The Implementation of Reverse Mortgage in Sweden

- A Financial Institution Perspective

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Spring semester 2013
Degree project, 30 hp

Acknowledgement

The authors would like to thank the individuals who in some way have contributed to this work. First, and perhaps most, the authors would like to thank their supervisor Catherine Lions who has with her knowledge continuously provided with feedback and inspiration to the authors of this thesis. Second, the authors would like to thank the interviewees that allowed the authors to gather the data necessary by participating in this research. Third, the authors would also like to thank the fellow students who have provided with useful insights during work in progress seminars. Fourth, the authors would like to express their gratitude towards Umeå School of Business and Economics for giving the authors access to facilities needed in order to complete the thesis. Last, but not least, the authors would like to thank their families for being supportive and understanding of the endeavors that young academics often get themselves into.

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May, 2013

Abstract

The purpose of this research is to understand and describe the causes affecting the financial institutions' implementation of reverse mortgage in Sweden as well as the consequences of a large scale implementation, shedding some new light upon the issue of reverse mortgages. This was done from a financial institution point of view. As existent literature in this field of research is currently small in extent, especially in a Swedish context where almost no academic literature has been written, it serves as an exploratory research. From a researcher's point of view it could hopefully give interesting insights on how new financial products are implemented in general, shedding some light on possible difficulties that may arise during these processes. The research was designed using a qualitative research method. In order to investigate the issues presented several individuals were interviewed from different financial institutions offering various kinds of reverse mortgages in Sweden. Interviews were semi-structured and only the six financial institutions that offer reverse mortgage in Sweden were included. The findings made, as well as the interview questions, were divided into several different sections adopted from the theoretical framework so as make the research more comprehensible and stringent. Because the research design is of exploratory nature it evolved over time, as the authors did not know initially what they would find. The findings provided many interesting insights that were not thought of before. Three major themes were found that could help explain the causes affecting the financial institutions' implementation of reverse mortgage in Sweden as well as the consequences of a large scale implementation. These themes were age, generation, mentality, macro economical factors, and financial institutions offering reverse mortgage.

Keywords: consumption pattern, credit, exploratory study, finance, financial institution, home equity, loan, real estate, retirees, reverse mortgage, savings, Sweden

Glossary

Amortization – "*The paying off of debt in regular installments over a period of time"* (Investopedia, 2013a)

Equity – "*In the context of real estate, the difference between the current market value of the property and the amount the owner still owes on the mortgage. It is the amount that the owner would receive after selling a property and paying off the mortgage*" (Investopedia, 2013b)

Financial institution – "*An establishment that focuses on dealing with financial transactions, such as investments, loans and deposits. Conventionally, financial institutions are composed of organizations such as banks, trust companies, insurance companies and investment dealers*" (Investopedia, 2013c)

Financial product – "*a product that is connected with the way in which you manage and use your money, such as a bank account, a credit card, insurance, etc."* (Cambridge Business English Dictionary, 2013)

Liquidity – "*Liquidity is the amount of capital that is available for investment and spending*" (US Economy, 2013)

Mortgage – "*A debt instrument that is secured by the collateral of specified real estate property and that the borrower is obliged to pay back with a predetermined set of payments. Mortgages are used by individuals and businesses to make large purchases of real estate without paying the entire value of the purchase up front*" (Investopedia, 2013d)

Market cannibalization – "*The negative impact of a company's new product on the sales performance of its existing related products*" (Investopedia, 2013e)

Principal amount – "*The amount borrowed or the amount still owed on a loan, separate from interest*" (Investopedia, 2013f)

Term to maturity – "*The number of years within which the issuer of debt promises to meet the requirements of an indenture agreement*" (Financial Dictionary, 2013).

Table of Contents

List of Figures

List of Tables

1. Introduction

The chapter begins with an explanation of the problem background. It continues with the problem statement, where also the research question is included. Furthermore, the purpose of the thesis is defined. Lastly, the research gap and contribution are presented as well as limitations of the thesis.

1.1. Problem background

Rose, (2009, p. 67) explains that for many decades the trend among Americans has been to save less money for their retirement, but at the same time owning a house has become more common. Furthermore, it is stated that in the United States (U.S.), as the baby boomers of the 1940-50's continue to enter into retirement, many of these new retirees find themselves short of income. Nevertheless, many of these retirees still have a lot of equity in their homes. Considerable amounts of home equity, insufficient personal savings and low pension rates have paved the way for a new financial product – reverse mortgages.

Reverse mortgage is a relatively new financial phenomenon, emerging for the first time in the 1980's when it was created by the U.S. Department of Housing and Urban Development, more commonly known as HUD (Godfrey & Malmgren, 2006, p. 35). This new type of mortgage enables senior citizens to increase their cash flow by converting home equity into cash. In contrast to normal mortgages, reverse mortgages build upon the fact that the bank (or some other financial institution) purchases your home "piece by piece", paying you cash in exchange for home equity. When the homeowner dies, sells the house or permanently moves out, the cash conversion stops and the loan becomes due. At that time the lender will, in most cases, receive the loan payment balance through the sale of the home. However, if the family wishes to keep the house they can choose to pay the mortgage by other means. (Godfrey & Malmgren, 2006, p. 35) In short, it is a type of mortgage in which a homeowner can borrow money against the value of the home without making continuous interest or amortization payments. Hence, the loan is structured in such a way that it will not exceed the value of the home. (Lynch & Prior, 2012, p. 42)

Reverse mortgages are most commonly occurring in Australia, Canada and the U.S. From 2000 and up until the financial crisis of 2008 reverse mortgages experienced a rapid growth in the aforementioned countries. The financial crisis however dampened the expansion of reverse mortgages – if only brief – as they started growing in popularity again during 2011, especially in Australia. (Santow, 2011) The main reason behind the decrease in popularity during the financial crisis, especially in the U.S., was due to the rapid drop in housing prices that occurred. When the housing prices depreciated so did the potential of reverse mortgage (Shan, 2011, p. 744). Shan (2011, p. 744) show that housing prices have an impact on the popularity of reverse mortgages; higher housing prices induce a higher demand while the opposite is the case for lower housing prices. This might help explain why reverse mortgages experienced such a drop in popularity during the financial crisis.

To qualify for a reverse mortgage one must be of a certain age (62 or above in the case of the U.S.) and have a certain amount of home equity (Shan, 2011, p. 743). A typical customer could be an elderly couple with a low pension but with a considerable amount of home equity and a will to stay in their current home. Often, elderly homeowners are “house-rich” but “cash-poor”, meaning that the majority of their wealth is based upon house equity, which makes them the ideal target group for reverse mortgages. This is shown by the data gathered through the Survey of Consumer Finances (SCF), where it is suggested that 6.5 million homeowners in the U.S. (or a quarter of the survey total), aged 62 or above, have a housing wealth that make up for 80 percent of their total wealth. (Shan, 2011, p. 744)

There are several benefits of having a reverse mortgage. The concerned debtor(s) may draw benefits from the fact that they can keep the home and still receive cash. Borrowers can, in other words, stay in their homes while they are converting their equity into cash, without having to make any amortizations. In addition, older borrowers are often able to obtain larger monthly advances due to having a shorter life expectancy. Consequently, the older you are when you undertake a reverse mortgage, the larger the monthly advances are going to be. This, for example, is the case of Svensk Hypotekspension (SHP), which is a financial institution offering reverse mortgage in Sweden. (SHP, 2013)

Moreover, Godfrey & Malmgren (2006, p. 40) mentions several drawbacks with having a reverse mortgage, with one being the expenses connected to short-term borrowing. Since reverse mortgage often require a considerable amount of start-up fees, insurance premiums as well as service fees it can be quite expensive if the borrower dies, or for any other reason moves out of the home prematurely. Also, the loan cost of a reverse mortgage is based on the home value or the loan limit, not the desired amount that the homeowner wants to borrow. If the desired amount is small, closing costs and other associated costs are large relative to the amount received. Another drawback is the fact that there will be nothing left over to the heirs, seeing as the house will go to the bank. Thus, the inheritance will be quite small or close to zero. (Godfrey & Malmgren, 2006, p. 40)

In Sweden reverse mortgage is a rather new phenomenon. Because of this, it is hard to find information and academic literature about reverse mortgage in Sweden. The authors of this thesis found that six Swedish financial institutions offer some type of reverse mortgage however the awareness of these products seems low among the target group. The institutions, on their part, have not done much to raise this awareness. In addition, real estate prices have boomed during the recent decades, increasing the amount of home equity for many elderly homeowners, and thus increasing the potential of reverse mortgage (Statistiska Centralbyrån (SCB), 2013). Moreover, at the present there is no real estate tax in Sweden as the centre-right government abolished it after they took office in 2006. A governmental shift in the election of 2014 may cause the real estate tax to return. This would affect those homeowners that have the majority of their wealth consisting of home equity, as they would need more liquidity to pay the tax. At the same time, regardless of what happens to the real estate tax, many older homeowners already have a lot of home equity but maybe not sufficient liquidity to live their daily life. A reverse mortgage could change this.

From a financial institution point of view, reverse mortgage might be a good way to help older homeowners release liquidity and at the same time make money. With the above factors in mind, Sweden ought to be an attractive market for institutions offering reverse mortgage. Due to these facts, the authors of this paper find it interesting to examine the causes and consequences of implementing reverse mortgage from a financial institution perspective, as well as to look at their future potential for financial institutions to increase sales of this financial product in Sweden.

1.2. Problem Statement and Research Question

Based on the problem background, the authors believe that there are insufficient research made on the subject of reverse mortgage in Sweden and, more specifically, the causes behind the implementation of reverse mortgage and the consequences of a large scale implementation. Therefore the authors argue that the research gap lies in the examination of the potential for reverse mortgage in Sweden and what causes affecting and consequences a large scaled implementation may bring.

One can view the problem from many perspectives however this thesis will focus on reverse mortgage from a financial institution perspective. In order to fill the research gap and address the issue of reverse mortgage in Sweden the authors aim to answer the following research question:

- *What are the causes affecting and consequences of financial institutions implementing reverse mortgage in Sweden?*

1.3. Research purpose

Research made within the area of reverse mortgage is not so extensive and existing research focuses mainly on the U.S, Canada and Australia, limiting the geographical spread (Santow, 2011). With this in mind, the authors of this thesis believe that the research question is of importance, both in theory and practice as it examines an academic area unexplored in terms of causes and consequences of reverse mortgage in Sweden. In addition, the rising real estate prices in Sweden and the liquidity problems of some older homeowners contribute to the fact that research within this field may be of importance.

The purpose of this research is to understand and describe the causes affecting the financial institutions' implementation of reverse mortgage in Sweden as well as the consequences of a large scale implementation, shedding some new light upon the issue of reverse mortgages. In order to clarify for the reader, the authors have decided to define the meaning of a "large scale implementation of reverse mortgage in Sweden" as: the product gets well known for the public, readily available in the whole country and offered as any other product by virtually every financial institution in Sweden. To exemplify, the reader could imagine reverse mortgage being as available and well-known as saving in a mutual fund or undertaking a regular mortgage. The research will be done from a financial institution perspective, thus examining how these institutions look upon this – for Sweden – rather new financial product. In order to have a financial institution perspective the authors will interview all six financial institutions in Sweden currently offering reverse mortgage in Sweden. The research will not only serve as a research regarding the issue of reverse mortgages and its respective implementation, but hopefully also on how new financial products are implemented in general and what eventual difficulties may be during the process. From a researcher's point of view this research may bring new findings regarding the process of implementing financial products in Sweden, mainly reverse mortgages. From a financial institution point of view, this research may serve as an additional source of information regarding reverse mortgage, specifically in Sweden.

1.4. Research gap and contribution

Reverse mortgages have experienced a surge in popularity in the U.S., Canada and Australia during recent years (Santow, 2011). As it now spreads to other parts of the world the authors believe that it is an appealing topic to look into. Seeing as there are almost no studies made on the topic of reverse mortgages specifically for Sweden contributes to the fact that it is an interesting research topic. Thus, conducting research about the causes affecting the implementation of reverse mortgage and the consequences of a large scale implementation in Sweden from a financial institution perspective seems to bridge a research gap. Bridging this research gap could be a scientific contribution, as the results could be useful to researchers as well as for financial institutions and private persons. The research could contribute to researchers, financial institutions and their customers in the ways described below.

Firstly, previous research about reverse mortgages mainly focus on describing the mechanics behind it and its historical development. However, the authors of this thesis have found no research explaining the causes affecting the implementation of reverse mortgages in Sweden from a financial institution perspective and the consequences of a large scale implementation. Further exploring this would give insights on how these institutions view the implementation of new financial products and instruments and what effects this might have, both reverse mortgages but also in a more general sense. This information can in turn be used to better plan and prepare for future implementations so as to limit the potential errors that could be made when introducing a new financial product.

Secondly, by undertaking this research the authors will gather valuable information regarding the public availability of the new financial product. As for example Lynch & Prior (2012, p. 47) states, reverse mortgages is a quite complicated and therefore often an intimidating option for retirees to use in order to receive extra liquidity. Therefore financial institutions could gain valuable information regarding how this particular segment, i.e. retirees, positions itself towards financial products - especially products that are new and unfamiliar. By conducting this research they could then gain insights on how to design, for example, marketing campaigns and other things in an optimal way, so as to communicate with customers and such in the best way possible. In addition, it would be interesting to see the consumption and savings patterns among the Swedish public through the view of these institutions and how this pattern could be affected by a large scale introduction of reverse mortgages. Because reverse mortgages are almost entirely used by retirees this thesis will contribute by supplying information on how retirees evaluate and use their assets. The authors have not found any literature regarding the way that the public in Sweden perceives newly introduced financial products, in particular reverse mortgages, and how they position themselves against these.

Thirdly, results of this research may be of use to both professionals working at various institutions offering loans, but also customers that are seeking a sustainable solution for their liquidity problems. For example, it might help loan takers, or those wanting to take a loan, by supplying them with information concerning reverse mortgages such as the implications it has on inheritance. Since it is a new financial product in Sweden the conduction of such a research would most likely be useful for the institutions' customers, or potential ones, seeking to find a new creative solution for shortages of liquidity. This, in turn, could be further elaborated upon by other researchers wanting to extend the research.

Fourthly, as previously stated, reverse mortgages is to a large extent unexplored in Sweden, meaning that it could lay ground for further research in the future.

Lastly, this research could bring input about the effects of the rising real estate prices and what opportunities and drawbacks this trend gives financial institutions and homeowners.

1.5. Delimitations

The thesis will limit the research to the perspective of Swedish financial institutions. Interviews will be held with employees working at these institutions, thus excluding the public, legislative and governmental point of views. It would have been interesting to examine these aspects as well, however given the time frame one must narrow it down in order obtain a useful result. If the research were to include all of the above mentioned point of views it would most likely produce results that are not as thorough as initially intended. Thus, the scientific contribution would diminish.

Furthermore, this research will be limited to Sweden as it aims to in depth explore the causes affecting and consequences of implementing reverse mortgages in a new market. Given the time frame for the thesis, Sweden seems like an appropriate market to examine. One could argue that the whole of Scandinavia should be included in the research, but the authors have decided that this would be too time consuming. Another aspect regarding the limitation of the thesis is the sample size; it could be improved by including more interviewees, as it would give the findings more credibility. However, all financial institutions in Sweden offering reverse mortgage are interviewed in this thesis, thus including the opinions and experiences of all the market actors in Sweden offering this product.

1.6. Disposition of thesis

The thesis is structured in the following way:

Introduction – The purpose of the introduction is to provide the reader with a general introduction of the research. The authors discuss issues such as problem background and research purpose while presenting the research question. In addition, the possible research gaps are presented where possible contributions are discussed. Moreover, limitations of the thesis are discussed as well as the disposition of the thesis.

Research Methodology – This chapter presents an overview of the methodological approaches that are used in order to conduct the research in a suitable way. First is the choice of subject and preconceptions. Second follow the research structure, philosophies used and the research approach. Consequential topics cover research design, strategy, and method. Ethical considerations then conclude the chapter. In this chapter a customized version of the research onion is also presented.

Theoretical Framework – This chapter aims to provide and present theories and concepts that are relevant to the research area. By doing so, the reader is supplied with additional information about banking activities in Sweden as well as about other relevant fields. The chapter starts with an introduction of the reverse mortgage in Sweden followed by demographics, personal financial planning, risk and return, and a section concerning behaviors and perceptions that can be applied to financial investments. The chapter ends with a presentation of the theoretical model used in this thesis.

Practical Method – In this chapter the practical methodology is presented. It starts with presenting the different selection criteria and the choice of data collection methods. Following sections discuss the interview guide, the data analysis and the quality criteria used.

Empirical Findings – This chapter outlines the different findings made through the conduction of interviews. The chapter starts by introducing the different financial institutions that the authors interviewed. Afterwards the findings made are presented, divided into two topics; causes and consequences.

Analysis – Here the empirical findings made are discussed in light of the theories presented in the theoretical framework. The chapter is divided in three major topics, with all of them divided into two sections, namely causes and consequences. The chapter ends with a summary.

Conclusion – The purpose of this chapter is to come up with conclusions based on the findings and the consequential analysis of findings and provide with suggestions for further research. First an overview is presented where information regarding the thesis as a whole is presented. Then the research question is answered followed by a discussion concerning the research gaps identified. Suggestions for further research then conclude the chapter.

2. Research Methodology

The chapter starts with the choice of subject and preconceptions concerning the topic. After follows a discussion about the philosophical stance chosen for this research, followed by the methodological approach, research design, research strategy and research method. In addition, the authors present a short description of the research onion, facilitating for the reader to grasp the methods used. Ethical considerations then conclude the chapter.

2.1. Choice of Subject

The authors of this thesis have chosen finance as their field of study since both are interested in finance, especially banking and its components, which made this particular research area appropriate. In addition, the fact that the research area at hand, i.e. reverse mortgages, is a relatively new concept in Sweden made the authors even more interested when it was first introduced to them.

Furthermore, both authors have completed several finance courses on bachelor and master level. In addition, one of the authors has obtained banking experience by working for one of the major banks in Sweden. This increased the authors' interest in reverse mortgage, as it would be easier to establish relations with banks and other financial institutions and, eventually, gain audience with them. Thus, it is both knowledge gained from years of studying, as well as practical experience obtained when working, that have influenced the authors' in their choice of research topic. Due to the facts put forward in the problem background the authors are interested in studying what causes and consequences a large-scale implementation of reverse mortgages in Sweden may bring.

Moreover the authors are very much interested in financial products and instruments in general. Both of the authors developed this interest during the financial crisis and its aftermaths. As it was a world-spanning event affecting many different individuals (themselves included) the importance of a well functioning financial market became apparent. With the above information in mind, conducting research on the subject of reverse mortgage in Sweden could generate new and interesting insights concerning both how financial products are implemented in general but also the causes and consequences of this particular implementation.

2.2. Preconceptions

Unarguably, conducting research and writing a thesis can never be done completely avoiding subjectivity. From the introduction to the conclusion the content is based upon the researchers' background and previous experiences. Subjectivity, according to Saunders et al. (2012, p. 163) means that all of the actors involved have different backgrounds and frames of references, meaning that they also look upon things differently. Bryman & Bell (2011, pp. 29-30) states that the way scholars view researchers' subjectivity has changed over the years. The former acknowledged stance stated that researchers should remain completely objective and not let their personal values influence their work. These days it is widely recognized and accepted that personal values influence the way research is conducted. Every part of a research, from the choice of subject to the conclusion, can be biased on factors such as the author's educational background and beliefs developed throughout their life. In order to avoid biasness one must be as objective as possible in regard to the research, striving for independence of personal beliefs in regard to the research at hand. Bryman & Bell (2011, p. 30) explains that one can avoid biasness by being aware of it and critically discussing it, which in turn can reduce the risk of biasness substantially. Nevertheless, biasness can never fully be avoided and the authors realize that their opinions, experiences and backgrounds will affect their research.

Combined, the authors have both practical and theoretical knowledge about finance. The theoretical knowledge includes portfolio theory and behavioral finance and the practical part consists of selling different financial products, for example mutual funds and stocks. Such background and experience may help the authors to avoid biasness and remain objective to the research. Furthermore, throughout the research the supervisor, as well as other students writing theses, have continually read this thesis and thereby contributed with continuous feedback thus reducing the risk of biasness.

The execution of the information gathering for this research is to some extent based on the authors' personalities. For example, the authors' outgoing personalities and their ability to listen and sort out relevant information are beneficial qualities when conducting face-to-face interviews.

2.3. Research Structure

In order to make the research method as thorough as possible and easy to follow the authors have chosen to use a modified version of the "research onion", as proposed by Saunders et al. (2012, p. 128). Below is an illustration of this study's take on the research onion, showing the different research steps and processes. First is the choice of research philosophy - epistemology and ontology - where interpretivism and constructivism are chosen, respectively. Second is the choice of research approach; induction in this case. Following layers define the research methods used as can be seen below.

