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# Études et Dossiers

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Conference**

**Long Term Care –  
Risk Profiles, Determinants and Financing**

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Layout & Distribution: Valéria Kozakova

# Reverse Mortgages and Long Term Care Risks

Roger Hillier

## Reverse Mortgage to fund long term care partnership

- Plenty of speculation but what is the reality?
- Is this a solution for everyone?
- How suited are Reverse Mortgage products for funding LTC? What is customer choice?
- What are the significant risks?
  
- Not covering risks / dilemmas associated with Long Term Care
  
- In UK Reverse Mortgages are referred to as Lifetime Mortgages

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## Not everyone needs financial help



THE TIMES Tuesday March 6 2007

### Pension passion

**BELGRADE** Police had to separate two septuagenarians fighting with a gun and an axe over a 52-year-old woman. She was shot in the leg during the fracas in the Serbian town of Leskovac. Radivoje Sinadinovic, 77, said his lover was enticed away by Ljubisa Petkovic, 78, who had bragged about his pension. (Reuters)

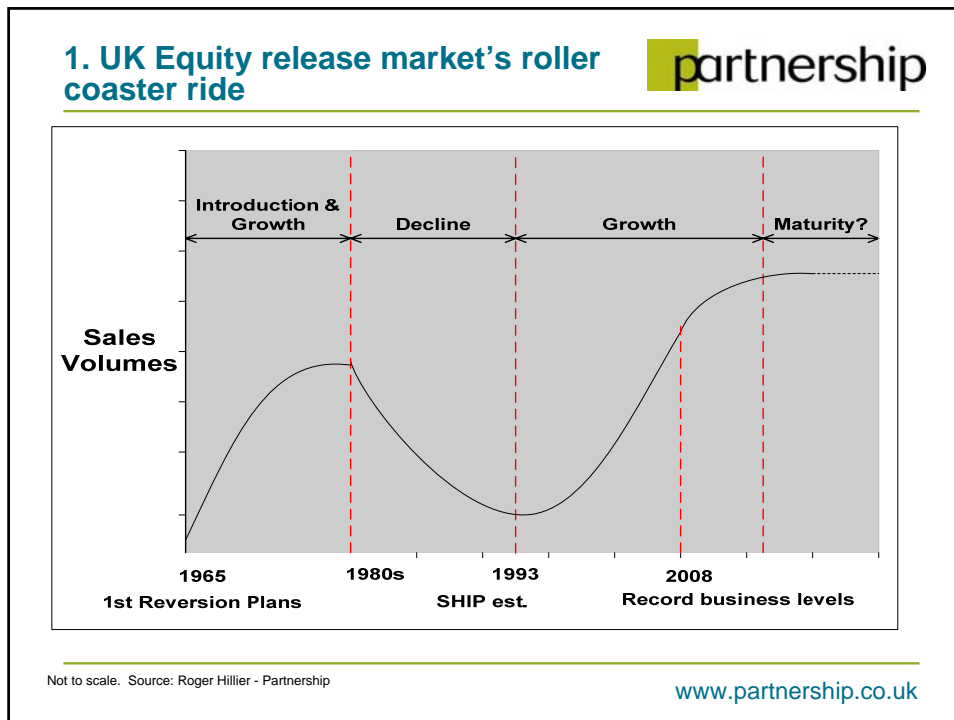
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## Agenda



1. How the UK Reverse Mortgage market has and is evolving
2. Reverse Mortgage product choice
3. Risks
  - Customer
  - Adviser
  - Product provider
4. Broad segmentation of the Reverse Mortgage customer
5. Scope for funding LTC by existing Reverse Mortgage customers
6. How Reverse Mortgage money is used
7. Summary

