdf) (visited 5 June 2007)



## Consumer communications : advertising / information

In the United Kingdom, reverse mortgages and other products enabling access to home equity seem to be heavily promoted. « In the UK, a survey by the National Consumer Council reveals that 86% of persons aged 55 to 70 had heard of « equity release » products », but only « [...] 43% have confidence in the companies offering them.»<sup>27</sup>.

The lack of confidence revealed by consumers can be tied to the fact that legislated requirements of lending institutions, including the obligation to provide certain information to consumers, is simply not respected, as noted by the FSA itself :

*«International research shows that advice on equity release products is often inadequate. For instance, recent research by the Financial Services Authority (FSA) in the United Kingdom shows 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 of equity release.»<sup>28</sup>.*

## United States

The reverse mortgage market is growing in the US due to the aging population and rising housing costs, but also as a result of governmental regulation, designed to reassure consumers.

As we see in the majority of other developed nations, the American population is aging :

*«When the Baby-Boom generation begins turning age 65 in 2011, there will be a rapid growth in the number of persons 65 and over. [...] Between 1990 and 2020, the population age 65 to 74 would grow 74 percent under middle series projections, while the population under age 65 would increase only 24 percent.»<sup>29</sup>.*

Since the 1970s, American property values haven't ceased to escalate, with a particular growth spurt since 1990. «The median value of a home in the United States in 2000 was \$119,600, according to findings in Census 2000. This value represented an increase of 18 percent over the 1990 value of \$101,100, after adjusting for inflation.»<sup>30</sup>. More recently, in 2005, Ben S. Bernanke, Board president of the President's Economic Advisory Council declared, « House prices have risen by nearly 25 percent over the past two years. »<sup>31</sup>.

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<sup>27</sup> *Op. cit.* 24, p. 18.

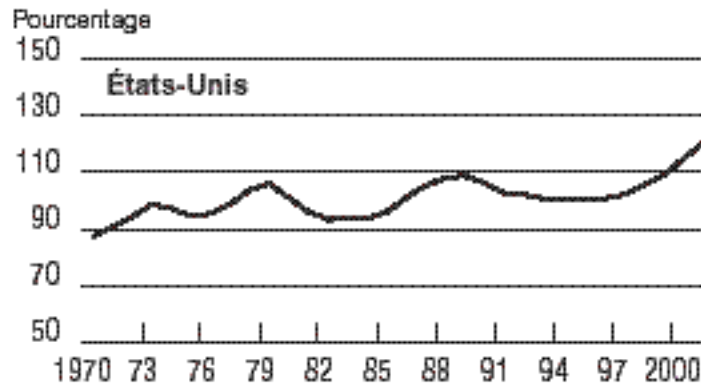
<sup>28</sup> Financial Services Authority. « FSA warns advisers that unsuitable equity release advice has got to stop », FSA Media release. 24 May 2005. Online.  
<http://www.fsa.gov.uk/pages/Library/Communication/PR/2005/055.shtml> (visited October 26, 2006).

<sup>29</sup> U.S. Bureau of the census. *Aging in the United States Past, Present, and Future*, 1997. Online.  
<http://www.census.gov/ipc/prod/97agewc.pdf> (visited November 16, 2006).

<sup>30</sup> Bennefield, Robert L. *Census 2000 Brief Home Values: 2000*, Mai 2003. Online.  
<http://www.census.gov/prod/2003pubs/c2kbr-20.pdf> (visited November 16, 2006).

<sup>31</sup> Bernanke, Ben S. Council of economic advisers, October 20, 2005. Online.  
<http://www.whitehouse.gov/cea/econ-outlook20051020.html> (visited May 28, 2007)

### Evolution of US housing prices, 1970-2001



Source : Revue économique de l'OCDE n° 35, 2002/2

### American reverse mortgage offerings

American reverse mortgages differ very little from their counterparts elsewhere. Loans are available to people 62 years and older and can range from 20-60% of the property's value. The reverse mortgage can only be secured by a principal residence. The property must be mortgage-free or nearly paid off. In the US, the three payment models are available (lump sum, credit line, scheduled payments). Contracts require the owner to maintain his home, insure it and pay taxes. The owner may not abandon or donate his property. The largest reverse mortgage programme in the US is *the Home Equity Conversion Mortgage Plan*, holding 90% of marketshare. Started by the government in 1989, it is offered by roughly 150 lenders. Two other programmes are also prominent in the reverse mortgage market : *Home Keeper*, created in 1996 by Fannie Mae, and *Jumbo Cash Account*, offered by Financial Freedom

### Legal regulation

Several types of reverse mortgages have been offered in the US since the 1960s, but it was not until the late 1980s, when the government began to insure certain loans, that the reverse mortgage industry saw any substantial growth.<sup>32</sup>

*« Reverse mortgages were increasingly used in the past decade. Prior to 1990, there were only about 3,000 loans in the entire country; between 1990 and 1998, nearly 52,000 reverse mortgages were transacted. The commitment of the federal government, notably by securing loans, helped to increase their popularity. »*<sup>33</sup>

Today, reverse mortgage loans available in the US are subject to numerous regulations at the federal, state and auto-regulatory levels. There are special rules applying to the Home Equity Conversion Mortgage Plan (HECM), the primary American programme offering government-insured loans.

<sup>32</sup> Wong, Victor and Norma Paz-Garcia. « 'There's no place like home: The implications of reverse mortgages on seniors in California' 1999 », *Consumers Union of US*, August 1999. Online. <http://www.consumersunion.org/pdf/reverse.pdf> (visited February 5. 2007).

<sup>33</sup> Canada mortgage and housing agency. Reverse mortgage. <http://www.cmhc-schl.gc.ca/en/inpr/imhoaf/afhoid/fite/remo/index.cfm>

At the federal level, there are two laws applying specifically to reverse mortgages : *the National Housing Act* (USC 12,1701 and subsequent) and *the Truth in Lending Act* (USC 15,1601; 2000). The *National Housing Act* ensures access to independant financial counsel as a condition of eligibility for government issued loans. Certain topics, as required by law, must be discussed with the counselor. The law also requires that the government ensure the existence of a network of counselors.<sup>34</sup>

The *Truth in Lending Act* requires creditors to disclose the annual cost associated with the reverse mortgage, including the total fees, before signing a contract.<sup>35</sup> While this law contains provisions applying to all mortgage loans, the *National Housing Act* only applies to reverse mortgages insured by the federal government. Certain states have adopted laws which extend similar protection to mortgage loans not covered by the *National Housing Act*.

*« In the United States, two federal omnibus statutes contain provisions that regulate reverse mortgages. The National Housing Act requires reverse mortgage lenders who wish to qualify for mortgage insurance to provide enhanced disclosure and to grant certain ancillary rights to borrowers. The Truth in Lending Act contains a provision setting out a special regime for disclosing the cost of borrowing under a reverse mortgage. In addition, a number of American states have enacted legislation that extends obligations similar to those found in the National Housing Act to uninsured reverse mortgages and that builds on the disclosure provisions in the Truth in Lending Act.»<sup>36</sup>*

The American government insures all reverse mortgages transacted under the rules of the Home Equity Conversion Mortgage Plan, created in 1989 by the department of Housing and Urban Development (HUD). This insurance arms consumers against being forced from their homes in cases where accumulated interest causes the loan debt to exceed the property's value, the property is devalued, or the homeowner outlives the projected loan period. The borrower is also insured against lender bankruptcy. The Federal Housing Administration (FHA), subject to HUD, has established insurance coverage against the risk of debt exceeding property value; the insurance fee is paid to HUD by the borrower. There is also a cap on administrative fees.<sup>37</sup>

*« As long as he occupies his home, the beneficiary has nothing to repay, even if the amount of income exceeds the property value as initially negotiated. It is the condition 'sine qua non' for a successful loan of this type. The account is reconciled at his death or if he decides to move. The property is then sold. If the selling price is greater than the amount due, the difference is reimbursed to the borrower or his heirs. In any case, the HECM has nothing to lose : the head of the Housing department authorizes [the HECM] to transfer the file to the FHA (Federal Housing Administration) as soon as the debt reaches 98% of the loan maximum. The FHA buys the loan back from the lender and commits to honour the terms. The FHA makes payments due and takes on any eventual financial loss.»<sup>38</sup>*

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<sup>34</sup> *Op. cit.* 4, p. 21.

<sup>35</sup> *Op. cit.* 21, pp. 24-27.

<sup>36</sup> *Op. cit.* 4 p. 15.

<sup>37</sup> *Op. cit.* 24, p. 55.

<sup>38</sup> Mousli, Marc. « Vieillissements et logement Enjeux et nouvelles tendances à l'horizon 2030 », *Cahiers du Lipsor*, Série Recherche, no. 8, 2007, p. 70, Online.  
<http://www.cnam.fr/lipsor/UserFiles/File/Vieillissementset.pdf> (visited April 20, 2007).

Across the country, roughly 150 lenders, banks, cooperatives, mortgage companies and savings and loans institutions participate in this programme.<sup>39</sup>

HECM programme regulations state that :

- Lenders may not change the interest rate more than one time per year (relative to prime interest rates dictated by the Treasury). Any change may not exceed 2 percentage points per year or 5 percentage points over the life of the loan ;
- Borrowers must get independent advice before signing the reverse mortgage contract ;
- Lenders may not impose penalties on prepayment or cancellation of the loan.<sup>40</sup>

American reverse mortgage providers formed an association in 1997, the National Reverse Mortgage Lenders Association (NRMLA) who established a code of conduct and best practices aimed at ensuring consumers of just, ethical and respectable treatment<sup>41</sup>. The NRMLA code of conduct requires its members to adhere to the following :

- Treat clients with respect and dignity
- Protect the privacy and confidentiality of client information and not share personal financial information with any third party without the client's express permission ;
- Encourage clients to discuss the loan with family members and/or anyone who might counsel them ;
- Inform clients, at no charge, about all available reverse mortgage programmes and assist them in their choice that is most appropriate to their needs ;
- Clearly identify all costs associated with the product when estimating the potential benefits ;
- Take all reasonable measures to analyze a third party before accepting references on his behalf ; refuse to accept references judged unacceptable. Inform the client of any eventual financial interest in the transaction by a third party.
- Not to lead a client to believe that he must purchase another product or service offered by the lending company or any other company in order to obtain the reverse mortgage ;
- Pay to the client all sums agreed to, with the exception of an amount retained to cover an existing debt, property tax or insurance payment ;
- Employ staff whose references have been verified and with a reputation for irreproachable moral character ;
- Report any violation or suspected violation of the code of conduct to the NRMLA and cooperate in any inquiry ;
- Make all necessary efforts to assuage client anxiety about reverse mortgage transactions;
- Handle loan procedures in accordance with regulations in effect.<sup>42</sup>

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<sup>39</sup> *Op. cit.* 33.

<sup>40</sup> *Op. cit.* 21, p. 25.