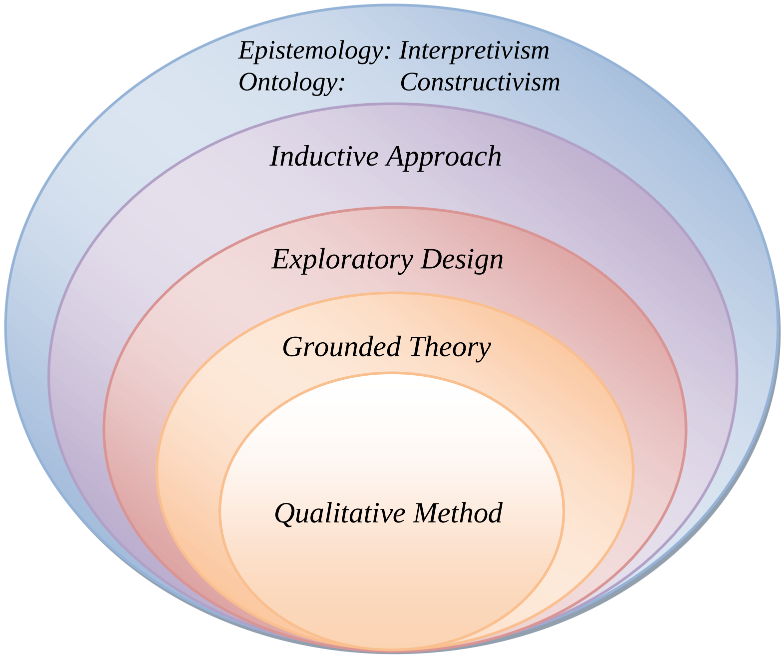

Figure 2.1: Research Onion
Source: Saunders et al. (2012)

2.4. Research Philosophy

Research philosophy and its components have a large impact on the conduction of research. Choosing the right philosophical standpoint is important as it determines what direction the study is going to take. In addition, it shows how the researchers perceive the world and in what way they are going to examine it. Having an in depth knowledge of research philosophies and the way they can be applied is important for researchers as it is an essential part in the selection process of study approach and strategy. (Saunders et al. 2012, pp. 126-129) Below, two directions that define research philosophy will be discussed more in depth. These are epistemology and ontology. (Bryman & Bell, 2011, pp. 15-20)

2.4.1. Epistemology

An epistemological issue deals with what is, or should be, regarded as appropriate knowledge in a specific discipline. Epistemology concerns answering questions such as what knowledge is and what the possible sources, as well as limitations, might be. In addition, epistemology has two different standpoints that concern two different philosophical issues, namely positivism and interpretivism. (Saunders et al., 2012, pp. 132-133)

Interpretivism is an epistemological position that contrasts positivism. As Bryman and Bell (2011, p. 16) states interpretivism is a term for writers that "*share a view that the subject matter of the social sciences – people and their institutions – is fundamentally different from that of natural sciences*". This position holds the view that research strategies are required to include differences between people. As such it is required that the scientist understands the subjectiveness of social action. (Bryman & Bell, 2011, p. 17)

According to Saunders et al. (2012, p. 134) however, positivism is an epistemological position that supports the usage and application of natural sciences in order to study the social reality. Thus, positivism as a philosophical position draws much inspiration from the stance of a natural scientist. Positivism is a stance where researchers discuss an observable social reality and where the end product of the research often are law-like generalizations similar to the ones that are established by a physical and natural scientist. Bryman and Bell (2011, p. 15) goes further by establishing five principles of positivism that makes up its core. At the same time, however, they also proceed by admitting that these principles also exist in other scientific approaches. For example, positivism includes elements of both deductive as well as inductive approaches. In addition, it is said that the role of research is indeed to test theories and to provide material so that laws can be established.

With all this in mind, the authors chose not to use positivism as their main epistemological stance. This is due to the fact that it does not fit with the research objective, and thus it is not optimal to use in order to answer the research question. As the research is not based on existing theory or any numerical data, as well as the fact that the aim is to look into causes and consequences rather than to reject or accept hypotheses, the authors believe that interpretivism is a more fitting epistemological standpoint. In addition, as interpretivism is concerned with the study of human beings and psychology, the authors deemed it more useful when conducting this research due to the financial institution-customer relationship that will be touched upon.

2.4.2. Ontology

Ontology is concerned with the questions of social entities. It describes the formation of social entities as well as the actors that are present within them – these being known as social actors. In short, it deals with questions such as entities and whether they can be said to exist or not. (Saunders et al., 2012, pp. 130-131) Bryman and Bell (2011, p. 20) defines the orientation of ontology as "*the question of whether social entities can and should be considered objective entities that have a reality external to social actors, or whether they can and should be considered social construction built up from the perceptions and actions of social actors*". This quote is also directly linked to the two different positions of ontology; objectivism and constructivism.

Objectivism is an ontological position that holds the view of social phenomena and realities being independent, and thus they are not within our reach or influence. They are created not by us, but rather by the reality itself. (Bryman & Bell 2011, p. 21) Constructivism, on the other hand, challenges the view that objectivism holds regarding, for example, organizations and culture. This "constructivistic" position acknowledges social phenomena and their respective meanings as being continuously produced by social actors and their interaction between one another. Not only are these social phenomena produced through social interaction, but they are also in constant change. (Bryman & Bell, 2011, p. 22) In addition, constructivism is of the view that social phenomena are created through the perceptions of the social actors and their respective actions that follow (Saunders et al., 2012, p. 131).

Having the above mentioned standpoints regarding ontology and its two different positions of objectivism and constructivism in mind, the authors have chosen constructivism as their ontological stance for this research. As the aim of this research is to look in depth at the issue of implementing reverse mortgages in Sweden and its causes and consequences, having a position that acknowledges the state of change of social institutions is important. Moreover, as it is necessary to study the details of a situation in order to understand what is happening (or to understand the real cause behind it) the authors felt like this was the most fitting ontological stance for this research. This is due to the fact that causes and consequences are to be revealed, rather than rejecting or accepting hypotheses. Another point of interest is the fact that the social actors present in this research (the financial institutions and its employees, as well as the customers) may view situations differently, and thus act differently to it by being subjective. It is therefore the role of the authors (the researchers) to understand the subjective reality of the social actors involved.

2.5. Research Approach

The relationship between research and theory can be approached in different ways. According to Saunders et al. (2012, p. 144) there are primarily three stances that researchers can take: the deductive approach, the inductive approach and the abductive approach.

Deductive theory is as an approach that guides research. It is straightforward and the steps are built upon each other. The deductive process generally starts with identifying a theory and formulating a hypothesis of how to test this particular theory. This is followed by the data collection, which results in the findings. The findings then enable the researcher to confirm or reject previously formulated hypothesis. Depending on the outcome, the initial theory might then be revised. (Bryman & Bell, 2011, p.4)

According to Bryman & Bell (2011, p. 4) the inductive approach is when "*theory is an outcome of research*". In contrast to the deductive approach, the inductive process generally starts with the observations and findings and then uses these to generate theory. Bryman & Bell (2011, p. 13) continues with stating that the deductive approach is generally connected to quantitative research while the inductive approach is commonly linked to qualitative research. Furthermore, Bryman & Bell (2011, p. 14) explains that thinking in terms of deductive and inductive strategy is often useful; however, the distinctions between the two approaches are not as clear in practicality as in theory.

A third way of approaching research is through abduction. This approach lies somewhere in between the deductive and the inductive approach. Using the abductive stance, Saunders et al. (2012, p. 147) states that the researcher can move back and forth between theory and findings, incorporating both the deductive and inductive approach. For example, if the findings do not help to generate or test theory, applying the abductive approach enables the researcher to return to the findings, improving them, and then return to the theory part again. As new findings occur along the way, the research might take a different turn and be re-defined. (Saunders et al., 2012, pp. 147-148)

As the purpose of this research is to determine the causes affecting and consequences of the implementation of reverse mortgage in Sweden, it is logical to use an inductive approach since induction is often considered to be open-ended and exploratory. As causes and consequences cannot be "tested" per say, it is only natural to use an inductive approach, since it is exploratory by nature. As such, using the findings, this research aims to explore a new phenomenon in order to come up with new theory or add to already existing ones. It is thus natural to use an inductive approach. Below is a figure explaining the process of induction:

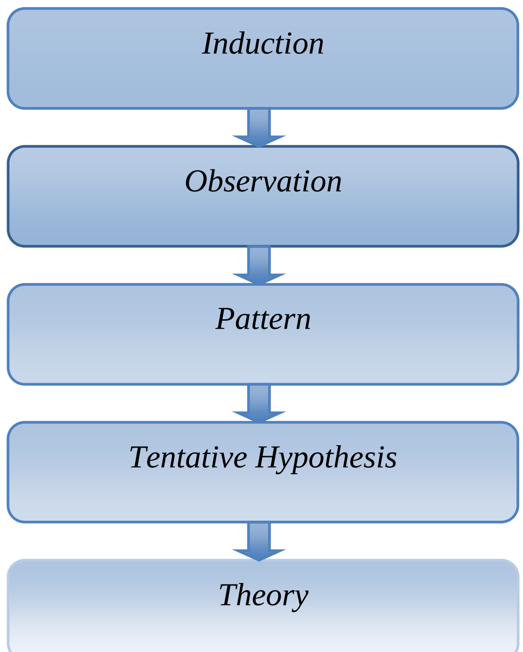

Figure 2.2: The Process of Induction
Source: Bryman and Bell (2011, p. 11)

2.6. Research Design

In order to answer ones research question, Saunders et al. (2012, p. 159) explains the need for having a general plan, i.e. a research design. Collis & Hussey (2009, p. 111) agrees to this and puts forward arguments for the importance of having a plan to guide the researcher through the work. Having a thought through research design enables the researchers to clearly state from where they collect the data, how it will be analyzed, ethical concerns encountered as well as the constraints of the chosen data collecting method. (Collis & Hussey, 2009, p. 111)

There are different ways to design your research, one being through an exploratory study. Saunders et al. (2012, p. 171) describes an exploratory study as "*particularly useful if you* *wish to clarify your understanding of a problem, such as if you are unsure of the precise nature of the problem*". One can choose to conduct an exploratory research in numerous ways: in depth interviews and focus group interviews are two ways. Regardless of the exact method, exploratory studies tend to consist of unstructured interviews, letting the interviewee speak relatively freely. The information gained from the interviews often set the agenda for the subsequent parts of the research. New, interesting findings in an interview could change the direction of the whole research. Mo (1978, p. 169) discuss the importance that researchers conducting an exploratory research acknowledge the problems that might arise when using unstructured and semi-structured interviews when evaluating the findings. These problems include the quality of data, which tends to be sensitive to the interviewers impressions and handling of the interview (Mo, 1978, p. 169).

Descriptive research, according to Collis & Hussey (2009, p. 4) "*is used to identify and obtain information on the characteristics of a particular problem or issue*". Saunders et al. (2012, p. 171) develop the concept further by stating that descriptive research aims to describe events, persons or situation in an accurate way. This type of research design is often combined with another research design, for example exploratory or explanatory research. Having thorough knowledge about the research area in question before starting the data collection process is necessary. (Saunders et al., 2012, p. 171)

Since the chosen topic for this research is an unexplored academic area and the evolvement of the research is hard to predict, an exploratory research design has been selected. As the authors do not know how the research will be developed it was found that the exploratory research design would be the best fit for this research. In addition, the problem itself is unknown which means that there is no problem to describe as of now, thus the descriptive research design was regarded as less relevant by the authors.

2.7. Research Strategy

Saunders et al. (2012, p. 173) describes strategy as "*a plan of action to achieve a goal*". Having this in mind, a research strategy could be viewed as a plan covering how a researcher conducts the process of answering the research question at hand. It is the link between the research philosophy chosen (i.e. epistemology and such) and the choice of data collection and analysis methods. As the research philosophies that are to be used are interpretivism and constructivism the authors have chosen to use Grounded Theory as their research strategy. (Saunders et al., 2012, p. 173) The methodology known as Grounded Theory was originally developed by Glaser and Strauss together as well as the two working alone (Glaser, 1978, 1992; Glaser & Strauss 1967; Strauss, 1987). In this particular method, data collection, the analysis and eventual theory stand close to each other. In other words, a researcher does not begin a project with an already made up theory in mind (unless the purpose is to elaborate and extend an existing theory that is). Rather, the researcher starts in a specific area of study and then let the theory emerge from the data (Strauss & Corbin, 1998, p. 12). Strauss and Corbin (1998, p. 12) continue with writing "*theory derived from data is more likely to resemble the 'reality' than is theory derived by putting together a series of concepts based on experience or solely on speculation*".

There are many more research strategies besides the one chosen. One of these is the experiment strategy, which has its roots in natural science research based in laboratories. The purpose of such a strategy is to "*study the probability of a change in an independent variable causing a change in another, dependent variable*". (Saunders et al., 2012, p. 174) As the research question for this thesis is rather open ended, the feasibility of an experiment strategy is rather low since it deals mainly with predictive hypotheses. Other research strategies include survey strategy, archival research, case study, ethnography and action research.

Furthermore, Grounded Theory was developed "*as a process to analyze, interpret and explain the meanings that social actors construct to make sense of their everyday experiences in specific situations*" (Saunders et al., 2012, p. 185). This quote directly connects to the choice of research philosophy. Having in mind the philosophies chosen for this research (interpretivism and constructivism), as well as to the objectives and the research question, the authors felt that using Grounded Theory as the choice of research strategy would be the most feasible option.

2.8. Research Method

In all sorts of research, data collecting is crucial. There are two strategies within data collecting; quantitative and qualitative. Bryman & Bell (2011, p. 410-411) outlines some differences between the two methods. Quantitative research is more dependent on the researcher's viewpoint, while qualitative research is more concerned with the aspect of the participants in the study. Based upon these viewpoints it becomes natural that quantitative researchers are more distant to the objects they are studying while qualitative researchers tend to have a closer relationship. Strauss & Corbin (1998, p. 11) continues by stating that quantitative is primarily concerned with numbers, meaning that it is often a statistical approach used together with the deductive approach to test a hypothesis. The strategy is structured and direct, Bryman & Bell (2011, p. 410-411) writes, as the numbers often tell a straight answer, for example whether or not to reject a hypothesis. The quantitative researcher wants to generalize the findings on a suitable population. Qualitative research, on the other hand, is concerned with words. This method enables the researcher to go deeper and get an understanding of the participants of the study. A qualitative researcher wants to explain behavior and identify the beliefs, feelings and values of the interviewees. Hence, the qualitative approach generally generates richer and more nuanced data as it is concerned with understanding and not generalizing. (Bryman & Bell, 2011, p. 410-411) As Saunders et al. (2012, p. 163) states, this strategy is linked with an interpretive philosophy "*because researchers need to make sense of the subjective and socially constructed meanings expressed about the phenomenon being studied*". Creswell (2003, p. 183) supports this view by pointing out that "*qualitative research is fundamentally interpretive*".

As this research aims to explain and explore a rather new phenomenon, through answering an open-ended research question, a qualitative method will be used. Adopting the above argument from Saunders et al. (2012, p. 163) an interpretative philosophy will guide the research. Furthermore, constructivism will be the ontological approach as this research acknowledges that social entities are constantly changing. Using the findings from the interviews, this research aims to explore a new phenomenon in order to come up with new theory or add to already existing ones. It is thus natural to obtain the inductive approach and while having an exploratory research design. Grounded Theory will be used as the research strategy as this strategy enables participating interviewees to analyze and interpret what they see in everyday life, in this case the causes affecting and of consequences of the implementation of reverse mortgage in Sweden.

2.9. Ethical Considerations

Ethics will emerge throughout the design and planning of the research when organizations and individuals are sought out in order to collect, analyze and report the data at hand. Saunders et al. (2012, p. 226) explains ethics in the context of research as "*standards of behavior that guide your conduct in relation to the rights of those who become the subject of your work, or are affected by it*". Having this in mind, it is important to understand that this behavior is affected by several influences. The appropriateness or acceptability of a certain conduct will be affected by the social surroundings, as some settings may differ from another. In addition, ethics may vary between different research methods, i.e., qualitative and quantitative. This is also something that is important to keep in mind when conducting research (Saunders et al., 2012, p. 226).

There are mainly two different philosophical positions of research ethics; the deontological and the teleological (also called consequentialist) view. A view that is of **deontological** nature is one that is based on the obeying of rules in order to guide the researcher's conduct. Moreover, to act outside the rules set can never be justified and if the rules for some reason are inadequate or for any other reason contested, they should be reappraised or amended. Opposite to the deontological view is the **teleological view**, which argues that the deciding of whether an act is justified or not is dependent upon the consequences of that specific act rather than by rules. (Saunders et al., 2012, p. 227) In other words, deciding between these two different views entails the question of whether or not the end justifies the means. The authors have decided to use the deontological view since it is most in line with what is requested from them in ethical terms when writing the thesis. In addition, it felt natural for the authors to choose an ethical standpoint that is in line with their own ethical values. This includes a study that is as transparent as possible, where all the participants are informed of the terms and requirements of the study, so as to minimize potential misunderstandings and other unfortunate events.

As the chosen research method is qualitative, many major concerns that arise are connected to the people that are to be interviewed and the respective methods that are to be used. This method does not rely on hard data that is gathered through available information; rather it could be viewed as primary data. Thus, it is important to consent the potential participants. If an individual agrees to participate in the study they give their consent; however this does not imply consent about the way the data is going to be used. (Saunders et al., 2012, p. 237) Bryman and Bell (2011, p. 133) explains that consent can range from being lacking, meaning that the participant in question lacks sufficient knowledge about the research and that the researcher uses deception in order to collect data, to informed consent which is on the other end of the spectrum. Informed consent implies that participants give their consent based on the full information about participant rights and use of data. In between these two is the inferred consent where participants do not fully understand his or her rights, and where researchers infer consent about the use of data. The issue of consent is important to consider when conducting research. (Saunders et al., 2012, p. 238)

Furthermore, Bryman and Bell (2011, p. 131) mentions that the issue of confidentiality and anonymity is of utter importance when conducting research in order to make sure it is ethically correct. This is important to keep in mind in order to gain access to organizations and individuals. When a promise of confidentiality or anonymity is made it is important to maintain this promise, especially if the data gathered is sensitive. (Saunders et al., p. 242) To consider the level of control is also one aspect that is important to keep in mind when conducting research. As the level of research control is associated with techniques based on qualitative research methods the authors felt that it is of importance to them. Especially in face-to-face interviews it is important to keep this in mind as "over-questioning" the interviewees and applying pressure on them often results in non-acceptable answers or no answers at all. (Saunders et al., 2012, p. 243)

With all of the above-mentioned ethical issues in mind, the authors believe that it is important to consider what issues may arise when conducting research. This is especially true in this case since data will be gathered from primary sources through various methods, which could be considered as methods requiring a bit more delicacy than quantitative methods from an ethical point of view. In addition, findings made in this research may help financial institutions to consider and evaluate their current ethical guidelines. As data will be gathered from these institutions and then put into the context of reverse mortgages and its causes and consequences, they may get an insight on how to improve their current guidelines and policies regarding loans. The results could act as an incentive for the financial institutions to improve communication concerning the reverse mortgage as a financial product. This could be, for example, more in depth information of benefits and drawbacks associated with reverse mortgages.

3. Theoretical Framework

The chapter begins with an overview of the choice of theory. Afterwards the concept of reverse mortgage, both in an international as well as Swedish context is explained. Several drawbacks as well as benefits are presented along with numerical examples. The following sections concerns demographics; personal financial planning, risk and return; and behaviors and perceptions applied to financial investments. The theoretical research model then concludes the chapter. The outline of the chapter is illustrated in the figure below:

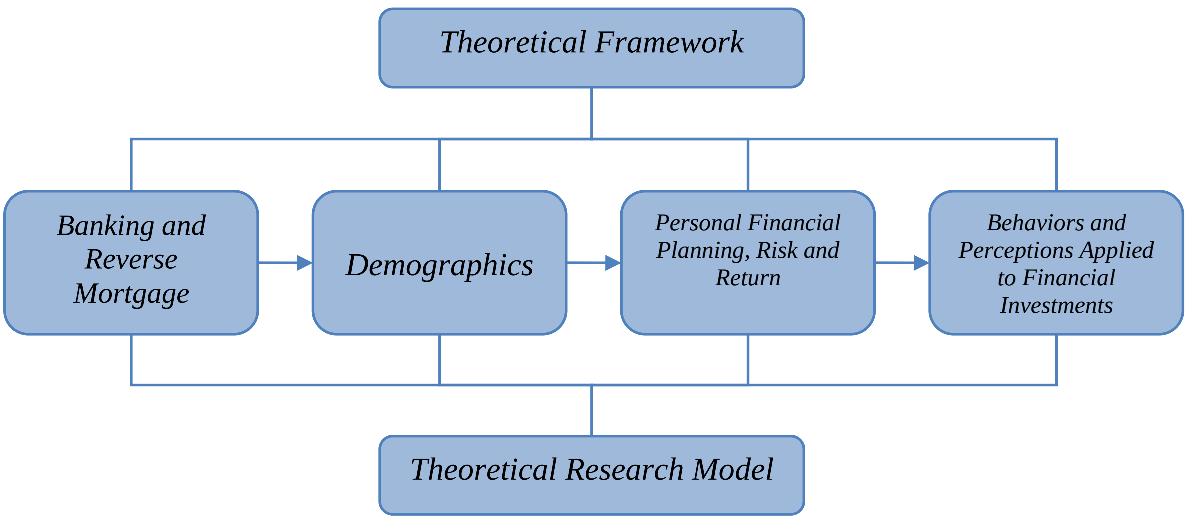

Figure 3.1: Theoretical Framework Outline
Source: the authors

3.1. Choice of Theory

The theories that are chosen and discussed in this chapter are those that the authors found to be of relevance to the research. As this particular research uses an exploratory research design, meaning that the authors themselves do not know what the exact result will be, it is important to keep in mind that the theory presented may (or may not) prove itself useful or relevant. Often one may base the theoretical framework on previous research that has been made in the same, or similar, field of study. In this case however there is a very limited amount of research made. Consequently, the authors were not able to draw much inspiration from other works, making it harder to formulate an appropriate framework that is later to be used when analyzing the empirical findings and, eventually, drawing conclusions. However, the authors were able to find some works, mainly from the U.S, which acted as a source of inspiration when formulating the theoretical framework albeit small in quantity. Hence, it is important for reader to have this in mind when reading the chapter. In addition, many discussions between the authors and their supervisor also contributed by providing useful feedback regarding appropriate theory.

As can be seen in the theoretical framework outline there are four main theoretical categories formulated by the authors that are used in this research. These categories are in turn presented in a sequential order (illustrated by the arrows between the different boxes) as the authors believe that there is a need to first present general information about the context before delving deeper into theories that can be applied to the problem at hand. The categories are; (1) banking and reverse mortgage, (2) demographics, (3) personal financial planning, risk and return, and lastly (4) behaviors and perceptions applied to financial investments. All of the theoretical categories are then included in a theoretical research model which illustrates the relationship between them and serving as a sort of summary for this chapter.

3.2. Banking and Reverse Mortgage

In order to answer the research question and to fulfill the purpose of this thesis it is necessary to look back on the history of banking and financial institutions as a whole. In addition, it is of use to describe, if not only briefly, what a loan really is and how the financial product known as reverse mortgage works. With this in mind, the authors present examples in a numerical fashion as well as describing reverse mortgage in context. As this thesis deals with reverse mortgages in a Swedish context, as well as the product being closely related to the real estate market, the authors found it necessary to describe reverse mortgage from a Swedish point of view as well as presenting the Swedish real estate market. This information will be based on secondary data rather than theory.

The history of banking is thousands of years long; however, modern banking is consider to be born in Italy seven to eight centuries ago during the renaissance. Banking activities of today, whatever the exact niche of the bank in question, is described by Choudry (2011, p.2) as sharing three common attributes: "*risk, return and the bringing together of capital*".

De Weert (2012, p.13) outlines differences between financial institutions, banks and other companies. Most companies rely on their assets, together with their partners, intellectual property, distribution network and human capital in their business model. Banks and financial institutions, on the other hand, use its liabilities in the form of deposits and insurance provisions, as a mean to gain assets. In contrast to most other companies, banks and financial institutions operate with a lot more leverage. Asset-liability management (ALM) is thus of certain importance as it concerns handling the interest and liquidity risk of banks. All financial institutions around the world, however, have one thing in common; they all offer different sorts of financial products (De Weert, 2012, p.10).

