



PENSION NOTES

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The challenges of Reverse Mortgage as a mechanism for supplementing pensions

Executive Summary

Reverse Mortgage (RM) is an instrument that enables converting an illiquid asset (such as one's own home) into a significant income stream for seniors, who are often poorer in terms of monetary flows than in assets. Converting one's property into a Reverse Mortgage could entail a significant increase in pension amounts of between 39% (for mid-income families) and 49% (for poorer families).

Given the current low replacement rates of the pension systems and the difficulties involved in increasing them through other mechanisms (raising contribution rates, increasing the retirement age based on higher life expectancy, increasing voluntary savings, etc.), added to the fact that most people own their own homes, RM can be transformed into a very powerful instrument for complementing pensions, thus constituting the "4th Pillar" of the pension system.

The RM concept is therefore propitious, but its successful implementation is somewhat more complex. This is demonstrated by the experience of the countries with the most mature RM markets, such as the US, the UK and Spain. RM has been operating in the latter since 2007, but has not yet managed to take off. The market value is currently about USD 29 million, and there are only 45 transactions per year. A single company markets the product and demand is low, but experts expect the market to rise, due to the poor

outlook for the public PAYGO pension system, the surmounting of the inheritance culture and the high percentage of wealth in the form of housing. The U.S. and the UK market currently has significant values in loans (USD 6,528 million and USD 4,524 million, respectively) and the annual number of transactions is not lower (48 thousand and 45 thousand, respectively), but experts note that their penetration level is still low, which can be explained by problems affecting demand and supply.

In general, among the issues associated to RM, from the owners standpoint, are cultural factors (the desire to leave an inheritance); the use of housing as insurance (against illness and health costs); the complexity of the instrument, which makes it difficult for seniors to understand; the loss of social benefits that often occurs in the event of an RM, since the policy applied to this instrument is not always well coordinated with other social policies; and the high costs of taking out an RM.

On the investor side, HR's problems have to do with the risks (longevity, growth in property value, inflation, interest rate changes) faced by investors, which requires a critical mass of HR contracts to be viable; the need for a deep secondary market (e.g. securitization), to make the instrument more attractive (both in terms of liquidity and returns); the fact that the investor is required to pay income tax while making life annuity payments to the owner, before taking ownership of the property; and finally, the issue that arises

when homeowners, as they age, lose interest in maintaining the property or paying the property tax.

Accumulated experience shows that the success of an RM program requires a critical mass of customers; sufficient specialized vendors for adequate competition; a credible regulator that sets out clear rules that generate trust (standardization of contracts, establishment of codes of conduct, setting of minimum criteria, maximum interest rates, the right to occupy the property until death; the debt cannot exceed the value of the home, etc.); a public body that provides guarantees for some investors' risks and decisively boosts RM through communicational support and the use of transitory subsidies to owners; and finally, streamlining of RM with the country's public policies.

If the public policy objectives of countries include successfully diversifying sources of retirement income, it then seems appropriate for policymakers to start seriously proposing the need for a robust RM market, considering all the conditions outlined above. Good intentions and approved RM regulations are not enough. The State must decisively promote the demand and supply aspects of this market.

Introduction

Due to life expectancy increases and birth rate reductions (which imply the inversion of the population pyramid and the growth of the pensioner/worker ratio), global interest rate and market return reductions, among other factors, mean that pension systems worldwide are facing severe fiscal sustainability issues (PAYGO Systems) and are providing pensions that do not meet workers' expectations. These demographic trends will continue over the coming decades, negatively and more

intensively affecting the finances of pension systems worldwide.

Increasing the retirement age and the contribution rate are parametric changes that have enabled pension systems to improve their financial sustainability and/or the level of pensions they provide. However, very unpopular legal changes are required in both cases, so governments usually tend to postpone their implementation over time, until a crisis situation occurs. Faced with this reality, one of the tools available to pension systems for improving returns is to encourage Voluntary Pension Saving (VPS). VPS most certainly contributes to significant increases in the pensions of workers who save adequate amounts on a regular basis. However, VPS plans require great efforts in designing appropriate incentives (tax benefits, use of behavioral economics principles through automatic enrollment plans, etc.), so they can be used by a large part of the population and not only by those with the greatest savings capacity.