<sup>41</sup> Reverse Mortgage.org, National Reverse Mortgage Lenders Association, Washington DC, USA, Online <http://www.reversemortgage.org>, (visited October 19, 2006).

<sup>42</sup> Office for Senior Citizens. *Public Consultation on "Home Equity Conversion" Schemes*. Novembre 2006. pp. 20-21. Online. [www.osc.govt.nz/documents/hec/hec-public-discussion-document.doc](http://www.osc.govt.nz/documents/hec/hec-public-discussion-document.doc) (visited November 17, 2006)

## Handling of complaints

Unlike the English association of reverse mortgage providers, the American association does not deal with complaint procedures. Complaints about reverse mortgages may be lodged with the State Prosecutor's office of the appropriate state as well as with the Federal Trade Commission (FTC).<sup>43</sup>

## Consumer communications : advertising / information

In the US, reverse mortgages are strongly promoted: «[...] in the US, greater recognition of these products, following lender promotion, seems to have played an important role [in market growth].»<sup>44</sup>

American providers don't hold back when promoting the product. Typical American reverse mortgage promotions inform us that :

- *FHA/HUD HECM: A federally-insured program.*
- *TAX-FREE lifetime income.*
- *NO REPAYMENT as long as the house is your primary residence.*
- *You must be 62 or older.*
- *NO credit and NO income requirements.*
- *Receive CASH, CREDIT-LINE, LIFETIME INCOME - or a combination.*
- *Use the funds for anything you want.*
- *No debt can ever pass to your heirs.*
- *RETAIN FULL OWNERSHIP.*
- *Fast courteous service - confidential.*<sup>45</sup>

Promotion of reverse mortgages is crucial because it is often the first information to reach the consumer. However, information promoted by providers are sometimes biased, notably neglecting to inform borrowers about potentially negative aspects of the product. On the other hand, there are several governmental websites and providers who offer consumers FAQ (Frequently Asked Questions) on the subject of reverse mortgages.<sup>46</sup> These sites offer a wide variety of information for consumers looking at this type of loan. Relatively complete information is provided, with at minimum the fact that reverse mortgages are not for everyone and should be carefully analyzed in consideration of the consumer's particular financial scenario before a choice is made.

## Australia

In recent years, a large gamme of products have developed in Australia, permitting consumers to obtain financing in exchange for equity in their property. Among these new products is the reverse mortgage. Like elsewhere, the rapid growth of the reverse mortgage market is in

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<sup>43</sup> Debt-Elimination-Program-Reviews.com. Reverse Mortgages, 4 Things You Must Know, Learn How To Get The Best Reverse Mortgages Available For You!. Online. <http://www.debt-elimination-program-reviews.com/reverse-mortgages.html> (visted June 4, 2007).

<sup>44</sup> *Op. cit.*, 24 p. 15.

<sup>45</sup> Florida Reverse Mortgage. <http://www.wisebird.com/> (visited November 16, 2006).

<sup>46</sup> For example, see: <http://www.financialfreedom.com/ReverseMortgage/FAQs/> or: [http://www.rtgconsultants.com/reverse\\_mortgage\\_questions.html](http://www.rtgconsultants.com/reverse_mortgage_questions.html)

response to economic and social change : namely, an aging population and high property values.

Demographically, like the rest of the West, the Australian population is aging :

*«The population aged 65 years and over is projected to increase from 2.5 million in 2002, to between 6.1 and 11.7 million in 2101. As a proportion of the population, this is an increase from 13% to between 29% and 32%. [...] The highest projected growth rates overall are among the population aged 85 years and over, which is projected to increase from 1% of the total population to between 7% and 11% over the projection period. (2002-2101)».*<sup>47</sup>

Like elsewhere, senior income levels in Australia are projected to be inadequate in retirement :

*«[...] the Australian Bureau of Statistics estimates that by 2031 approximately 21% of Australia's population will be aged 65 years or older (a dramatic increase from 8.5% in 1961) and a number of commentators have expressed concerns that these older Australians will not have enough funds to meet their needs in retirement.»*<sup>48</sup>

The Australian Bureau of Statistics estimated in 1996 that 89% of Australian couples and 72% of singles over 65 years would keep their home.<sup>49</sup>

In the past few years, the Australian real estate market has experienced a sharp rise in housing prices : from June 2005 until June 2006, home values increased by 6.4%. In the same year, with the exception of Sydney, where property values decreased slightly (-0.5%), major Australian cities all saw real estate values increase : Perth (+35.4%), Darwin (+18.7%), Hobart (+7.4%), Adelaide (+7.3%), Canberra (+6.7%), Melbourne (+5.5%) and Brisbane (+4.5%).<sup>50</sup>

These factors suggest growth in the reverse mortgage market. And in fact, the numbers show product interest :

*« [in Australia in the twelve months from March 2004 to March 2005] There has also been an increase from three to at least 15 reverse mortgage products — currently the most popular equity release products in Australia. Whilst remaining only a tiny fraction of total consumer lending, the reverse mortgage sector has grown significantly in the 12 months to March 2005, going from \$468 million to \$770 million, with 8,899 new loans provided.»*<sup>51</sup>

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<sup>47</sup> Australian Bureau of Statistics. *Scenarios for Australia's aging population*, May 16, 2006. Online. <http://www.abs.gov.au/Ausstats/abs@.nsf/0/95560b5d7449b135ca256e9e001fd879?OpenDocument> (visited October 26, 2006).

<sup>48</sup> *Op. cit.*, 21 p. 13.

<sup>49</sup> Australian Bureau of Statistics. *Australian Social Trends 1996 – Housing – Housing Arrangements: Housing for older people*, March 2006. Online. <http://www.abs.gov.au/ausstats/abs@.nsf/2f762f95845417aeca25706c00834efa/810637dd6d45d81dca2570ec0073f133!OpenDocument> (visited October 30, 2006)

<sup>50</sup> Australian Bureau of Statistics. *House Price Indexes: Eight Capital Cities*, June 2006, Online. <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6416.0Main+Features1Jun%202006?OpenDocument> (visited October 30, 2006).

<sup>51</sup> *Op. cit.* 21, pp. 4-5.

In 2006, the reverse mortgage market experienced 165% growth over the preceding year.<sup>52</sup> And this enthusiasm isn't about to slow down : «*Although some consider that reverse mortgages will always be a niche product, a recent industry report estimates that the potential opportunity market for the product could increase to \$12 to \$15 billion by 2010.*»<sup>53</sup>.

### Reverse mortgage offerings in Australia

In Australia, reverse mortgages are offered to people over 55 years of age who own or have a negligible balance remaining on their home. Loan amounts generally vary from 20-40% of the property's value. Certain products permit borrowers to make payments before the loan term while others offer the option of transferring the loan to another property. While terms may vary, the majority of contracts require that the client maintain property insurance; pay taxes; retain ownership as agreed to in the contract; not leave the property vacant for long periods (6-12 months depending upon the contract); not sublease without prior consent from the lender; and that they neither sell or renovate the property without prior consent from the lender. The creditor employs numerous means of protecting his interest in the transaction, but what about the consumer?<sup>54</sup>

### Legal regulation

The current regulations in place in Australia were not created to respond to the specific needs of the reverse mortgage market. Two laws do affect this market, however : the *Uniform Consumer Credit Code* (UCCC) and the 2001 *Corporations Act* (Corporations Act C2007C00319).

The UCCC was adopted in the mid-1990s to respond to difficulties arising with traditional credit products requiring regular payments and to standardize credit practices in Australia. Administered by the state and territorial governments, the UCCC regulates advertising and pre-contractual conduct as well as what credit contracts must communicate :

- the details of the proposed credit ;
- the way in which interest is calculated and when it is charged ;
- fees and charges that must be paid ;
- interest charged for default of payment and how it is calculated ;
- details about commissions that might be charged ;
- the option of reopening a transaction if it was unfairly processed;
- the existence of provisions for renegotiating payment terms if the client is faced with financial hardship ;
- the obligation of the creditor to give notice before repossessing the credit .

The *Uniform Consumer Credit Code* was not conceived with products like the reverse mortgage – which does not require a regular payment from the borrower – in mind. Accordingly, it does not obligate the lender to disclose product risks nor does it contain any mechanism that obligates the lender to divulge all related costs. This legislation does not contain protection against risks specific to the reverse mortgage (for example, rules that apply if the mortgaged

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<sup>52</sup> Financial Planning. *Saints or sinners: reverse mortgages* March 11, 2006. Online. <http://www.moneymanagement.com.au/articles/64/0c03cf64.asp?type=fpa> (visited November 1st, 2006).

<sup>53</sup> *Op. cit.* 21, p. 13.

<sup>54</sup> *Ibid*, p. 16.

home is devalued). Finally, the UCCC does not apply to cases where loan funds are sought for investment purposes.

The 2001 *Corporations Act* covers both financial product providers and intermediaries or counselors from the financial services/products sector. The Financial Services Regulation (FSR), established under the *Corporations Act*, requires that financial service providers :

- are licenced and continue to meet licencing criteria ;
- do everything possible to provide efficient, honest and fair services ;
- manage conflicts of interest ;
- offer free access to internal or exterior ASIC (Australian Securities & Investments Commission) service to resolve any conflicts ;
- be appropriately qualified and competent ;
- ensure that representatives are adequately trained and competent to provide the services offered ;
- ensure a quality of service that takes into consideration the particular needs and situation of the individual;

Most financial consultants advising on reverse mortgages are subject to the FSR, however, a large number of reverse mortgages on the market are offered by loan brokers, who are generally not. In several states, mortgage brokers do not have to meet any standards when providing counsel. Unlike financial counselors, mortgage brokers are not required to have any specialized training and are not required by law to demonstrate a minimum of competence. A survey of 290 mortgage brokers revealed that they considered the amount of the commission the most important factor when counseling a consumer about a product.

As in Great Britain and the US, reverse mortgage providers are members of an association : the Senior Australians Equity Release Association of Providers (SEQUAL). SEQUAL established a code of conduct that requires its members to join an external conflict resolution group approved by the ASIC. The code of conduct demands that members :

- ensure that all products carry a clearly defined and transparent non-recourse guarantee ;
- clearly and precisely point out to consumers all of the costs associated with the transaction ;
- fully disclose the integral costs, including illustration of the loan's effect on the property's future value, the interest rates, and the capitalization of loan interests ;
- ensure that all clients receive independant legal advice ;
- ensure that all written loan transactions meet UCCC standards.

### **Handling of complaints**

SEQUAL requires members to provide a process for dealing with complaints. If a borrower lodges a complaint, he must first attempt to arrive at a solution dealing directly with the SEQUAL member. All SEQUAL members must employ conflict resolution procedures approved by the ASIC and must respond to consumer demands in a timely fashion. If the consumer feels that the problem has not been satisfactorily resolved, industry organizations like *the Banking and Financial Ombudsman* and the *Credit Ombudsman Service* may offer their support to resolve an exceptionally difficult situation.<sup>55</sup>

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<sup>55</sup> SEQUAL, Complaint Procedures. Online. <http://www.sequal.com.au/content/view/22/41/> (visited May 30, 2007).