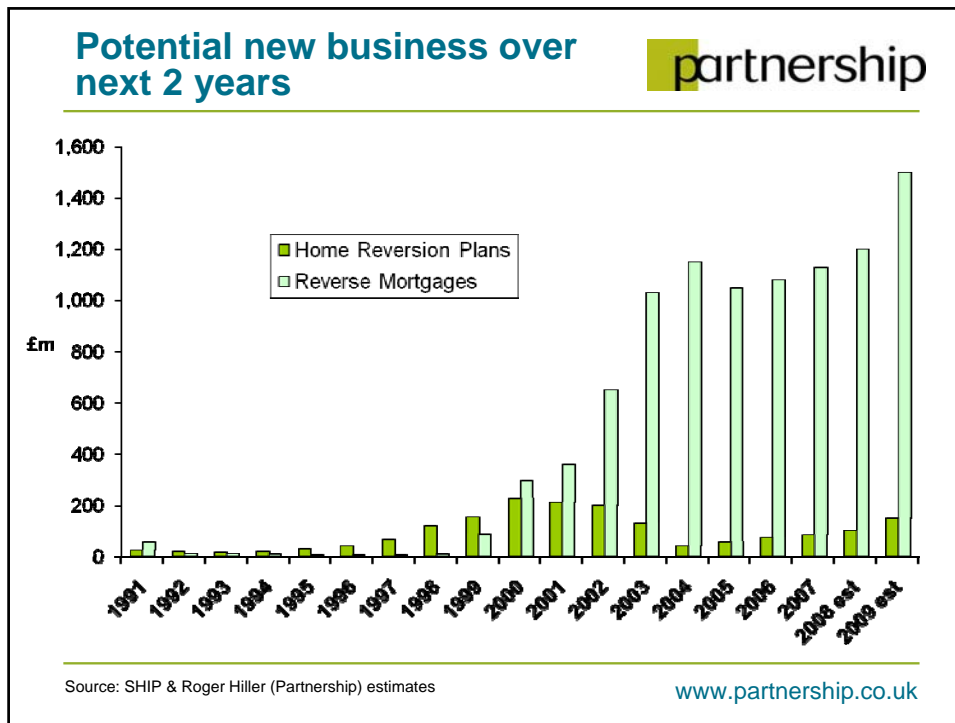
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### The Roller Coaster Ride

- Industry's integrity hit "rock bottom" with mis-selling of 1980s and early 1990s
- Industry "picked itself up off the floor" into Second growth stage
- Factors behind revival and gradual growth in integrity
  - SHIP established 1991
  - Larger brands entered the market
    - Norwich Union in 1999
    - Northern Rock in 2000
    - HSBC & RBS in 2006
- Smaller brands = encouraged significant product innovation
- FSA Regulation (2004) & Treating Customers Fairly Principles
- Annual new business grown to over £1.25bn
- Strong correlation between growth in integrity and growth of market.

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## 2. Greater customer choice

- 10 years ago – few product providers but several small brands
  - Choice restricted to Reverse Mortgage offering a Cash Lump Sum – variations on maximum amounts & interest rate
- Today far greater choice – due to increased competition

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## Reverse Mortgage product choice

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**Cash Lump Sum**

- Trade off on maximum LTV v interest rate
- Interest rolled up on the mortgage balance

**Drawdown**

- Credit line approved at application
- Ad-hoc withdrawals
- Trade off on maximum LTV v interest rate
- Interest rolled up on the mortgage balance

**Monthly Income**

- Guaranteed for rest of life
- For fixed specified term
- Interest rolled up on the mortgage balance