These circumstances therefore give rise to the idea that workers should be able to supplement their pensions (in the public PAYGO or individually-funded systems), by means of another source of income, derived from transforming a high-value asset (their homes) into a monthly cash flow (the so-called "Reverse Mortgage"). This is what is usually described in the literature as the Fourth Pillar of the Pension System. And this proposal makes sense, since most people own their own home. By way of example, according to OECD data (2018)¹ in the UK, the USA and Spain, the percentages of people who own their own homes are 65%, 63% and 76% respectively, whereas in countries such as Chile and Mexico these percentages are 60% and 69%, respectively. The average in OECD countries is 68%.² It can therefore be said that the populations of these countries are

¹ Source: <https://www1.compareyourcountry.org/housing>

² These data include properties acquired with and without mortgage loans.

relatively rich in illiquid assets (their own homes). Given the above, property values are a potential source of resources for improving retirement income. Even Nobel Laureate Robert Merton (2011) has advocated for the "complete renovation and efficient placement of reverse mortgages," to enhance the role of housing as an asset for retirement financing.

This Pension Note describes, first of all, what a Reverse Mortgage is, and secondly, its potential for increasing pensions. It then describes the Reverse Mortgage markets in the United States, the United Kingdom and Spain. Thirdly, the practical issues encountered in the growth of Reverse Mortgages, are mentioned. Finally, the required conditions for the successful development of the Reverse Mortgage industry are explained.

I. What is a Reverse Mortgage and what are its possible effects on pensions?

According to Ramos (2015), Reverse Mortgage (RM) is a financial instrument designed for the elderly, that connects a real estate owner with an investor. The senior owner acquires liquidity, and the investor acquires the right to dispose of that asset in the future, for a profit. The RM begins with the agreement between the owner and the investor on the present value of the future sale of the home, called the "net principal limit", and continues to determine which of the following three ways will be used to provide such value: 1) a given monetary sum, equivalent to the net principal limit, paid out immediately; (2) a line of credit; or (3) a life annuity, whose present value is equivalent to the net principal limit. A combination of these alternatives can also be agreed.

In any of these three cases, the main feature of the exchange is that the owner can carry on

living in his home until his death, and the death of his spouse, a condition that is highly favorable to the owner, since most seniors do not want to move out of their neighborhoods and live in a home other than the one they have lived in all their lives.

If the RM entails the payment of a life annuity, it is basically calculated considering the life expectancy of the owner, the value of the home, and the market interest rate:

$$\text{Life Annuity} = \text{Property Price} * \frac{r}{(1+r)^{(\text{maximum age}-\text{age})-1}}$$

Where "r" is the interest rate applied by the investor, "age" is the current age of the owner and "maximum age" is the investor's maximum age (defined by his life expectancy). Hence, a life annuity resulting from an RM will be higher, the higher the value of the home, the lower the interest rate, and the older the owner taking it out.

Hence, in the case of life annuities, the benefits of RMs for homeowners are larger monthly pensions. They also have the additional benefit that on the death of the owner, the surviving spouse is fully entitled to remain in the home until his/her death.³

The benefits for the investor, in turn, entail the possibility of acquiring the property in the future, at a fraction of its market price, thus achieving an adequate return for the level of risk involved in this transaction.

Regarding the costs for the owner, an RM usually leaves no inheritance. However, a clause may be stipulated that assigns the residual value of the property to the heirs, should the owner die sooner than expected.

According to Ramos (2015), with an RM converted to a life annuity at 100% of the value of the property, and at a fixed interest rate, average Chilean households would see

³ As opposed to what would happen without an RM. If the property belongs to a couple, many inheritance laws

grant 50% to the survivor and 50% to the children, with the latter being able to force the survivor to sell and move.

their pensions increased by 39%. Meanwhile, 25% of the neediest would see their pensions increased by 49%. Finally, the 75% more affluent would see their pension increased by 36%.⁴ Thus, the impact on pensions is greater in more modest groups, which can be explained by the fact that the more modest population tends to be relatively richer in housing than the higher-income population (which has many other sources of income).