For the time being, SEQUAL does not cover the entire reverse mortgage market, which are also offered by banks and specialized companies.<sup>56</sup> Currently, only eleven reverse mortgage providers are organizational members.

### **Consumer communications : advertising / information**

In Australia, organizations like the ASIC and SEQUAL are energetic supporters of greater accessibility to independent legal and financial counsel for consumers prior to the signing of the loan contract; at present, it is not easy for the consumer to find information. On the contrary, according to the *Australian Consumers' Association* (ACA), numerous legal firms, advise their staff not to offer counsel on the subject of reverse mortgages due to the product's complexity and the potential difficulties that may arise.<sup>57</sup>

For now, the *Australian Securities & Investments Commission* recommends that consumers are provided with as much information as possible before entering into a reverse mortgage contract.

## **Canada**

When compared to British or American markets, the Canadian reverse mortgage market is in its infancy. Irregardless, it seems likely that the situation is changing. Canada possesses two factors that are considered essential to the development of this product's market : an aging population and rising property values.

### *Aging population*

In 2005, 17.7% (more than 5.5 million) Canadians were aged 60 or over<sup>58</sup>. In the coming years, the Canadian population will continue to age. According to demographic projections, in about ten years, there will be more seniors than children. Starting in 2011, when the first baby-boomers will reach 65 years old, the process will accelerate. Subsequently, accelerated growth of the aging population will continue until 2031, when those 65 or older will represent 23-25% of the total population, comparative with 13% in 2005.<sup>59</sup>

### *Rising property values*

In general, property values have markedly increased in Canada since 1970.

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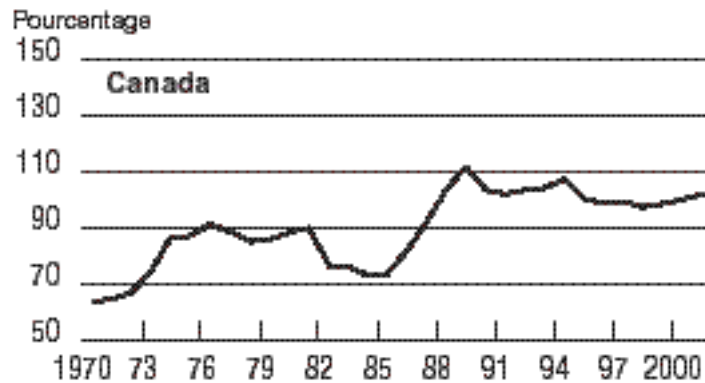
<sup>56</sup> *Ibid*, pp. 41-45.

<sup>57</sup> *Ibid*.

<sup>58</sup> Statistics Canada. *Population estimates and projections, Population by sex and age group*. Online. <http://www40.statcan.ca/l01/cst01/demo10a.htm>. (visited February 12, 2007).

<sup>59</sup> Statistics Canada. «Popular projections», *The Daily*, December 15, 2005. Online. <http://www.statcan.ca/Daily/English/051215/d051215b.htm> (visited November 2, 2006).

### Evolution of housing prices, 1970-2001



Source : Revue économique de l'OCDE n° 35, 2002/2

This growth has continued in recent years :

*«According to CIGM [Chambre immobilière du Grand Montréal] statistics, in September 2006, the average value of single-family housing was \$221,000, a 8% increase over September 2005. During the first nine months of 2006, the price of an average single-family home was \$215,000, an increase of 7% over the price of \$201,000 in 2005.»<sup>60</sup>*

Throughout the rest of Canada, the trend is similar despite regional and urban differences.

On average, older Canadians' homes represent 80% of their fixed assets.<sup>61</sup> According to Industry Canada, in 1999, homes represented 42.3% of Canadians' total assets.<sup>62</sup> In 1997, 84% of families with a senior head-of-household and 50% of single seniors owned their home. In addition, 84% of families with a senior head-of-household and 89% of single seniors had paid off their mortgage.<sup>63</sup> These fixed assets could certainly be used to generate income at retirement.

*« Last year, a Decima Research survey revealed that slightly more than half of baby-boomers in the country are counting on their home as a source of retirement income. This may be due to necessity rather than by choice because, according to Statistics Canada, this generation is not wealthy. Only three-fourths of persons aged 55 to 64*

<sup>60</sup> Picard, Pierre. «La vigueur du marché immobilier se confirme», *Les Affaires.com*, October 5, 2006. Online. [http://www.lesaffaires.com/fr/aujourd'hui/detail.asp?id=242181&id\\_section=808&Recherche=1](http://www.lesaffaires.com/fr/aujourd'hui/detail.asp?id=242181&id_section=808&Recherche=1) (visited November 3, 2006).

<sup>61</sup> CBWNEWS. CBC Marketplace : Your Home » Mortgages. April 11, 2000. 'Reverse mortgages' explained. Online. <http://www.cbc.ca/consumers/market/files/home/reversemortgage/index.html> (visited February 14, 2006)

<sup>62</sup> Canada Industry. Canada Office of consumer affairs, *The Consumer Trends Report*, Chapter 6 - Consumer asset, May 2006. Online. <http://strategis.ic.gc.ca/epic/site/oca-bc.nsf/en/ca02108e.html> (visited January 10, 2007)

<sup>63</sup> Conseil consultatif national sur le troisième âge. *1999 et après Les défis d'une société canadienne vieillissante*, p. 64. Online. <http://dsp-psd.communication.gc.ca/Collection/H88-3-28-1999F.pdf> (visited 9 November 2006.)

*have a Registered Retirement Savings Plan (RRSP) and the average size of these plans is at best \$60,000. If life is a feast, this is hardly enough for a mouthful. »<sup>64</sup>*

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<sup>64</sup> Rickard, Andrew. « En marche arrière », *Management Mag*, [http://www.managementmag.com/index.cfm/ci\\_id/3092/la\\_id/2.htm](http://www.managementmag.com/index.cfm/ci_id/3092/la_id/2.htm) (visited April 20, 2007).

**Canadian reverse mortgage offerings : Canadian Home Income Plan**

Created in 1986, the Canadian Home Income Plan (CHIP), a branch of the Home Equity Income Trust (HOMEQ) is the principal provider of reverse mortgages to Canadian seniors.<sup>65</sup> Demand for the programme continues to grow.

*« Home Equity Income Trust announced that it has agreed to more than 30 million dollars in new loan funding for the third trimester of 2006, an increase of 26.7% over last year. In the latest financial statements, the direction foresees continued benefits from the growing number of seniors and their desire to remain in their homes as long as possible. »*<sup>66</sup>

The CHIP offers reverse mortgages to those aged 60 or more, slightly younger than the US or Great Britain, where applicants must generally be at least 62 year old. On October 31, 2002, the organization counted 2,458 reverse mortgages with a value of 187 million dollars.<sup>67</sup> Today, this number is more than 1.4 billion dollars and 6,200 residential reverse mortgages<sup>68</sup>. While the market for reverse mortgages continues to grow, it has not experienced a major leap, with the number of annual loans remaining relatively stable since 1999.

**Number of reverse mortgages transacted in Canada between 1990 and 2003**

Year	Number of new loans	Amount of new loans (millions of Canadian dollars)
1990	23	1,1
1991	78	5,6
1992	122	9,8
1993	191	13,4
1994	161	11,7
1995	299	18,7
1996	323	21,6
1997	598	36,2
1998	967	47,6
1999	1216	52,6
2000	1456	63,6
2001	1212	63,7
2002	approx. 1200	76,5
2003	approx. 1200	76,9

Source : Nicholas Jachiet, Jacques Friggit, Claude Taffin and Bernard Vorms, *Rapport sur le prêt viager hypothécaire et la mobilisation de l'actif résidentiel des personnes âgées*, June 2004. p. 60.

<sup>65</sup> In Canada, other programmes similar to the CHIP exist, notably : *Home Fund of Credit Reverse Mortgages*, offered by the *Credit Union Central of Ontario* and fixed monthly loan advances offered Trust Royal. References to these products being rare, the CHIP was used as a model for purposes of our study.

<sup>66</sup> *Op. cit.*, 64.

<sup>67</sup> *Op.cit.* 2, p. 7.

<sup>68</sup> CHIP, Canadian Home Income Plan. Online <http://www.chip.ca> (visited february 14, 2006).

Numerous financial institutions (chartered banks, credit co-ops, mortgage brokers, stockbrokers and financial planning firms) act as referrers and aid clients interested in a reverse mortgage. Certain financial institutions also offer the product in partnership with the CHIP.<sup>69</sup>

The CHIP offers a loan worth 10-40% of the total value to owners of a high-value property that has been completely paid off, to be secured by the property. No monthly payment is required; interest accumulates on the initial capital.<sup>70</sup> Due to the compounded interest, in just a few years the initial capital – the property's value – can be impacted. At term, usually three years, the loan can be refinanced for an amount representing the sum of the initial capital plus accumulated interest. Repayment is not required until the property is transferred, with the CHIP reimbursed by the sale of the property open the owner's moving or his death.

The CHIP guarantees that the total reimbursable debt will not exceed the property value. If, at term, the total capital and accumulated interest would exceed property value, the CHIP assumes the difference and repayment is not required until property values match this total.<sup>71</sup>

At the borrower's request, interest rates offered by CHIP can be fixed or variable. The established interest rate will depend upon the length of the loan : on May 31, 2007, it was 8.25% pour a 6-month loan and 8.9% for a 5-year loan.<sup>72</sup>

It is difficult, if not impossible, to calculate with certainty the average negative equity impact that will occur during the duration of a reverse mortgage, since some of the variables are subject to change : what will the interest rate be in five years, fifteen years, etc.? What will the rate of appreciation (or depreciation) on the property be during these same periods, knowing that :

*« Home appreciation is one of the most difficult economic indicators to calculate. The price of a home can be vastly different from that of a similar property a few blocks away. The timing of a sale and the unique characteristics of comparable homes can add up to big differences in appreciation. »*<sup>73</sup>

The fact that the product, as currently marketed, is not more popular today seems to confirm that it still presents characteristics that cause consumers to hesitate or opt out. Relatively expensive, the reverse mortgage remains for many a last resort. A good many seniors prefer to sell their own home, ask family members for financial aid, rent part of their home or ask their financial institution for a credit line or refinancing. Please note that the reverse mortgage is not available to everyone; besides the consumer's age and the amount of equity in his home, geographic constraints also apply. The uncertainty of the real estate market in some rural regions justify the lack of enthusiasm of private companies to offer this type of product.<sup>74</sup>

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<sup>69</sup> *Op. cit.* 33.

<sup>70</sup> CBC presented the case of a woman who participated in the programme at 62 years, whose home now belongs in majority to the creditor. CBCNEWS, CBC Marketplace : Your Home » Mortgages. *op. cit.* 57.