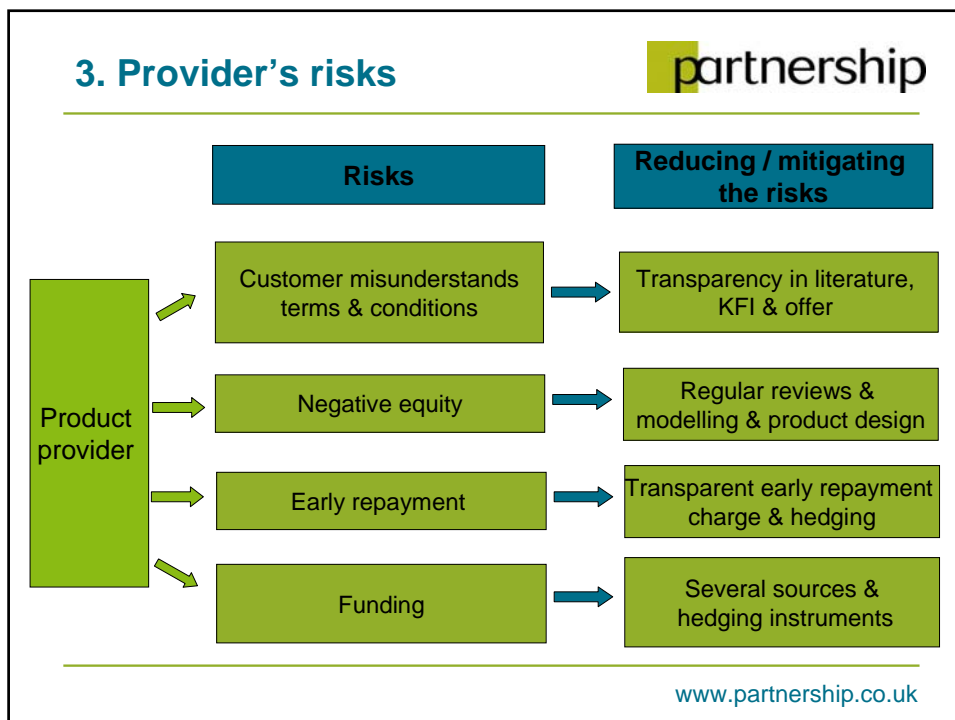
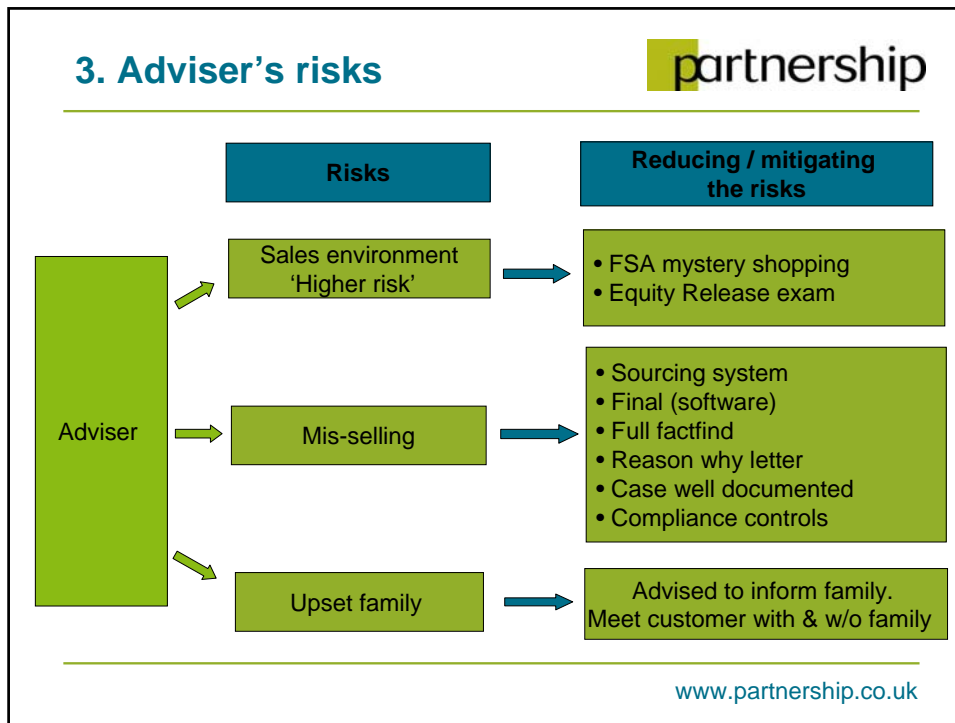
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