One common financial product offered by banks is the loan. A loan is defined as debt that is evidenced by, for example, a note that specifies the principal amount, interest rate and the dates of repayment. Availability of credit is a cornerstone for the functioning of our society and taking a loan is a common occurrence. In Sweden, 96 percent of homeowners have a mortgage (which is a loan with collateral). (Swedish banking association, 2013)

The act of reallocating an asset for a set period of time between two entities – lender and borrower – has existed for a long time, such as during ancient Greece and Renaissance Italy (Schaps, 2004, p. 19). As time passed, trading (and the economy in general) evolved, with the amount of financial instruments, products and theories increasing. Now, one can see a vast amount of different financial instruments and products used on a daily basis, available to a large portion of the world. One of these is the reverse mortgage, a relatively new product, which was developed and introduced during the 1980's. The purpose of a reverse mortgage is to offer elderly people extra liquidity by selling home equity to a creditor in exchange for cash. Reverse mortgage has a unique feature in the way that the entity taking the loan does not need to make any amortizations (in most cases no interest payments as well) during the loan period. (Lynch & Prior, 2012, p. 43) Below, a short recap will be made on what a reverse mortgage really is, as well as limits and features of reverse mortgages in Sweden, and what the possible drawbacks and advantages may be.

3.2.1. Reverse Mortgage: Definition and Numerical Examples

A reverse mortgage enables persons over a certain age to borrow against their home without having to pay interest (in most cases) or amortizes on the loan during the time span of the loan. The loan is constructed so that the total payments to the borrower from the taker will not be above a certain percentage of the value of the home. The lender gets ownership of the house in accordance with how much money they pay to the original house owner. When the borrower dies or decides to pay off the loan, the lender gets the sum, which is equal to the loan sum and the accrued interest. (Godfrey & Malmgren, 2006, p. 35) Below three different numerical examples can be found that describes how it, although simplified, may work in three different scenarios. We calculate using the future value formulae, found below

$$FV = PV\ (1 + r)^n$$

Where *FV* is the future value, *PV* is the present value, *r* is the interest rate and *n* is the number of time entities (in this case, years).

Scenario 1: A borrower receives 30 percent of her home value of two million kr as a lump sum. The interest rate is five percent annually and the loan lasts for 15 years. The value of the house is assumed to appreciate with three percent annually in real terms. After 15 years, the loan taker owes the initial loan plus the accrued interest:

$$(2{,}000{,}000 * 0{,}3) * (1 + 0{,}05)^{15} = 1{,}247{,}357$$

The above amount is then the total amount that the borrower has to pay back in 15 years. Interest is calculated with a compounding effect, thus the use of the future value formulae. After 15 years the value of the house is now 3,150,000. When the house is sold, the payments to the financial institution will be approximately 40 percent of the house value.

Scenario 2: A borrower loans 25 percent of her home value of one million kr. She receives is at a lump sum and the loan is for five years with an interest of five percent annually. After five years, the house value has decreased by 15 percent. She now owes the bank:

$$(1{,}000{,}000 * 0{,}25) * (1 + 0{,}05)^5 = 319{,}070$$

The same principle is used here as in the previous example. Since the value of her house has decreased, the payment makes up for 38 percent of the house value.

Scenario 3: A borrower receives 40 percent of her house value as a lump sum loan, lasting for 25 years with an interest rate of four percent. The initial value of the house is five million kr. The appreciation of the house value is three percent. After 25 years, the loan taker then has to pay the following amount:

$$(5{,}000{,}000 * \ 0{,}40) * (1 + 0{,}04)^{25} = 5{,}331{,}673$$

The house value after 25 years is then 8,375,000 kr, which means that the payment is now 64 percent of the house value.

Moreover, the interest amount is stated each year on customers annual statement received from the financial institution that has issued the loan. This amount is tax deductible, although the customer does not have to make payments, if not wanting so, before the loan reaches its time of maturity.

3.2.2. Reverse Mortgage in Sweden

Persson (2012, p. 841) explains that reverse mortgage as a financial product was first introduced in Sweden in 2005. At present there are six financial institutions in Sweden offering reverse mortgages (Konsumenternas, 2013). However, the financial institutions have different conditions for the loan: for example, SHP does not require debtors to pay interest or amortizations as long as the debtor lives in the property concerned. This is also the case for Swedbank and SEB, where the debtor does not amortize the loan during the time to maturity. In the case of SEB, however, the debtor may, if he or she wishes, pay a limited amount of amortization payments. The required age for debtors varies between financial institutions, with SHP and SEB having a minimum age of 60 while Nordea and Swedbank demands that the customer need to be at least 58 years old. (Persson, 2012, p. 841)

Every financial institution in Sweden that offers reverse mortgages also has some kind of limit on the loan. For example, SHP has a minimum amount of 100 000 Swedish crowns (kr) with the maximum amount being three million kr. Individuals that are 60 years old can only obtain credit that is equal to 15 percent of the house in terms of total market value. This percentage, however, increases by one percent each year after 60 until the debtor is 90 years old, or when the available loan is equal to 45 percent of the total market value of the house. Swedbank on the other hand offers a loan limit equal to 60 percent of the total market value, and a minimum amount of 50 000 kr, while the minimum amount and loan limit is negotiable at Handelsbanken. As one can see the loan qualifications differ between the different financial institutions, however the principle is the same; restrictions on the amount available and age of the debtor. (Persson, 2012, p. 844)

Of all the households in Sweden, 70 percent or more own their own dwelling. 96 percent of these households have a mortgage loan. The high rate of households owning mortgages is a sign of a mature mortgage market. Other countries with comparable rates are the Netherlands, Norway and Denmark. (Swedish banking association, 2013) Housing prices have seen a sharp incline since the beginning of the eighties. Below is a diagram showing this incline along with the consumer-price index (CPI) for the same time horizon in Sweden.

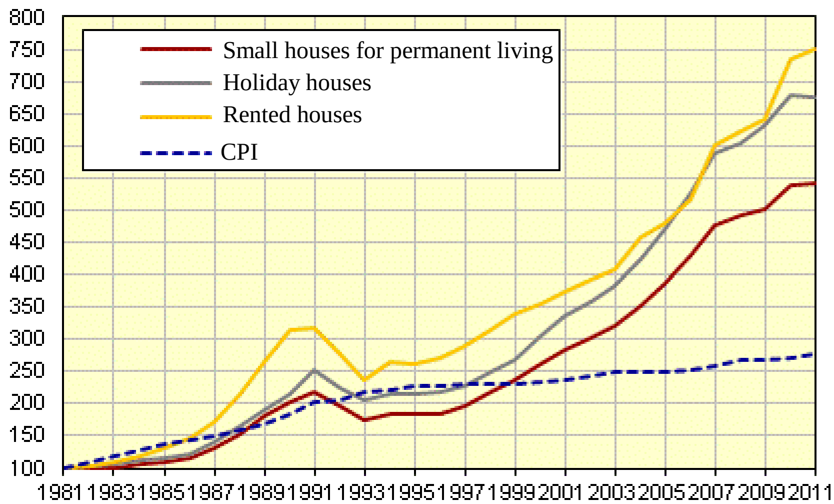

Figure 3.2: Swedish Real Estate Price Index
Source: Statistiska Centralbyrån (SCB), 2012

As can be seen there has been some dramatically changes during the past years in the Swedish real estate market concerning prices. The CPI during the period is included in order to further emphasize the increase in prices. During the late 1980's the Swedish real estate market experienced a rapid increase in real estate prices while the economical crisis during the early 1990's halted this growth. This growth eventually turned into a decrease as prices fell during the following three years. After this period, however, prices began to increase once again. During the overall period it is worth noting that the CPI has, as a whole, increased substantially slower than the real estate prices in Sweden. In other words, Swedish real estate prices have increased more than inflation. (SCB, 2012)

With real estate prices steadily increasing (except for occasional downturns) compared to CPI and inflation it makes the real estate market and its components an attractive choice for investors – institutional and private ones alike. This, along with the fact that real estate tends to have a very low correlation with other investments, such as shares, bonds and other non-housing properties, makes it an attractive choice. Thus, real estate generates so called "risk-adjusted" returns comparable to those of bonds and shares but also possesses the ability to withstand inflation and correlation with many other investments. In other words, it is a diversification tool within a portfolio. (Montezuma, 2006, p. 884)

As can be seen in the Swedish Real Estate Price Index figure previously presented, the real estate prices in Sweden have steadily increased since the year of 1981. This brings with it many interesting notations regarding reverse mortgages in Sweden since they are, as a financial product, dependent upon the real estate prices (i.e. market value). Having a higher market value of a house entails higher potential gains from a reverse mortgage. Thus, increases in real estate prices could lead to an increased number of reverse mortgages being undertaken in Sweden as they might become even more lucrative. On the other side of the spectrum a drop in real estate prices could entail reverse mortgages becoming less popular.

3.2.3. Advantages and Drawbacks

There might be several advantages of having a reverse mortgage. If you are "home rich - cash poor", meaning that you have a substantial amount of home equity but not much liquidity, it is an attractive choice when wanting to increase liquidity. Retirees can turn their home equity into cash, thus increasing their liquidity, leading to more money in their daily life. Having more cash also decreases their dependence on family for financial support and they can buy services like cleaning and health care.

Furthermore, Persson (2012, p. 849) explains that many elderly people in Sweden have problems getting a loan in order to increase their liquidity. A reverse mortgage can help with this. From the perspective of the lender retirees is an important group. Over two million people in Sweden are 60 years old and above. Of all the households, 66 percent own their own property or apartment. In other words, this segment is large and valuable for the financial institutions. In addition, as part of the house value becomes a property of the institution after the loan expires, it might be a good option for retirees that do not have any children or do not wish their children to inherit the house. Moreover, elderly people that have children that do not wish to inherit the house may also find a reverse mortgage to be a good option. Avoidance of taxes might be another reason for taking a reverse mortgage, as selling the house with a large profit means having to pay a substantial lump sum in the form of taxes.

Reverse mortgages have been criticized on many points, however. One of the many criticisms of reverse mortgages is the associated cost. Among these are origination fees, servicing fees, closing costs and the insurance premiums. (Lynch & Prior, 2012, p. 44) Another drawback is the limit that is created regarding the value of the borrower's home. Consequently, many borrowers will not be able to use the actual market value of their home when determining the loan amount. If the home is of high market value and thus over the loan limit other options could be considered such as a private loan. (Supper & Cocozza, 2006, p. 39) In addition, Persson (2012, p. 850) mentions that inflation might have a negative effect since it could reduce the real value of monthly payments. On the other hand, the total debt becomes lower in real terms.

With the above-mentioned advantages and drawbacks in mind, it becomes clear that potential borrowers need to assess their situation carefully before deciding to undertake a reverse mortgage. It has its advantages, but also drawbacks and this is something that needs to be carefully taken into consideration before taking a reverse mortgage. Consequential topics will cover the theory concerned with this research - used ones and those that are relevant in light of the research question: *what are the causes affecting and consequences of financial institutions implementing reverse mortgage in Sweden?*

3.3. Demographics

Demographics are, in short, statistical data of a specific population. Common demographics are often included in news and such in order to present facts about a certain topic. For example, common data shown by demographics may include average income, age, mortality rate, employment rate and so on. In this section various theories and concepts related to the field of demographics will be covered. The area of demographics is relevant to the research topic at hand as it reveals information about the potential reverse mortgage takers. Needless to say it would be quite problematic to continue this study if one were not to look a bit more closely on the Swedish population and its traits, as it is within a Swedish context this study is taking place. Therefore, the authors find it necessary to look into the Swedish population in a more in-depth manner. Also, as the paper aims to explore reverse mortgages from financial institutions' point of view the authors felt that including information regarding potential customers would be appropriate. This information in turn will bring with it a deeper understanding of the current situation in Sweden, which can be used in order to make some notations about the future. Due to demographics being important in the context of which this study is taking place, the authors found it necessary to include it in the theoretical research model that concludes the chapter. Thus, a short general discussion regarding the subject can be found below (mainly the concepts of life expectancy and pensions).

3.3.1. Life Expectancy

The concept of life expectancy is important for banks and other institutions offering reverse mortgages or similar products. Since individuals need to be of a certain age to be eligible for this kind of product the estimated life expectancy is, thus, a measure of how many individuals that will be eligible for the product relative to the population. As with almost all demographics it is based on statistics. Consequently, life expectancy, as a concept of statistics, is the expected amount of life in years that is left at a given age. Hence, it does not aim to explain a maximum lifespan; rather it aims to explain how many years of life that can be expected from a specific individual (or set of individuals) at a given time (Sullivan & Sheffrin, 2012, p. 473). As the concept is based on statistics that generate a mean, it is not excluded that an individual may die before their expected death or, on the opposite, many years after. One example of this is a country that has low life expectancy due to high infant mortality rates and other causes of death in young adulthood. However, if an individual were to survive these hazards during young age it would not be uncommon for them to live well past the estimate. Thus it is the high mortality rates during the first phase in an individual's life that significantly lowers the life expectancy.

3.3.2. Pensions

Life expectancy could be viewed as being quite straight forward, where one takes a look at any given set of numbers and through that know what the current situation is. This is not all there is to it, however, as this field of demographics have significant impact on other fields.

One of these is pensions, which, as previously explained, has a large impact on the reverse mortgage.

As the life expectancy and other age-related demographics change, so does the amount of individuals' eligible for pensions. As a result, as Everness (2001, p. 178) writes, "*the cost of providing a given level of pension benefit has gone up significantly, and no one really knows how far and how quickly life expectancy will continue to improve*". Consequently, this may lead to employers not being able to afford to provide the current pensions in the future. Some variables may need to be changed in order to maintain the current levels of pension; higher average age at which individuals enter into retirement being the most logical choice. (Everness, 2001, p. 178)

An increase in life expectancy has profound effects on pension schemes. This can be shown by a simple arithmetical example. Say, for example, that a pension scheme expected retirees to live on for another 15 years after entering retirement, whereas today the expectancy has gone up to 20 years. One could say that the cost has gone up by a third. Of course, this is not very accurate compared to other measures but it demonstrates the increase in costs by just a few added years on life expectancy. (Everness, 2001, p. 180)

According to Everness (2001, p. 182) the length of a pensioner's life is the single most important factor when determining the cost of a pension. As individuals live longer it requires that governments and their respective organs pay more as the period becomes lengthier. It is therefore of importance that auditors and bookkeepers regularly analyze current and future trends in life expectancy so as to keep mortality information updated. With the costs of pensions rising employers need to react in some way in order to mitigate the problem. It comes down to two basic choices for employers; finding extra money, or to reduce the value gained from pension benefits (such as monthly payments). Analyzing the two choices, one can understand that there are only a few amounts of employers able to come up with a solution without having to undertake some radical changes. For most employers an increase in pension schemes and the expenses that comes with is likely to have an impact on shareholders and the profitability and viability of the business as a whole. Attempts to offset this increase in pension expenses could include passing on some of the costs to employees by increasing their contribution rate or by reducing the value of the actual pension as a whole or parts of it. The risk concerning the increase in pensions is known as longevity risk. This will be covered in the next section.

Redistribution Between Generations

The number of individuals eligible for pensions is increasing steadily relative to other parts of the population. It is only working years that can finance retirement benefits (pension based on non-personal savings) since life expectancy and the population as a whole continues to age. At the same time, however, studies have shown that the number of years individuals spend working has decreased. This leads to retirees benefiting less from their pensions, as they enter into retirement early yet it is based on less working years. (Chomik & Whitehouse, 2010, p. 21)

Many countries have taken measures in order to mitigate the problems that they are facing now and in the future regarding pension schemes. For example, some significant set of reforms that relate to life expectancy have been undertaken. These countries also argue that the value of a pension scheme should stay the same regardless of the life expectancy. This means that, in the end, an individual living for 90 years is going to earn the same amount of value from a pension scheme as an individual living for, say, 80 years. Consequently, as life expectancy increases the total value of a pension scheme will stay constant but the monthly payments made to retirees will decrease. This is due to the fact that there are now a higher amount of payments having to be made with the same total value. (Chomik & Whitehouse, 2010, p. 22)

If the pension becomes lower there would most likely be an increase in individuals that are "cash-poor" but "house-rich", assuming that housing prices stay constant or increase relative to inflation. With this in mind, demographics is an important field to consider, both from a researcher's point of view but also from the financial institutions point of view. They are, after all, the ones that offer the reverse mortgage.

3.4. Personal Financial Planning, Risk and Return

Personal financial planning covers matter such as using income earned wisely in order to achieve financial goals (Keown, 2013, p. 4). Financial planning involves many aspects, for example drawing up a budget as well as a balance sheet over ones assets. It also includes saving, for example for retirement, buying a new car, going on vacation or just creating an economic buffer.

In order to define personal financial planning, Harrison (2005, p. 4) uses the following definition: *"financial planning is a service that helps individuals and families to achieve their personal objectives through the construction of an appropriate financial plan. The financial plan represents a journey from the point of departure – that is, where the individual is at present – to the desired goal".*

Keown, (2013, p. 5), describes financial planning as an "*ongoing process*" which changes over time as life and ones financial situation changes. He outlines the process as including five steps: evaluating ones financial health, defining financial goals, developing a plan of action, implementing the plan and lastly reviewing the progress, re-evaluate and revise the plan. Harrison (2005, p. 4) acknowledging similar steps as important when conducting personal financial planning. Furthermore, she emphasizes the importance of the plan to be flexible as the goal for an individual should be to reach one's financial objectives. She clarifies this by stating that personal financial goals cannot be set up before the objectives are known. Using this model demands discipline, knowledge and experience. When conducting personal financial planning, realistic goals are important, taking into account how the individual's earnings and investments will grow in the future, as well as looking at macro factors and stock market changes. From a financial institution point of view, understanding the risk preference of their clients are essential. Acknowledging that individuals have different views on risk depending on former experiences, stage in life, age and mentality helps financial institutions to make informed counseling about clients financial planning. (Harrison, 2005, p. 9)

During the last decades, the Swedish households' financial assets have more than doubled. 76 percent of all Swedes save in mutual funds, this excluding their premium pension. Below is a figure which outlines the growth of the financial assets at Swedish households. As can be seen from the figure, it has been a substantial growth since 1995. (Swedish banking association, 2013)

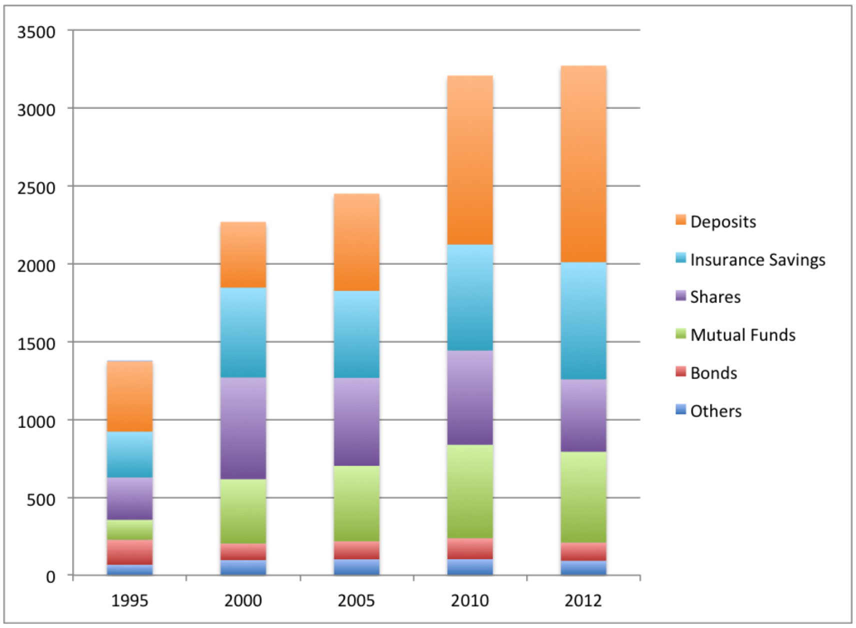

Figure 3.3: Swedish Population Financial Assets (billion SEK)
Source: Swedish banking association, (2013).

Decision-making (such as the decision-making processes present when planning ones finances) and risk are closely interrelated with one another. The two are both ever-prevalent challenges for both individuals and the society at large. Risk and decision making processes stem from questions such as how to dress on a particular day to questions concerning what loan to take and they are, in light of the research question at hand, two relevant concepts to cover. Furthermore, each individual has different ways of going about risk and deciding what to do and what not to do. In other words, the so-called "risk preferences" differ much from person to person. To understand risk and in turn how to deal with it is, as Eeckhoudt et al. (2005, preface) states, "*an essential part of modern economies*". As the reverse mortgage is a financial product it involves certain elements of risk. As such, decision-making processes involving financial planning as well as risk are prevalent both for the debtor and creditor. In this section decision making and risk related theories relevant to the research topic will be covered, providing a foundation for the empirical part.

3.4.1. Life-cycle Hypothesis

It was once the accepted view that an individual's level of consumption was determined by that person's current income, Frank (2010, p. 160) states. Frank (2010, p. 160) continues by explaining that this conception changed in the 1950s when Milton Friedman, Franco Modigliani and Richard Brumberg argued that an individual's current level of spending is associated with the lifetime income of that person. The theory first appeared in the two papers written by Modigliani and his graduate student Richard Brumberg in 1954 and 1980, respectively. Friedman called this theory the permanent income hypothesis while Modigliani and his student Brumberg named it the life-cycle hypothesis. Essentially it is the same theory but with different names: when a person is young they consume through borrowing against future income and when they are old they spend their savings. In the period in between the young age and retirement humans both spend money and save for their retirement. Their trade off between saving and consuming in this state is dependent of their permanent income, i.e. the present value of their lifetime income. Since income usually declines when individuals retire, their level of consumption tends to decline as well. (Frank, 2010, pp. 160-161) The theory is, thus, concerned with the financial planning of individuals from a life-long perspective.

A classical example of the life cycle hypothesis is the case of an individual that expects that he will continue on for living another T years, while at the same time he has a wealth of W. The same individual also expects that he will earn his annual income, Y, until the moment he retires which is R years from now. In this example the individual's resources earned over his or her lifetime consists of the initial wealth, W, and the lifetime earnings, RY. What is worth noting here is the assumption that the interest rate is zero, which is obviously not the case in reality. Even with interest being zero the main point is still the same. The only difference would be that the equation had to account for the interest that is earned on savings. If the individual distributes the resources over the remaining T years of life he or she consumes according to the following equation. (Frank, 2010, pp. 160-161)

$$C = \frac{W + RY}{T}$$

With the purpose of the thesis in mind, it is natural to include a theory about savings and consumption patterns in the theoretical background as it may shed some light upon why certain people choose to act in a certain way when faced with a specific problem concerning their finances. Foremost, the life-cycle hypothesis gives an assumption of how people may think regarding savings towards retirement and how they plan their finances. In contradiction to the life-cycle hypothesis, a reverse mortgage could imply that consumption may not slow down at all after retirement, or at least minimize the reduction. Thus, it should be highly favorable by retirees. Due to this, the life-cycle theory is going be used as one of the frames of reference when asking the interviewees at the financial institutions about peoples' attitudes towards money management in general and reverse mortgage as a financial product in particular.