<sup>71</sup> Canadian Residential Revenue Programme, telephone conversation with customer service, June 12, 2007, 1-866-522-2447.

<sup>72</sup> These rates, taken from CHIP website on May 31, 2007, may change. CHIP, ABC's of CHIP. Online. <http://www.chip.ca/index.cfm?language=english&id=100> (visited May 31, 2007).

<sup>73</sup> News Observer. Home appreciation outdoes U.S. average, Online. <http://www.newsobserver.com/business/story/597570.html> (visited June 12, 2007).

<sup>74</sup> *Op. cit.* 2, pp. 8-9.

## Legal regulation

Contrary to what we see in the US, none of the reverse mortgage programmes available in Canada are insured by the government, nor are reverse mortgages regulated by specific federal legislation. However, in July 2005, the Canadian Senate discussed the factors surrounding reverse mortgages and mentioned an interest in having the Canadian Mortgage Society (CMS) focus on this financial product while the government continues to study the question. No development has been reported since<sup>75</sup>.

The growing popularity of the product has meanwhile led some provinces to begin preparing for eventual legislative regulation of reverse mortgages aimed at better controlling this industry, not only with regard to the product itself, but with regard to how it is marketed.<sup>76</sup>

Today, only Manitoba specifically regulates this type of loan. The Mortgage Act, adopted in 2001<sup>77</sup>, dictates rules relative to :

- A requirement to disclose information to borrowers in a standardized form ;
- A requirement to permit a period of reflection of seven days, beginning the day following the signing of required form, the signature attesting to receipt of the information;
- A requirement to recommend to borrowers that they seek independent legal and financial advice ;
- Administering of penalties for borrowers who do not respect the obligation to disclose any and all information required by law ;
- Competence from the government agency responsible for consumer questions (Consumers' Bureau) when investigating complaints about reverse mortgages. The agency may also act as mediator in cases concerning reverse mortgages ;
- Certain other consumer rights, such as reimbursing the loan without a penalty.<sup>78</sup>

In British Columbia, in 2005, the Canadian Centre for Elder Law Studies<sup>79</sup>, a division of the British Columbia Law Institute, published a report produced following a broad consultation on the reverse mortgage. The report recommended to the government to legislate this practice so that consumers could better evaluate the options offered to them. Since July 1, 2006, reverse mortgages are subject to part 5 of the Business Practices and Consumer Protection Act which confers additional protection to borrowers by giving them access to organized, systematic information about the loan they are preparing to sign. With this, borrowers should be able to compare the reverse mortgage with other financial products that may respond to their needs.<sup>80</sup>

*«Part 5 requires lenders to disclose all the fees they charge when they loan money or grant credit and allows consumers to directly compare different loans. It only applies to consumer credit, that is, credit to individuals for personal, family or household purposes,*

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<sup>75</sup> Senate debates, 1st Session, 38th Legislature, Volume 142, Number 83, July 18, 2005. Online. [http://www.parl.gc.ca/38/1/parlbus/chambus/senate/deb-e/083db\\_2005-07-18-E.htm?Language=E&Parl=38&Ses=1#46](http://www.parl.gc.ca/38/1/parlbus/chambus/senate/deb-e/083db_2005-07-18-E.htm?Language=E&Parl=38&Ses=1#46) (visited February 14, 2006).

<sup>76</sup> *Op. cit.* 33.

<sup>77</sup> Mortgage Act, C.C.S.M. c. M200. *Reverse Mortgage Regulation*, Manitoba. Reg. 65/2002. Online. <http://www.canlii.org/mb/laws/regu/2002r.65/20051114/whole.html> (visited 14 February 2006)

<sup>78</sup> *Op. cit.* 4, p. 16. Note that CHIP allows the possibility of reimbursing the capital and interest at any time. However, reimbursement during the first three years will incur fees.

<sup>79</sup> Organization specialized in elders rights.

<sup>80</sup> *Op. cit.* 4, p. 16.

*including mortgages and leasing consumer goods, and it does not apply to commercial borrowers and private lending arrangements, except where a loan broker is involved.»<sup>81</sup>*

In Ontario, a consultation was undertaken with the objective of reviewing the definition of the mortgage broker appearing in the *Mortgage Brokers Act (June 2004)*, in order to ensure better regulation of reverse mortgage sellers.<sup>82</sup>

*«In Ontario, reverse mortgages are not regulated. Borrowers are not required to estimate the total cost of the loan taking into consideration estimated life expectancy, increases in property value, and fluctuations in interest rate. Given the financial complexity involved coupled with the inability of some seniors to get other forms of income, the potential for abuse is considerable.»<sup>83</sup>*

### Handling of complaints

Being relatively new to Canada, the reverse mortgage has only generated a few complaints to the Financial Consumer Agency of Canada (FCAC).

*« CHIP applies principles similar to those in the code of conduct of SHIP in the UK ; transparency (legal and cost aspects of the loan), independant aid to the borrower, cap on the debt against property value. Created in 2001, the Financial Consumer Agency of Canada states that they have received only 12 requests about the 'reverse mortgage', and only 3 of these were complaints. »<sup>84</sup>*

The relationship of complaints to advertising is described by *Les normes canadiennes de la publicité* (NCP) in 1998, and makes mention of a complaint lodged against the Canadian Residential Revenue Programme :

*« **Description** : A newspaper ad giving information on the advantages of the reverse mortgage, but disguising the fact that it is an ad, as no advertiser is mentioned.*

***Complaint** : What looks like an article is in fact an advertisement.*

***Explanation**: Because of the layout, the look of the ad and the writing style, and also due to the absence of any advertiser identification, readers had the impression that the text was an article and not an ad published for commercial purposes. The Council came to the conclusion that the advertiser used means and a style that disguised his commercial intent, which is against Article 2 of the Code.»<sup>85</sup>*

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<sup>81</sup> Business Practices & Protection Authority. «Cost of Consumer Credit Disclosure Requirements Now in Force», *Information Bulletin*. En ligne. [http://www.bccpa.ca/Docs/2006-news-releases/060731\\_info\\_bulletin.pdf](http://www.bccpa.ca/Docs/2006-news-releases/060731_info_bulletin.pdf) (visited November 8, 2006).

<sup>82</sup> Minister of Finance. Improving the mortgage broker act : a consultation paper. Ontario. June 2004. Online. <http://www.fin.gov.on.ca/english/consultations/mortgagebrokers/consultation.html> (visited February 12, 2006).

<sup>83</sup> Housing Toronto Seniors. *Planning for the future*, 7 September 2006, p. 88. Online. [http://www.toronto.ca/seniors/pdf/seniorshousing06\\_4.pdf](http://www.toronto.ca/seniors/pdf/seniorshousing06_4.pdf) (visited November 8, 2006).

<sup>84</sup> *Op. cit.* 24, p. 61. We have attempted to get details on these complaints. The FCAC indicated that we should not rely on these statistics. (Telephone conversation with customer service, June 6, 2007, 1-866-461-2232).

<sup>85</sup> Advertising Standards Canada. 1999, *Ad Complaints Report*. Online. [http://www.adstandards.ca/en/standards/complaints\\_report/1999ReportE.pdf](http://www.adstandards.ca/en/standards/complaints_report/1999ReportE.pdf) (visited 30 May 2007).

In Manitoba, the only province to have established specific laws aimed at reverse mortgages, the Consumer's Bureau and any person authorized by the organization may « receive and investigate complaints regarding reverse mortgages » and « act as mediator in conflicts involving reverse mortgages. »<sup>86</sup>

For the rest of Canada, a consumer who wishes to lodge a complaint must address there local Consumer's Bureau. In Québec, a complaint may also be addressed to the Financial Markets Authority (FMA) if it oversees the organization with which the reverse mortgage is held.

### **Consumer communications : advertising / information**

The clientele for reverse mortgages is older and generally considered more vulnerable than average, notably due to isolation, health or simply age. The product offered to this vulnerable population is complex and expensive and must be fully explained to future borrowers. This indicates just how important it is to have credible advertising and complete, transparent information, made easily accessible by neutral parties.

The product is strongly supported by promotion, often in partnership with financial institutions, and frequently presented as the ideal solution for seniors who need to supplement their income.

*«[...] it is unlikely that a borrower who relies simply on promotional material will be able to make meaningful comparisons between reverse mortgages and other types of loans. Promotional material can be informative, up to a point. As with all types of advertising, though, it shows the product in its most favourable light and ignores its shortcomings.»<sup>87</sup>*

For the moment, although the product is well-publicized, it is still fairly unknown and continues to be subject to hesitation on the part of the public :

*« There is no doubt that seniors aren't very familiar with the idea of the reverse mortgage due to the fact that it is relatively new. In addition, it has been little-publicized to seniors by well-known, credible institutions. Finally, seniors may be reluctant to refinance something that they own and have paid for over years of work.»<sup>88</sup>*

Promotion for reverse mortgages generally mentions that the product is « not for everyone ». However, this could be justified simply by virtue of the age restrictions and conditions of property ownership. The related costs and other possible alternatives for increasing revenue are more often left unmentioned.

Reverse mortgages being relatively new, expensive and risky, we should expect a maximum of information to be readily available and that this information be credible and impartial. It is disturbing to note that the primary provider of this type of loan in Canada, and therefore the source that consumers are most likely to turn to, the Canadian Home Income Plan, has no information whatsoever about this product on its website<sup>89</sup>; neither about the pros or the cons.

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<sup>86</sup> The Legislative Assembly of Manitoba. The Mortgage Amendment Act. Online. <http://web2.gov.mb.ca/bills/37-2/b015e.php> (visited May 29, 2007).

<sup>87</sup> *Op. cit.* 4, p. 11.

<sup>88</sup> *Op. cit.* 2, p. 9.

<sup>89</sup> CHIP, organization website, Online, <http://www.chip.ca> (visited April 23, 2007).



Informations from impartial sources are rare. Financial institutions, who would seem to be a likely source of good information, offer some information online but quickly redirect consumers to the CHIP website.

Despite the importance to consumers of reliable information about all of the options for augmenting a lack of income, it is evident that both the information and warnings about the potential pitfalls are difficult to obtain.

Canada Mortgage and Housing (CMH) offers a fairly complete portal explaining the advantages and disadvantages of the product.<sup>90</sup> The Financial Consumer Agency of Canada (FCAC) has also prepared a document which briefly describes the reverse mortgage.<sup>91</sup>

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<sup>90</sup> *Op. cit.* 33.

<sup>91</sup> Financial Consumer Agency of Canada. Shopping Around for a Reversed Mortgage. Online. <http://www.fcac-acfc.gc.ca/eng/publications/TipSheets/PDFs/TSShopRMort-eng.pdf> (visited June 6, 2007).

## **SUPPLEMENTAL INCOME ALTERNATIVES FOR SENIORS**

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This chapter presents a critique of the alternative offered to seniors for supplementing a lack of income. The proposed methodology should allow for comparison of the advantages and disadvantages of reverse mortgages and other alternative means of increasing income.

