Readiness of the Zimbabwe financial institutions to the establishment of Reverse Mortgages as a financial vehicle for the aged

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ABSTRACT

Zimbabwe is endowed with individuals who are asset rich but cash poor. Following the hyperinflationary period of 2007 to 2009 homeowners were left debts free as they were able to pay off for their properties at very low prices but the same are now getting meagre payouts in terms of pensions. This then has created an opportune time to establish the reverse mortgage market. The survey was used to assess the readiness of all financial institutions on the adoption of reverse mortgage. Questionnaires were administered to all financial institutions in order to elicit the options on managers. Findings show that the main condition for reverse mortgage to work has to do with willingness and ability of stakeholders, that is, employees and shareholders to use and accept it. The major factors that influences reverse mortgage were to do with those factors that pose financial risk to the consumer, namely, confidence in the market, tax issues, property prices and issues of indebtedness.

Key Words: Reverse mortgage, mortgages, financial institution, pensioner

1. INTRODUCTION

This research investigates the readiness of the Zimbabwe market to the establishment of a reverse mortgage market. In short, this market allows homeowners who would have reached retirement age, in most cases pensioners, to unlock asset value of their properties by getting regular payments for their homes without necessarily moving out of their homes until they either choose to move out or through death. This research was prompted by the realization that generally pension payouts are very low (National Social Security Authority (NSSA), 2015; Minerva, 2015). Meanwhile, most of the pensioners have housing wealth which they acquired during their working years either through mortgages or otherwise. This then creates a situation where pensioners are asset rich and cash poor but have no way of unlocking the liquidity locked in the properties. Reverse mortgage loan then allows homeowners to borrow against their home equity.

1.1 Background of the Study

1.1.1 The Concept of reverse mortgages

Reverse mortgage is a product that allows senior citizens to avail themselves of funds by mortgaging their residential property. The main difference between a reverse mortgage and a normal mortgage is that in a traditional “ordinary” forward mortgage, it is the borrower who pays a fixed amount to the lending institution but in reverse mortgages it is the lender who pays the borrower a fixed amount of money in a manner that he chooses (Rose, 2009). The amount can be paid on a monthly basis or as a lump sum figure but corresponding to a certain percentage of the value of the property. The loans are restricted to people who will have attained a certain age for instance, 62 years in the USA (Shan, 2009) while in India the minimum is 60 years (Pfeiffer et al., 2014; Nakajima and Telyukova, 2013). This is a financial product meant for retired people who are asset rich but cash poor to allow them to improve their cash flows and meet their medical bills and any other monetary expectations.

The major benefit of reverse mortgages is that the homeowners get loans from the bank while they continue to stay in the house. The loan is only due when they die or choose to move out of the house. The homeowner is also not subjected to any income qualifications and credit approval which is the major hurdle for getting an ordinary loan from a financial institution. The major drawback has been the costs on the product as it involves, origination fees, third party closing fees, mortgage insurance premium and servicing fee. There is also a high possibility of the home being sold in order to settle the loan and this wipes away an inheritance for the future generation.
1.1.2 Mortgage industry in Zimbabwe
The major businesses in the mortgage market in Zimbabwe are Building Societies which are registered under the Building Societies Act (Chapter 24:02) and regulated by the Reserve Bank of Zimbabwe. There are currently three registered Building Societies, namely Central African Building Society (CABS), FBC Building Society and Commercial Bank of Zimbabwe (CBZ) Building Society. Only CABS is currently offering 20 year mortgages while others offer at most 10 year mortgages. However, the Reserve Bank of Zimbabwe opened up mortgaging business to other financial institutions, not necessarily building societies, to come up with mortgage products in a bid to improve the mortgage related financing after realizing that in 2013, only 4% of the loans had been extended to the construction industry. According to RBZ (2014; p23) banking institutions are expected to take advantage of this initiative to offer mortgage banking products through the establishment of dedicated mortgage departments. As a result, commercial banks have established departments responsible for mortgages without necessarily registering as a building society. As a result, almost all commercial banks are now involved in mortgage financing and notably, BancABC, CBZ, MBCA and NMB have become significant players in offering mortgages to the public.

1.1.3 Background to Human life Trends in Zimbabwe
During people’s working years, they build resources so that they have a better future in those years when they are no longer able to work. This investment for the future is done in two ways, through own savings and through a pension scheme which is mandatory for any employee to belong to one. Own savings imply that the individual decides how much they have to save and in what form they have to make the saving. However, due to a combination of lack of investment education and lack of investment options in Zimbabwe, many individuals have found themselves investing more in property than in other asset classes. At retirement individuals are left with properties and very little to spend as most of the properties do not generate enough, if any, cash flows. The retirement age is associated with costs like medical bills which have significantly been on the rise and out of the reach of many for those in need of decent treatment, albeit on very low pension payouts. Private pension schemes pay on average $30 per month according to Minerva Consultancy, one of the biggest pension fund administrators in Zimbabwe while the government driven National Social Security Scheme (NSSA) pays a minimum of $56 as is a defined benefit scheme (NSSA, 2015; Minerva, 2015). For senior citizens, who have a lack of regular income or financial support from children, this could lead to a financial crisis.