Other studies have found similar results. For example, BBVA Research conducted research in early 2013 to measure the impact of reverse mortgages in Chile for people retiring in 2050. The study concluded that with an RM of 100% of the property, owners would increase their pensions by 42%.⁵

II. International Experience

RM has been used with different degrees of success in many countries, such as the United Kingdom, the United States, Canada, France, Germany, the Netherlands, Spain, Sweden, Australia, New Zealand, Singapore, Thailand, South Korea and Hong Kong.

Below is a summary of the experience of two of the countries that have been operating with RM for the most number of years, the USA and the United Kingdom, as well as a third country, Spain, where RM has been regulated for 13 years, but where it has not yet managed to take off.

⁴The simulation assumes that: (i) the current value of the owner's home is USD 44,000; (ii) the average expected annual capital gain rate for the term of the contract, to obtain the expected sales value of the property at the end of the contract, is 2.6% per annum; (iii) the term of the contract is 28 years (estimated on the life expectancy of the owner or his spouse, whichever is greater); (iii) the man and woman live 18 years together, each of them receiving their pensions, and only the woman lives the last 10 years, on her own pension; (iv) the annual real interest rate agreed in the contract is 5.4%.

United States

The first RM was negotiated in the United States in 1961, but this product was only formalized in 1987, when Congress approved the program known as *Home Equity Conversion Mortgages* (HECM), that enables converting real estate assets into liquid assets to meet the special needs of older owners at a certain age. This program accounts for 90% of the reverse mortgage market (Araneda, 2017). The rest of the RM market is made up of lower coverage products⁶

The HECM program allows homeowners, aged 62 and over, to convert the capital of the property they live in into a source of income. These incomes do not reduce social benefits, but may be taxable depending on their amounts.

Owners can choose from a variety of plans:

- Lifetime monthly payments, as long as the landlord or beneficiary remains in his/her home.
- Monthly payments for a fixed period of selected months.
- Line of credit.
- Combination of line of credit with monthly payments for life, or for a certain period of time.

Noteworthy aspects of the regulation are that:

- Before taking out the mortgage, the owner must receive counselling.
- The mortgaged property must be assessed and insured against different types of risk.

⁵ The simulation assumes the situation of a man who starts saving at the age of 25, retires at 65, with a salary of USD 2,255 and a contribution density of 80% over that period of time. In that case, the funds would suffice for accessing a life annuity of CLP 596 thousand per month. But if that person took out a reverse mortgage and turned his house (valued at CLP 65 million), into a monthly cash flow, he would have a life annuity of CLP 847 thousand.

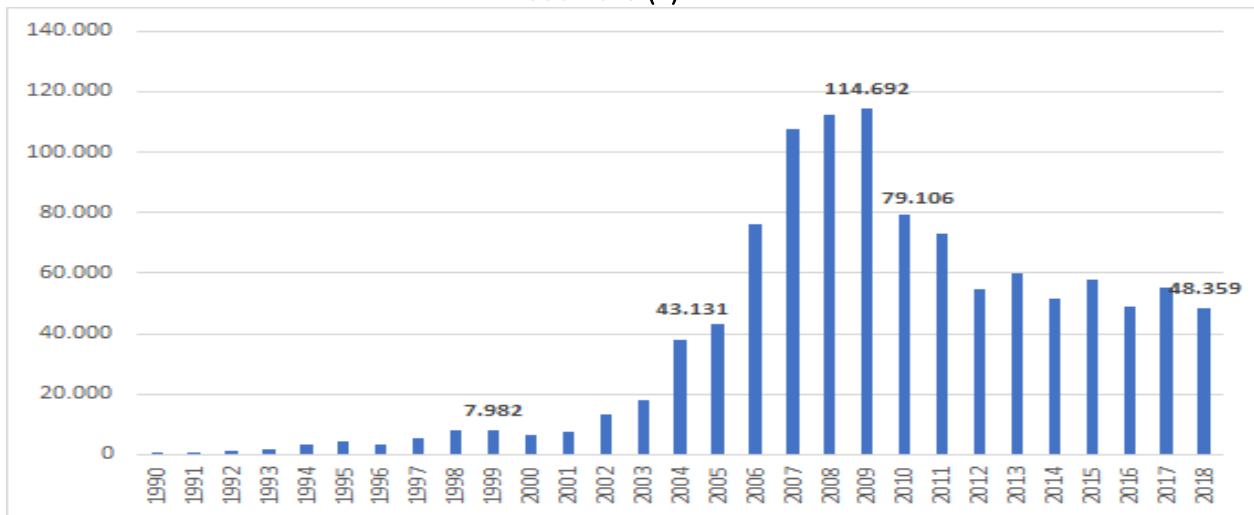
⁶ "Single-purpose mortgages," offered by some state governments, which in turn back them up; and "Property Mortgages," backed by the U.S. government.