In past years, in addition to traditional solutions (sale of property, sale of assets, rental of all or part of the property, return to part-time work, reduced expenses, etc.), different tools have been developed and offered to seniors to allow them to capitalize on their assets and build revenue. If the need for cash is motivated by insufficient revenue, it goes without saying that financial products requiring regular payments are not the solution. Seniors may, however, consider a personal loan, an equity line of credit, a traditional home mortgage or a reverse mortgage. We will analyze what each option implicates, its advantages and disadvantages.

### **Personal loan**

A personal loan is a loan from a financial institution for a specific project. Rates and terms vary from one institution to another.

#### **Advantages / disadvantages**

Personal loans offer rapid access to a fixed amount of money. On the other hand, they offer little flexibility and require fixed payments. Interest rates are generally higher than, say, a line of credit, but lower than those of a credit card.

### **Equity line of credit**

The equity line of credit is essentially a line of credit secured by the value of the borrower's property. The amount available is normally limited to 75% of the property value.<sup>92</sup>

#### **Advantages / disadvantages**

The flexibility of the equity line of credit makes it particularly appealing, as it is possible to repay it at the borrower's own pace and to freely access the full amount as needed. The balance on a regular mortgage can be integrated with an equity credit line. However, use of this product requires a certain discipline in order to ensure that the capital is repaid. While the interest rate on this type of loan is more advantageous than that of a personal loan, it fluctuates along with the prime rate. This type of loan requires an ability to deal with stress on the part of the borrower.<sup>93</sup>

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<sup>92</sup> Tison, Marc. « L'art de financer ses travaux de rénovation », La Presse, Montreal, Quebec, Canada, 10 May 2006. Online. <http://www.montoit.ca/renovation/articles/2006/05/10/3141-L'art+de+financer+ses+travaux+de+r%E9novation.html> (visited May 30, 2007).

<sup>93</sup> *Ibid.*

## Home mortgage or home refinance

A home mortgage is essentially a loan secured by real estate. This type of loan is often taken out in order to permit access to the property. The contract establishes regular payments. When a certain level of equity is reached, it is possible to refinance the property with a new loan that includes the original balance. With a home mortgage or refinance, a financial institution can offer up to 95% of the home's value; some even advertise these loans without requiring a downpayment. The interest rate may be fixed or variable.<sup>94</sup>

### Advantages / disadvantages

A loan or refinancing of a home offers the borrower the lowest interest rate of all the loan alternatives mentioned, sometimes lower than the rates applied to a line of credit. In addition, in certain cases, it is possible to extend the duration of the loan in order to reduce the monthly cost. On the negative side, the mortgage must be registered with a notary, which will incur a cost. Repayment terms are much less flexible than those for a line of credit.<sup>95</sup>

## Reverse mortgage

The reverse mortgage is also a real estate-secured loan. The amount can vary from 10-40% of the property value. The key characteristic of this type of loan is that the borrower is not required to make any payments as long as he occupies the property. The accumulated capital and interest are reimbursed to the lender when the property is transferred, either at its sale by the owner or at the owner's death.

### Advantages / disadvantages

For consumers who wish to stay in their homes and cannot afford to make the payments required by other types of loans, the reverse mortgage may be a way to increase their income. Like all other types of loans, it has its good and bad points.

Among the advantages to the reverse mortgage borrower, the following are notable :

- The owner may continue to occupy his home with the option of using loan funds as supplemental income;
- Income from a reverse mortgage is not taxable since it is an advance on future payment of the loan;
- Interests payed on the loan are tax-deductible if the loan is used to generate replacement income (ex. interest or dividends);
- The loan is not reimbursed by the borrower as long as he remains owner of the property. Repayment is required only at transfer of the home or upon the borrower's death;
- In the case of co-proprietorship by a couple, if one of the couple dies, the surviving partner continues to benefit from the programme until his death or until the property is sold;

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<sup>94</sup> *Ibid.*

<sup>95</sup> *Ibid.*

Finally, in Canada :

- The retirement pension and payments made by the Canada Pension Plan<sup>96</sup> (CPP) and the Québec Pension Plan (QPP) are not affected by money coming from a reverse mortgage.<sup>97</sup>

While it is uncontested that the reverse mortgage carries certain advantages for consumers, it also has its negatives :

- The many variables associated with the reverse mortgage and unrelated to the borrower make this a risky choice. The homeowner has no control over future trends in interest rates, inflation or other factors that affect property value. Higher interest rates or a devaluation of property values could rapidly increase the loan's value and reduce the borrower's equity;
- Unlike a conventional home mortgage, the value of the asset securing the loan is variable and increases over time. In light of the risk this brings to the lender, it would be nearly impossible for the owner to take out a second mortgage on the property, since his equity decreases, making the property virtually worthless;
- Entering into a reverse mortgage carries numerous costs : notary fees, property evaluation, etc.;
- The borrower will pay a higher interest rate than for a traditional mortgage;
- Maintenance costs, insurance and taxes remain the responsibility of the owner;
- A reverse mortgage means that the owner must accept that his capital will decrease, thus making it unavailable for other projects. His net fixed assets diminish over time as the debt grows. Careful financial planning is required to conserve as much capital as possible for as long as possible during retirement.<sup>98</sup>

Additionally,

- Since there are no regular payments to be made, interest is added to the loan balance and compounds for the duration of the loan. Because of this, the loan balance is susceptible to dramatic increase over time, sometimes exceeding the property value;<sup>99</sup>
- The amount to be reimbursed, in a single payment, may end up being much greater than the borrower had planned for. When the house sells and the loan must be paid, the borrower may not have enough money to purchase another property or cover the costs of a retirement home or transfer to a healthcare facility, etc.;
- Borrowers who use loan funds to purchase income investments should know that revenue from their investment will almost inevitably be less than the interest they will pay on the loan.<sup>100</sup>

Finally,

- Certain fees may be required in the case of prepayment of the loan;

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<sup>96</sup> Canada Pension Plan is the federal equivalent of provincial pension plans.

<sup>97</sup> *Op. cit.* 2, p. 6.

<sup>98</sup> Chiasson, Claude. « Vos placements : Les risques de l'hypothèque inversée », *Le Devoir*, December 20-21, 2003 Online. <http://www.ledevoir.com/2003/12/20/43404.html> (visited November 2, 2006)

<sup>99</sup> *Ibid.*

<sup>100</sup> *Op. cit.* 4, pp. 9-11.

- If the borrower expects to pass on money to his heirs, he may find available funds greatly reduced after entering into a reverse mortgage.<sup>101</sup>

Finally, other factors must also be taken into account and evaluated with regard to each particular situation :

- A homeowner entering into a reverse mortgage may use the funds as he wishes<sup>102</sup>;
- It is possible for the homeowner to rent his property for a short period of time and to transfer the reverse mortgage to another property if he moves.<sup>103</sup>

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<sup>101</sup> *Op. cit.* 9.

<sup>102</sup> *Ibid.*

<sup>103</sup> *Ibid.*

## **SURVEY RESULTS**

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Are consumers who enter into a reverse mortgage adequately informed as to the alternatives offered that could help them to supplement their income? What information is available? Does available information help consumers make enlightened choices? Are consumers well informed about the risks involved in the reverse mortgage? Are the advantages and disadvantages clearly explained?

In order to obtain responses to these questions, our research project prepared to survey 1,000 Canadians aged 60 and over, across Canada, to determine the needs and concerns of seniors with regard to the known available solutions to lack of income. The survey also sought to measure seniors' knowledge about the various options. Specifically, the survey sought to obtain clarification of :

- level of knowledge about reverse mortgages among the senior population;
- knowledge about availability and eligibility requirements for reverse mortgages;
- needs of aging homeowners;
- available solutions to the problem of insufficient income;
- importance of leaving something to heirs.

The survey results should enable us to give a picture of the knowledge held by seniors about the various options available, as well as to determine the need for information about supplemental income by the Canadian senior population.

This chapter presents the results of our survey.

### **Methodology**

Our project planned for surveying 1,000 people across Canada, homeowners aged 60 and over.

In order to reach the number of people required, we contacted various Canadian organizations and asked them to pass the survey on to their members or to post it on their website. Ten organizations were identified : the Québec Golden Age Federation (FADOQ), the Federation of Elder Franco-Albertans (FAFA), the Québec Association of Public and Para-Public Retirees (RIAQ), the Canadian Center for Elder Law Studies (CCELS), the Québec Elderly Information Network (RIAQ), the Québec Association of Retirees and Pre-retirees (AQDR), the Montréal Elderly Citizens Forum, 55net.com, the Federation of Canadian Elderly Francophones (FAAFC) and the Alberta Council on Aging. We also sent an invitation to participate to the approximately 10,000 members of the Consumer's Union.

In December 2006 we sent an invitation by email to ten organizations involved with the elderly, inviting their members to complete our survey. Sent with the invitation was a presentation of the research topic and a link to access the survey. In the two cases where we had a contact name, that person was contacted directly, by telephone or via email. One of these persons did not respond to our first attempt; subsequent phone and email follow up was repeated several times during December and January. Among the organizations contacted, four responded to us. A

reminder email was sent out in February and March 2007 to 6 organizations that did not respond.

We ended our outreach in March of 2007.

In all, three organizations (The Canadian Center for Elder Law Studies, the Québec Elderly Information Network and the Alberta Council on Aging) accepted to help us and distribute the survey to their members.

In addition to the 3 organizations whose members responded to our survey, members of the Consumer's Union also responded.

The survey was available online from December 5, 2006 until April 17, 2007.

During this period, only 366 people responded to our invitation to complete the online survey.

Our questionnaire contained 14 questions : 12 multiple-choice questions, of which six allowed the respondent to enter a choice that was not suggested, plus two open questions. To these 14 questions were added seven questions whose objective was to establish the socio-economic profile of the respondents. The questionnaire focused on the following topics :

- seniors' knowledge about reverse mortgages;
- methods used to communicate information about the reverse mortgage;
- what aspects of the product were best known;
- knowledge about advantages and disadvantages;
- knowledge about sources of supplemental income for seniors.

The invitations sent to individuals and the questionnaire used for the survey are reproduced, respectively, in Appendices 1 and 2. The invitations sent to organizations are reproduced in Appendix 3.