Furthermore, some children have moved abroad while others have moved to the eastern suburbs leaving their parents to stay in the high density suburbs and in those cases even in the event of the parents dying, the children may not even make use of the property. In that case it may be necessary for financial institutions to consider products that enable elderly people to unlock the value stored in their homes now while they are still alive.

Trends in the Zimbabwean economy have created a situation where a number of individuals are asset rich, in the form of property, but cash poor. On a positive note, because of the hyperinflationary period of 2007 – 2009, most homeowners have clean balance sheets with no debt and rich in assets. The mortgages were rendered valueless by inflation such that people would write a cheque to pay up the outstanding balance. This created a very good platform for establishment of reverse mortgages in Zimbabwe as this product is tailor made for an asset rich and cash poor society. In some countries, reverse mortgage market has proved to be a solution allowing homeowners to borrow from financial institutions against their properties.

The attractiveness of these products, for a third world country like Zimbabwe, is that the large proportion of homeowners is in the low income but home owning category. As Tribunella and Tribunella (2014) noted, from a pure economic perspective, there are welfare and efficiency gains from such loans that tap into home equity and boost consumption. There is a smoothening of lifetime and inter-generational consumption through re-injection of locked equity into the economy.
1.2 Problem Statement
The increasing accumulation of wealth locked in illiquid housing stock around the world has generated interest in new financing instruments that would enable consumers and investors to tap into this source of funds for more productive use. Most senior citizens own houses for which they have no debt but at the same time are facing difficult living conditions because of lack of decent income despite having accumulated property assets during their working years. An asset rich and cash poor consumer has been the panacea for establishment of a reverse mortgage market. Little is known about the benefits of reverse mortgaging in Zimbabwe and whether the market is ready for such a product and hence the need for empirical enquiry and academic scrutiny. This research therefore seeks to investigate the readiness of the Zimbabwe market necessary for establishing a reverse mortgage loan market and the benefits derived from such an initiative.

1.3 Research Objectives
The objectives of this study are:

a) To explore the conditions necessary for reverse mortgages facilities in Zimbabwe;
b) To determine factors that affect establishment of Reverse Mortgage Market; and
c) To provide necessary recommendation for policy development

2. LITERATURE REVIEW
2.1 Reverse Mortgages
A reverse mortgage is a loan that enables senior homeowners to convert part of the equity of their home into tax-free income without having to sell the home, give up title or take on a new monthly mortgage payment, (Shan, 2009). Reverse mortgage loans (RML) can also be referred to as Equity Release Products (ERPs) or Home Reversion Schemes (Luiz and Stobie, 2010). Equity Release scheme is the term primarily used in Anglo-Saxon countries to describe both the process and the products that allow homeowners to secure substantial lump sums or regular income payments by realising part of the value of their homes, while being able to continue to live in it (Redfoot et al., 2007). In Australia, reverse mortgages are defined as an arrangement where the owner of a property mortgages that property to receive a regular income from the mortgage lender (and not vice versa), based on the equity value of the property (Bloomsbury Reference, Dictionary of Banking and Finance, 2003).

Although the definition and terms may vary slightly, all reverse mortgages share common attributes. A homeowner has to attain a certain age and he gets a loan against his home in a manner that he chooses. One of the selling points of this product has been its flexibility in how one receives his cash (Tribunella and Tribunella, 2014). The cash one gets from a reverse mortgage can be paid as: a single lump sum of cash; a regular monthly cash advance; a “credit line” account that lets the owner decide when and how much of their available cash is paid to them; or a combination of these payment methods.

Salter (2014) defined a reverse mortgage as a “mortgage in reverse”. The “reverse” in reverse mortgage refers the fact that unlike a regular mortgage where the borrower makes monthly payments, in this case it is the lender who makes monthly payments to the borrower. A reverse mortgage loan becomes due when the last surviving borrower dies (i.e. in the case of a husband and wife), or if the borrower chooses, during the life of the loan, to sell the house. The bank first gives an option to the next of kin to settle the loan along with accumulated interest, without sale of property. If the next of kin is unable to settle the loan, the bank then opts to recover the same from the sale proceeds of the property. Any extra amount, after settlement of the loan with accrued interest and expenses, through the sale of the property, will be passed on to the legal heirs. If the sale proceeds are lower than the accrued principal plus interest amount, the loss is borne by the bank. This loss could happen in cases where the banks original estimation is not in line with the real estate market movement.
2.2 History of Reverse Mortgage Loans

According to Bedwell, Carden, Kibble and Stables (2009) reverse mortgage loans (RMLs) started in the 1970s, through what were known in those days as sales and leaseback transactions in which a property was sold to a new owner, who simultaneously leased the property back to the seller, who became a renter of the home he or she had owned. However, these transactions were not popular because they were complicated and costly to negotiate. This led to reverse annuity mortgages and then later on to reverse mortgages. During that metamorphosis, there were risks that were encountered and that had to be addressed. Some of the risks included fluctuating interest rates and an uncertain mortality as some of the homeowners died soon after taking the contract.