Bequest Motive and the "Rotten Kid" Theorem

The demand for reverse mortgage is dependent on many factors. Some of these factors have been presented earlier in this thesis however many of them are yet to be presented, as will be shown later on. One factor that may have a negative (or positive) impact is the degree of bequest motives, and more specifically the rotten kid theorem. This theory suggests that if a family head exists, "*other members also are motivated to maximize family income and consumption, even if their welfare depends on their own consumption alone*". (Becker, 1974, p. 1080) In other words, when there is at least one member that cares enough about another one, while at the same time having sufficient power within a family (often the family head), all the members of the family will have the same motivation as the head to maximize the family's opportunities, regardless of how selfish other family members are. A selfish child, i.e. a "rotten" child, who receives money or some other sort of support from his or her family, would have an incentive to consider the effects of their actions due to them being dependent on the family. If the child acts in a non-acceptable manner, the transactions could stop. Another possibility would be that the inheritance is severed by the parents. (Becker, 1974, pp. 1080-1081)

This theory is of relevance since the research purpose deals with a financial product that has direct effects on inheritance. Parents, as put forward by Becker (1974), often have a motive driven by the desire of leaving wealth to their children – in other words inheritance. Thus, instead of liquidating their house via reverse mortgage many retirees may choose to not do so because of their unwillingness to spend, in their eyes, the children's future wealth. If the bequest motive and the rotten kid theorem, in light of the previously described life-cycle hypothesis, would have no impact on the consumption patterns among elderly it might be suggest that there is a latent demand among this group.

3.4.2. Longevity Risk

As reverse mortgages are financial products that enable elderly people to convert home equity into cash, sometimes until they die, a risk that becomes quite problematic for loan issuers is the longevity risk. Human longevity has been increasing since the start of the 20th century, and some is of the view that longevity will increase even further. This leads to retirement income becoming an important issue, as the living standard of retirees needs to be maintained (Yang, 2011, p. 2). To further point out the importance of life expectancy; during the last decade's life expectancy for populations in the developed world has, on average, been increasing by 1.2 months every year, thus increasing the longevity. Longevity risk can be defined as the risk "*that an individual or group will live a longer life than expected*" (Deng et al., 2012, p. 697). This means that the risk has indeed increased, which is an important note for lenders to take into consideration. Possibly one of the most famous examples of this is the case of Andre-Francois Raffray and Jeanne Calment. In 1965 Mr. Raffray, then 45 years old, approached Ms. Calment, who at the time was 90 years old, where he offered her $500 per month in exchange for him getting the right to inherit her country house when she died. He was convinced this was a good deal, however Ms. Calment outlasted him by two years, dying at the age of 122 in 1998. (Bhuyan, 2010, p. 8)

The increases in longevity have a profound effect on the profitability of most annuity contracts. This is due to the fact that the final payment is delayed, or in some cases (insurance) less likely to happen. (Hull, 2012, p. 50) The concept of longevity risk is directly connected to financial services such pension funds but also reverse mortgages. Unlike traditional mortgages, the credit risk of a reverse mortgage is not based on the potential default of the loans, rather it is based on the mortality, interest rate, and the value of the property in question as the accrued interests are repaid once the borrower dies or when they leave the house. In other words, if the borrower lives longer than expected or if the house price decreases, the principal advances and interest accruals could possibly make the loan balance to reach a critical point. At this point the loan balance exceeds the potential profits available for the financial institution if they were to sell the house concerned. (Yang, 2011, p. 3) When conducting the interviews, the concept of longevity risk could be used as a foundation when trying to map the views held by financial institutions on risk management. Since the reverse mortgage as a financial product is dependent on the age and the expected age of the customer in question, the concept of longevity risk could be very useful to keep in mind when conducting the interviews.

3.4.3. Moral Hazard and the Principal-agent Problem

When managing transactions in a market, what happens when some market participants have private information (in other words, information that is known only to them)? Paul Krugman (2009, p. 63) described moral hazard as "*any situation in which one person makes the decision about how much risk to take, while someone else bears the cost if things go badly*". One classical example of this is an individual with insurance that might not drive his or her car as carefully as they would without having insurance. Thus, they would drive the car differently if they had to pay for eventual losses compared to if he or she had a "state-of-the-art" protection in the event of an accident. This leads to information becoming asymmetric, which is something that could damage markets seriously, even prohibiting them to function properly. (Kau et al., 2012, p. 68)

From a finance point of view, one example of moral hazard is the financial crisis of late 2008, or more specifically the subprime mortgage crisis. Because of impersonal securitization in the secondary market, the investors being last in line (ultimate investors) in a mortgage only have a limited amount of information about the characteristics of the borrower. This, in turn, creates an asymmetric information problem due to knowledge held by the primary lender being hidden from others. As potential purchasers of various credit instruments came to realizations that they had much less information regarding the repayment and its features (are debtors able to pay back etc.) than the actual issuers the subprime mortgage crisis was a fact. This is also called the principal-agent situation, which is a part of moral hazard. (Kau et al., 2012, p. 68)

A principal-agent situation arises when the principal hires someone to increase the likelihood of a good outcome. If we consider an individual or a firm which has two possible outcomes with two different wealth outcomes, 1 and 2 where 1>2, the purpose of the agent is to increase to likelihood of 1 or, similarly, decrease the likelihood of 2. In the previous case, i.e. the subprime mortgage crisis, the agent is the issuer while the principal is the credit instrument purchaser. If a fixed fee is given to the agent, with effort not being observable, compensation cannot be based on the level of effort taken. An example of this is a principal hiring a lawyer. The principal pays the lawyer (agent) a fixed sum however the principal cannot observe the efforts undertaken. If then the lawyer works hard it increases the chance of a good result, however the case might still be lost due to a streak of bad luck or other occurrences. Thus, the principal cannot be sure, even after the case, if the lawyer placed any substantial amount of effort when trying to win the case. (Eeckhoudt et al., 2005, pp. 203-204) The principal agent problem, in its essence, deals with actions that are hidden or with the fact that effort is typically, or not at all, observable (Eeckhoudt et al., 2005, p. 199).

With regard to the research topic at hand this theory can be directly connected to the creditor (financial institution) - debtor (private person) relationship. When an institution issues a reverse mortgage to an individual there are several demands and restrictions being put on this particular individual. They must be of a certain age and the house must be of a certain market value, quality and so on. (Shan, 2011, p. 743) One problem that may arise is that individuals deciding to take a reverse mortgage may let the concerned house decline in value after signing the contract. Repairs necessary to undertake in order to maintain (or increase) the market value of the house may not be done at all since the residents will not be able to benefit much from the increase in market value of the house. In other words, the cash flow may work as insurance as seen in the example of the two car owners previously mentioned; one with insurance and one without. This can, of course, be counteracted by various legal obligations included in the contract, including legally binding the debtor to look after the house in a suitable fashion. However, forcing an elderly homeowner away from his or her house may not sit well with everyone, and thus the concerned institution's reputation may take a serious downturn. Another dimension of moral hazard that a reverse mortgage might promote is making the stay in the house more attractive since there are now additional funds available for the elder homeowner. This might lead to the borrower, at least in theory, extending his or her stay beyond the optimal length compared to an otherwise identical non-mortgagor.

3.4.4. Adverse Selection

Due to the freedom of borrowers to themselves determine the date of exit from the house several concerns of moral hazard but also adverse selection arise. If the borrower remains in their house for a long time they may benefit from a more or less interest free period of default since the bank is unable to evict individuals surpassing a set amount of time. In other words, "*the rate of price appreciation is likely to be smaller than the opportunity cost of funds for lenders*", as stated by Davidoff and Welke (2004, p. 2). Thus, the adverse selection stem from the fact that consumers knowing that they will stay in the house for an extensive period of time, or those with low mobility, may enter into a reverse mortgage which is disproportionate to their share of the population. It could be viewed as being farfetched to assume that individuals may know their time of death or the time of moving out, however evidence of adverse selection on longevity has been showed through a study conducted by Finklestein and Poterba (2004) among UK annuitants. In addition, if the rate of mobility (the probability of reverse mortgage takers moving out) is related to house price appreciation there is adverse selection as well, meaning that individuals may enter into a reverse mortgage knowing that their stay will be extensive. (Davidoff & Welke, 2004, p. 2)

3.5. Behaviors and Perceptions Applied to Financial Investments

In order to explain behaviors and perceptions that are connected to financial investing and the financial market as a whole, one need to take several factors into consideration. In recent times there has been a surge in popularity in foremost one section of finance; behavioral finance. This is where psychology and cognitive theory is combined with traditional economic and financial theory when attempting to describe what goes on in the financial market. Behavioral finance is interesting to look into since it can help to explain various behaviors observable in the, above all, stock market but also mortgage takers since it can be applied to the real estate market. As this thesis deals with a financial product that is closely related to the real estate market it seemed fitting to include this section.

3.5.1. Traditional Finance

Before behavioral finance was a developed field of finance there was what some call “standard” or “traditional” fields of finance. At its core traditional finance assumes that market participants, institutions and markets as a whole are rational. Decisions that are made within a specific market are, on average, unbiased ones that maximize the self-interests of the decision makers. Thus, any individual that makes a bad decision will be punished for doing so through poor outcomes. As time progresses individuals will be forced to either learn how to make better decisions or to leave the market. In addition, traditional finance assumes that errors made through poor judgment and such are not correlated with one another, meaning that errors made never have the strength needed to affect market prices. (Baker & Nofsinger, 2010, p. 4)

One of the cornerstones of traditional finance is the efficient market hypothesis (EMH). This theory originates from the University of Chicago and is of the view that stock markets (and other markets) cannot be beaten in the long run or on any consistent basis due to information being included into stock prices. In other words, the markets are rational and so are its participants. (Nocera, 2009)

3.5.2. Behavioral Finance

Behavioral finance is a relatively new field of finance that aims to explain economic decisions made by individuals by including behavioral and psychological theory with traditional economics and finance. It stems from the classical work *Delusions and Madness of Crowds* written by MacKay (1841). (Razek, 2011, p. 8) Despite its relatively young history it is a rapidly growing field of finance, fueled by the fact that traditional theory on the subject has been regarded in recent times as lacking. This is due to traditional theories often being unable to explain many empirical patterns concerned with rational investing in efficient markets. Behavioral finance, however, attempts to shed some light upon these discrepancies by making descriptions based on human behavior, both on the individual level but also at the group level. One example of this is the market inefficiencies and how behavioral finance has helped to explain them. (Baker & Nofsinger, 2010, p. 3)

When behavioral finance was first thought of there was at the same time many new and interesting empirical findings being made. These findings created some doubts concerning two key foundations in finance: EMH and the capital assets pricing model (CAPM). The early studies that were conducted in order to examine the anomalies occurring were concerned with the examination of security prices, which in turn showed that markets were not as efficient as once thought. Later on, however, studies began to examine anomalies through the behavior and decisions of market participants. Thus, the term behavioral finance was invented and became a widely recognized field of finance. (Baker & Nofsinger, 2012, p. 5)

One of the most important features of behavior finance is the assumption that the, as Baker and Nofsinger (2010, p. 3) writes, "*Information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcomes*". The process of thinking and evaluating options for humans is not like that of a computer. Humans often evaluate information through the usage of various filters and so-called shortcuts, in other words every individual has his or her own specific view on the world, with everyone being biased in some way. This means that decision makers may often act in an irrational matter (compared to that of a computer). Thus, they sometimes disregard traditional concepts such as risk aversion completely, resulting in predictable errors being made. This is problematic when making investment decisions and it has a large impact on financial markets and managerial behavior alike. Having this in mind, one can easily figure out that financial decisions resulting from this kind of decision making process may have substantial consequences on the efficiency of personal wealth, performance of companies and, in the end, the efficiency of financial markets at large. (Baker & Nofsinger, 2010, p. 3)

3.5.3. Psychology and Behavioral Concepts

There are many different theories and concepts from psychology and other behavioral sciences that have been adapted by financial fields of study. This is done in order to help explain different situations and occurrences; such as the issue of the efficient market hypothesis which some believe to be false.

Disposition Effect

The disposition effect concerns the fact that investors tend to either too quickly sell stocks that appreciate in value, or that they hold on to stocks that depreciate in value too long. This effect is not only concerned with stock trading as it can be applied on other things as well, such as the real estate market. The disposition effect is one of the most prominent pieces of behavioral finance documented in studies discussing trading behavior. When investors experience the disposition effects there are several drawbacks imposed on them. One of them is that disposition investors pay more in capital gains taxes. Suppose an investor that knows nothing or little about which stock that will have the weakest or, on the other hand, the strongest performance in the future, which at the same time needs cash and must sell stocks. In this particular case the investor should liquidate stocks in a way to minimize taxes (costs). Usually, this means that the investor should realize a loss if possible or the realization of possible combinations of gains and losses. A failure to do so will increase the tax payments and, thus, the transfer of wealth from the investors to tax payers, i.e. the rest of society (non-investors), will occur making the non-investors gain from the disposition effect. (Baker & Nofsinger, 2010, p. 171)

There are many other situations that may result in disposition effects, resulting in many different things. The most important lesson that can be learned, however, is the realization that if investors behave in a similar way regarding gains and losses whole markets may be affected. Having disposition effects that occur systematically by many different investors can indeed affect the market by, as Baker and Nofsinger (2010, p. 171) puts it, "*trading volume and drive a wedge between market prices and fundamental values*". To understand the effect and when it is most likely to occur is of utter importance when trying to understand market behavior. (Baker & Nofsinger, 2010, p. 171)

Another point of interest of the disposition effect is in the real estate market, with evidence showing that it has important welfare effects. This is due to the fact that housing is an important component of household wealth. In addition, the housing market and how well it functions has a considerable amount of spillover effects for the rest of the economy (one example being the beginning of the 2008 financial crisis). For example, there has been found a disposition among individual homeowners (Genesove & Mayer, 2001) facing a loss ask for a higher price relative to the property in question, which in turn have longer selling times and are less likely to close a deal. Another interesting feature is the fact that "*a home value that is too low relative to the mortgage balance may prevent selling even if the optimal (unconstrained) decision is to move*" (Baker & Nofsinger, 2010, p.181).

Prospect Theory

Another theory of importance when looking at investors and their decision-making processes is the Prospect Theory developed by Kahneman and Tversky of Princeton University in 1979. This theory is mostly concerned with investors' preferences and how they, in turn, affect their decision making processes. It was developed in order to understand the risk tolerance and loss aversion of investors. Kahneman and Tversky (1979) defined three different preferences that resulted in behavioral effects when investing, namely loss aversion, certainty effect and the isolation effect. Kahneman and Tversky (1979, p. 263) explain the certainty effect by stating that "*people overweight outcomes that are merely probable in comparison with outcomes that are obtained with certainty*". This means that investors experience risk aversion when making choices that involve a secure gain and, in turn, seek risk when making choices that involves sure losses. Furthermore, the Prospect Theory states "*people generally discard components that are shared by all prospects under consideration*". This phenomenon is called the isolation effect, which in turn "*leads to inconsistent references when the same choice is presented in different forms*" (Kahneman & Tversky, 1979, p. 263). All of these different effects combined led Kahneman and Tversky (1979) to one of their findings. This finding pointed to the fact that the potential drawbacks of losing are substantially higher than the contentment experienced when making profits. This means that most investors are indeed loss averse, with them evaluating decisions based on the avoidance of losses, meaning that decisions with the highest chance of avoiding losses being chosen.

3.6. Theoretical Research Model

In this section the authors present their theoretical framework in an easy-to-understand research model type illustration, facilitating for the reader. The model is constructed partly in the same way as the research onion of chapter two, with various layers. The outmost ones are sections one and two that concerns the context of the problem at hand, while the inner one containing the theory used in the theoretical framework. It shows how the financial product of reverse mortgage, the demographics of Sweden and the theories chosen interact with one another, illustrating their position within the model. The innermost circle concerns theories presented in these two sections. These are life-cycle hypothesis, bequest motive and the rotten kid theorem, longevity risk, moral hazard and the principal agent problem, adverse selection, disposition effect and prospect theory.

All of these sections are then interlinked with the financial institutions and the research question and purpose, showing the connection between the theoretical standpoint(s) and its context, as well as the institutions offering the financial product. As the research question deals with the causes affecting and consequences of the implementation of reverse mortgage in Sweden from a financial institution perspective the authors found it necessary to include a theoretical model. More precisely, to include a model describing the relationship between existing theory and data, reverse mortgage as a financial product and the financial institutions in Sweden selling it. It also works as a summary of the theoretical framework chapter.

The authors make use of the theories presented in this chapter when later forming the interview guide. The interview guide will then be used when interviewing individuals at the financial institutions about reverse mortgage. Finally, in order to understand the causes and consequences of the implementation of reverse mortgage, both existing theories as well as empirical findings from interviews will be used. The “onion” and the right hand circle are thus interlinked.

As have been mentioned earlier in this chapter the research design is exploratory. Consequently the theoretical research model may prove to be of less relevance than previously thought, or the other way around. In any case the authors believe that it is necessary to include an illustration of the theoretical framework as it explains this chapter – how was made and structured. In addition, the model shows how theory used in the framework will be used later on when gathering data and, in turn, analyzing it.

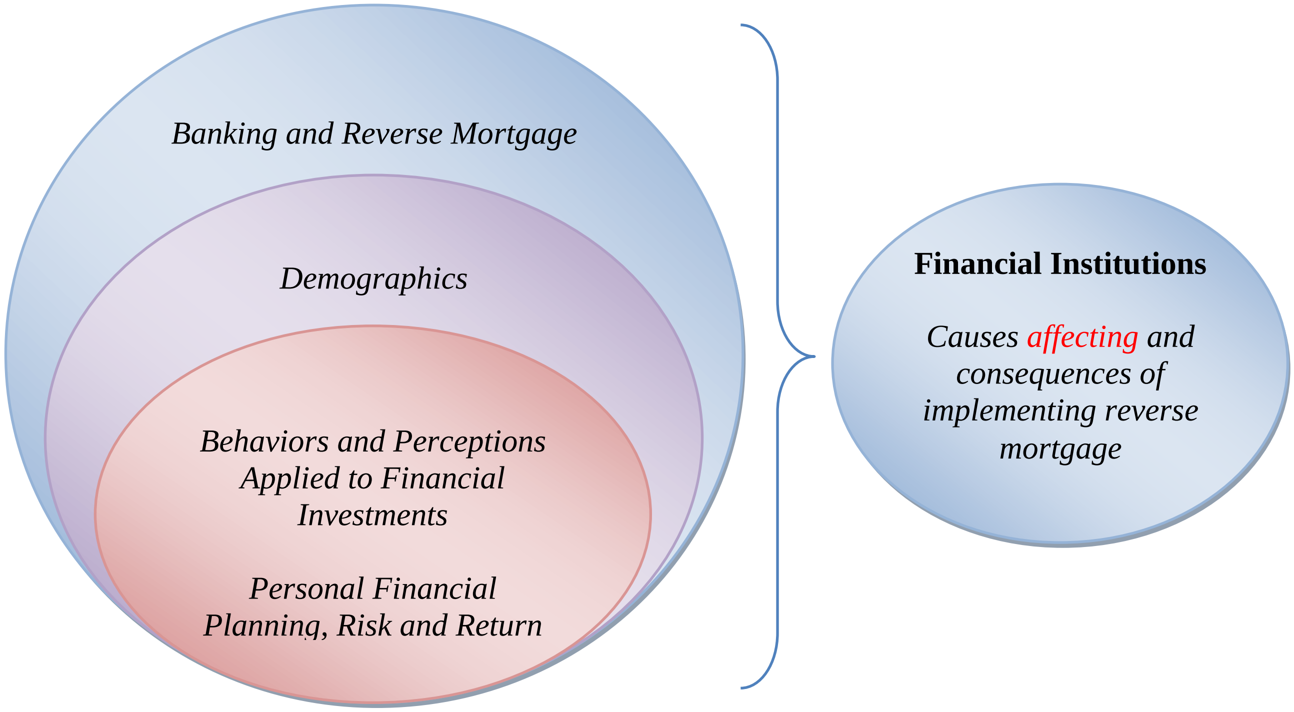

Figure 3.4: Theoretical Research Model
Source: the authors

4. Practical Method

The chapter begins with a short description of the selection criteria used when conducting the research. After that the selection process of companies is described along with the data collection methods, both primary and secondary. Consequential topics concern the interview process and its questions, as well as the data analysis and quality criteria.

4.1. Selection Criteria

As the aim of this research is to look into the causes and consequences of the implementation of reverse mortgage in Sweden it is important, as with all studies, to obtain data that is relevant and useful. In order to obtain the data needed the authors when deciding how to conduct the research defined several criteria.

First of all, and perhaps most importantly, the research is limited in a way that affects the number of participants. This was done in order to make it as relevant to the research topic as possible. In this case the research is limited to Swedish financial institutions, with individuals situated in Sweden being interviewed. Secondly, given the research topic, only the financial institutions in Sweden that offer reverse mortgages and variations of it were selected. This makes it easier to access relevant information regarding the financial product while it, at the same time, establishes credibility as these institutions have a substantial amount of expertise in the field of research. The third criteria concern the actual individuals being interviewed. The authors believe that the sample should be diversified in terms of organizational position as interviewing individuals that have the same position could give a rather one-sided view of research area at hand. Therefore, having a range of participants that are diversified could result in a more multifaceted view on the research topic than, for example, a set of participants with the same positions and expertise would.

4.2. Selection of Companies

Saunders et al. (2012, p. 260) describes ways of collecting data to a research and states that often it is not possible to collect data from an entire population; instead a sample has to be used. In the case of this research, the sample will consist of a selection of companies and employees within it. Bryman & Bell (2011, p. 176) describes two different ways of selecting a sample: probability sampling and non-probability sampling. Probability sampling means that the sample is randomly taken from for example available statistics. Saunders et al. (2012, p. 262) writes that this is a common approach when conducting a quantitative research. However, when doing qualitative research, this way of sampling might not be possible or for that matter even beneficial. The data collection for this research is done through a non-probability sampling as the people selected for the interviews needed to have some sort of pre-knowledge about reverse mortgage since this is the way the interviews are structured. Thus, this sampling technique will allow the authors to target specific employees at specific companies.