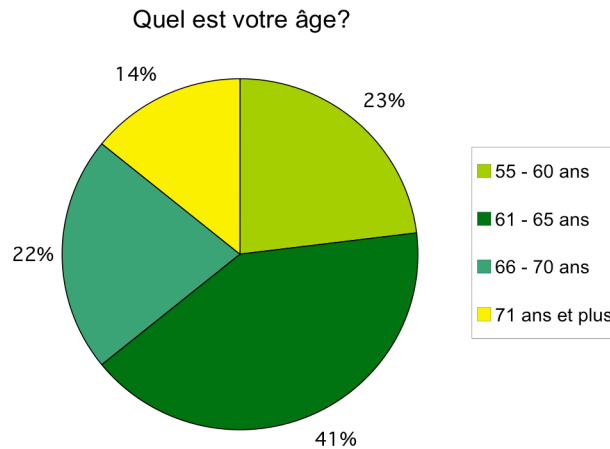
## **Samples**

Considering that our invitation was aiming for respondents 60 years and over, we agreed not to stray too far from this criteria when reviewing the responses. From the 366 responses received, we decided to remove any under the age of 55. We kept ten responses coming from people between the ages of 55-59 years. However, it must be noted that 126 responses did not indicate an age. We have assumed that these people responded to the age criteria at the beginning of the survey. Since our invitation was to homeowners, we also excluded those who indicated that they were renters. 91 of those responding did not answer the question concerning ownership of their home; we presumed that they responded to the ownership criteria at the start of the survey. These exclusions removed 14 respondents, leaving a total of 352.

The survey responses are reproduced in Appendix 4.

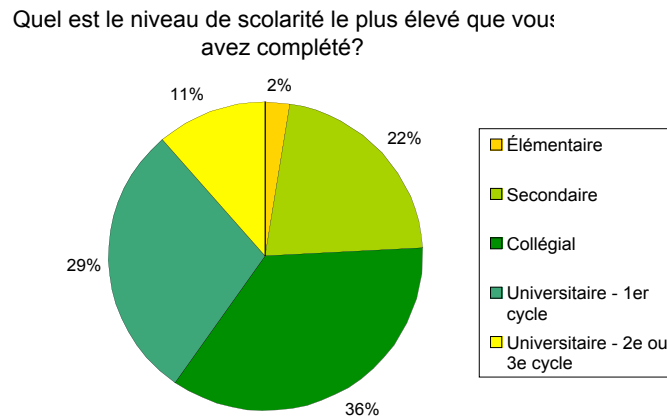
Among those who indicated their sex (242 respondents), we find a ratio of 33.1% woman (80) to 66.9% men (162 respondents).

Of the 226 people responding to the question about their age, we find 63% between 61 and 70 years, 23% between the ages of 55 and 60 and 14%5 over 70 years of age.



The majority of those responding, 53.2%, have no children. 12.6% have one child, 19.8% have two, 9% have three, 2.3% have four, 0.9% have five or more, and finally, 2.3% have more than 5. A total of 222 respondents answered this question.

Among the 244 respondents to the question about education, 2.4% completed primary school, 21.7% completed secondary school, 35.7% completed college and 40.2% completed university.



219 respondents answered the question about household income. The annual income varied considerably :

- 0.5% earn \$9,999 or less ;
- 3.2%, earn between \$10,000 and \$19,999;
- 8.7%, earn between \$20,000 and \$29,999;
- 15.1%, earn between \$30,000 and \$39,999;
- 20,1%, earn between \$40,000 and \$49,999;
- 13.7%, earn between \$50,000 and \$59,999;
- 10%, earn between \$60,000 and \$69,999;



- 11.4%, earn between \$70,000 and \$79,999;
- 4.6%, earn between \$80,000 and \$89,999;
- 7.3%, earn between \$90,000 and \$99,999;
- 5.5%, earn between \$100,000 or more

## Important considerations

The survey revealed that media publicity was somewhat successful; the targeted consumers were, by a large majority, aware of the product's existence, through the media. However, those who claimed not to be known much about it, or very little, represent more than three-fourths of our sampling.

While the size of the reverse mortgage loan is familiar to the majority of respondents and the methods of repayment known to many, it is not the same story for familiarity with the more negative aspects of the product, which were known by less than one-fourth of those responding : applicable interest rates, the effect of accumulated interest, associated costs (evaluation, notary, etc.), responsibility of the owner for taxes, and calculation of capital at term.

If they had to choose, more than twice those surveyed preferred sale over reverse mortgage, and half of the respondents say that the reverse mortgage would not be advantageous for them. One-fourth say that this method of increasing their income would be beneficial.

More than three-fourths of respondents say that information they've seen about the pros and cons were not clear enough or were incomplete.

Despite the fact that a small number of respondents say they would have more confidence in information provided by a consumer association than those provided by a financial institution, nearly two times as many would go to a financial institution to obtain that information.

Enfin, nous avons demandé aux répondants d'indiquer à quelle source de renseignements ils seraient le plus portés à faire confiance pour obtenir des renseignements. Parmi les choix offerts, 52,4% ont choisi les associations de consommateurs, 46,6% les institutions financières.

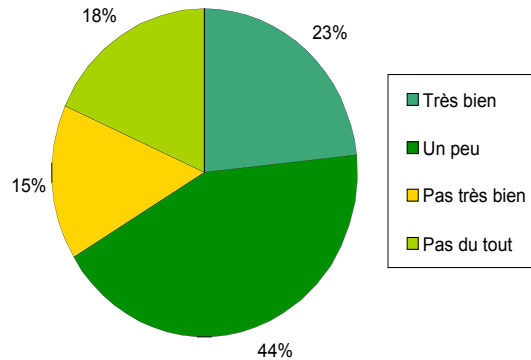
## Results

Presented here, in three sections, are the results of the survey : knowledge about reverse mortgages, usefulness/ease of access to the product, and need/ease of access to product information.

### Knowledge about the reverse mortgage

When we asked them if they are aware of the reverse mortgage (Question 1), a large majority said they were familiar with it; only 18% had never heard of it. Among those who knew of it, 23.3% said they knew it well and 43.2% said they knew little about. Overall, a total of 33.6% of respondents said they didn't know it well or not at all.

1. Savez-vous ce qu'est une hypothèque inversée?



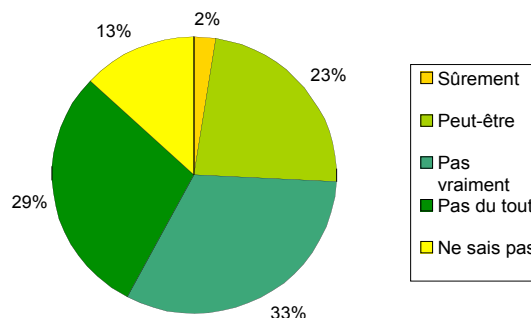
A large majority (78.9%) said that they had heard about reverse mortgages through the media (newspaper, television, Question 2). The other means of communications were : Internet for 13.8%, financial institutions for 13%, a financial planner for 4.9%, friends for 9.3% and family for 2.8% of those responding.

The following question (3) bears on the respondents' awareness of different characteristics of reverse mortgages. Among those listed, the element best known was the amount that might be available with a reverse mortgage : 57.2% knew this, followed by how this might affect inheritance (45.5%), methods of repayment (38.7%), eligibility requirements (36%), the effect of accumulated interest charges (23.4%), applicable interest rates (21.6%), associated costs (evaluation, notary, etc.; 21.2%), the institution's cap on debt load (21.2%), effect of interest on taxes (18%), the homeowner's responsibility with regard to tax payment (17.6%) and the calculation of capital at term (14.9%).

**Usefulness / desirability of the product**

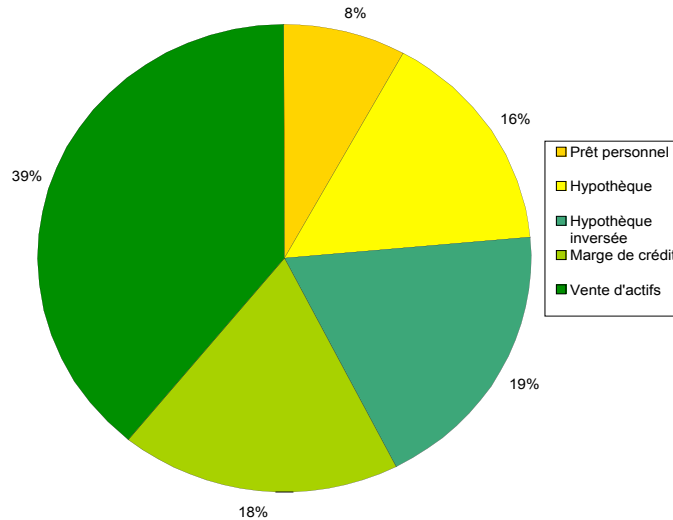
With respect to the information respondents had received about reverse mortgages, 32% consider that this method of obtaining funds would not be very advantageous; 29.1% say that it would not be at all advantageous. In all, 61.1% reject the product, in varying degrees, as a solution for increasing income. (Question 5)

5. Au vu des renseignements que vous avez obtenus sur les hypothèques inversées pensez-vous que cette façon d'obtenir des revenus pourrait être avantageux pour vous?



We asked respondents (Question 9) to choose which option would interest them the most among different potential sources of revenue (personal loan, mortgage, reverse mortgage, credit line, sale of assets). 39% chose sale of assets, 19.1% chose the reverse mortgage, 18.3% chose a line of credit, 15.5% chose mortgage and 8% chose a personal loan.

9. Si l'on vous proposait les solutions suivantes afin d'obtenir des revenus supplémentaires laquelle serait le plus susceptible de vous intéresser?



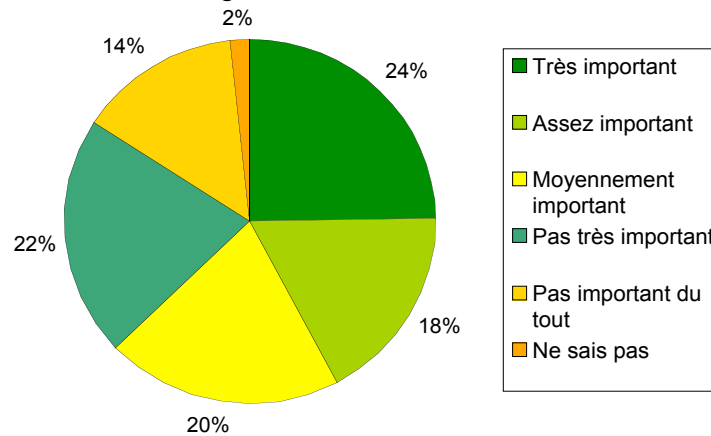
We also asked them what motivated them to choose one option over another (Question 10). We classified the 221 responses received by category. 33% justified their choice as economic (lower costs, lower interest rates, aversion to debt, etc.). 13% chose a particular option for its practicality (flexible payment, quick access to money, simplicity, possible extension to the loan, etc.). 9% responding said that they chose due to a desire to profit from their equity, while 3% felt it was important to leave something for their heirs. Finally, 42% of the responses could not be categorized; respondents did not know why or how to choose one option over another because they lacked the necessary information to effectively make a choice.

For 53.8% of those responding, supplementary income would be used to meet their regular financial needs, while for 36.4%, additional money would pay for projects. 9.8% didn't know how they would put additional income to use. (Question 11)

We asked participants what motivated their response to Question 14 and categorized the 235 responses.