Although the first reverse mortgage was done in 1961, it was only in 1977 that a more formalized transaction took place (Redfoot et al., 2007). However, these early transactions involved a certain fixed term after which the borrower would be expected to repay the loan and this was not popular with consumers as it did not allow them to stay in their homes until death. As a result by 1988 only about 1,000 transactions had been closed. The search for consumer friendly and marketable reverse mortgages started in earnest in 1980 when the US federal Administration of Aging (AoA) launched a 2-year research project on “home equity conversion” administered by Winsconsin Bureau of Aging (Redfoot et al., 2007). As a result of this research, the fixed term was then replaced with the open ended one that allowed consumers to stay in their homes for as long as they lived or wished for. The Home Equity Conversion Mortgage (HECM) insurance legislation was then signed into law in February 1988.

Ever since, reverse mortgages have been used to solve the problem of asset rich but cash poor consumers who are sitting on significant properties but with no cash. Statistics by Bishop and Shan (2008) indicate that Housing Wealth is often the largest non-pension wealth component for many elderly homeowners. The Survey of Consumer Finances (SCF) (2004) data suggest that for 27.8% of homeowners aged 62 or above, housing wealth represents at least 80% of their total wealth. In addition, 13.3% of homeowners aged 62 or above have a house-value-to-income ratio of at least 10. Economists believe that reverse mortgages have the potential to increase consumption of house-rich but cash-poor elderly homeowners while allowing them to continue living in their homes.

Hopson, Hopson and Vecchio (2009) and Taylor (2013) identified four factors that are important in the determination of the amount that can be borrowed in reverse mortgaging and these factors are: age; equity in the home; the interest rate; and the value of the home (which is capped at 95% of the median home price in the geographic area in which the borrower’s home is located)

Equity refers to that portion or part of the home that a house owner owns outright. If one has no mortgage on their home, then they own 100% of the equity. In other words, if that home is to be sold today, all the money from the sale would go to them. Figure 1 is a pictorial illustration of the life cycle of home equity for a consumer who takes a mortgage, from the conventional loan to the reverse mortgage loan.

Figure 1 shows that when an individual takes a forward mortgage and as they make periodic payments towards the home, they are increasing their stake in the home, which has been referred to as equity. When the mortgage is fully paid up then the individual assumes full home ownership and has no mortgage. At this stage home equity is at its peak, at 100%. At retirement, the retiree may want to unlock equity in the home by taking a reverse mortgage and as they receive periodic payments from the lender, they will be reducing their home equity. On death of the client or when the client chooses to move out of the house, the house is then sold and loan advanced is repaid. Since the value of the loan depends on age and value of property, then it follows that the older the borrower and the higher the value of the property then the higher the amount of loan that can be accessed by the borrower. The reasoning being that if someone is older, then “term to maturity” or the period until the person dies in order for the financial institutions to get its repayment is shorter (Redfoot et al., 2007).
2.3 How to calculate a reverse mortgage loan
Shan (2009) outlined how the amount a borrower receives is calculated:

Step 1: Determine the Maximum Claim Amount (MCA) which is the lesser of the property market value or the mortgage limit as set by the specific county rules in the USA.

Step 2: Determine the Initial Principal Limit (IPL) by multiplying the MCA by a factor between 0 and 1. The factor is determined by the borrower’s age and the expected interest rate at the closing of the loan, in other words, the future interest rates. The principal limit factor is designed in such a way that, the loan balance reaches the MCA at the time when the loan becomes due in expectation, and there are some assumptions factored in.

Step 3: Calculate the Net Principal Limit which is the amount the borrower can take as a lump sum in cash at closing, by subtracting from the IPL the upfront cost associated with the loan and a set-aside for monthly service fee.

2.4 Benefits of reverse mortgages
Reverse mortgages offer a number of benefits as studies have shown. Most authors tend to identify the same benefits despite the country or economy in which they would be studying. Firstly, Nakajima and Telyukova (2013) and Salter (2014) have shown that there are no income requirements which are usually a deal breaker in most loan applications. In all other loans, the borrower has to prove that he has a certain level of income and qualifies to borrow but with reverse mortgages, such requirement does not exist. This makes it possible for someone who is not employed to access the loans.

Secondly, there is no scheduled repayment requirement on a continuing basis and the repayment is on the ‘event occurrence’ basis mentioned above, that is death or when the homeowner decides to leave the house (Bardhan and Barua, 2003). When someone gets a loan from the bank, they sometimes struggle to meet the repayment obligations but reverse mortgage borrowers would not worry about that as the loan would be repaid right at the end. The third benefit is that, reverse mortgage is a non-recourse loan. As Neill and Kaplan (2007) put it, the homeowner cannot owe more that the value of the property at maturity and in the event that the principal and interest exceed, there is literally no recourse to any other source of funds except for the property that would have acted as security.
Salter (2014) also said that interest is tax deductible when paid and hence a benefit to the banking institutions. As an institution offers reverse mortgages, it creates a liability which reduces the amount on which it pays its tax. The institution can then choose to pass it to its customers or not. Another benefit to the customers is that, the line of credit cannot be called, reduced or cancelled (Nakajima and Telyukova, 2013)