Saunders et al. (2012, p.284) outlines four main methods of non-probability sampling. Quota sampling is suitable when there is problem obtaining data quickly enough through probability sampling. Judgmental sampling or purposive sampling, on the other hand, allow the authors to choose a sample of companies and employees to be interviewed based on their beliefs of what is relevant for the research. The third non-probability sampling method is volunteer sampling, which is a technique where participants volunteer to participate in instead of being chosen. The last method of non-probability sampling is the haphazard sampling method, meaning that one selects interviewees that are easily available, for example students at a university (Saunders et al., 2012, p.284-291). Since this research requires a certain type of respondents, namely employees at financial institutions with knowledge about reverse mortgage, a judgmental sampling technique was chosen. This enabled the authors to target specific companies and at these work places select employees with a pre-understanding of reverse mortgage, since this was a requirement for the interviews.

The criteria for the companies being selected to participate in the research was that they sell reverse mortgage and do business in Sweden. According to Konsumenternas (2013), there are currently six financial institutions in Sweden that offer reverse mortgage. Due to anonymity reasons, the authors have chosen not to present these financial institutions further as it could expose the interviewees who wish to be anonymous. The aim of the research was to interview all six of them. Furthermore, the interviewees should have experience selling, promoting, managing or calculating the risk of reverse mortgage. Preferably, two persons at different positions within the company should be interviewed. This, however, was not possible due to problems gaining audience with the appropriate individuals. The geographical location of the companies within Sweden was not important, since the plan was to do interviews either on phone or face-to-face. Having excluded the option of exclusively doing face-to-face interviews meant employees based all over Sweden could more easily be interviewed. Since all the selected financial institutions have their head quarters in Stockholm this made the interview process more convenient and also increased the depth of the research as people with more specific expertise could be interviewed.

4.3. Collection of Data

Having reliable and relevant data is of importance when doing research. There are two main types of data; secondary and primary, which can either be qualitative or quantitative. Some examples of secondary data are journals, books and newspapers while primary data could be, for example, reports, theses, company reports, and so on. (Saunders et al., 2012, p. 82) The data is described as either being primary or secondary depending on its source. This particular research and its conclusions are mainly based on the usage of primary qualitative data.

4.3.1. Primary Data Collection

Primary data is often collected in order to conduct the research in question. The researcher is thus involved in almost every aspect when trying to turn the data into concrete and useful knowledge. Tasks that may be included in this process are, as Hair et al. (2003, p. 72) writes, "*designing the data collection device, collecting the data, coding it, checking for errors and then analyzing and interpreting the data*".

As suggested by Saunders et al. (2012, p. 692) there are three different types of methods used to gather primary data: through interviews, observation or questionnaires. As this research is of exploratory nature the authors have chosen to interview a set of individuals with relevant knowledge in order to gather data, which later on will be used to establish findings. The authors decided to use a non-standardized interview structure, in which a semi-structured interview technique was used. By conducting this type of interview one may emphasize some questions in particular interviews, while focusing on other questions in other interviews. (Saunders et al., 2012, pp. 374-375) This is due to the fact that context and discussions may change and as such the interviews could differ, which could provide interesting background or contextual material (Saunders et al., 2012, p. 377). This, in turn, may result in unexpected data being gathered that could provide with additional insights that were not thought of before. Such data often helps to enhance the findings. (Hair et al., 2003, p. 73) Also, the order of questions may vary depending on the conversation and its flow, which is why the authors decided to record all of their interviews.

Moreover, both face-to-face and telephone interviews will be conducted. In addition, using the semi-structured interview when collecting data allows researchers to have a list of themes while at the same time covering some key questions and subjects, allowing for flexibility (Hair et al., 2003, p. 73) On the opposite side of the spectrum one can find the standardized interview, in which researchers' use only a set of predetermined questions with little room for discussion (Saunders et al., 2012, pp. 374-375).

The fact that the semi-structured interview allows for more discussion than the standardized one was the major driver as to why the authors chose to use the semi-structured interview. As the research is exploratory it is beneficial to have some space to freely discuss a topic that proves it to be interesting during the course of the interview. In depth interviews are more frequently used for exploratory studies, however semi-structured interviews may also be used as both of these types of interview may, as stated by Saunders et al. (2012, p. 377), "*provide important background or contextual material for your study*". In addition, as the research uses an interpretive epistemology the usage of semi-structured interviews becomes even more fitting. The research, by using the interpretivist approach, is concerned with the understanding of different meanings that the interviewees ascribe to various phenomena. As such it becomes only natural to use the semi-structured interview as it leaves room for them to freely discuss certain topics. Compared to using in depth interviews, the authors argue that conducting semi-structured interviews would allow them to compare the findings and see patterns more easily. Moreover, the research purpose and question of this particular research can be viewed as being quite general. Therefore it is important to be able to probe certain questions in order to add significance and depth to the data collected. This may lead the discussions into areas that were not previously considered by the authors. As such it may reveal many interesting new things which will, in turn, help to address the research question. (Saunders et al., 2012, p. 378)

4.3.2. Secondary Data Collection

Secondary data, on the other hand, are data that has already been collected for some other research purpose. This type of data may concern the research question at hand; as such it may also be of use in order to answer a research question. Therefore, researchers should always check for secondary data sources that can be of use for the study before gathering primary data. With the current advances in technology, such as the Internet, the gathering of secondary data has become easier and faster. Consequently, two major benefits of using secondary data are the saving of time and money. (Hair et al., 2003, p. 72) The authors are of the opinion that secondary data is important to include as this type of data can be used in order to complement the primary data gathered. This provides the research with more credibility as it widens the spectrum and basis of which this research is based upon. At the same time, however, there are some concerns with using this type of data as can be seen in the section below.

The secondary data used for this research was mainly gathered through the use of various article and journal databases, such as Business Source Premier, and through the use of university library search engines. This was done in order to mitigate one common problem that may arise with secondary data: the issue of data quality. With secondary data one must rely on the virtue of the original source in order to assure both oneself and the reader that the data used is indeed accurate and of good quality. Secondary data must be evaluated on a basis that is equal to primary data, as well as being held on an equally high standard in terms of content. Just as the data gathered for the research purpose specifically (in this case the primary data gathered from the interviews) must be verified in terms of reliability and validity the secondary data must be as well. (Hair et al., 2003, p. 73) Hence the usage of search engines verified by university libraries and alike should assure that the data is of sufficient quality. The articles that were found on these search engines, and later used, are also peer-reviewed which adds additional credibility and quality. In addition to the issue of quality, secondary data can also be criticized due to the fact that this type of data often does not fit perfectly with the research purpose at hand. At the same time, however, most secondary data has been gathered for other research purposes, thus it can be hard to find relevant sets of data. (Hair et al., 2003, p. 72)

4.4. Preparing and Conducting Interviews

Six financial institutions currently offers reverse mortgage in Sweden (Konsumenternas, 2013). These institutions were contacted through email, phone or personal visits and asked whether they wanted to participate in the research by being interviewed. All of the respondents were positive towards this suggestion. Semi-structured interviews were conducted. When doing semi-structured interviews, Saunders et al. (2012, p. 283) sees 5 to 25 people as an appropriate sample size. The sample size for this research consisted of seven individuals, with all the financial institutions offering reverse mortgage in Sweden being represented. Due to all of them being represented, with respondents working with reverse mortgage on different levels within the financial institutions', the authors believe that the sample size is sufficient in order to answer the research question and fulfill the research purpose.

Doing interviews face-to-face, Hair et al. (2003, p. 140) explains that this might be preferred when there are many complex questions, which require the respondent to elaborate and interact with the interviewer. However, due to reasons such as the cost of travel and time limitations, face-to-face interviews were not always possible for this research. Instead the authors decided to focus on finding appropriate employees to be interviewed, wherever their geographical placement in Sweden might be. This approach may lead to some personal contact being sacrificed as Hair et al. (2003, p. 140) states, but on the other hand by doing so it enabled the authors to select individuals with more specific knowledge about the subject.

Before starting the questioning, the conditions for the interview were explained. For example, the interviewees were offered anonymity and the opportunity to withdraw from the interview at any time. Moreover, since some questions might be difficult to answer due to company secrecy it was clearly stated to the interviewees that they could refuse to answer any question. At most of the interviews, both authors were present, with mainly Jacob asking questions and Viktor taking notes. All the interviews were recorded and later transcribed. The transcriptions were made in order to facilitate the conduction of the empirical findings.

In the end, seven interviews were made with employees at the six financial institutions in Sweden offering reverse mortgage. At one of these institutions, the authors wanted further insight of how this particular company worked with reverse mortgage. Consequently, when the opportunity to interview another employee – this time at management level – the authors decided that this would be beneficial for the research. This is the reason why every financial institution are represented by one employee, except for the above-mentioned one, which is represented by two (for further information about the interviews and the interview settings, see appendix).

The interviews were, as mentioned earlier, conducted through the use of semi-structured interviews. When using this kind of primary data gathering technique, an interview guide is often used (Hair et al., 2033, p. 140). An interview guide allows the interviewer to follow a pattern of questions, each of them relating to different theories or topics. Due to the semi-structured nature of the questioning the interviewer may deviate from the interview guide and for example ask follow-up questions when answers given are difficult to understand, insufficient or have the possibility to produce useful findings (Hair et al., 2003, p. 135). As the findings in an exploratory study might be unexpected but yet significant, (Saunders et al, 2012, p. 171) doing a semi-structured interview using an interview guide allowed the authors to ask follow-up questions and stray away from the interview guide when so needed.

4.5. Interview Guide

Before creating questions and compiling those into an interview guide the introduction, methodology and theoretical framework chapters had to be written. The reason behind this is that the interview guide would be based on these chapters, the theories and data in them and the research question. Being able to tie the research question and the theories presented in the preceding chapters to the interview guide was a logical continuation. Having structured it this way also meant that the subsequent chapters could use the same structure as the interview guide when doing the empirical findings, analysis and conclusion. As the thesis uses an inductive standpoint, this structure may further evolve to include different categories as the findings made may point in another direction.

The interview guide was structured so the first part related to the causes of implementing reverse mortgage in Sweden from a financial institution perspective and the second part aimed at understanding what consequences the implementation might bring from a financial institution perspective, thus directly relating to the research question of the thesis. Under each part of these parts is six sections, all relating to one specific part of the theoretical framework. These parts consist of; Reverse Mortgage; Personal Financial Planning, Risk and Return; Demographics; Housing and Real Estate Investments; Banking in General; and Behaviors and Perceptions Applied to Financial Investments.

The order of the parts can be debated, but the authors deemed it appropriate since it is roughly the order in which the theoretical framework is structured. Also, it was believed that the interviewees, being intelligent people, should able to go back and forth between different subjects.

Initially, as the process of creating the interview guide started, there were many more questions. It all started with a brainstorming session where all type of questions relating to the chosen topics was written down. Before the selection process started, there were maybe 40 questions. After some discussing back and forth about different alternatives, the authors finally settled for 21 questions, two to four for each topic. Depending on the weight being put on each topic, the number of questions was allowed to vary. For example, the topic called Reverse Mortgage was considered very important and was thus given more weight than for example Demographics.

Deciding on which questions to be asked, the authors also had to consider the methodological standpoint of the research. This included asking questions of an inductive nature, which aimed at gaining an understanding about the respondents' view of the research topic. Through the use of a semi-structured interview, the interviewees could freely elaborate when needed, further enabling the researchers understanding. Since the research is partly exploratory, most of the questions had to be open as an exploratory research, as stated by Saunders et al., (2012, p. 171) often start with a broad focus and then eventually becomes narrower.

During the interviews it was noticed that sometimes the respondents without intention answered more than one of the questions at the same time, most often a question that would come later in the interview guide. When this occurred the question that was already being answered was not asked specifically again. Below is a table that presents the questions used. The questions are also numbered in order to show the order in which they were asked.

Themes	Causes	Consequences
Reverse Mortgage	1. Why did your company introduce the reverse mortgage? 2. Why do we need reverse mortgages?	11. What is your view on the development of reverse mortgage? 12. How will reverse mortgage affect other financial products? 13. What are the biggest obstacles when selling reverse mortgages?
Personal Financial Planning, Risk and Return	3. Have you seen a change in savings patterns among people in general (are they more careful after the financial crisis)? 4. Have you seen a change in how retirees have changed their savings pattern?	14. How does moral hazard affect reverse mortgage? 15. Do you believe that reverse mortgages will affect people's life time consumption pattern?
Demographics	5. How do you view the general economic situation for retirees' now compared to 10 years ago? 6. How have financial institutions in general adapted their business to an elderly population?	16. What consequences does an ageing population have for financial institutions way of doing business?
Housing and Real Estate Investments	7. Have appreciation in housing prices affected the popularity of reverse mortgage?	17. Do you believe housing prices will develop in a different fashion with the introduction of reverse mortgages?
Banking in General	8. Do you believe the way financial institutions do business has changed over the last years? 9. How is the need for inventing new financial products?	18. How do you believe reverse mortgages will change a financial institution's way of working? 19. How does your company make money on reverse mortgages?
Behaviors and Perceptions Applied to Financial Investments	10. Do you believe the ways that reverse mortgages are structured attracts a certain type of individuals, risk wise?	20. Do people understand the risks associated with reverse mortgages? 21. What are the consequences of having a financial product that requires individuals to be of a certain age, seeing as they might have different views and perceptions regarding financial investments?

Table 4.1: Interview Guide
Source: the authors

4.6. Data Analysis

The process of data analysis can be described as "*making sense out of text and image data*". It involves preparing the data for analysis, conducting these analyses, understanding the data and then interpreting the relevant data set in order to get its larger meaning. It can be viewed as being an ongoing process in which the researcher continuously reflects upon the data by asking oneself analytic questions, taking notes and so on. In addition, researchers often need to customize the analysis beyond the generic scope. This is done differently depending on whether the research is qualitative or quantitative as well as depending on what research strategy that is chosen. As described in the methodology, this research is of qualitative nature and the research strategy chosen by the authors is the Grounded Theory. (Creswell, 2003, pp. 190-191)

Data Analysis Process

Creswell (2003, pp. 191-192) presents several steps in the process of data analysis. First, one must organize and prepare the data for analysis. This includes transcribing the interviews that have been conducted, scanning possible data and arranging it depending on its characteristics and sources of information. The authors recorded their interviews while at the same time taking notes in order to get a rough understanding before transcribing the interviews and going into detail. These transcripts include all of the words that have been said as well as pauses which are, according to the authors, sufficient for this type of research. This view is further strengthened by Eriksson and Kovalainen (2008, p. 85), which state that it is "*often enough to have a transcription that includes all the words that have been said, and maybe pauses also*".

Second, the researcher must read through all of the data. This is done in order to obtain a kind of "general understanding" of what the gathered information actually shows and to contemplate on its overall meaning. Here, the authors phased out some general ideas that the participants (interviewees) conveyed when being interviewed. This step is interesting due to the fact that it provides some general impressions, which eventually can be used to give the study more depth and credibility. (Creswell, 2003, p. 191)

After reading through the data and obtaining some general impressions it is important to code it. The coding process is where the researcher organizes information into sections and eventual subsections before giving them specific meanings. It involves, as stated by Creswell (2003, p. 192), "*taking text data or pictures, segmenting sentences or images into categories, and labeling those categories with a term*". The authors divided the different questions into two sections that relate to the research question: causes and consequences. This was done in order to help answer the research question, which is further emphasized by Eriksson and Kovalainen (2003, p. 79) who writes "*the basic idea is that your interview questions provide material that will help you answer your research questions through careful analysis*". With this in mind, the authors felt that this division of questions was necessary. Additionally, the coding process is then used to generate a description of the setting or people as well as categories and different themes. In light of the research strategy used for this paper, i.e. Grounded Theory, the authors believe that this step is particularly useful as it allows for themes and categories to be developed into a theoretical model, which later could be used to create theory and draw conclusions.

4.7. Quality Criteria

One of the most prevalent challenges when conducting qualitative research is "*to assure the readers of your research about its scientific nature, its quality and trustworthiness*" (Eriksson & Kovalainen, 2003, p. 290). In addition, when having the appropriate evaluation and quality criteria the transparency increases which enables the researcher to highlight strengths as well as possible limitations. In order to do this, so as to assure a good outcome, it is important to continuously evaluate the research - not only at the stage of completion. Emphasizing strengths and limitations at the end is often not enough to "push" the research in question in the right direction to ensure a good quality. In addition, it is important to have in mind that quality criteria are also dependent upon the methodology of the study, as quantitative quality criteria differs substantially from those of a qualitative study. (Eriksson & Kovalainen, 2003, pp. 290-291) There are many ways to evaluate qualitative research. Below is a selection of some of them, along with the ones used for this research.

4.7.1. Classical Criteria

The concepts of reliability and validity are usually viewed as the "classical criteria". They provide a fundamental framework for evaluating research, both in social sciences but also business research. (Eriksson & Kovalainen, 2003, p. 291) Reliability is commonly used in quantitative research. It concerns to what extent a measure, procedure or instrument yields the same result on a repeated number of trials. In other words, it deals with consistency – can another researcher in the same field replicate this particular research and come up with the same, or similar, findings? (Bryman & Bell, 2011, p. 41) As this research is based mainly on primary data gathered through semi-structured interviews where the interviewee is free to discuss as her or she may interviews may yield different results, even if one were to interview the same person several times. Thus, the relevance of having reliability as a quality criterion is quite low.

Validity is another classical evaluation criterion. It refers "*to the extent to which conclusions drawn in research give an accurate description or explanation of what happened*" (Eriksson & Kovalainen, 2003, p. 292). Truth, in terms of validity, means that the findings made represent the circumstances referred to in an accurate way and that they are supported by evidence. In other words, drawing conclusions that are valid means that they are certain. (Eriksson & Kovalainen, 2003, p. 292) Validity may be achieved where semi-structured interviews, as Saunders et al. (2012, p. 384) puts it, "*are conducted carefully due to the scope to clarify questions, to probe meanings and to be able to explore responses and themes from a variety of angles*". Validity can also be divided into two subsections; internal and external validity.

4.7.2. Alternative Criteria

Eriksson and Kovalainen (2003, p. 294) mention that there are several problems with using the classical evaluation criteria in qualitative research. These problems, in turn, have generated some alternative criteria that is useful for research that has a relativist ontology (similar to the constructivist ontology used for this research) as well as for subjectivist epistemology, which emphasizes that the researcher and participants create understandings together. This subjectivist epistemology is also similar to the one used in this research, namely interpretivism. Due to these facts the authors decided to use the alternative criteria when evaluating the data quality. Below, short descriptions of the different alternative criteria can be found as well as how it helps to assure data quality.

Dependability

Dependability is concerned with the responsibility of the researcher to supply the reader with information. This information, in turn, shows that the process of research "*has been logical, traceable and documented*" (Eriksson & Kovalainen, 2003, p. 294). Conveying this information to the reader establishes trustworthiness of the research in question. In this case, examples of this kind of information could be the interview transcripts supplied by the authors.

Transferability

The idea behind this criterion is that the researcher is responsible to show the degree of similarity between his or her research results and previous research results. This is done in order to establish a connection between the two. Consequently, this will show if there is some similarity between the two research contexts. In other words, it deals with the issue if qualitative research can be generalized or not. The researcher describing the context of which the study is based upon may increase transferability. (Eriksson & Kovalainen, 2003, p. 294)

Credibility

Credibility is concerned with questions such as if the data collected are sufficient and whether or not the researcher is sufficiently enough familiar with the topic. In addition, one question that can be asked regarding credibility is if the author has made logical and sound connections and parallels between observations, categories and conclusions. Can other researchers come relatively close to the interpretations made (on the basis of the material supplied in the given study) and agree with the results? (Eriksson & Kovalainen, 2003, p. 294) In this case credibility was established, according to the authors, by supplying the interviewees with information regarding their purpose and the promise of confidentiality, just to name a few. By doing so the authors believe that a sense of professionalism was conveyed during first contact. In addition, the possible fear of "naming and shaming" was eliminated due to the strict policy of confidentiality.

Conformability

According to Eriksson and Kovalainen (2003, p. 194), conformability "*refers to the idea that the data and interpretations of an inquiry are not just imagination*". They continue by stating that conformability "*is about linking findings and interpretations to the data in ways* *that can be easily understood by others*". This is especially true for a qualitative study as this type of study tends to assume (with the "traditional" qualitative epistemology of interpretivism in mind, which is also used for this study) that each researcher bring with them a unique perspective. In order to increase conformability the authors documented the interviews and transcribed them, as well as both being present at the interviews. This minimizes the potential for a "one-sided" view on the findings made.

5. Empirical Findings

Initially, a general description of the institutions where the interviewees work is presented. Arguments made by the authors concerning the choice of institutions and why the respondents are to be anonymous then follow. The remaining parts of the chapter are structured similarly to the interview guide, with one part dealing with causes affecting the implementation of reverse mortgage and the other part dealing with the consequences of it.

5.1. Empirical Introduction

Before presenting the participating financial institutions and the empirical findings made the authors felt it was necessary to include a short introduction of quantitative facts concerning life expectancy and pensions in Sweden. The institutions themselves rely heavily on demographics when deciding the pricing of different products, insurances, and so on. As the research is conducted from a financial institution point of view the authors believe it is of utter importance to have a clear view of the current demographic situation in Sweden.