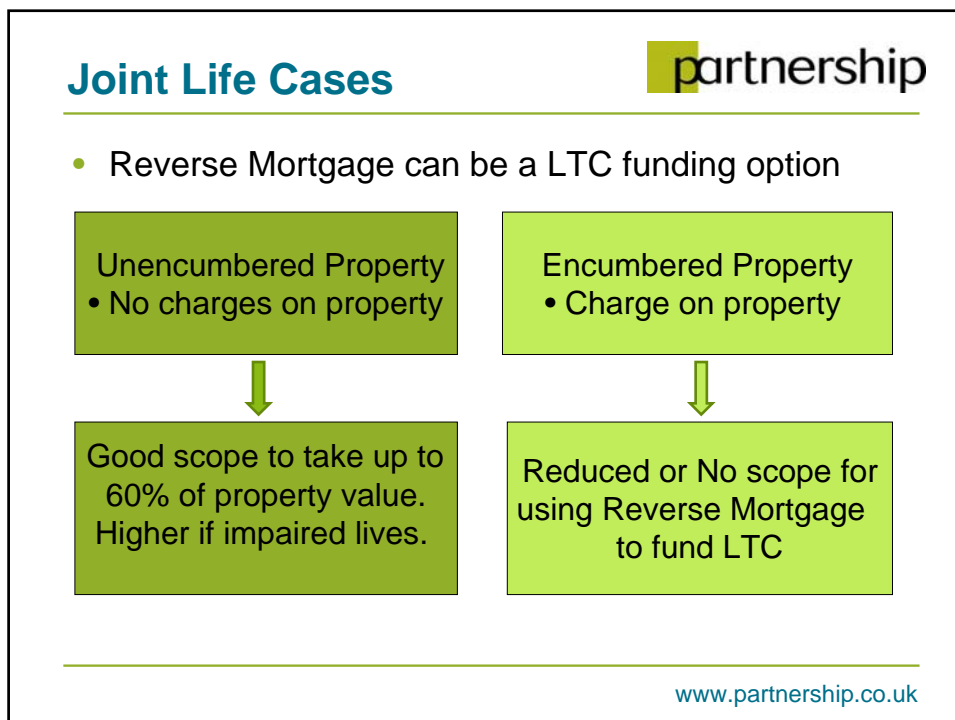
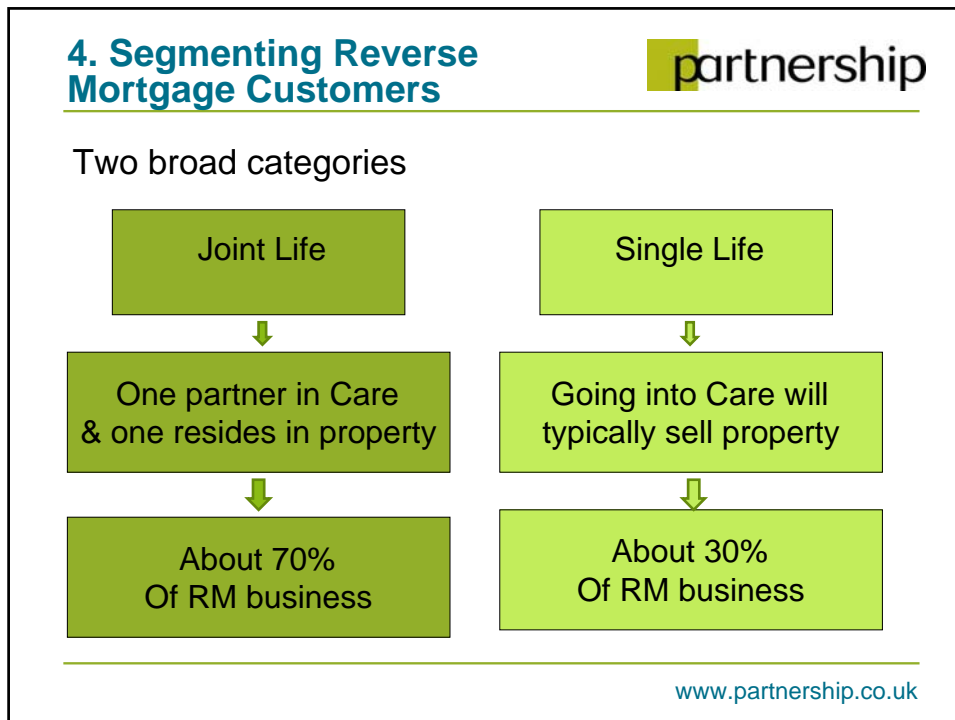
## 3. Customer's risks