2.5 Reverse Mortgage Conditions

2.5.1 Risk

Just like any other financial product, reverse mortgages are also prone to risk and likewise, there are basically two risks associated with the product that is default risk and market risk (McDonald and Thornton, 2008). Default risk refers to the probability that a borrower will fail to repay the loan according to the terms of the contract. This is when an issuer fails to meet the obligation of interest and principal payments. A single delay in an interest payment is considered a default. Market risk is defined as the risk related to the uncertainty of a Financial Institution’s earnings on its trading portfolio caused by changes, and particularly extreme changes, in market conditions such as the price of an asset, interest rates, market volatility, and market liquidity (Saunders and Connert, 2008 p75). Thus changes in interest rates result in market risk. Because mortgages tend to have a long life, up to 30 years, they tend to be exposed to a lot of market risk and a lot can happen during that 30 year period.

2.5.2 Regulation

The success of reverse mortgages also depends on the regulatory framework in which the market is operating. The annually conducted Banana Skin Reports named regulation as the number one risk for the financial sector in the 2005 and 2006 reports (Bedwell et al., 2009). This report is conducted regularly by the Center for Study of Financial Innovation in cooperation with Price Waterhouse Coopers. Shan (2009) highlighted that lenders with little experience in reverse mortgages often have to confront new and unfamiliar documentation and regulatory requirements. According to Caplin (2000) there are institutional impediments associated with this product because reverse mortgages sit at the intersection of many different, confusing, incomplete regulatory system and the incompleteness of these systems impacts on both demand and supply.

2.5.3 Knowledge of the product

Bedwell et al. (2009) identified lack of knowledge about the product as one of the reasons that had derailed growth of the reverse mortgage market. Based on 1999 and 2007 comparative survey figures done by AARP, the number of respondents who indicated that they had heard about reverse mortgages increased from 51% to 72%. The Harris polling organisations did a survey in 2007 as well and 64% of respondents had heard about reverse mortgages and this number was lower than those who had heard about other mortgage products. For instance 78% had heard about home equity loans, 74% on adjustable rate forward mortgages and 72% on forward fixed rate mortgages. Of those who had heard about reverse mortgages, only 15% said they were very knowledgeable while 34% said they were somewhat knowledgeable. This study, the researcher intends to find how the bankers themselves are knowledgeable about the product because if they are not knowledgeable about it then it would be difficult for this product to see the light of day.

2.5.4 Availability of a market

The first reverse mortgage in the USA was done in 1989 after Congress authorized the Department of Housing and Urban Development to do a pilot of 2,500 reverse mortgages which was increased to 25,000 in early 1990’s and increased again in 1996 (Caplin, 2010). However, the first serious attempt to clarify market potential was done by Venti and Wise (1991) using SIPP data. Their research confirmed that many elderly households live primarily on pension outcome, and that housing equity is the only asset available that could possibly increase their consumption. They estimated the median increase in annual income from such an annuity at around 10%. Rasmussen et al. (1995) showed that even when attention is restricted to
households sixty nine or older with income less than $30,000, there are 3 million who would gain at least 25% from reverse mortgages.

2.6 Factors affecting uptake of reverse mortgages

2.6.1 Housing Wealth
One of the main key drivers of the RML market is the percentage composition of housing wealth to a consumer’s total wealth. (Luiz and Stobie, 2010). Mitchell and Piggott argued that an owner occupied home is illiquid and from an asset allocation viewpoint, undiversified and as a result elderly households have lower incomes and yet on average possess greater housing wealth. Shan (2009) suggests that for 6.5 million homeowners aged 62 or above, housing wealth represents at least 80% of their total wealth. Studies show that in an environment where home equity to income ratio is increasing, reverse mortgages uptake would be most likely high. Although some researches looked at the proportion in relation to net worth and others, as a proportion of total wealth, the general trend is that the proportion in housing is too significant and cannot be ignored. It was also noted that through reverse mortgages, older homeowners were able to enjoy a more comfortable retirement without selling their homes.

2.6.2 Increased Life Expectancy
Life expectancy can improve as a result of increased health which leads to an active lifestyle into retirement, according to the Actuarial Profession (2005). For instance in Britain, life expectancy for males has increased sharply from 40 years in 1841, 49 years in 1900 and 76 years in 2000 and is projected to rise to 79 by 2020 (Actuarial Profession, 2005). This increase in life expectancy leads to an aging population. Sisk (2005) identified longevity as a “key selling point” noting that people are living longer and health expenses are outpacing inflation consistently. However in the case of Zimbabwe, life expectancy is getting shorter (Zimstats, 2015) due to diseases and poor living conditions. This decrease in life expectancy is a positive development for this kind of product since “term to maturity” would be reduced. Retirement age in Zimbabwe is 65 years although there are some cases where people can go on early retirement at 60 years like in the civil service.