Among the respondents, 42.3% judged that it was very or quite important for their home to go to their heirs. On the contrary, 56.1% indicated that they found it quite or moderately important that their property be left to their heirs. (Question 14)

14. Trouvez-vous important que l'immeuble que vous possédez fasse partie de l'héritage que vous comptez léguer?



### Need/desire for access to product information

For our question (4) regarding information provided about the advantages and disadvantages of the product, only 23% responding felt that this information was very or sufficiently clear. It is interesting to note that 15.2% of respondents said that the information they'd obtained did not specify the advantages of the product and that 19.7% remarked that the information they had access to did not mention the disadvantages.

We asked them, in Question 12, if they thought that additional information should be provided to them about the various options for augmenting their income (personal loan, mortgage, reverse mortgage, credit line, sale of assets). 10% thought that needed more information about personal loans, 26% wanted more information about mortgages, 28% wanted to know more about a line of credit, 47% needed more information about sale of assets. A full 79% responding said they needed more information about the reverse mortgage.

We asked those responding if they knew where to get additional information, if they wanted it (Question 6). Among the choices proposed, 68.8% said financial institutions, 34.4% said consumer associations, 30.9% said a professional (notary, broker, financial planner, etc.), 21.5% said the Internet, 6.9% said the government, 2.1% said their family and 0.3% said friends would be their source of choice.

Finally, we asked participants to indicate in which information source they would put the most trust (Question 7). Among the choices offered, 52.4% chose consumer associations, 46.6% chose financial institutions, 45.2% chose a professional (notary, broker, financial planner, etc.), 14% said the government, 11.3% said the Internet, 2.1% said family and 1.7% said friends.

## Limitations

It is important to note that our survey did not furnish conclusive results. While we proposed to survey 1000 participants, only 366 people opted to respond to our online questionnaire.

The rate of response to the questions we asked where respondents had the option to suggest other choices was very small, an average of 11.5% responses per question. The responses given did not provide us with any new information as they were already included among the choices provided. The first open question (Question 8), with 259 respondents did not provide responses that were not already provided in the following question. Only responses to the second open question (Question 10) were reported in survey results.

The rate of response to questions about the respondents' socio-economic status was relatively weak; about 100 people did not respond to these questions. We assume that those not responding met the criteria for age in the invitation and at the beginning of the survey.

We realized at the time of analyzing the results that the question about the number of children may have been confusing. The way that it was worded may have led some to believe that it referred to the number of children residing in the home. This question was designed to validate the change of attitudes mentioned by some writers and mortgage promoters with regard to leaving an inheritance. We had counted on making a connection between the response to this question and those to Question 14 (Do you consider important that your home be included in the inheritance you want to leave?). With doubts about the validity of responses to the question about children – 53.2% of respondents having claimed not to have children – we decided not to make this connection.

## Conclusion

If consumers are aware of the existence of the reverse mortgage, the information they have received has come primarily from media coverage. The reverse mortgage remains a product that people aren't sure about. If some aspects of the reverse mortgage remain little-known to potential borrowers, it seems appropriate that this is particularly true for those for whom the product would be disadvantageous and carry the greatest risk.

Despite the fact that more than three-fourths of the respondents say that the information they obtained was not clear or was incomplete, one-fourth of them say that this option for augmenting their income could be advantageous.

We need to ask ourselves if this number may be growing, as nearly one respondent out of eight mentioned a desire to obtain further information on the product.

If the desire by seniors to seek additional income is motivated by a financial need, rather than to undertake a project, which is the case for more than half of those responding, we can confirm that this product certainly might, on first sight, seem appealing, and that information about it must be accessible, impartial, clear and complete.

## CONCLUSIONS

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The goal of our research was to analyze the reverse mortgage market in order to understand how this product functions, to evaluate its advantages for the consumer, and to determine if current controls sufficiently ensure protection of those interested in it.

With a reverse mortgage, an eligible consumer, the homeowner who meets the age requirement, may contract to receive a loan in which the capital and interest is not reimbursed until the property is transferred; in addition, he may continue to live in the home.

*« The fixed assets of homes owned by elderly persons represents the greatest part of their lifetime equity and should continue its growth. They may wish to access this value to deal with unexpected expenses (eldercare, repairs, housing), to simply improve their daily lives, or perhaps to provide funds to their descendants. »<sup>104</sup>*

Canada, like most developed countries, already has in place many of the elements key to the development of a healthy market for reverse mortgages : an aging population, increased fixed assets and higher real estate prices, and reduced or inadequate elderly income. If fixed assets can garner revenue for those in need, especially those with insufficient income, without requiring a monthly payment, then we must admit that this option is an attractive one.

The reverse mortgage, still relatively marginal in Canada, is already well-established elsewhere. The U.S. and Great Britain, for example, have seen marked development of the reverse mortgage market and have put into place legislation that specifically controls this financial product.

In Canada, on the other hand (with the exception of Manitoba), we find no specific legal regulation at any level – federal or provincial – that will control reverse mortgage practices or that seeks to protect consumers against risks that are most likely to occur with this product. However, certain organizations have alerted consumers to the risks associated with reverse mortgages.

*«Overseas experience suggests that there is a risk of misselling and that consumers may receive poor advice. Whilst the products have clearly been designed to meet consumer needs, the products are complex and, if used inappropriately or with poor advice, there are significant risks for consumers.»<sup>105</sup>*

The reverse mortgage is a complex product. There is no doubt, considering what is at stake, that there is a need to present consumers with complete, impartial and clear information.

As our survey demonstrates, the majority of eligible consumers admit to knowing only about the positive aspects of the product – the amount that can be borrowed and the fact that no payments must be made until transfer of the property. Less advantageous aspects for the borrower were recognized by less than one-fourth of those surveyed : loan interest rates, associated costs (evaluation, notary, etc.), homeowner responsibilities such as taxes, the effect of accumulated interest charges and calculation of capital at term. The latter are obviously

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<sup>104</sup> *Op. cit.* 24, p. 2.

<sup>105</sup> *Op. cit.*, 21, p. 9.

essential to making an informed decision; before agreeing to a reverse mortgage consumers must understand, for example, that interest charges could leave their home worthless.

A financial writer in *Le Devoir* explains why the risks of reverse mortgages are cause for concern :

*« Limiting the number of variables is a golden rule of personal financial investment. (...) Financial products dreamed up by the often fertile imagination of financial institutions are frequently very complicated, thus introducing many variables. The reverse mortgage is one of these. (...) Conclusion : in signing for a reverse mortgage you risk feeding your home to the sharks of finance. »*<sup>106</sup>

Other countries have passed legislation to ensure that prior to engaging in a reverse mortgage contract, consumers have access to impartial financial council, in order to evaluate together whether or not the product is a good fit and will be beneficial. Legislators have also stepped in to make sure that the capital and accumulated interest will never exceed the value of the property. Specific control of the reverse mortgage is crucial, according to some.

*«But a key issue remains the regulatory framework – or lack of it. As ASIC noted, the existing system “was not designed to address the issues raised by equity release products, which take the form of a credit arrangement but nevertheless have some of the attributes of an investment product”. »*<sup>107</sup>

The results of our inquiry bring us to believe that before the product grows too popular, Canadian legislators should refer to existing controls in other countries, to ensure that this product, targeting a clientele likely to be susceptible to its appeal, is offered transparently; that consumers will have the right to adequate financial counsel before committing, and that there is no risk of the loan value growing to exceed that of the property by which it is secured.

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<sup>106</sup> Chiasson, Claude. «Donner sa maison en pâture aux requins de la finance», *Le Devoir*, 26-27 août 2006. Online. <http://www.ledevoir.com/2006/08/26/116809.html?296> (visited October 23, 2006)

<sup>107</sup> *Op. cit.* 52.

## RECOMMENDATIONS

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Considering that :

Canada possesses a financial climate favorable to the development of a market for reverse mortgages;

The target market is an elderly clientele, generally considered more vulnerable than average due to isolation/loneliness, poor health or simply age;

The reverse mortgage is a relatively new product, costly and risky;

The reverse mortgage is a complex product;

The reverse mortgage is a financial product that presents a high level of risk for the consumer;

Our survey of consumers demonstrates their general knowledge of the existence and positive aspects of this product and a lack of knowledge about the negative aspects and risks;

Consumers contracting for a reverse mortgage do so typically because they wish to continue living in their home;

Some legislators have deemed it necessary to control the reverse mortgage market, notably in order to ensure that complete and impartial information is provided to consumers interested in the product;

The Consumer's Union recommends that Canadian legislators, within their respective areas of competence, act to ensure that the promotion of reverse mortgages adequately informs consumers of the advantages and disadvantages of the product, notably :

- requiring establishments that offer the reverse mortgage to clearly divulge all of the positive and negative aspects of the product;
- require that an impartial financial counselor consult with the borrower prior to finalizing the contract;

The Consumer's Union recommends that legislators act to guarantee that :

- capital and accumulated interest over the duration of the loan will never exceed the value of the property with which it is secured;
- the reverse mortgage will never prematurely force the borrower from his home;



The Canadian reverse mortgage market grows over the coming years, driven by an aging population and increased housing values;

It is important that consumers be protected from the dangers of this high-risk financial product;

There is legislative precedent for specific control of reverse mortgages;

The Consumer's Union recommends that all Canadian provinces establish legislative controls specific to reverse mortgages that, as with the Manitoba legislation, include the following:

- a requirement to fully inform borrowers by means of a standard form ;
- a required period of reflection and the ability to withdraw from signing a contract without a fee ;
- a requirement to refer consumers to independent legal and financial counsel before signing ;
- to impose penalties for lenders not respecting the requirement to provide information or failing to uphold other legal provisions;
- provide the services of a government agency responsible for responding to consumer questions and complaints concerning reverse mortgages. The agency may also act as mediator relative to such complaints.
- additional consumer rights, such as reimbursements without penalties;

The transition to retirement usually involves adjusting to a reduction of income;

53.8% of those surveyed predict that funds they seek to supplement their income will be used to meet basic needs rather than to fund projects (36.4% );

It is very important to those experiencing a reduction of income to establish a budget that limits debt;

Not-for-profit organizations offer consumers free budgeting assistance;

Budget planning for seniors presents special challenges to those assisting them;

The Consumer's Union recommends :

- That all entities involved in promoting the product to seniors offer consumers budgeting assistance to be provided by a not-for-profit organization;
- that the government ensures sufficient funding to not-for-profit organizations to effectively meet the requirements of this clientele, to offer seniors budgeting assistance that is adapted to their needs and be fully able to respond to the demand for these services;

The Consumer's Union further recommends studies be conducted in order to find lasting solutions to combat insufficient income within the senior population. Consumer rights organizations must be invited to actively participate in elaborating these solutions and adequate funding provided to ensure their participation.