- The debt can only be enforceable by the creditor when the last of the beneficiaries of the mortgage dies.
- No repayment is required as long as the home is the borrower's primary residence. The debt is paid off when the house is sold.
- If the sale of the property does not cover the amount owed, the Federal Housing Administration (*Federal Housing Administration*, FHA) has insurance to cover this risk.

program subscribed less than 10,000 RMs per year in the first decade. Then, in the early 2000s, this instrument acquired a faster pace, from just over 43,000 RMs in 2005, to about 115 thousand in 2009, the highest peak. The figures fell after the 2008 crisis, from 79 thousand in 2010 to 48 thousand in 2018 (see Graph 1). In the last year, the average RM loan amount (before commissions) in the HECM program was approximately US\$ 135,000⁷ and the total RM market amounted to US\$ 6,528 million in loans at the end of 2018.

According to *National Reverse Mortgage Lenders Association* (NRMLA) data, the HECM

Graph 1
United States: Number of Reverse Mortgage Transactions (HECM)
1990-2019 (*)



Source: In-house, based on National Reverse Mortgage Lenders Association (NRMLA) data. (www.nrmlaonline.org).

(*) Note: The data corresponds to each federal year (each federal fiscal year begins on October 1 and runs through September 30 of the following year).

According to Ramos (2015), the HECM instrument has not grown in proportion to its potential, and its penetration level (calculated as the ratio between the number of RMs and the number of homes of senior citizens) is just over 2%, revealing its low level.

Among the issues RMs have faced in the United States, are the following:

1. Some features of the HECM program may interact negatively with other government programs. For example, there have been cases in which the additional income received via the HECM program can

⁷ https://www.corelogic.com/blog/2019/12/hecm-loans-in-2018-borrower-demographics-and-ownership-tenure.aspx#_ftn3

disqualify the owner from other benefits such as the "*Supplemental Security Income*" (SSI), or Medicaid. Similarly, it is important that RM monthly payments are not considered as income for tax purposes.

2. The contract start and closure fees, as well as the maintenance premium, are excessive compared to the pension that can be obtained, which makes the instrument less attractive. It is estimated that a 65-year-old homeowner with a US\$ 300,000 home could receive a US\$ 850 per month pension, but will have to pay \$5,000 as an initial contract fee. Even if overall fees barely amount to 5% of the initial principal limit, excessive initial fees can prevent the negotiation of the instrument.
3. From the investors standpoint, there are at least four obstacles:
 - i. The so-called "*Fair Housing Act*" prohibits discrimination between men and women, even though life expectancies of both genders are considerably different and this is a key variable for this instrument.
 - ii. Given the sole nature of the instrument, new investors are faced with regulatory requirements and little-known documentation, requiring highly specialized workers. --Since the HECM program limits the loan origination fee, the financial viability of the instrument is therefore contingent on a critical volume of loans.
 - iii. Since different states in the United States have different RM laws, investors wishing to operate in more than one state (in order to achieve a critical volume of loans), must bear the cost of adapting to each legislation.
 - iv. Given the unconventional cash flow pattern generated by this instrument, it is difficult to securitize and finance.