2.6.3 Poor retirement planning and saving trends
According to Mitchell and Moore (1997), households saving rates dropped from over 10% in the 1950s to around 3% in the 1990s. This then raises concerns about the citizens’ ability to maintain consumption levels in old age. In successive budget statement by Zimbabwe’s Ministers of Finance in 2013 and 2014, government bemoaned the poor savings in the country. The working class has a low salary to take them from one month to another and let alone to save. This is not peculiar to Zimbabwe as Rose (2009) also noted the poor saving culture in the US such that nearly 43% of working individuals over the age of 55 years had less than $50,000 in savings, excluding home equity. In Zimbabwe consumers are spending almost all on consumption.

2.6.4 Decreasing employer and state support
As a result of an increasing aging population, government support to older people has been decreasing in many countries (Davey, 1998). This then shifts the responsibility of looking after the welfares of retirees to the retirees themselves and their families. Similarly, the government here in Zimbabwe does not have the fiscal space to accommodate its social responsibilities on the aged. The national budget is currently unbalanced with 92% going towards consumption while only 8% is channeled to capital projects (Zimbabwe National Budget, 2015). Reverse mortgages help to take some of these responsibilities away from government in this difficult period.
2.6.5 Property prices boom and interest rates
When property prices increase like what happened in the property boom in the USA in the 1990s, this results in significant value being embedded in residential property market. While it may be subjective on the real direction of property prices, a report by Oyster Real estate (2014) shows that the Zimbabwe property sector has been on the decline with rental arrears increasing from 14% to 20%, rentals decline to an average of $5 from $8 and occupancy levels declining. This situation would be a negative for reverse mortgages since home owners may not be willing to release their properties at current depressed value. There is a general assumption that that the current tough challenges are temporary and things will get better in the future and the property values could be restored.

2.6.6 Tax Implications
Fischer-French (2011) noted two tax benefits of using RML, that the draw-downs on the loan are not taxable and that the estate, or equity, is reduced towards the time of death such that estate duty to be paid will be lowered.

2.6.7 Attitudes towards indebtedness
According to Davey (2005), the current older generation is traditionally risk averse and financially conservative. According to Bailey (2005), Australians are generally uncomfortable with debt as many people still want to “leave something for the kids”. While it is understandable that a 40 year old would wish to leave a house to his children, surely a 90 year old owes nothing to his children who will be 50 years or 60 years old and probably owning much better houses themselves. However, the benefit of reverse mortgages is that they would permit elderly homeowners to fine tune the amount of bequest (as dictated by the value of the property) which they might choose to leave to their heirs, (Bartel and Daly, 1980). For illustration, an elderly homeowner of a property valued at, say, $200,000 can choose to spend $80,000 of that property and leave the balance to his heirs. But that is only possible in an environment where reverse mortgages exist because of the indivisibility of property assets. Luiz and Stobie (2010) state that while the use of reverse mortgages is not particularly popular among elderly homeowners today, this may change over with the next generation. Bailey (2005) also identified a changing consumer attitude towards inheritance, suggesting that many were now “more willing to release their home equity rather than passing the maximum amount possible down to their children”.

2.6.8 Confidence in the market
The market already has existing products and in most cases the demand for existing products may be low. As Caplin (2000) puts it, “If the market was important, surely it would be here today”. Older people are wary of an investment scheme that puts risk to their only asset. This then raises suspicion about the market.

2.6.9 Rainy day approach
Many older people believe in preserving their assets for some unknown emergency in the future. Others however believe that their rainy day has already come and something needs to be done about enhancing their living standards while they are still alive (Davey, 2005).

2.6.10 Expectations from government
Older people have often seen it as a right as citizens to get assistance from government especially for the service they gave to the nation during their working years. As a result, they are reluctant to draw down on their housing assets (Davey, 2005). In USA, social security benefits provide 42.5% of retired people’s income while individual savings and personal investments provide approximately 36% and Employer and individual retirement accounts provide approximately 21.5% (Rose, 2009). Generally, people expect government schemes
to play a leading role in supplementing their lives in retirement and the government of Zimbabwe has
created a ministry to deal with its social responsibility but due to lack of fiscal space, the government has
found it difficult to honour that obligation. And as homeowners realise that the government is handicapped,
they would see the benefits of turning to their own life savings and find it prudent to unwind the liquidity
locked in their property investments.

2.6.1 Costs
The Australian Securities and Investments Commission (ASIC, 2005) states that costs can be assessed upfront
with certainty. A number of variables have varying proportions like, initial and ongoing fees, interest charges,
rental costs and licence costs as well as equity foregone.

2.6.12 Fear of taking risks
Risk is two pronged and at different levels between the risk feared by lenders and that of borrowers. A survey
in Australia by Bailey (2005) identified main risks to their customers as interest rates unexpectedly spiking,
the potential to lose control of their house and the temptation to borrow too aggressively, too early, and be
unprepared for later medical emergencies. On the other hand financial advisers were afraid of the following
risks; the potential to give misleading or poorly times advice on a complex product, the lack of regulatory
control in the area and the reputational damage flowing on from these.