Life Expectancy

The concept of life expectancy directly connects to the research area at hand. One example of this is the age limit; as one needs to be of a certain age in order to undertake a reverse mortgage the age demographics are indeed relevant to look into. During the last one hundred years the world has experienced dramatically changes in the ageing structures, with Sweden being no exception. Around the turn of the 20th century the population was characterized by consisting of many young individuals, while there was relatively few elderly citizens. During the beginning of the 20th century almost a fourth of the population was ten years or less, and less than one tenth was 65 years or older. As the population experienced an increase in lifespan as well as life expectancy the ageing structure looks different today than compared to earlier decades. Below is an illustration comparing the year 1900 and the year of 2012 in terms of age and its distribution of the Swedish population. Men are shown on the left, while women are shown on the right. The horizontal axis is numerated in hundreds of thousands. (SCB, 2012)

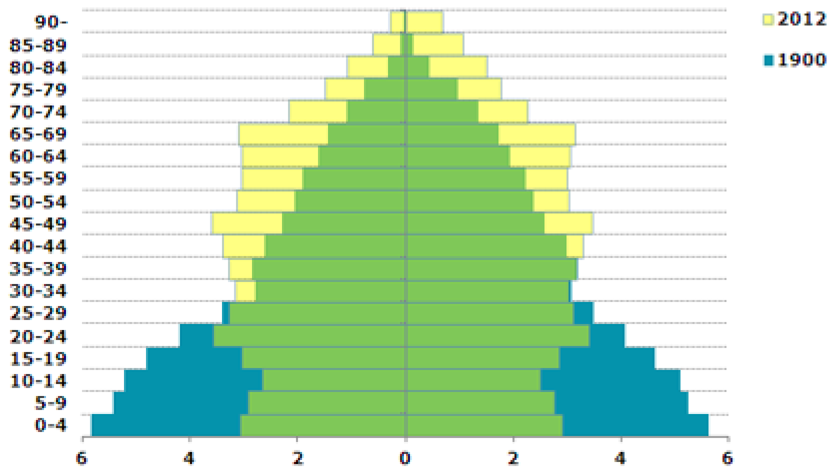

Figure 5.1: Age Distribution in Sweden Comparison
Source: Statistiska Centralbyrån (SCB), 2012

As SCB (2012) states in their demographics report, the illustration is a so-called population pyramid, which provides an easy-to-understand illustration of the age distribution in any given population (in this case, the Swedish). As seen, during 1900 it was a question of a pyramid, with the base being broad while moving up it gradually got thinner. Today, however, this is not the case as the lifespan and life expectancy has increased, which in turn has resulted in age being more evenly distributed between the different population groups (divided in a 5 year period). In addition, if looking more closely one can notice variations in birth rates as it is illustrated through small "bumps" in the pyramid, with the 1940's, 70's and 90's being the most distinct ones. In other words, during these decades there was a significant increase of childbirths in Sweden. Taking these facts into account, one can easily calculate that within the coming years a large portion of the population will enter into retirement, which in turn will bring with it an increased amount of retirees. As of 2020, it has been calculated that 21 percent of the population will be 65 years or older. (SCB, 2012)

With the above-mentioned facts in mind, it becomes obvious that the market for reverse mortgages in Sweden will experience an increase in the number of potential customers and, thus, potential profits. As the demographics change so does the market - something that is true in the case of reverse mortgage as well.

Pensions

Saving for retirement – pensions saving – is the largest savings post for many people. In Sweden there are three layers of pension saving, best exemplified by the pension pyramid. The three types of pension saving is (1) private savings, (2) occupational pension, and (3) national pension.

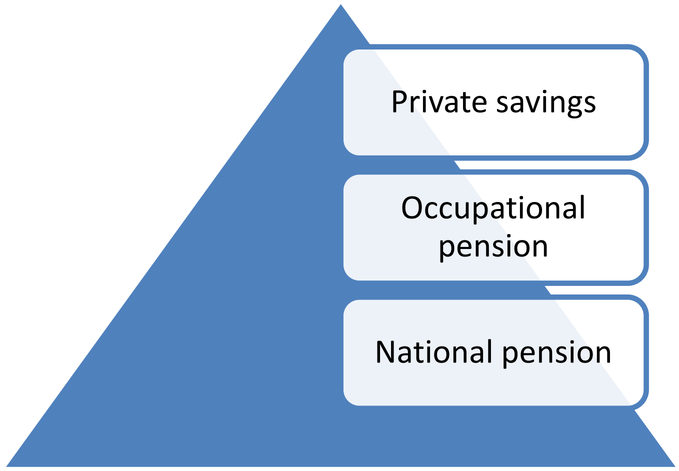

Figure 5.2: Swedish Pension Pyramid
Source: Pensionsmyndigheten, 2013

The biggest part is the national pension. Employed people in Sweden pay 18.5 percent of their salary each month as a pension fee. Out of the 18,5 percent, 16 percentage units is the national pension administrated by government agencies and 2,5 percentage units is the premium pension. The premium pension can be managed by each individual for themselves. The next layer of the pyramid is the occupational pension, which is the money the company saves for their employees every month. Lastly, the top pension layer is the individual pension savings, which in part is tax deductible. (Pensionsmyndigheten, 2013)

In the case of Sweden, the current amount of individuals above 60 years old is two million, while 17,5 percent is above 65. Below is an illustration showing the Swedish age distribution for the year of 2012 with men being represented on the left and women on the right. The horizontal axis is numerated in hundreds of thousands.

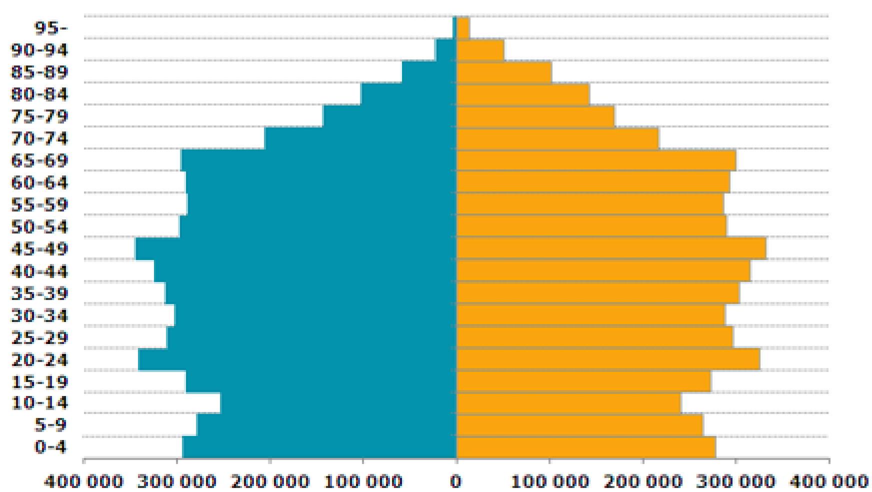

Figure 5.3: Age Distribution in Sweden.
Source: Statistiska Centralbyrån (SCB), 2012

All of the above-mentioned facts bring with it many different problems, one being the amount of potential value available in future pension schemes. As future pension schemes and their potential values are becoming more and more uncertain retirees could now be forced to look for other options. This is where reverse mortgages comes in as they could act as substitutes for the diminishing pensions. Thus, the reverse mortgage as a financial product may experience a rise in popularity as it could be used as a substitute, or complement, for the decreased liquidity offered by pensions. Thus far the context in which the financial institutions operate has been described. Now it is time to look at the institutions themselves in a more in-depth manner before proceeding to the empirical findings.

5.2. Presentation of Financial Institutions

Several institutions were included in this research, with the authors interviewing various employees having different positions within the organizations. As the authors of this research chose to have a secrecy policy that maintains the participant's anonymity, the companies and interviewees will not be named. This was done in order to mitigate the potential for information being tied to specific companies, since it could reveal their management policies, business operations, future plans and so on. Eriksson and Kovalainen (2003, p. 53) further emphasizes this by stating that concerns like these when conducting research are "*common in business research, particularly if extracts of interviews or conversations are used in the research paper*". The companies and interviewees will be named using pseudonyms according to the NATO phonetic alphabet, thus safeguarding them and hopefully allowing them to speak more freely. Additionally, the authors decided to bold type the name of the interviewees and institutions to facilitate for the reader.

Furthermore, the views expressed by the interviewees could both be their personal opinions or the opinions of their employer. In many cases it seemed that the financial institutions did not have a policy for how to specifically handle questions regarding reverse mortgage, thus the interviewees´ opinion often shined through. When the views held are explicitly personal opinions of the interviewee, it is stated so. The authors did not regard this as a problem, rather a chance to get more nuanced and richer findings.

The companies used in this research are all large financial institutions situated in Sweden and have some form of financial product that works as a reverse mortgage; however they have different names for it as well as different conditions. The companies also differ in their policies regarding monthly recurring payments, lump-sum payments and so on. Below is a table summarizing the financial institutions interviewed, their characteristics as well as the characteristics of the interviewees.

Financial Institution	Institution characteristics	Interviewee characteristics
Alpha	Large financial institution, offering a wide range of financial products and services.	Respondent was working in management, having both practical and theoretical knowledge about reverse mortgage.

Bravo	Large financial institution, offering a wide range of financial products and services.	For this company, two interviews were conducted. Interviewee **Bravo1** works with and had long experience of selling reverse mortgage towards customers. Interviewee **Bravo2** had previously worked with selling reverse mortgage. **Bravo2** is now more involved in the strategy, marketing and sales support of the product.
Charlie	Large financial institution, offering a wide range of financial products and services.	The interviewee works as a mortgage consultant with loan experience of reverse mortgage.
Delta	Financial institution, specializing in reverse mortgage.	The interviewee works in management with promotion and communication of reverse mortgage.
Echo	Large financial institution, offering a wide range of financial products and services.	Works in management, specializing in reverse mortgage. Also have practical experience of selling the product.
Foxtrot	Large financial institution, offering a wide range of financial products and services.	Reverse mortgage specialist, having practical knowledge about the product as well.

Table 5.1: Financial Institutions
Source: the authors

5.3. Causes

The first part of the interview guide dealt with the causes affecting the implementation of reverse mortgage from a financial institution point of view. In order to facilitate for the reader and make the empirical findings as presentable as possible, the empirical findings will be divided into the same topics as the interview guide.

Reverse Mortgage

During the last 20 years, Sweden has seen a substantial increase in housing prices. This has made many individuals wealthy. However, in many cases, their amount of liquidity has not risen in the same fashion as most of their wealth has been in their housing. Many interviewees see this as the reason why reverse mortgage was introduced in Sweden as it is a way to convert house equity to cash. Some interviewee's states that as house owners grow older, monthly incomes might have shrunk and they found themselves short of cash.

Employee **Bravo2** says that when they introduced reverse mortgage in the middle of the last decade, the property tax was not yet abolished. This meant that many old individuals, who had bought their houses many years ago for a small amount now had seen their houses explode in value thanks to booming housing prices. These people might today be a widow or widower with a low pension, but because of the value of their house, they still had to pay a huge amount in property tax. *"This product could help these people to remain in the house as long as they want"*, employee **Bravo2** stated. Furthermore, some respondents believed that financial institutions, having noticed the popularity this financial product has had in the Anglo-Saxon countries, thought it would be a good idea to offer it in Sweden as many of the characteristics of the markets were the same, for example the steep rise in housing prices. An interviewee at **Delta** told that when they introduced reverse mortgage in Sweden there was no equivalent product thus, as the respondent stated, "*it was a niche that was available*".

As the number of old people has increased, some interviewees believed that reverse mortgage was a good complement to their existing products. To exemplify: employee **Bravo1** said that many of her clients use reverse mortgage to pay the interest payments of an existing mortgage when this expense, in connection with their retirement, had become too big of an expense in relation to their income.

Responding to the question why reverse mortgage is needed, an employee from institution **Alpha** explained it as *"many elderly people have a lot of equity in their house which they want to make use of when they are still fit and have the health to stay in their house".* This particular argument was one commonly used among the respondents to analyze why reverse mortgage is needed.

An interesting discovery noted as the interviews went on was that the terms and conditions for the reverse mortgage seemed to differ much among the companies offering the product. For example, some institutions offered a term to maturity of the loan until the client died or moved out of the house while others had term to maturities ranging from 5 to 25 years. One of the institutions offering lifelong loans also had an "indebtedness guarantee", meaning that the clients could never owe more money than their house was worth. The financial institutions interviewed also had a limit for how much one could borrow, spanning from 50 to 60 percent of the total house value or from 1,5 million kr to 3 million kr. By setting this limit fairly low they argued that the risk of the house being worth less than the loan at the date of maturity was very low. Moreover, some institutions had terms stating that customers should pay interest on the loan during the lifetime of it while others demanded an accumulated interest payment at the time of maturity. Some institutions also paid out the loan as a lump sum, some as an ongoing (most commonly monthly) payment while others let their customers choose among the alternatives.

Interestingly, institution **Delta** stated that they were the only financial institution in Sweden offering reverse mortgage complying with the international legislation and consumer laws which regulates the terms of the product, for example the lifelong credit and the "indebtedness guarantee". The interviewed employee of **Delta** stated that the differences between their reverse mortgage and other financial institutions' variants were substantial and argued that the other their products were merely variations of the internationally recognized term reverse mortgage.

Regarding general people's savings pattern, many of the interviewees have seen a change during the last couple of years. **Alpha**, and one of their interviewees there, stated that *"overall, the awareness is a lot better today. Both when it comes to financing and saving"*. He continued, with reference to his clients, by saying that *"the understanding of what risk means is better today, both considering saving in mutual funds as well as the meaning of what a loan and a mortgage are"*. However, he also argued that we live in a society characterized by an eagerness to consume in order to *"build and decorate the perfect home",* without first saving up the money. This has paved the way for niche companies, specializing in *"quick credits"* with high interest rates and bad conditions for the loan takers. Thus, he argues, *"it goes both ways".*

The interviewee at **Charlie** has seen a different change, saying that people nowadays are more willing to amortize on their loans. The employee interviewed further elaborates, *"Regarding saving, people have understood that it is important. Individuals today realize that they have to save money if they want to buy a house compared to former generations when the same amount of savings was not needed"*. Furthermore, she says *"amortizing on loans has become a much more accepted way of saving"*. Employee **Bravo1** has a similar view and explains that her company has made it mandatory for customers to amortize on the part of the loan that exceeds 75 percent of the house value. Her institution puts more emphasis on explaining that amortizing could be one way saving, she states.

There is a difference between retirees' savings patterns depending on the age, many respondents argue. Some of the old retirees of today, aged 80 years and above are still very reluctant to loan money for consumption, many of the respondents conclude. These individuals reason that you should save up money first in order to consume. Their general economic situation is also considered worse than that of younger retirees. The retirees born in the 1940s, on the other hand, seem in general both to have more wealth as well as another view on consumption. As employee **Bravo2** puts it, *"the new retirees are in another situation. They have bought a house, property or real estate rather cheap and also have had good income"*. She carries on by saying that *"these group of people generally live with higher standards, although it may differ throughout the country. If you live on the countryside you have probably paid off your mortgage since the prices are lower, but in the cities people generally have a mortgage but on the other hand the houses also tend to be worth more"*. Also, she further argues, this group of new retirees is more reluctant to give up their way of living because of retirement.

The interviews with respondents from institutions **Alpha** and **Delta** gave similar answers, elaborating whether a more "Lutheran attitude" among the oldest retirees could be one way of explaining this behavior. Or as an employee of **Alpha** said, *"generally speaking, older retirees of today grew up with less money, less saved and are thus more concerned about saving up money before spending it".* He concludes his reasoning by asking a rhetorical question: *"what will happen in 30 years when everyone is used to consume before saving?"*

Demographics

Answering the question of how the general economic situation for retirees is now compared to ten years ago, the employee of institution **Alpha** says that he sees as a more unequal economic situation for retirees compared to 10 to 20 years ago, *"back then we had another pension system, one that maybe allowed workers to accumulate more money going into retirement"*. He extend his thinking by stating that *"I believe the divide – in terms of wealth – between the happy pensioner and the pensioner less well off unfortunately has increased over the course of the last 10 to 20 years"*.

In contrast to the above argument, other interviewees do not believe that the economic situation for retirees have changed substantially during the last ten years. Interviewees from the financial institutions of **Charlie** and **Delta** as well as one of the respondents from **Bravo** cannot see any spectacular change. Nevertheless, these same employees maintain that they base these opinions on their personal experiences, derived daily meetings with customers. Or as one interviewee of institution **Charlie** puts it, *"I do not dare to say whether the situation has changed, but it is nothing I have noticed or thought about"*.

The same employee continues by describing how her company has adapted their business to an older population, *"we put more emphasis now on saving in general and pension saving in particular and nowadays it is also easier to make customers understand why this is important."* Institution **Delta**, which specializes in reverse mortgages, says they cannot speak for other financial institutions way of adapting to an elderly population, but states that it is *"our opinion that other financial institutions are not so interested in marketing this product"*.

Working on a daily basis with loans and credits, employee **Bravo1** sees a larger willingness to consume for individuals retiring now or in a couple of years, compared to preceding generations. This could also change the way financial institutions work, she explains, *"I believe as time goes on that we will see more people taking a reverse mortgage"*. Colleague **Bravo2** of her mentions that financial institutions use segmentation of customers, meaning they give different levels of service depending on for example customers engagement at the company. This for example means that wealthy customers having insurance, savings and loans at the company get more personal service than those customers only having a checking account. Using this type of segmentation enables them as a financial institution to take better care of their most profitable clients, which in some cases might be retirees.

Housing and Real Estate Investments

Most of the interviewees seem to agree that rising house prices is a necessity in order for reverse mortgage to exist. Without the appreciation of housing prices over the last decades, many people would not have had enough equity in their homes to make them eligible for a reverse mortgage loan. On the other hand, employee **Bravo2**, previously explaining the property tax as one specific cause for the implementation of reverse mortgage, says that housing prices have not mattered that such, *"the main share of our reverse mortgage takers* *are those who have a low pension and use this loan as a mean to enable them to stay in the house for a couple of more years"*. *"But of course"*, she continues, *"it eases the assessment for us of evaluating clients eligibility for these kinds of loans the higher the value of their house is."*

Employees of both **Bravo** and **Charlie** put forward another aspect, namely that these loans still are not commonly used – the product is still very small in terms of individuals taking the loan. Taking this into account, it might be hard to evaluate the affect rising housing prices might have had on the popularity of the product, they state.

Banking in General

New technical innovations such as internet, telephone and smart phone banking have significantly changed financial institutions way of doing business the last couple of years, many interviewees argue. Moreover, they state that compared to a few years ago, many retail banking customers nowadays do their banking errands in front of the computer or on their smart phone instead of visiting a branch office. *"There has been a shift from doing banking errands at traditional banking outlets to doing it on the internet, for example"*, employee **Bravo2** says. *"At the same time"*, she goes on, *"it is still important for many young people, though having a lot of computer skills, to visit our offices when they start looking at houses and such. This shows that they appreciate personal service."* Another employee of the same company says that everything is much more controlled today, *"previously, some people saw it as mistrust from the banks when we explained that we had to do a check up on their credit worthiness. Today this is never a problem. But I guess the attitude among our customers has changed as well, previous generations thought that a handshake would do and there were no need even to write a bill of debt. Everything is more thoroughly controlled today."*

Having worked for the same financial institution during the last ten years, an interviewee of institution **Alpha** talks about how they can give a much more accurate and systematic counseling to their clients today. Integrated solutions for the entire household economy, including insurance, savings and loans are much more common today. Furthermore he says, *"we have had to adapt to certain counseling laws stating that we have to give out much more information and be more clear towards customers when we counsel them. In addition, today there are more laws regulating how much we can lend out"*. The respondent further adds *"this has mainly increased the awareness among our customers and also enabled us to give more professional guidance. I believe the changes actually only have been to the better, both for our customers and us"*.

There is no special need of inventing new financial products for banking customers, employee **Bravo2** says. Instead, she argues, they strive to keep it simple, primarily out of two reasons: customers should easily understand their products and thus facilitate for them to make comparisons between different products. Moreover, having a lot of different products also makes it more difficult for their employees to explain the differences between them. Her company, she says, *"try to keep it simple for their customers"*. They are rather looking to trim down the amount of offered products in order to simplify for their customers and making it easier for them to understand what they really get.

"I am convinced that there is always a need to look at changes in the market, in society and in regulations", one employee of **Alpha** comments regarding the need to invent new financial products. He goes on by saying that *"but the financing bit in particular...I do not see that there are a million solutions. The basic qualifications are that you should have a property and be able to mortgage it. The evolvement will be interesting to follow, but I believe that it is difficult to come up with a lot of new exciting financing solutions for these kinds of loans".*

Behaviors and Perceptions Applied to Financial Investments

Seeing as financial institutions in Sweden offering reverse mortgage at most let customers borrow 60 percent of their home value, many of the interviewees see the risk of taking on a reverse mortgage as non-existent. Institution **Alpha's** respondent says that explaining the risk for customers is pretty straight forward and tend not to be a problem. Rather, the most important thing for him is describing the consequences of mortgaging the house in order to make room for consumption.

Employee **Bravo1** has another viewpoint and says that many clients are reluctant to take this kind of loan and they often take time to make up their mind. *"There is no one thinking 'now I am going to take a reverse mortgage', instead they usually feel a lot of insecurity towards this product."* A respondent of financial institution **Charlie** agrees with this line of argument and says *"what I believe is that the ones who would probably need this loan the most are also the ones that not really dare to take them."* She continues by arguing that these people generally have low pensions and sometimes bad economic knowledge which make them feel intimidated by a this kind of product. Generally speaking, she says, the older the retiree the less likely to take a reverse mortgage, *"it feels like this generation is not quite used to the thought of increasing their indebtedness".*

A third viewpoint is laid forward by a respondent of **Delta**, stating that their market research show that they have customers all over Sweden, both former high and low income earners. He analyses this further by saying that *"high income earners tend to be more risk taking"* but *"our customers are evenly spread between all types of individuals".*

"This is a very safe product", an employee of institution **Echo** says, explaining *"the customers know exactly what happens over time as our interest is fixed and the loan stretches over a long period".* The drawbacks as she sees it is the costs associated if the loan taker ends the loan before it has matured, stating, *"that is why we always demand a personal meeting to we can be sure that the loan taker understands the risks. Furthermore, at these meetings we encourage the loan takers to bring their children, so all legal aspects regarding inheritance are clear."*

5.4. Consequences

In this part the empirical findings made through the consequence-oriented research questions will be presented. As with the previous topic that dealt with causes, this section is divided into several sub-sections in order to facilitate for the reader and to make the findings as precise as possible.

Reverse Mortgage

There were many interesting points that the authors could extract from the various interviews conducted regarding the future development of reverse mortgages in Sweden and its impact on other financial products. In addition, the authors were able to obtain information regarding obstacles that the financial institutions may encounter when trying to sell the product, or simply trying to convey it to individuals that fit the requirements.