United Kingdom

RM has existed in this country since 1965. The operation is that the financial institution grants a loan that it pays through a single payment (*lump sum*) or a periodic income whose amount depends on the age of the owner, applying a fixed interest rate, or subject to a limit. The loan is not amortized until both spouses die, and almost all banks ensure that the obligations acquired do not exceed the value of the home. These loans often have significant early termination penalties as they are associated with long-term financing.

The minimum age for obtaining an RM is between 55 and 60, and the property must have a value equal to or greater than the minimum required by the investment institution. The vast majority of these institutions undertake to provide transparent information and assist the borrower independently in all transactions. Heirs have the option of selling the property and keeping its residual value, or repaying the loan and retaining the property.

According to Ramos (2015), RM in this country had a very low penetration level until the 1980s, when an unsecured type of RM called "*Home Income Plans*" became popular. It awarded an initial amount at a variable rate, which was invested in stocks and had to yield enough to pay the RM interest and leave a balance in favor of the owner. However, this scheme collapsed during the 1984 financial crisis, when interest rates rose sharply and share prices tanked, leading to such instrument being declared illegal in 1990, seriously damaging the overall image of RM (denominated *Equity Release Mechanisms*, ERMs) in this country. A large number of those affected were compensated, and in 1991 the "*Equity Release Council*" (ERC) was formed. It was authorized to grant a number of guarantees, among them, that the owner would not be required to leave his home until

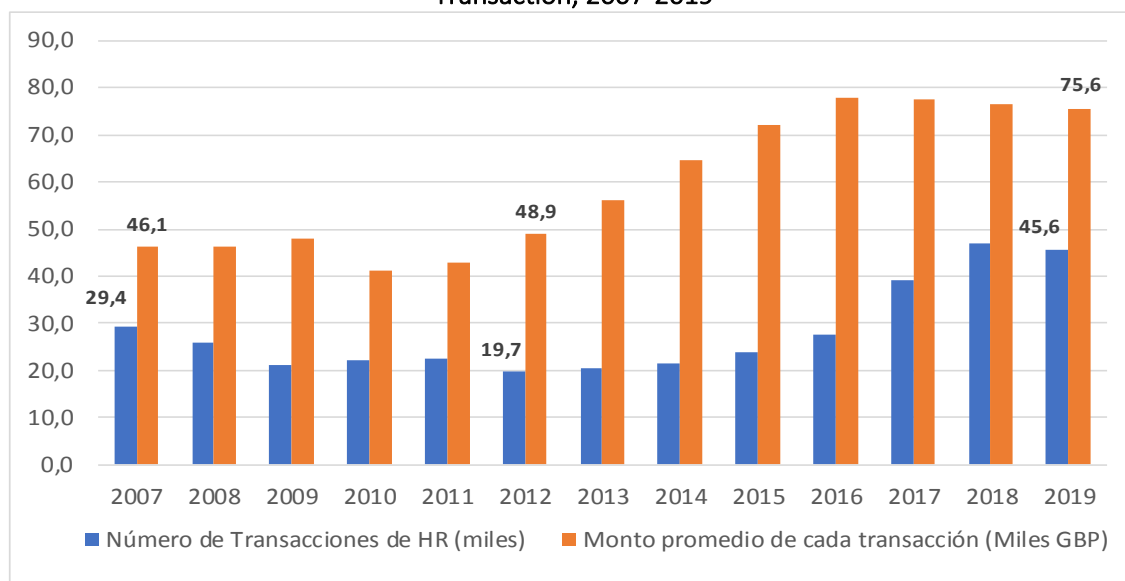
his death, and that the debt cannot exceed the value of the house (i.e., no debt can be left to the heirs). Then, during the 2000s, the "Financial Service Authority" FSA) increasingly regulated the different types of RM.

According to the information available, the RM market grew steadily during the 1990s, from its low point of GBP 23.7 million in 1993. The market continued to grow during the 2000s. As shown in Figure 2, just over 29 thousand RMs were traded by 2007. The average amount of each transaction was GBP 46 thousand, generating a market of GBP 1,357 million. Since that year, a drop in the number of transactions was observed until 2012, when they amounted to just over 19 thousand, which is mainly explained by the effects of the 2008 economic crisis. As of 2013, the first signs of recovery had already

been observed, with the number of transactions more than doubling in 2019, when they exceeded 45 thousand (just over 20 thousand in 2013). Likewise, the average amount of each transaction was GBP 76 thousand, an increase of 35% compared to 2013. At the end of 2019, the RM market amounted to a total of GBP 3,449 million (approx. US\$ 4,524 million) in loans. This shows that the UK is the European country with the most developed RM market, based on its transactions and providers (there are currently 12 providers).