3. RESEARCH METHODOLOGY
This study is explanatory. Although this is a fairly new product which will be premised in the banking
sector, the banking sector is already well established and well regulated. During the course of this research,
CABS launched an equity release product on 01 January 2015 which is a form of reverse mortgage although
the main difference is that the CABS product is targeting homeowners without restricting it to pensioners
and the repayment period is 5 years. Which means the variables and factors at play in the sector are known.
What the research wishes to establish though is whether these factors and the condition would favour the
establishment of a reverse mortgage market in Zimbabwe. The researchers used the survey strategy. In this
study, the population is all banking institutions in Zimbabwe. In this study, the researcher used a combination
of random sampling and stratified sampling methods.

4. DATA PRESENTATION AND ANALYSIS
4.1 Reliability
The instrument scored a high score on the reliability test as measured by the Cronbach’s alpha of 0.792. A
good instrument should have a Cronbach Alpha which is greater than 0.6. This implies that the results from
the research instrument can be relied on as there is a high probability of valid and consistent results. Data
transformation led to 5 different constructs namely; Conditions, factors, challenges, reverse mortgage market
and performance, as outlined in the conceptual framework. Table below shows the reliability tests for each
construct as well.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Number of Items</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMM</td>
<td>5</td>
<td>0.783</td>
</tr>
<tr>
<td>Conditions</td>
<td>7</td>
<td>0.778</td>
</tr>
<tr>
<td>Challenges</td>
<td>5</td>
<td>0.791</td>
</tr>
<tr>
<td>Factors</td>
<td>14</td>
<td>0.785</td>
</tr>
<tr>
<td>Performance</td>
<td>4</td>
<td>0.784</td>
</tr>
<tr>
<td>Overall Cronbach’s Alpha</td>
<td>60</td>
<td>0.792</td>
</tr>
</tbody>
</table>
The number of items, indicate the number of questions under each construct, for instance, there were 5 questions under the reverse mortgage (RMM) variable and this variable yielded a Cronbach Alpha of 0.783. All variable had high reliability levels an indication that the participants gave consistent and valid responses.

4.2 Conditions affecting reverse mortgage market

Table 2: Responses on conditions

<table>
<thead>
<tr>
<th>Condition</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The current operating environment is ideal for a Reverse mortgage market</td>
<td>49%</td>
<td>39%</td>
<td>9%</td>
<td>1%</td>
<td>1%</td>
<td>88%</td>
</tr>
<tr>
<td>The current regulation does not pose a challenge to do reverse mortgaging</td>
<td>28%</td>
<td>44%</td>
<td>8%</td>
<td>15%</td>
<td>6%</td>
<td>72%</td>
</tr>
<tr>
<td>The Management team is willing to start Reverse Mortgages</td>
<td>15%</td>
<td>40%</td>
<td>22%</td>
<td>21%</td>
<td>2%</td>
<td>55%</td>
</tr>
<tr>
<td>The current shareholders are willing to offer reverse mortgages</td>
<td>13%</td>
<td>34%</td>
<td>33%</td>
<td>17%</td>
<td>2%</td>
<td>47%</td>
</tr>
<tr>
<td>The bank has the capacity to offer Reverse Mortgages</td>
<td>26%</td>
<td>37%</td>
<td>8%</td>
<td>20%</td>
<td>9%</td>
<td>63%</td>
</tr>
<tr>
<td>The bank is able to mobilize financial resources in order to offer reverse mortgages</td>
<td>34%</td>
<td>41%</td>
<td>2%</td>
<td>16%</td>
<td>5%</td>
<td>75%</td>
</tr>
<tr>
<td>There is a market for Reverse mortgage product</td>
<td>44%</td>
<td>49%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
<td>93%</td>
</tr>
</tbody>
</table>

SA= Strongly Agree; A=Agree; N=Neutral; D=Disagree; SD=Strongly Disagree;

Table 2 shows that there was an overwhelming response on how ideal the current environment is in as far as the introduction and success of reverse mortgaging is concerned with 88% agreeing (49% SA, 39% A) that the environment is ideal. Similarly, 72% also agreed (28% SA, 44% A) that regulation was not a challenge. There was however, a split vote on the willingness of management and shareholders with only 55% agreeing (15% SA, 40% A) that management was willing and 47% agreeing (13% SA, 34% A) that shareholders were willing. On the banks’ capacity to offer the product as well as their abilities to mobilize financial resources the results were positive with 63% saying the banks had the capacity (26% SA, 37% A) while 75% also believe that banks are able to raise financial resources (34% SA, 41% A). There was also an overwhelming response on the availability of a market for the product with 93% (44% SA, 49% A) being of the opinion that the market for reverse mortgaging is there.

The results above indicate that generally the current conditions are ideal and reverse mortgages would blossom in this environment. The only areas that seem to be the stumbling block seem to be the willingness of shareholders and management who are the main participants in as far as launching a new product is concerned. If the environment is ideal, regulation is not an inhibiting factor and there is a potential market for the product, then the logical explanation as to why reverse mortgages had not been established up to now is that the management and shareholders have not realized the potential of this product or do not have a full appreciation of the product.