Many of the interviewees had quite similar opinions regarding the future development of reverse mortgage in Sweden. In general, the opinions were that reverse mortgages will rise in popularity, however they differed some when explaining *why* that might be the case. One employee at institution **Delta** stated that the growth in popularity is likely to rise in the future, not explosive but stable. This was further explained by stating "*I think that the product will slowly mature and eventually become more accepted as a natural complement to the pension*". At the same time, however, some were of the opinion that the Swedish real estate market was the primary driver as to why it could experience a surge in popularity in the future. One employee at institution **Charlie**, for example, was of that opinion. It was stated "*if one takes a look at the incredible increases in real estate prices - it is them that enables this kind of loan*". The same individual, however, also stated that the space for taking a reverse mortgage might be diminished in the future as consumption patterns change as well as the general attitude towards credit. Several other interviewees also mentioned this change of attitude towards credit; the younger generations are more comfortable taking loans in order to consume than older generations (the retirees and soon-to-be retirees). During the interview with **Bravo1**, the interviewee, when asked about the future of reverse mortgages, gave an interesting answer. The interviewee believed that reverse mortgages would indeed experience an increase in popularity, but rather than focusing on the Swedish real estate market it was stated that "*I think they [retirees] become more and more knowledgeable in doing banking transactions and such and also dares doing them*". Though most interviewees saw an increased popularity for reverse mortgages in the future, an employee of institution **Echo** was of another opinion. She meant that the trend in society to take on more and bigger loans would diminish the level of house equity needed in order to take on a reverse mortgage and stated, *"I believe reverse mortgage will still exist, but as the indebtedness of our retirees increase they will not be eligible for this product".*

When asked about potential cannibalizing effects and obstacles that may occur when selling reverse mortgages the answers were quite similar. All of the interviewees were of the opinion that the reverse mortgage, as a financial product, is more of a complement to other financial products than a product that could potentially steal market shares from others. At the same time, however, it might have some impact on other types of loans, such as ordinary mortgages as the employee at financial institution **Delta** stated: "*Naturally, it would mean that those who undertake a traditional mortgage would decrease in relation to the increased number of reverse mortgages*". It was further stated, by the same individual, "*I do not think that savings placed in funds and such would be affected, seeing as our customers do not lend money in order to invest. They do so because they need the money.*". When asked about what potential obstacles that may occur when selling reverse mortgages most of the interviewees pointed to the fact that it is often hard to explain as well as to understand. The interviewee of institution **Foxtrot** was of the same opinion, that it is more of a complement and that they are very careful about advertising this kind of products. When asked why this was the case it was responded "*we are a bit worried that it is the wrong customers that sign this solution. It is one thing to be 65 years old and 75. How well can you remember in detail, at 75 years old, what you did and, more specifically, signed ten years ago?*" It was further explained that great caution is taken in general when dealing with elderly people in order to make sure they understand. This was considered to be, by the same interviewee, a big obstacle when selling reverse mortgages.

Conducting the interview with **Bravo2** the interviewee said that "*It is not hard to understand the basics of the product, that it comes in a lump sum or monthly payments, however to understand how it actually works is harder*". In the same interview it was also stated "*sometimes even our employees have a hard time understanding it as well as our customers, maybe because the product is not as frequently dealt with as other products*". Not only did the interviewees consider the issue of understanding the loan as a major obstacle. The fact that an individual must be of a certain age in order to be eligible for this type of loan was also considered an obstacle. Also, the fact that the piece of real estate concerned needs to be of a certain market value also qualified as an obstacle according to many. Since the requirements for age, market value and so on differ between financial institutions the exact numbers were different between interviews, however the basic idea of them being an obstacle when selling reverse mortgages were still considered by almost all of the interviewees. One respondent of institution **Echo** saw another hindrance, of legal nature. As people separate and find new partners more frequently than before, couples living together may have children from previous marriages. If these couples decide to take on a reverse mortgage they need to take on legal precautions. For example, she says, *"if one spouse die, his or her heirs have the right to their inheritance. Then the other spouse may not be able to still live in the house and may be forced to sell".*

Personal Financial Planning, Risk and Return

When asking the interviewees consequence-oriented questions about financial planning risk and return the answers were quite different. Regarding risk almost all of the financial institutions that participated in the research placed no obligations on the debtor regarding the concerned property. Instead, they estimated market value and calculated risk through the use of statistics. While interviewing institution **Alpha** the interviewee stated that "*we strive to have close contact with our customers, so it would be embarrassing for us if we would return after 25 years wondering what happened to the house signed for our reverse mortgage*". This was the case for most of the financial institutions interviewed. Since they rely on continuous contact with the customers, along with various analytical tools, they feel that they could establish a realistic market value and potential risk without inspecting the house continuously. In addition, the high margin between the calculated market value and credit limit acts as a hedge towards risk, such as falling real estate prices, according to many. In the interview with **Bravo1** for example, the interviewee said that "*We do not go around checking the value of our stock of credit, however it is also because of that we have the 60 percent limit. We cannot lend out more than 60 percent of the market value*". One exception was institution **Delta**, which requires that their customers sign a "safety agreement". In this particular case a hired firm that "*investigates the concerned property every fourth year. This concern houses only, not apartments*".

Moreover, in light of the interview questions, the interviewed participants also revealed some interesting insights regarding reverse mortgages and its potential impact on consumption patterns. One common opinion was that reverse mortgages may indeed have an impact on the consumption patterns as it may lead to retirees spending more money instead of only working in order to leave something behind for potential heirs. This was further emphasized by the interviewee at institution **Delta** that stated, "*it could mean that retirees spend more which is also, from our point of view, something desirable instead of only working in order for the heirs to receive every single penny*". Furthermore, many individuals that are between, for example, 55 and 65 years old are used to a certain living standard. According to the interviewee at **Alpha**, this age is where one's economy is the strongest as loans are usually paid off while their children have turned into adults, being able to provide for themselves. Then, in order to support this living standard throughout life, reverse mortgage may be a solution. In general, as stated by the same interviewee, "*this [reverse mortgage] could be an opportunity for the coming generation's retirees to continue their consumption*".

However **Bravo2** stated that "*the ones entering into retirement now have an large amount of purchasing power and so on, however I think that the ones entering into retirement in 10 years will not be even close to the same purchasing power*". The interviewee continued by saying that it will, most likely, turn around again and those who are young cannot live the same way that individuals born in the 40's can. Much emphasis was put on the fact that individuals born in the 40's are quite unique - unique in the sense that they borrowed cheap while buying houses cheap, with the latter having experienced a substantial increase in value. Thus, later generations may not own the same amount of house equity that can be seen among the generation entering into retirement right now.

Demographics

This part of the interview was concerned with what potential consequences an ageing population in Sweden might have on the way that financial institutions conduct business. As have been described in previous sections in this research, the population pyramid of Sweden has seen a drastic change over the past decades or so. Since the amount of elderly citizens are increasing relative to other parts of the population the authors thought it would be interesting to investigate what view financial institutions have on the changing age properties of the Swedish population. When doing the interviews there was a wide array of different answers and opinions. **Bravo2**, when asked about the demographical changes and if it has changed the way of doing business, it was said that "*No, I cannot say that the changes in population has changed our way of doing business. We always, from a creditor´s point of view, estimate the ability to pay back. One should have a sufficient income in order to be able to pay back the loan*".

Interviewing financial institution **Delta**, however, resulted in different findings regarding the demographical changes and its impact on financial institutions way of doing business. When asked if institutions has to adapt more in order to target this expanding target group it was said that "*Yes, I think so due to the fact that many that offer different types of products have not really realized what an important segment retirees are*". It is further explained by the same person that one can notice this in the way these institutions market themselves, as well as other companies that could take advantage of the increased liquidity held by retirees. For example, it is said that "*a part of our customers use the money to buy cars. If one look at the way the car industry market themselves one can clearly see that it is not designed to attract retirees*". When interviewing institution **Alpha**, a similar standpoint was conveyed. As many are on their way of becoming retirees, with many of them having a large amount of purchasing power and house equity, there are "*large possibilities for continued consumption*".

Housing and Real Estate Investments

Regarding housing and real estate investments, on the consequence side, the main point that the authors wanted to investigate was how housing prices may be related to reverse mortgages (if at all related). In theory, a reverse mortgage may enable elderly individuals to stay in their house for a prolonged period of time. Due to this the authors believed that this was something that should be included when conducting the interviews. Consequently, the respondents were asked if they believed that housing prices may develop in a different fashion due to the introduction of reverse mortgages.

When asking interviewees this particular question there was some interesting answers. The majority of the participants believed that reverse mortgages, being such a small product in Sweden, would have no noticeable effect on prices. When interviewing institution **Delta**, for example, the answer was quite clear; "*No, I do not think so. The product [reverse mortgage] is too small in order to have an impact on such macro economical factors*". However, one interview revealed some interesting thoughts and a different answer than the rest. It was said that it could very well have an impact since "*retirees now have the possibility to stay longer in their house, and if that is the case there will be fewer houses on the market if construction does not keep up*". In a follow up question in the same interview it was said that retirees facing large reparation costs associated with the house may take a reverse mortgage, thus "*enabling them to stay in the house for a while longer*" since they can now afford necessary refurbishments. Overall, however, the majority of the interviewees were quite convinced that a financial product such as a reverse mortgage would have little or no effect on housing prices in the future, mostly due to its low popularity.

Banking in General

When conducting the interviews this part was concerned with banking in general. One of the questions concerned if interviewees believed that reverse mortgages may change a financial institution's way of working. Additionally, a second question was asked in which the participants were asked how a reverse mortgage, as a financial product, generates money for the issuer.

Bravo2 revealed (at least for that specific company) that some activities are more frequent in areas where reverse mortgages are more frequent. Some offices located in these active areas arranges meeting with retirees where financial products, such as the reverse mortgage, are discussed and presented. For example, it was said that "*I know for a fact that some offices in this particular city actively go out and arrange meetings with customers*". These meetings, however, differed much from region to region, mostly due to housing prices being different. They tend to be more frequent around large urban regions, particularly in the middle and south of Sweden. Most of the respondents, however, gave a similar argument as when asked if reverse mortgages may change the development of housing prices; many of them believed that the product as of now is too small in order to have any significant impact on a financial institution's way of working. At the same time, however, some that held this view also believed that, given a rise in popularity, the institutions may focus more on this particular segment in the future. This could, as stated by **Bravo1**, result in many interesting changes in how financial institutions will work in the future.

The institutions that partook in the interviews all had slightly different terms for their version of the reverse mortgage. As such, they all differed from one another when asked how they make money from this product. All in all, however, the case was the same for every company; the interest was the main source of money.

Behaviors and Perceptions Applied to Financial Investments

To understand risks associated with having certain types of loans and such is an important aspect to consider when making decisions concerning one's own finances. Financial institutions always have to ensure customers that they know what they are signing. Many interviewees when asked if people actually understand the risks associated with reverse mortgage further emphasized this. Not only risk but also the overall terms of agreement were considered. The answers received when asking this question were quite different. Some believed that customers fully understand the risks, while others were of the opinion that they sometimes do not. When interviewing the representative from institution **Delta** it was stated that they take caution in order to assure that the customer understands what they are "*getting themselves into*". Furthermore, it was stated that "*we, or some other representative, meet with the client. In addition, we always conduct an ID check and make sure the customer is of good mental health and understands what he or she is signing*". Similar rigorous check-ups are made by all of the financial institutions that partook in this research however some still believed that customers sometimes may not fully understand the risk despite the efforts taken by the creditor.

Bravo2, for example, when asked if customers understand the risk associated with reverse mortgages it was stated that "*Not always, to be honest*". The interviewee continued by saying that "*Even many of our own advisors themselves have little experience dealing with reverse mortgages, resulting in many of them being cautious*". Later on, the same person added, "*many of the customers understand the basics but when asked in detail if they completely understand... I would not be so sure that everyone would say that they know exactly what it [reverse mortgage] implies*". Some interviewees reported that individuals that are old and at the same time are interested in signing a reverse mortgage might often have someone else beside themselves present at the counseling. This can be, for example, one of their children or other younger relatives.

Regarding potential consequences of having a financial product that requires individuals to be of a certain age seems to be quite small for the companies interviewed. Most of them have not noticed, or know of, any specific consequence of having financial products that are eligible for individuals of a specific age.

6. Analysis

The analysis is structured in a way based on the empirical findings made. The first part deals with age, generation and mentality while the second part deals with macro economical factors. The third topic concerns reverse mortgage and the financial institutions offering it in Sweden. A summary of the analysis then concludes the chapter.

Introduction

Many interesting findings were made during the interviews and the participants provided the authors with many insights when answering the questions. In general, the most prominent and recurring ones were about the differences between age, generation and mentality, macro economical factors such as real estate and property taxes, as well as insights in how the financial institutions themselves view upon the reverse mortgage and ensuing challenges. As such, this chapter will be divided into three main parts covering these topics, namely; (1) age, generation and mentality, (2) macro economical factors and (3) financial institutions offering reverse mortgage. Given that this thesis uses an inductive approach it is only natural that new categories emerge from the data. Moreover, in this chapter the authors tie together the theory and data presented in the theoretical framework with the various findings in order to analyze and make sense of the data gathered. In addition, as there are no previous studies made on reverse mortgage in a Swedish context, let alone from a financial institution perspective, the secondary data presented in the theoretical framework will also be used here in order to analyze the findings.

6.1. Age, Generation and Mentality

In this section the findings made regarding the first of the three main themes, age generation and mentality is presented. The empirical findings are analyzed in light of the theories and data presented in the theoretical framework.

6.1.1. Causes

Saving Patterns

Considering peoples savings pattern in general an employee of institution **Delta** stated, *"concerning saving, people have understood that it is important. Individuals today realize that they have to save money if they want to buy a house compared to former generations when the same amount of savings was not needed".* This argument goes hand in hand with the statistics shown by the Swedish banking association, (2013), explaining that Swedish citizens aggregated savings have more than doubled since 1995.

The general awareness about personal financial planning, risk and return also seem to have increased, both regarding the financing and savings part. Moreover, people also seemed to have understood that amortizing on their loans is one way of conducting saving, interviewees explain. However, the general public also seemed to have increased their willingness to consume over time. Eeckhoudt et al. (2005, preface) talks about risk-preference and how individuals view risk differently when planning their financials. Understanding what risk is would naturally help people making more informed decision about their financials, the authors believe. Relating this to reverse mortgage, it could probably help financial institutions' clients to make a decision of whether to take a reverse mortgage or not.

Differences in Mentality

Previously it was mentioned that an understanding of risk would naturally help people making more informed decisions. At the same time, however, the respondents acknowledged that this could also be a question of which generation the customer belonged to. Older people (aged 70 and above) savings and consumption patterns had not changed, stating that many from this generation have grown up with a *"Lutheran heritage"*, meaning they are used to hard work and reluctant to taking on debt.

Thus, it seems like younger generations, ranging from the one currently going in to retirement and the generations coming after them, have a better understanding that taking a loan has many benefits. Older generations though may look at credit as something intimidating and bad. Some respondents were acknowledging this as a societal change and that younger people lives more "in the moment", for better or worse. The downside of this, as mentioned by an employee of company **Bravo** is that many young people take this too far, borrowing money from more or less serious financial institutions that are offering "quick credits". The findings made by Kahneman and Tversky (1979) suggest that investors are loss averse and evaluate decisions based on the avoidance of losses. Even though the Prospect Theory is focused on investors on the stock market it could be somewhat related to older retirees, given that many of them are very loss averse. As shown in the empirical findings retirees are often reluctant taking on debt, primarily focusing on avoiding possible downsides (such as declining house value) instead of seeing the probable gains of an investment (such as getting better liquidity from reverse mortgage).

Viewing this in the light of reverse mortgage, elderly individuals that would make most use of the loan (and also have the house equity to do so) might be hesitant due to their lack of economic knowledge and their intimidation towards credit. This issue was also brought up by some of the interviewees. At the same time, financial institutions offering reverse mortgage seem hesitant to market this product and instead mainly present it to consumer at personal meetings. *Maybe they are underestimating older clients and miss out on a lot of opportunities by not marketing the product?* Though, they may argue that the product could be misunderstood and they then face a public relations problem.

There are different views of how retirees economic situation have changed during the last ten years. Some interviewees state that the inequality has risen while others state that there is no visible difference. It looks thus like more statistics would be needed in order to examine this question more thoroughly. This could probably be an interesting topic to look into for further research, for example how rising inequality could affect financial institutions way of doing business.

Risk, Debt and Retirees

Another interesting point is that the less economic knowledge people have, the less they seem inclined to take on risk or debt. Individuals more knowledgeable in the field of finance seem to more willingly accept the idea of indebting themselves, even at an older age. From a financial institution perspective, providing personal service and thorough information then must be of highest priority.

For many customers of financial institutions, taking a reverse mortgage many times does not seem to be something planned. Instead they normally get the offer on the table while talking to an economic counselor about their economic situation. As many elderly feel reluctant towards taking this loan, they normally have one of their children or any other young relative with them, often encouraging them to take the loan in order for them to increase their quality of life, a respondent of institution **Echo** says. As a reverse mortgage decreases the inheritance for coming generations, having a good communication within the family seems important. From a financial institution point of view, it may be a good idea to propose that the loan takers also make sure to discuss these things with their heirs. Generally, the interviewees agreed that reverse mortgage might fail to reach one of its primary target groups, namely retirees with low pensions, due to them being unable to understand the product wholly. As mentioned earlier, the older the client, it seems the more they lack the economic knowledge and the will to take on a reverse mortgage. Judging from the empirical findings made when conducting the interviews it became apparent that reluctance also came from the fact that available inheritance decreases (at least inheritance connected to the house concerned) for the heirs. Demand, thus, decreases due to this. Having Becker's (1974) two theories about bequest motive and the rotten kid presented in the theoretical framework in mind, *could it be that there is a latent demand among retirees, provided that Becker's theories do not influence consumption patterns?*

6.1.2. Consequences

Real Estate and Differences Between Generations

When conducting the interviews the authors made some interesting empirical findings. Regarding reverse mortgages in general, the main discussion was about its future potential - will it increase in popularity, or decrease? In general the interviewees said that they think it will become more accepted in the future, with the real estate market being one of the drivers that has an effect on this development. Having the Swedish real estate prices from SCB (2012) presented in the theoretical framework in mind, one could say that it is probable that the potential of reverse mortgages will increase in the future, as housing prices rise. Future research that looks further into this matter would surely generate some interesting findings.

Another interesting notion that the authors were able to extract from the interviews conducted was the issue of mentality differences between generations, particularly the older retirees' contra individuals born in the 40-50's, as well as younger generations. This "Lutheran" heritage is nothing new, as it has been discussed in previous sections however it has not been put in the context of what it may lead to. Having generations that are more comfortable taking credit and borrowing to consume will lead to the space for reverse mortgages possibly diminishing.

In addition to the differences between generations regarding their view on credit there are also differences in knowledge. This includes being updated on contemporary technology, such as knowing how to use a computer, the Internet, and so on. Many of the interviewees reported that they have seen an increase in this kind of knowledge among retirees (mainly those in their early retirement years) and soon-to-be retirees. Some considered this change to be the primary driver behind why reverse mortgages may experience a rise in popularity in the future, as retirees and such will get more knowledge about financial products. This could lead to retirees daring to try new things, which is also something that was mentioned by the interviewee of financial institution **Bravo**. This was something that the authors did not consider when constructing the theoretical framework. As such, the findings described above were unexpected and, thus, very interesting.

Given that younger generations are more willing taking on credit, an implementation of reverse mortgage in Sweden could lead to people further indebting themselves in order to get liquidity. Thus, the consequence of a large scale implementation of reverse mortgage could make individuals more fragile to economic changes (redundancies, interest rate changes) as their equity decreases. At the same time, younger generations going into retirement will most likely have more debt, thus less space for obtaining a reverse mortgage since their equity could be lower.

Age Requirement

Also, all of the institutions were of the opinion that the potential consequences that may arise from having a financial product with a high age requirement are quite small. At the same time, however, it was mentioned that retirees interested in taking a reverse mortgage may often choose to take with them one of their children or any other young relative. This might be the fact due to them feeling insecure or thinking that they do not have the appropriate knowledge. When analyzing the above findings more closely the fact that younger relatives are often present could be regarded as a consequence. Another point of interest similar to this one was that counselors sometimes might encounter problems themselves when dealing with customers that are interested in signing a reverse mortgage. The popularity of reverse mortgages is affected by a great deal of variables as seen by the data gathered. One of the most prominent variables seems to be the difficulty to understand the actual product. Having the above-mentioned empirical findings in mind this becomes even truer.

6.2. Macro Economical Factors

6.2.1. Causes

Liquidity Shortage

Persson (2012, p. 849), concludes that many retirees has a problem obtaining a loan in order to solve their liquidity shortage. All interviewees recognize this problematic situation and agrees to this being one critical factor why reverse mortgage was introduced in Sweden as it helps retirees low on cash but with a lot of house equity to convert the equity into liquidity. The reasons why these retirees were low on cash ranged from them having to pay high estate taxes to having low pensions.

Real Estate

According to the Swedish banking association (2013), 70 percent of Swedish households own their households and 96 percent of these have a mortgage. Many of these people have seen a significant rise in value for their dwellings as the increase in housing prices have been substantial over the last 20 years (SCB, 2012). Owning a property is a requirement for taking a reverse mortgage. As most of the interviewees stated, the idea behind reverse mortgage rests on the ongoing increase in housing prices. In order for people to be eligible for this product, their mortgage loan has to be small as there is a limit for how much one can convert from house equity into liquidity. Elderly people, having lived for a long time in their dwellings have thus in many cases seen their mortgages being inflated away – as property prices have risen, the mortgage loan have become an ever smaller portion of the total dwelling value. Rising housing prices and an overall inflation thus seems to be probably causes explaining why this product was introduced.

All the interviewees nevertheless state reverse mortgage is very small in terms of volume and exposure to the public. Rising housing prices thus seem to be one factor influencing financial institutions decision to introduce the product, but it does not seem to have increased the popularity further as many companies say that the product is not increasing in popularity, rather maintaining at the same low level. How the future development of the product might be will be further discussed in the consequence part of this chapter.

6.2.2. Consequences

Indebtedness

If people borrow to consume there will be an increased debt, thus it is safe to say that the indebtedness will increase. With the indebtedness increasing it is a possibility that the mortgages will increase as well. If an individual has a mortgage that is to a large extent unpaid, meaning that there is much debt left, the potential of a reverse mortgage will decrease as the reverse mortgage limit, say 60 percent of the market value, may be below the current mortgage-debt.

Risk, Consumption and the Uniqueness of Retirees

Regarding risk the empirical findings show that almost none of the financial institutions that participated place any obligations on the debtor in regard to the concerned property. Risk, as well as the market value, was rather estimated through the use of statistics. They did not inspect the property, as they relied on having continuous contact with the customers instead. There was one exception however, in which the customers are required to sign an agreement leading to the house being inspected every fourth year. Consequently, the phenomena of moral hazard seem to be of no major concern to the majority of the participants. In contrast to Kau et al. (2012) findings discussed in the theoretical framework regarding the U.S. real estate market crash, the financial institutions interviewed are in direct contact with the customer. Thus, asymmetric information that arose in the U.S. could be viewed as being unlikely to happen in the Swedish mortgage market. This can help explain why the participants believe that risk such as moral hazard and adverse selection is of no major concern.