However, although loans have already surpassed the GBP 3 trillion mark per year, studies indicate that the potential is GBP 4-5 trillion per year (Terry & Leather, 2001), so that there is still growth capacity.

Graph 2
United Kingdom: Number of Reverse Mortgage Transactions and Average Amount of Each Transaction, 2007-2019



Source: In-house, based on "UK Equity Release Market Monitor," 2001-2019 (www.keyadvice.co.uk).

According to Ramos (2015), there are at least four issues that have curtailed the further development of the RM market:

1. Bad reputation. The traumatic experience of the 1980s severely damaged the image on this instrument, leading people to be

very wary of the benefits of using it. This point is consistently reiterated as a fundamental issue for the acceptance of RM in this country.

2. Possibility of losing social benefits as a result of using an RM. Tax and social benefit policies are not adequately

coordinated with RM, making it less attractive.

3. No strong and explicit government support for the growth of this market.

Spain

In Spain, RM has been regulated since 2007.⁸ This product is intended for people over 65 (or dependent individuals, or those with an acknowledged degree of disability equal to or greater than 33%), who own a property worth more than 150,000 euros and who live in cities of more than 45,000 inhabitants.

The client receives a percentage of the value of the property, in a lump sum or in the form of lifetime monthly payments, maintaining the property and the use of the house.

The obligation to repay the loan (capital plus interest) cannot be required of the owner by law, but only of his heirs, who are usually given one year to decide on how they will do so. They can liquidate the debt with their own money and keep the property, subscribe a new mortgage to pay off the debt, or sell the property, repay the loan and keep the difference.

RMs also have certain tax advantages. For example, deeds of incorporation and RM cancellations are exempt from the "tax on documented legal transactions." There is also a 90% tax return on registration fees. Furthermore, the profits or amounts obtained from RM are not taxed in the IRPF (Personal Income Tax), since they are provisions of a loan or credit account.

Two modalities are currently available in the Spanish market:

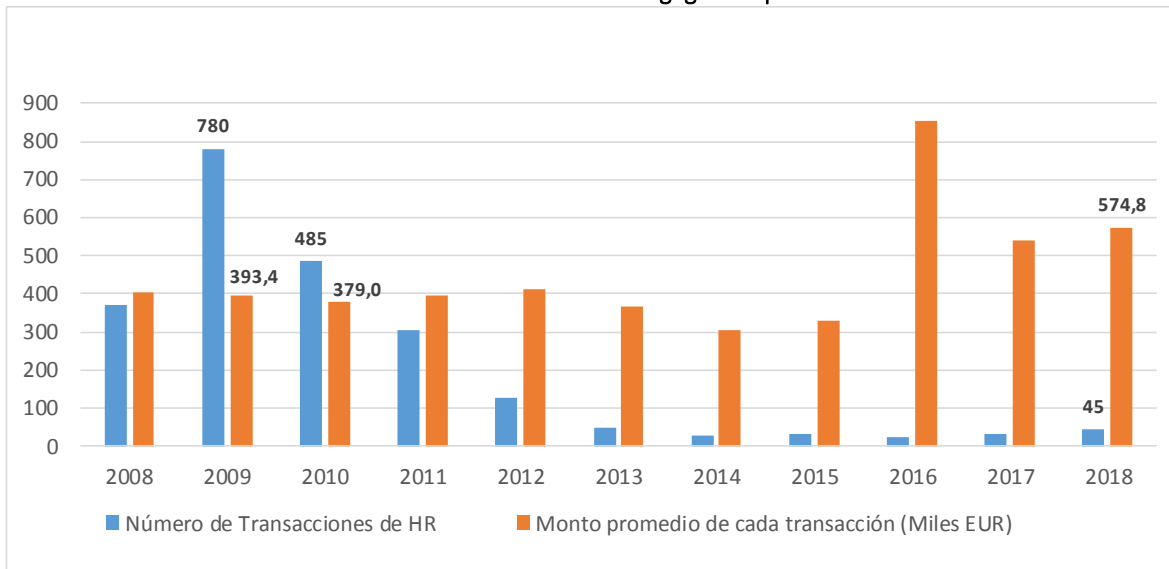
- (i) Single-amount RM: This is the so-called "*lump sum*" in English-speaking markets. In this case, the client can request up to a maximum amount, which will become effective on subscribing the contract. The client will not be able to access additional amounts for the rest of his life.
- (ii) Monthly RM: In this mortgage, the owner earns monthly income, either for a specific period of time, or on a lifetime basis, depending on the type of contract.