## MÉDIAGRAPHY

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## ANNEXE 1

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Bonjour

Vous recevez ce message de l'Union des consommateurs suite à une visite du site Internet au cours de laquelle vous avez laissé votre adresse de courriel

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### LE BULLETIN ÉLECTRONIQUE DE L'UNION DES CONSOMMATEURS

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#### **Aidez-nous!**

Sondage sur les hypothèques inversées

Si vous avez 60 ans ou plus, l'Union des consommateurs sollicite votre collaboration pour répondre à un court sondage sur le web au sujet des hypothèques inversées, dans le cadre d'un important projet de recherche financé par Industrie Canada qui cherche à évaluer si ce nouveau produit financier est avantageux pour les consommateurs. Ça ne vous prendra que quelques minutes...

<http://consommateur.qc.ca/union/sondage.htm>

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#### **Aidez-les!**

Sondage sur Vioxx, Celebrex et Bextra

Un groupe de recherche de l'UQAM sollicite aussi votre collaboration, cette fois pour un sondage destiné aux personnes qui consomment ou qui ont consommé des médicaments anti-inflammatoires. Si c'est votre cas, voyez le questionnaire à cette adresse:

<http://questionnaire.uqam.ca/anti>

Les résultats de ce sondage pourront nous être utiles dans le cadre de notre recours collectif sur Celebrex et dans le cadre de notre campagne contre la publicité des médicaments.

#### **Exprimez-vous!**

Campagne contre la publicité des médicaments d'ordonnance

Si vous ne l'avez pas encore fait, il n'est pas trop tard pour participer à la campagne que nous menons auprès des députés et du ministre de la Santé contre la publicité des médicaments d'ordonnance.

<http://www.consommateur.qc.ca/union/PubRxNON.htm>

## Défendez-vous!

L'Union des consommateurs a lancé trois recours collectifs qui vous concernent peut-être:

Un recours contre **Bell** au sujet de son Plan d'entretien de câblage intérieur. Surveillez vos factures de téléphone car des petites surprises s'y cachent peut-être! Les détails:  
<http://www.consommateur.qc.ca/union/320.htm>

Un recours contre la **Banque Nationale** qui a récemment été autorisé, à propos de frais d'utilisation de 5\$ pour chaque utilisation de la marge de crédit. Les détails:  
<http://www.consommateur.qc.ca/union/314.htm>

Un recours collectif contre la **Banque TD**, qui vise aussi les principales **banques canadiennes** et les **Caisses Desjardins**, au sujet des problèmes liés aux paiements préautorisés. Les détails:  
<http://www.consommateur.qc.ca/union/291.htm>

## Votez!

...aux élections du Québec, mais seulement après avoir lu notre **lettre ouverte aux partis politiques**, au sujet des hausses de tarifs  
<http://www.consommateur.qc.ca/union/319.htm>

...pour les **Prix du coeur de la publicité**:  
<http://www.prixducoeurdelapub.com>

...Pour les **Prix Pomme dorée et Pomme gâtée** de l'Ordre professionnel des diététistes du Québec (du 2 au 15 avril prochain)  
<http://www.opdq.org/prixpomme>

## Charles Tanguay

Responsable des communications  
Union des consommateurs

Téléphone : 514 521-6820  
ou (ligne sans frais) 1 888 521-6820

Pour vous désabonner de notre liste d'envoi, il vous suffit d'envoyer un courriel à :  
[desunion@consommateur.qc.ca](mailto:desunion@consommateur.qc.ca)

## ANNEXE 2

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Bonjour,

Dans le cadre d'un projet de recherche financé par le Bureau de la consommation d'Industrie Canada, l'Union des consommateurs cherche à mieux connaître les renseignements dont disposent les consommateurs en ce qui concerne les hypothèques inversées.

Nous sollicitons les réponses de personnes âgées de 60 ans et plus qui sont propriétaires de leur logement.

Répondre au sondage ne vous prendra que quelques minutes. Répondez au meilleur de votre connaissance à chacune des questions. Les réponses que vous donnerez dans ce sondage ne serviront qu'à des fins statistiques.

Pour toute question sur ce sondage, n'hésitez pas à nous écrire: [union@consommateur.qc.ca](mailto:union@consommateur.qc.ca)

Merci de votre précieuse collaboration.

### 1. Savez-vous ce qu'est une hypothèque inversée?

- Très bien
- Un peu
- Pas très bien
- Pas du tout

### 2. Comment avez-vous entendu parler des hypothèques inversées?

- Institution financière
- Planificateur financier
- Famille
- Médias (journaux, télévision)
- Amis
- Internet
- Autre, veuillez spécifier

**3. Quels sont les éléments des hypothèques inversées sur lesquels vous avez reçu des renseignements?**

- Modalités de remboursement
- Effets de l'accumulation des intérêts exigibles
- Coûts associés (évaluation, notaire, etc.)
- Incidences pour les héritiers
- Taux d'intérêt applicables
- Calcul du capital à terme
- Responsabilité du paiement des taxes sur l'immeuble
- Seuil d'endettement maximum toléré par l'institution financière
- Montants disponibles
- Conditions d'admissibilité
- Intérêts non déductibles d'impôt
- Autre, veuillez spécifier

**4. Les renseignements que vous avez obtenus sur les hypothèques inversées indiquaient-ils clairement les avantages et les inconvénients de cette façon d'obtenir des revenus?**

- Très clairement
- Suffisamment clairement
- Pas très clairement
- Pas clairement du tout
- Ne sais pas
- Aucun renseignement sur les avantages
- Aucun renseignement sur les inconvénients

**5. Au vu des renseignements que vous avez obtenus sur les hypothèques inversées, pensez-vous que cette façon d'obtenir des revenus pourrait être avantageuse pour vous?**

- Sûrement
- Peut-être
- Pas vraiment
- Pas du tout
- Ne sais pas

**6. Si vous souhaitiez obtenir des renseignements sur les hypothèques inversées, sauriez-vous auprès de qui les obtenir?**

- Gouvernement
- Internet
- Amis
- Famille
- Association de consommateurs
- Institutions financières
- Professionnel (notaire, courtier, planificateur financier, etc.)
- Autre, veuillez spécifier

**7. Si vous souhaitiez obtenir des renseignements sur les hypothèques inversées, à quel type de source de renseignements seriez-vous porté à faire confiance?**

- Association de consommateurs
- Famille
- Gouvernement
- Amis
- Internet
- Institutions financières
- Professionnel (notaire, courtier, planificateur financier, etc.)
- Autre, veuillez spécifier

**8. Si vos revenus devaient s'avérer insuffisants pour subvenir à vos besoins ou à la réalisation de vos projets, vers quelle source de revenus supplémentaires vous tourneriez-vous?**

**9. Si l'on vous proposait les solutions suivantes afin d'obtenir des revenus supplémentaires, laquelle serait le plus susceptible de vous intéresser?**

- Prêt personnel
- Hypothèque
- Hypothèque inversée
- Marge de crédit
- Vente d'actifs
- Autre, veuillez spécifier

**10. Pouvez-vous expliquer brièvement ce qui justifierait votre choix?**

**11. Ces revenus supplémentaires serviraient-ils principalement à combler vos besoins ou à réaliser des projets?**

- Combler des besoins
- Réaliser des projets
- Ne sais pas

**12. Afin de faire un choix éclairé, avez-vous l'impression que vous auriez besoin de plus de renseignements sur les options disponibles?**

- |                               |                              |                              |                                      |
|-------------------------------|------------------------------|------------------------------|--------------------------------------|
| Sur les prêts personnels      | <input type="checkbox"/> oui | <input type="checkbox"/> non | <input type="checkbox"/> ne sais pas |
| Sur les hypothèques           | <input type="checkbox"/> oui | <input type="checkbox"/> non | <input type="checkbox"/> ne sais pas |
| Sur les hypothèques inversées | <input type="checkbox"/> oui | <input type="checkbox"/> non | <input type="checkbox"/> ne sais pas |
| Sur les marges de crédit      | <input type="checkbox"/> oui | <input type="checkbox"/> non | <input type="checkbox"/> ne sais pas |
| Sur les vente d'actifs        | <input type="checkbox"/> oui | <input type="checkbox"/> non | <input type="checkbox"/> ne sais pas |

- Autre, veuillez préciser



**13. Qui est présentement propriétaire du logement que vous habitez?**

- Je suis l'unique propriétaire
- Je suis propriétaire avec mon(ma) conjoint(e)
- Nous sommes plusieurs propriétaires (veuillez préciser)

**14. Trouvez-vous important que l'immeuble que vous possédez fasse partie de l'héritage que vous comptez léguer?**

- Très important
- Assez important
- Moyennement important
- Pas très important
- Pas important du tout
- Ne sais pas

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**Questions socioéconomiques**

**Quel est votre âge?**

**Quel est votre sexe?**

- Féminin
- Masculin

**Inscrire ici la première partie de votre code postal (ex.: H2A)**

**Indiquer le nombre de membres de votre famille qui habitent présentement votre logement.**

**Adultes:**

- 1
- 2
- Plus de deux

**Enfants des propriétaires (mineurs et adultes):**

- Aucun
- 1
- 2
- 3
- 4
- 5
- Plus de 5

**Quel est le niveau de scolarité le plus élevé que vous avez complété?**

- Élémentaire
- Secondaire
- Collégial
- Universitaire - 1er cycle
- Universitaire - 2e ou 3e cycle

**Dans quelle tranche se situe le revenu annuel de votre ménage?**

- 0 - 9 999\$
- 10 000 - 19 999\$
- 20 000 - 29 999\$
- 30 000 - 39 999\$
- 40 000 - 49 999\$
- 50 000 - 59 999\$
- 60 000 - 69 999\$
- 70 000 - 79 999\$
- 80 000 - 89 999\$
- 90 000 - 99 999\$
- 100 000\$ et plus

## ANNEXE 3

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Bonjour

Je vous contacte afin de vous faire part d'un projet de recherche que j'effectue sur les hypothèques inversées pour l'Union des consommateurs et de la possible coopération que nous pourrions établir sur le sujet.

Dans le cadre d'un financement d'Industrie Canada, l'Union des consommateurs effectue un projet de recherche cherchant à établir s'il conviendrait de mieux encadrer le domaine des hypothèques inversées. Dans le cadre de cette recherche, un sondage doit être effectué auprès de gens de plus de 60 ans et propriétaire de leur logement à travers le Canada afin d'établir les connaissances qu'ont ces personnes des hypothèques inversées.

Pour ce faire, nous avons mis un sondage en ligne et nous aimerions savoir s'il vous serait possible de le diffuser après de vos membres?

Liens du sondage :

anglais: <http://www.surveymonkey.com/s.asp?u=350092874384>

français: <http://www.surveymonkey.com/s.asp?u=210102759261>

Pour de plus amples renseignements, n'hésitez pas à me contacter,

Merci

Sophie Roussin

Analyste, Politiques et réglementation en matière de finances personnelles

**Union des consommateurs**

Tél.: 514 521-6820 poste 234

Ligne sans frais: 1-888 521-6820

## **ANNEXE 4**

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Réponses au sondage