Table 3: Factor analysis for conditions

<table>
<thead>
<tr>
<th>Component</th>
<th>Total Variance Explained</th>
<th>Initial Eigenvalues</th>
<th>Rotation Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>3.107</td>
<td>44.39</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>1.236</td>
<td>17.653</td>
</tr>
</tbody>
</table>

Table 3 shows that only 2 factors are necessary for this variable and these two factors account for a variation rate of 62%. Using the rotation sum of squares method, the first factor accounts for variation of 36% while the second factor accounts for 26% of variation.
Table 4: Rotated component matrix for Conditions

<table>
<thead>
<tr>
<th>Rotated Component Matrixa</th>
<th>Component 1</th>
<th>Component 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders willingness</td>
<td>.839</td>
<td></td>
</tr>
<tr>
<td>Resource Mobilisation</td>
<td>.828</td>
<td>.768</td>
</tr>
<tr>
<td>Capacity of Bank</td>
<td>.756</td>
<td>.744</td>
</tr>
<tr>
<td>Management willingness</td>
<td>.722</td>
<td>.713</td>
</tr>
<tr>
<td>Market regulation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market availability</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Table 4 is known as a Rotated Component Matrix and it displays the loadings for each item on each rotated component, showing which items make up each component. There are two components here and the first component comprises of shareholders willingness, resource mobilization, capacity of bank and management willingness while the second component comprises of market regulation, operating environment and market availability. The next stage was to identify a common theme for the factors in the two components and the researchers decided to rename the factors as ‘Stakeholder’ factor and ‘Environment’ factor respectively. The researchers were of the opinion that factors under component 1 were influenced by actions of the key stakeholders in an institution that is, employees and shareholders. Similarly, factors under component 2 were influenced by the operating environment. Thus, the transformed data indicates that for this study the main conditions for successful establishment of a reverse mortgage market are stakeholder considerations and environmental considerations.

4.3 Factors affecting uptake of reverse mortgages

<table>
<thead>
<tr>
<th>Table 5: Responses on Factors</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property value to income ratio of consumers is increasing</td>
<td>42.52%</td>
<td>51.72%</td>
<td>2.29%</td>
<td>3.44%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Life expectancy in Zimbabwe is decreasing</td>
<td>5.74%</td>
<td>33.33%</td>
<td>5.74%</td>
<td>43.68%</td>
<td>11.49%</td>
</tr>
<tr>
<td>There is a poor retirement planning culture in Zimbabwe</td>
<td>51.72%</td>
<td>41.37%</td>
<td>2.29%</td>
<td>4.59%</td>
<td>0.00%</td>
</tr>
<tr>
<td>There is a poor saving culture in Zimbabwe</td>
<td>55.17%</td>
<td>39.08%</td>
<td>3.44%</td>
<td>2.29%</td>
<td>0.00%</td>
</tr>
<tr>
<td>State and Employer support to retired people is decreasing</td>
<td>20.69%</td>
<td>43.68%</td>
<td>4.59%</td>
<td>25.28%</td>
<td>5.74%</td>
</tr>
<tr>
<td>Property prices are increasing</td>
<td>18.39%</td>
<td>24.14%</td>
<td>12.64%</td>
<td>35.63%</td>
<td>8.04%</td>
</tr>
<tr>
<td>Current tax laws do not hinder development of new products</td>
<td>14.94%</td>
<td>39.08%</td>
<td>8.04%</td>
<td>37.93%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Depositors do not have a fear for indebtedness</td>
<td>5.74%</td>
<td>52.87%</td>
<td>3.44%</td>
<td>33.33%</td>
<td>4.59%</td>
</tr>
<tr>
<td>Confidence in the banking sector is low</td>
<td>47.12%</td>
<td>48.27%</td>
<td>2.29%</td>
<td>0.00%</td>
<td>2.29%</td>
</tr>
<tr>
<td>It is not difficult to dispose of a property that would have been lodged as security</td>
<td>18.39%</td>
<td>14.94%</td>
<td>10.34%</td>
<td>43.67%</td>
<td>12.64%</td>
</tr>
<tr>
<td>People are not worried about the cost on their loans</td>
<td>14.94%</td>
<td>20.68%</td>
<td>8.04%</td>
<td>35.63%</td>
<td>20.68%</td>
</tr>
<tr>
<td>People are worried about leaving an inheritance</td>
<td>57.47%</td>
<td>42.53%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>People are not afraid of taking risk</td>
<td>1.14%</td>
<td>22.98%</td>
<td>19.54%</td>
<td>43.67%</td>
<td>12.64%</td>
</tr>
<tr>
<td>Pension payouts are low</td>
<td>55.17%</td>
<td>36.78%</td>
<td>8.04%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>
Table 5 shows that 58.3% of respondents agreed (5.7% SA and 52.9% A) with the proposition that consumers have no fear of indebtedness. In other words people have no fear of taking debt if though they know they already have an existing debt to such an extent that one would take a loan at work, another loan from the bank and then another loan from his circle of friends. On the issue of the current tax laws, 54% were of the opinion that the current tax laws are not an inhibiting factor in as far as new products in the banking sector are concerned. However, on the issue of risk, 56.3% of the respondents believe that people are afraid of taking risk and this could work against the potential of the market.