The law provides that agencies granting RMs must provide independent advisory services to people applying for this product. This independent advisory service is usually provided by a company other than the agency granting the RM, and must comply with the conditions stipulated by the Ministry of Economy and Finance.

According to available statistics (see Graph 3), the year in which the most RM transactions were recorded was 2009, with 780. In the following years, the number of contracts began to diminish, largely due to the effects of the financial crisis. Thus, in 2010, 485 contracts were subscribed, for an average amount of EUR 379 thousand, generating a market of EUR 192 million. In 2018, on the other hand, only 45 contracts were subscribed, for an average amount of EUR 575 thousand, generating a market totaling EUR 25.8 million (approx. US\$ 29 million).

⁸ Law 47/2007.

Graph 3
Evolution of Reverse Mortgages in Spain



Source: In house, based on Notarial Statistical Information Center data (www.notariado.org).

Thus, although RM has been regulated since 2007 in Spain, its marketing is still marginal. According to Instituto Santalucía (2019), the reasons for the poor development of this product are summarized in:

1. Ignorance of this alternative. The product is complex and difficult to explain, and according to some surveys, only 12% of people over 65 have heard of it.
2. There is no mature market.
3. The influence of the housing crisis and evolution of the housing market.
4. The cultural factor. Heirs refuse to assume the consequences of a mortgage.
5. Upfront costs and additional insurance that increase the cost of the transaction.
6. Possible claims and risks that damage the image and reputation of the financial institutions that offer these products.

Currently, only the Caser Insurance Company markets this product and some companies of Grupo Catalana Occidente include it in their offer of insurance solutions, although demand

from customers is low. Banks still have no stake in this segment, and although they consider it a useful product, they call for legal certainty to be strengthened to prevent heirs from claiming on the grounds that the holders acted without knowing what they signed. In this regard, the Spanish Union of Insurance and Reinsurance Agencies (UNESPA), has called for a review of the RM access guide, for it to include clarifications and recommendations and adapt to the new Mortgage Credit Law.

The industry notes that, despite poor RM marketing data, there will be a sharp upward trend in demand.⁹ Firstly, because the so-called "inheritance culture" is fading: Spaniards have saved a lot through housing, so formulas must be sought for making such properties liquid, while still using them, as required by most elderly people. And secondly, because the public PAYGO pension system will provide ever-lower pensions in the

⁹ Source: https://elpais.com/economia/2020/03/06/mis-finanzas/1583498136_524823.html

future, so there will be a greater perception of the need to seek new sources to supplement this income.

III. Practical issues for the growth of Reverse

Mortgages

The experience of the most developed countries in RM markets shows that there are a number of problems that have affected RM demand and supply, thus stunting its growth.

From the demand standpoint (owner), some of the issues are:

1. **Cultural factors**. One of these is the desire to leave an inheritance, which reduces the incentive to take out an RM.
2. **Property as insurance**. Many homeowners see their properties as equity that protects them against greater contingencies (prolonged illness, uncovered hospital expenses), which is why they are reluctant to convert them into RMs.
3. **RM is a complex instrument**. This makes it difficult for seniors to understand, and makes it necessary to create consumer protection systems that adequately inform the owner of the pros and cons of RM.
4. **Loss of social benefits**. Income from an RM must not be considered income to be eligible for a social benefit. RMs and social policies must be coordinated.
5. **High costs of taking out an RM**. The costs of an RM depend on the degree of competition in the market, as well as the potential risk diversification. At first, with low volumes of negotiated RMs, costs may be higher, making them unattractive to owners.
6. **Social Innovation**. Since this is a new instrument, RM suffers from the issue affecting all social innovation: few want to

be first; they would first like to see how others fare. This would justify subsidizing the first RM takers until this social innovation is better known.