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	Risks		Reducing / mitigating the risks
<b>Customer</b>	Buys inappropriate product	→	Borrower's Acceptance & Solicitors' Certificate & Advice
	Erosion of equity	→	KFI & Advice
	Lose more than value of property	→	No negative equity guarantee
	Upset family	→	Advised to inform family
	Takes too much money too early	→	Justify timing & need for money
	Longevity risk	→	Planning

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## 5. Existing Reverse Mortgage customers



### 1. Cash Lump Sum – Reverse Mortgage

- Age 67 when RM started & enters LTC at age 85, Property £200,000

Age	£50,000 Cash lump sum (7% pa)	Property Value (2% pa)	Loan to value	Equity remaining in property	Annual LTC fee (5% pa)
67	£50,000	£200,000	25%		
85	£180,000	£291,000	66%		

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## 5. Existing Reverse Mortgage customers



### 1. Cash Lump Sum – Reverse Mortgage

- Age 67 when RM started & enters LTC at age 85, Property £200,000

Age	£50,000 Cash lump sum (7% pa)	Property Value (2% pa)	Loan to value	Equity remaining in property	Annual LTC fee (5% pa)
67	£50,000	£200,000	25%	£150,000	£20,000 pa
85	£180,000	£291,000	66%	£110,000	£48,000 pa

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## Existing Reverse Mortgage customers



### 2. Drawdown – Reverse Mortgage

- Age 67 when RM started & enters LTC at age 85, Property £200,000

Age	£30,000 initial, and £30,000 after 5yrs & after 10 yrs (7% pa)	Property Value (2% pa)	Loan to value	Equity remaining in property	Annual LTC fee (5% pa)
67	£90,000 (total = £30k x 3)	£200,000	15%		
85	£241,000	£291,000	82%		

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## Existing Reverse Mortgage customers



### 2. Drawdown – Reverse Mortgage

- Age 67 when RM started & enters LTC at age 85, Property £200,000

Age	£30,000 initial, and £30,000 after 5yrs & after 10 yrs (7% pa)	Property Value (2% pa)	Loan to value	Equity remaining in property	Annual LTC fee (5% pa)
67	£90,000 (total = £30k x 3)	£200,000	15%	£170,000 (after initial £30,000)	£20,000 pa
85	£241,000	£291,000	82%	£50,000	£48,000 pa

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## 6. How Reverse Mortgage money is used

### Implications for LTC market

- 30% - 40% use some or all to repay existing debt – residential mortgages, personal loans & credit card balances
  - Investment plans to repay residential mortgages have 'failed' or not taken out
- Funding for Domiciliary care - 'Care in the home'
  - 30% fund home improvements – desire to live in property for as long as possible
  - 5% fund for income – pay for Domiciliary care?
- 15% - financial help for family

Sources: Product providers

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## Summary

- Reverse Mortgage products evolved to suit LTC
- Reverse Mortgages can fund LTC and Domiciliary Care
- There are many risks – but many checks in place to mitigate risks
- A serious LTC funding solution for customers with no debt
- But less so for customers who have debts to repay and have already started an equity release arrangement

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