### Table 6: Factor Analysis for factors affecting reverse mortgages

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Rotation Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total % of Variance</td>
<td>Cumulative %</td>
</tr>
<tr>
<td>1</td>
<td>3.377</td>
<td>24.118</td>
</tr>
<tr>
<td>2</td>
<td>2.173</td>
<td>15.524</td>
</tr>
<tr>
<td>3</td>
<td>1.71</td>
<td>12.212</td>
</tr>
<tr>
<td>4</td>
<td>1.422</td>
<td>10.156</td>
</tr>
</tbody>
</table>

Table 6 shows the results of factor analysis done on the factors affecting reverse mortgaging. Thus there are only four components that can be extracted. These are the factors that met the cutoff point of eigenvalues greater than 1. It also shows that Component 1 accounts for 21.98% of the variability of all the 14 factors while Component 2 accounts for 14.2% and so on such that the four components have a combined 62.01% variability. The cut off eigen value was 1 and hence only components with eigen values greater than 1 were displayed. These results show that instead of having 14 factors, these have now been reduced to only four components as shown below.

### Table 7: Rotated Component Matrix for factors

<table>
<thead>
<tr>
<th>Rotated Component Matrix</th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Indebtedness fear factor</td>
<td>.804</td>
</tr>
<tr>
<td>Tax Factor</td>
<td>.802</td>
</tr>
<tr>
<td>Low property Prices factor</td>
<td>.753</td>
</tr>
<tr>
<td>Attitude to Risk factor</td>
<td>.744</td>
</tr>
<tr>
<td>Banking confidence factor</td>
<td>.599</td>
</tr>
<tr>
<td>State and Employer support Factor</td>
<td>.771</td>
</tr>
<tr>
<td>Wealth to Income Factor</td>
<td>.721</td>
</tr>
<tr>
<td>Legacy factor</td>
<td>.616</td>
</tr>
<tr>
<td>Poor saving culture factor</td>
<td></td>
</tr>
<tr>
<td>Low life expectancy Factor</td>
<td></td>
</tr>
<tr>
<td>Poor retirement planning factor</td>
<td></td>
</tr>
<tr>
<td>Costs factor</td>
<td></td>
</tr>
<tr>
<td>Pension payout factor</td>
<td></td>
</tr>
<tr>
<td>Interest rate Factor</td>
<td></td>
</tr>
</tbody>
</table>

*Extraction Method: Principal Component Analysis.*

*Rotation Method: Varimax with Kaiser Normalization.*
Table 7 shows the four components and the factors that fall under each component. Component 1 comprised of Indebtedness fears, Tax, Low property prices, Attitude to risk and banking confidence and the common theme about these factors is financial risk since all the factors involve incidental risks or risks arising naturally from the activities of a business. These factors result in losses on the part of the consumers. Component 2 comprised of State and employer support levels, wealth to income ratio and legacy issues and the common theme here was the Social welfare factor since the factors are to do with social welfare and up keeping. Component 3 comprised of poor saving culture, low life expectancy and poor retirement planning and the common theme was financial planning. The last component involved the factors; cost, pension payout and interest rates and the common theme was Cost since these factors relate to items that cost the consumer.

5. CONCLUSIONS
5.1 Conditions under which reverse mortgages can be successful
The research concludes that the main conditions that influence reverse mortgages are stakeholders and environmental conditions. Stakeholder conditions are to do with willingness and ability of employees and shareholders while environmental factors encompass regulatory issues and availability of a market. In addition, the research concluded that it is the desire and willingness of management and shareholders that can shape the future of the reverse mortgage market despite what the environment looks like. The environment itself is ripe for the product as research has shown that the regulatory framework is not challenging and that the market for reverse mortgages is already there. In short, the Zimbabwean market conditions are ready for reverse mortgaging.

5.2 Factors affecting reverse mortgages
This research concludes that there are three factors that affect establishment of reverse mortgage market. The financial risk factors, however, remain dominant and these are factors that could result in potential loss to the borrowers; like market confidence, tax issues, property prices and issues of indebtedness. This was followed by the cost factors and financial planning factors. Social welfare factors like government support and legacy issues have been shown to have less significance. Thus, consumers are more worried about those factors that could lead them to losing their finances like what happened in the banking crisis of 2003 where consumers lost through bank closures and curatorship.

6. RECOMMENDATIONS
6.1 Management
The study recommends that management should think outside the box and not restrict themselves to the traditional banking products like current and savings accounts only but pursue other products that bring a balance between economic development and ensuring that any borrowings are adequately secured. Management also needs to look at their mortgage pricing policies since this research has highlighted that consumers are worried about costs of the products.

6.2 Regulator
The main factors that affect the reverse mortgage market are those factors that affect the risk of losses on the part of the consumers and as a result the researcher recommends that the regulator puts policies that improve confidence to depositors.

REFERENCES


Oyster Real Estate H1 Property Market Report.