From the supply standpoint (investors), the issues have mainly been:

1. **The risks faced by the investor entail that the system requires a critical mass of RM contracts to be viable and function well.** Investors must protect themselves against a number of risks, such as: longevity, growth in property value, inflation, interest rate changes, etc. In principle, insurance systems covering such eventualities can be devised. However, this requires a sufficient volume of contracts for diversifying risks.
2. **The RM instrument is a long-term, illiquid investment for the investor.** It is therefore desirable to generate a deep secondary market (e.g. securitization) to make the instrument more attractive, both in potential yield and liquidity. This, again, depends on having a significant RM volume. C
3. **Tax Issues**. Depending on the type of RM scheme, the investor may have to pay income tax while making life annuity payments to the owner, before owning the property. This requires a clear stance from the Internal Revenue Service.
4. **Potential "moral hazard" issue**. This is because the owner may not be interested in maintaining the house or paying contributions as he ages and the end of his life approaches. This can be exacerbated by reputational risk (investors are reluctant to evict owners because it creates adverse publicity). This requires schemes that enforce third-party maintenance appraisals with discounts from the life

annuity, if the property is in poor condition; and/or restrictions on the percentage of the property that can be given in RM. For example, if the owner can only convert 80% of the property into RM, the remaining 20% can serve as a guarantee for proper maintenance.

IV. Elements for the successful development of the Reverse Mortgage industry

According to Ramos (2015), considering the risk analysis and experience of countries that have entered the RM market, there are two elements for the successful development of this industry. First, there are the basic conditions for market development. And second, having met these basic conditions, there are the necessary requirements for its full growth. The basic conditions include:

1. **Existence of a network of sufficient operators with the logistic/technical capacity** to be able to operate such an instrument on an appropriate scale, be they banks, insurance companies, non-profit Social Security Benefits Administrators, among others. The market must have different types of agents for adequate competition.
 2. **Existence of a credible regulatory body, which sets out the rules of the game.** The standardization of contracts, establishment of codes of conduct, setting out minimum criteria, among other factors, are key to installing a market of this nature, which requires a lot of trust on the part of the owners. Thus, for example, the adoption of criteria such as fixed or maximum interest rates, the right to remain on the property until death, and that the debt cannot exceed the value of
- the property, have shown to be of paramount importance for the operation of the industry in the United States and the United Kingdom.
3. **The existence of a public body that provides guarantees** on some risks inherent to the industry, faced by investors, and which, due to their nature, would not be adequately addressed by private institutions.

However, meeting the above conditions does not ensure the achievement of a robust RM industry. For this to actually happen, it will be necessary for:

1. **The public agency in charge to explicitly and decisively promote RM.** This entails:
 - (i) Establishing communicational support to build confidence in the instrument among eligible owners, while establishing a set of regulations to ensure that they obtain a safe and adequate product, in a competitive environment.
 - (ii) Provide guarantees for survival and loss of value of the property. Incorporate the use of transitory subsidies (temporary or until a certain minimum volume of RM contracts have been subscribed), which, for example, reduce the starting fee or interest rate of the loan, or increase the initial principal limit or monthly pension.
2. **The public agency in charge streamlines RM with the country's public policies.** This is because public policy can inhibit or promote the development of the RM industry, substantially modifying incentives to use the instrument. For example, tax policy may or may not tax

flows originating in RM, and may or may not require the payment of property tax on properties under RM. Another example is that housing policy can favor the leasing of other properties, or the acquisition of one's own property. RM and other public

policies are adequately streamlined, the RM industry would be on a sound footing for effectively becoming the fourth pillar of the pension system, without operating as a peculiar element in conflict with existing public provision mechanisms.

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