Furthermore, participants gave the authors interesting insights concerning consumption patterns. Many of the interviewees suggested that it might have an impact on these patterns; above all the fact that a rise in popularity of reverse mortgages may lead to an increased consumption among retirees. This was further explained, and eventually boiled down to, as a relationship between liquidity and consumption: when wealth is liquidated the possibility to consume increases. The life-cycle theory developed by Modigliani and Brumberg (1954, 1980) discussed in the theoretical framework suggests that individuals save in order to consume in their later years. This becomes especially interesting in this particular case, as an increase in liquidity may affect the consumption, meaning that it may become higher relative to income.

Another finding as suggested by the interviewees was the fact that those entering into retirement now, or soon-to-be retirees, are unique; according to some of the respondents they acquired real estate at a low price, thus not having to borrow as much money as buyers have to do today. Figure 3.5 (SCB, 2012) in the theoretical framework illustrates this increase in housing prices, as well as the CPI for the same time period. It could mean that prices will not continue to rise forever in the same fashion. Some interviewees who were of the opinion that prices will, in a few years, either reach a plateau or begin to decline further emphasized this. The findings by Montezuma (2006) discussed in the theoretical framework, which suggested that real estate is an attractive choice for investors, can thus be further elaborated in a Swedish context.

Demographics

As the amounts of elderly citizens are increasing relative to other age groups in Sweden it was natural to include a section on demographics when conducting the interviews. The findings showed that the participants were of many different opinions, ranging from demographical changes having no impact on the way institutions do business to them indeed having an impact. When interviewing the representative from company **Delta** it was stated that many other financial institutions lack in their marketing, and that many other companies from other businesses have not yet realized the potential in this increasing segment. *What could happen if they do?*

Furthermore, the findings discussed by Everness (2001) in the theoretical framework suggests that an increasing number of retirees relative to other parts of the population will bring with it more cost for society (and eventually lower pensions). *At the same time, however, what will happen if they have more purchasing power due to increased liquidity?* As stated in the interview, there are large possibilities for consumption within this segment. It could be viewed that the cost of pensions could be offset by housing equity being released, leading to money going to other parts of the population as the retirees consume more.

Influence on Real Estate

The empirical findings generated through conducting the interviews showed that most of the interviewees are of the opinion that reverse mortgages cannot influence the real estate prices as of now. This is due to the product being too small - in other words to low in popularity. One interviewee, however, was an exception. During this interview it was stated that it could very well have an impact if the reverse mortgage gain popularity in the future and if construction does not keep up. This was in line with the authors' thoughts, which believe that it could do so at least in theory given the right circumstances. At the same time, one interviewee stated that rising real estate prices could mean that individuals are forced take larger loans such as mortgages. Having a larger mortgage could, in turn, lead to reverse mortgages being harder to acquire as the debt need to be smaller than the reverse mortgage credit limit. As a large debt is harder to amortize (or at least takes more time) it becomes problematic.

Amortization and Savings

Lastly, the interviewee of financial institution **Foxtrot** gave possibly the most interesting answer - perhaps not completely in line with the given topic but interesting nevertheless. It was said that since the financial crisis and the newly introduced amortization requirements individuals in general have been paying off the "wrong" debts. What this means is that ordinary mortgages with low overall interest are being amortized to a larger extent than, for example, car loans that has a higher interest rate. *Perhaps this amortization-craze could lead to individuals having a lower amount of savings when retiring, as more money is now going to pay off debt?* This could, in turn, mean that the reverse mortgage may become more lucrative in the future (less liquidity, more house equity). This would be an interesting topic to further look into.

6.3. Financial Institutions Offering Reverse Mortgage

6.3.1. Causes

Benefits, Standards and Conditions

One issue, which was not mentioned very explicit or frequently from the respondents was the benefits the introduction of this product had to financial institutions like themselves. Seeing as part of this customer segment had small or no loans at all as well as no savings, hardly any money could be made off them from interest payments or mutual fund fees. Introducing this product enabled them to change the situation and start benefiting from this segment. Thus, the reason why this product was needed probably could be viewed from two sides; the retirees need of getting hold of liquidity and financial institutions interest of making money from this segment.

According to Lynch & Prior, (2012, p. 43), international standards regarding the terms and conditions of a reverse mortgage differs. For example, most institutions offering it do not require the loan taker to pay interest during the life span of the loan, however, some do. In Sweden, the terms varied a lot considering the life span of the loan, percentage of the house that could be converted into equity as well as if the institutions offered their customers a fixed or flexible interest rate. Financial institution **Delta** claimed that they were the only ones offering a reverse mortgage complying with international standards and that the other financial institutions similar products were merely variations of the internationally recognized term. This statement was interesting, but does not necessarily say whether their product is better than other financial institutions reverse mortgage offerings, in the eyes of the consumers, the authors' reason. Since the product, according to the respondents, was introduced in order to satisfy a need among retirees and inspired by similar products abroad, maybe the need of Swedish retirees differs somehow from those in other countries and thus have been adjusted by Swedish financial institutions to fit the demands of elderly people living in Sweden.

The Need for Innovation

New technical innovations, laws and regulations have all changed the way financial institutions conduct business, the interviewees agree. The need for personal service regarding more complicated matters such as loans and wealth management still exist though, even for the younger generations. Using statistics and different kind of data, counseling have been more effective and less time consuming, says one employee of institution **Alpha**. At the same time, he says, counselors are required to provide customers with more documentation, due to legal aspects. Having a lot of data and statistics on their customers, one could argue that it would be easy for financial institutions to target customers with the characteristics needed to obtain a reverse mortgage.

However, the same respondent also said that the way financial institutions make money is literally the same as when he started. This is line with (Choudry 2012, p. 4), which stated that banks make their primary income on the net interest income, basically meaning that banks loan out at a higher rate than the loan in, profiting on the spread.

Respondent **Bravo2** stated that they see no apparent need of inventing new financial products. Rather, it is the other way around as they try to limit their amount of products in order to simplify both for counselors and those being counseled. Other interviewees claimed that there is a need, explaining that institutions have to adjust to the society they live in. The introduction of reverse mortgage strengthens this view as one could argue that it is one way to adapt to the development of society as many financial institutions saw that elderly had a need for liquidity, but could not get a regular loan.

Financial Institutions and Retirees

Generally, the interviewees agreed that reverse mortgage might fail to reach one of its primary target groups, namely retirees with low pensions, due to them being unable to understand the product wholly. As mentioned earlier, the older the client, it seems the more they lack the economic knowledge and the will to take on a reverse mortgage. In contrast to these findings, an interviewee of institution **Delta** said they had customers of all ages, evenly divided between better and worse of ones. What could be interesting then is maybe to look more into the existence of how economic knowledge affect individuals decision-making when it comes to reverse mortgage.

An inevitable reality for financial institutions is the current demographic change going on in Sweden as the proportion of elderly people is steadily increasing relatively to other age groups (SCB, 2012). Reverse mortgage is one product explicitly targeting this age group. Apart from this, interviewees said little of how they work towards establishing contact with this particular group of people. Instead, as employee **Bravo2** mentioned, they segment their customers more concerning wealth than age. One specific measure being done though was financial institutions increased interest in pensions saving. However, this could probably not be said to being aimed towards retirees, as they do not save for their pensions anymore. Nevertheless, it may reflect an enlarged awareness among financial institutions that it is important that retirees have money when they reach retirement as they could then make money from wealth management and such. Maybe they realized to late that having cash-poor retirees as customers meant losing the possibility of doing profitable business with them. Consequently, this could also be a cause why reverse mortgage was introduced. This also relates to the life-cycle hypothesis, further discussed in later parts of this chapter.

One company being interviewed though solely concentrates their business on elderly individuals. They introduced reverse mortgage because they saw that the product had gained popularity internationally and realized that other financial institutions did not have much interest in the product. *Could it be that elderly individuals historically have been overlooked as a segment and the traditional financial institutions have given this group too little attention?*

6.3.2. Consequences

Way of Working

As stated in the empirical findings, this section was devoted to questions concerning banking in general; if the reverse mortgage, as a financial product, could have an impact on financial institutions' way of working. Additionally, the authors asked how they make money on the product.

It was revealed that the reverse mortgage has changed the way of working in some areas; areas that, in general, has high housing prices. This was mainly in central and south Sweden, and it was different from office to office. This means that on a large scale it has not changed much. On office level in these areas, however, it has changed some. These activities were more frequent in urban areas, as stated by interviewees. Activities include going to seniors and presenting the reverse mortgage, discussing it, and so on. Having the real estate price trends in mind from SCB (2012) presented in the theoretical framework, these types of activities could perhaps experience an increase in the future. In turn, if these types of activities increase it could lead to a rise in popularity for the reverse mortgage, seeing as there will be an increased number of individuals with knowledge about the product. Hence, marketing and similar tools may increase, leading to a change in the way financial institutions work. This is interesting as many of the financial institutions as of now, according to many of the interviewees, have more or less no marketing being made in order to promote their products. From a reverse mortgage perspective this may mean that there will be an increase in marketing aimed towards retirees. As the amount of retirees are increasing relative to other parts of the population in Sweden (as covered in the demographics section of the theoretical framework) perhaps financial institutions will focus more on this segment, thus having an impact on the way they work.

At the same time, however, many of the interviewees believed that the product is too small as of now to have any impact on their way of working. This goes in line with other sections, where the answers made by the interviewees continuously stresses the fact that reverse mortgages are, as of now, too small in order to have an impact. If this were true, reverse mortgages may have a hard time gaining the popularity needed in order to have any substantial effect on the way a financial institution work.

Earning Money From the Reverse Mortgage

All of the financial institutions that participated during the interviews had similar ways of earning money from issuing reverse mortgages. The principle is based on the net interest income; the spread between the deposit- and borrowing rate. This was not a surprise for the authors, as all of the financial institutions participating in the interviews issue loans. What is interesting in this particular case was the fact that almost every financial institution had different ways of conducting the reverse mortgage. Some had time limits while some did not and some had different terms and agreements regarding the interest rate. As the issue of individuals having a hard time understanding the loan has been discussed thoroughly by the interviewees as one of the biggest obstacles when selling reverse mortgages it is without doubt interesting to look into. If the financial institutions that offer reverse mortgages in Sweden have similar rules and terms of agreements individuals would perhaps have an easier time understanding the product. Consequently, this could bring with it an increase in popularity as individuals may feel that it is easier to obtain sufficient knowledge about the product. *What would happen if financial institutions agreed to issue the reverse mortgage with little or no differences at all?*

Financial Institutions – Losses and Gains

The empirical findings generated in this section suggested that individuals signing reverse mortgages may not know all the time what they are actually signing. Also, it showed that each one of the financial institutions interviewed take many precautionary actions in order to minimize the risk of misunderstandings. In addition, in one interview it was suggested that even the employees selling reverse mortgages may sometimes be unsure of what it means signing such a product.

As discussed in the theoretical framework (more specifically prospect theory) most individuals are indeed risk averse (Kahneman & Tversky, 1979). This means that the relative "enjoyment" of avoiding losses is higher than the contentment of making potential gains. The empirical findings made suggest that the financial institutions interviewed try to minimize risk as much as possible, making sure that individuals signing onto a reverse mortgage know what they actually are signing. What is interesting here is that the institutions think that maintaining satisfied customers is priority one, and that having unsatisfied customers are to be avoided at all times. Thus, institutions contemplate to a great extent the question of potential drawbacks of having unsatisfied customers as compared to potential profits of having as many customers sign a certain financial product (in this case the reverse mortgage). This is further supported by the empirical findings which showed that all of the institutions perform rigorous cautionary actions on individuals that are interested in signing a reverse mortgage.

6.3. Summary of Analysis

After conducting the analysis the authors were able to categorize the findings into three main themes. These were (1) age, generation and mentality, (2) macro economical factors, and (3) financial institutions offering reverse mortgage. All of the empirical findings analyzed are summarized so as to enable readers to get a comprehensible overview of what was found. It is structured much like the analysis as it is divided into causes and consequences. As it is a summary the main objective is to convey a general overview that is easy to grasp, but at the same time providing interesting analyses of the findings made.

	Causes affecting implementation	Consequences of a large scale implementation
Age, generation and mentality	Lutheran heritage (work hard, do not take any loans). This makes the product a “hard-sell” for financial institutions. On the other hand, increased awareness and knowledge among elderly individuals’ means that some elderly individuals have noticed the benefit of the product. The older the retiree the less likely they are to sign a reverse mortgage. Society experiencing a shift towards consumption from the traditional Lutheran mentality. Younger generations more eager to undertake a loan for consumption. Many of the interviewees believe that a major obstacle when selling the loan is the customer not understanding the loan. Consequently, this leads to reverse mortgages often being viewed as intimidating.	Respondens think that reverse mortgages will become more accepted in the future. This, in turn, would enable financial institutions to make more money on this product. A consequence of a large scale implementation could be heirs not receiving as much money when their parents die, as they have loaned money to consume. When about to sign a reverse mortgage, or simply wanting to know more, retirees often bring with them younger relatives. One could argue that implementing reverse mortgage on a large scale would force financial institutions to involve whole families in the decision of whether to take on a reverse mortgage or not.
Macro economical factors	It is believed that increased housing prices are the primary driver why reverse mortgages were introduced. Property tax – widows and widowers having a shortage of money. Popular in Anglo-Saxon countries, similar market compared to the Swedish one.	Space for taking reverse mortgages may be diminished in the future – younger generations are more comfortable with taking credit, thus a large scale implementation could further squeeze customer credit space as they take on more loans. Reverse mortgage may affect consumption. Retirees could continue to consume in a larger extent when entering into retirement.

	Division between better and worse off retirees are increasing according to respondents. Housing equity substantially higher than liquidity for most retirees. Younger generations may not have the same home equity as the ones entering into retirement now.	Respondents believe that the reverse mortgage may have no major impact on real estate prices as of now. In theory however it could as older people obtaining a reverse mortgage could stay longer in their homes. This would logically decrease supply for homes, thus increase the demand, driving the prices. Others believed that a potential large scale implementation would have an insignificant impact, since the market for reverse mortgage is too small.
Financial institutions offering reverse mortgages	Good complement to other products. Can be combined with other products, for example helping to pay off an existing loan. More rigorous background checks made on customers. Some retirees, especially older ones, find this offensive. A more accurate and systematic counseling is taking place today. More laws regulating this have been introduced making customers more protected and well informed about new products. Reverse mortgage-takers are evenly spread between former high and low income takers. This points out that the target market is extensive.	The reverse mortgage is more of a complement than a product replacer. No cannibalism. Some of the view that the reverse mortgage may impact other loans such as the normal mortgage. No obligations placed on reverse mortgage-takers concerning quality of house, with two exceptions. A consequence of a large scale implementation might thus be more extensive check ups on housing quality from a financial institution perspective. Meeting with customers are more frequent in the middle and south of Sweden. A large scale implementation might affect some parts of the country more than others, but leading to financial institutions more willingly arrange fairs to inform elderly people about the product.

	Even advisors working at the financial institutions sometimes have a hard time understanding the reverse mortgage, thus making them less prone to promote it.	A large scale implementation might mean having financial advisers selling a product they do not fully understand, leading to unpredictable consequences both on an individual an aggregate level.

Table 6.1: Summary of Analysis
Source: the authors

7. Conclusion

The aim of this chapter is to draw conclusions based on the empirical findings and analysis made previously in this research. First, a brief overview of the research is put forward where the characteristics and purpose of the research is discussed. Second, conclusions are drawn while being divided in two sections: causes and consequences. Finally, suggestions for further research then conclude the chapter.

7.1. Overview

Before drawing any conclusions, it is important to look at the characteristics of the research. As stated in the research methodology, reverse mortgage in Sweden is an unexplored academic area and the authors were unsure about the evolvement of the research. Due to this the exploratory research design was selected, described by Saunders et al. (2012, p.171) as "*particularly useful if you wish to clarify your understanding of a problem, such as if you are unsure of the precise nature of the problem*". Furthermore, theories that the authors thought would be of relevance was selected and based upon this the interview guide was created. As work progressed and interviews were made, some theories seemed more useful than others. Though, as the interviews were semi-structured this allowed the interviewees to stray away from the questions and mention issues they thought would be of value to the interviewers.

Looking back at the purpose, it was *"to understand and describe the causes affecting the financial institutions' implementation of reverse mortgage in Sweden as well as the consequences of a large scale implementation, shedding some new light upon the issue of reverse mortgages."* This would be done from a financial institution perspective, hoping to gain valuable insights about reverse mortgages in Sweden as well as an overall view on the implementation of any new financial product.

7.2. Answering the Research Question

The research question stated in the introduction was: *What are the causes affecting and consequences of financial institutions implementing reverse mortgage in Sweden?* As done when conducting the empirical findings and analysis this section will be divided in causes and consequences. As shown in the analysis, the authors have categorized the findings in three different themes: age, generation and mentality, macro economical factors and financial institutions offering reverse mortgage.

7.2.1. Causes affecting the implementation

Causes for the implementation of reverse mortgage in Sweden were many. One cause was the steady increase in housing prices over many decades. This, together with the fact that many retirees' mortgages had been inflated away and increased their home equity, made them eligible for the loan. Many of these were elderly people with low pensions, having to pay large property taxes (this is now abolished, but was a problem for retirees at the time) on their highly valued homes, wanting cash to live a better and more flexible life. The combination of low income and large housing wealth, combined with international examples showing the benefit of reverse mortgage, inspired financial institutions in Sweden to introduce this product. Financial institutions had witnessed this increase and realized that many homeowners had a large amount of equity in their homes that could be used for other purposes.

From a financial institution perspective, these segments of individuals were challenging to make business with since they often had no loans and no savings. Getting a "normal" mortgage loan could also be troublesome for this segment since they had low incomes. Introducing reverse mortgage enabled financial institutions to target this group by providing them liquidity, helping them to a better life and at the same time benefit from the interest payments of the loan.

Depending on factors such as the age, mentality and economic knowledge of the loan taker some of the individuals who would benefit from this loan prove hesitant to take it. The older the client, the less likely they were to loan money for "consumption". However, this could not be fully generalized, as older individuals with good economic knowledge could be willing to take the loan. Many respondents saw this as a change in attitude, explained by older generations being more affected by the "Lutheran heritage" of avoiding loans and save up money in order to consume. Younger retirees however, may be more reluctant to give up their way of living and might more willingly take on a reverse mortgage to increase their liquidity.

7.2.2. Consequences of a large scale implementation

Younger people have a higher tendency to consume, a better economic understanding, thus making them less intimidated by reverse mortgage. A large scale implementation of reverse mortgage, seen from a life-cycle hypothesis perspective, explained by Frank (2010, p.160), would probably mean the consumption curve as we know it today will flatten, but also lead to the decreasing net wealth which could be inherited by coming generations.

Reverse mortgage enables elderly people to stay longer in their homes. A large scale implementation of reverse mortgage with an increasing number of retirees acquiring the loan might lead to rising housing prices if the construction of houses does not increase as this would probably leads to a higher demand of housing, driving housing prices upwards. However, many respondents deemed this as less likely as the product – even after being implemented on a large scale – would be too small to affect housing prices.

Doubts were raised how well financial advisers really understand reverse mortgage. A failure to understand the product and at the same time promoting it might lead to dire consequences, both for the financial institution and the customer. Some financial institutions were hesitant to promote the product; this might very well be the reason for it. Conducting a large scale implementation of the product could lead to bad public relations if people feel like they are tricked into something that neither they nor the financial adviser did not fully grasp.

The acceptance of taking on credit grows larger in society. This leads to higher level of consumption. If reverse mortgage would get implemented on a large scale, financial institutions would make more money, but it would also leave room for further consumption from retirees obtaining the loan. At the same time, as consumption and taking on debt gets more widespread in society, the room for obtaining a reverse mortgage gets squeezed, meaning financial institutions would not be able to benefit that much anyway.

7.3. Fulfillment of Research Gap and Contributions

With regard to the above stated research purpose, as well as the financial institution perspective used, the authors formulated the potential research gap using five different issues that could be "filled". The first issue was concerned with the explaining of causes affecting and consequences of the implementation of financial products in general and reverse mortgage in particular, helping the planning and implementation process of coming financial products. Throughout the thesis and also by answering the research question, the authors have shown examples of causes affecting and consequences of the implementation of reverse mortgage in Sweden. Other researchers, when exploring the implementation process of coming financial products, could use these findings. Secondly, the authors believed that they could fill the research gap by generating information on the public availability of the reverse mortgage, with retirees being in focus. This could also show how they perceive the product, along with some insights concerning their economic "behavior" in general. Conducting interviews with employees at financial institutions have given insight into this matter, as discussed in the analysis. Thirdly, this research could contribute to both financial institutions offering this product as well as elderly individuals taking the loan by providing useful insights about the product and its characteristics. Allowing personnel at financial institutions and elderly individuals to read this publicly available thesis could give these groups further insight and understanding of the product. Fourthly, the authors believed that this research could lay ground for further research in the field. This is further discussed in the last section of this thesis. The last issue was that of rising housing prices and what benefits or drawbacks this would give to financial institutions and homeowners. In the light of reverse mortgage, this subject have been thoroughly discussed and also concluded in this thesis.

7.4. Suggestions for Further Research and Limitations

There are many areas of this research that could be further examined in order to go more into depth of the phenomenon. For example, this research was limited to exploring the causes affecting and consequences of implementing reverse mortgage in Sweden from the perspective of financial institutions. Naturally, the next step would be to look at the same question from a legal, customer and governmental point of view.

From a legal perspective, one could examine the conditions and terms affecting the loan. *Should they change at all? And if they do, should the regulations of these loans change towards being more restrictive or less restrictive?* Customer-wise it would be interesting to see which factors affect elderly people's decision to take on a reverse mortgage. *Is it their appetite for consumption, their economic knowledge, their need for extra liquidity or* *maybe a combination of these factors?* Governmental concerns to investigate may be how and if these loans affect the society and the economy as a whole.

As the empirical findings showed, the promotion of reverse mortgage differs between different regions in Sweden. Future research could look further into this and perhaps see how real estate prices behave when there is a large portion of houses in a specific area signed onto a reverse mortgage. In a more general geographical sense, the research could be broadening to examine the whole of Scandinavia or the Nordic countries, thus being able to compare between different countries. To make it even broader, one could imagine a research including all European countries having this product or the world as a whole. Comparisons between countries or even continents could then be made and would probably gain interesting insight of which factors affect the implementation of reverse mortgage from a broader perspective.

Even from a financial institution perspective the research could be broader. This research limited itself to interviewing individuals selling reverse and those working with the presentation, strategy and marketing of the product. Interviewing top management could give different viewpoints of how the product is looked upon and how these people view the development of the product.

Furthermore, a quantitative research exploring the development of reverse mortgage in numbers would be interesting as the development and future trend could be tested in a more explicit way. However, during the interviews, the authors felt reluctance from the financial institutions to give away numbers and figures, thus data gathering could be a problem. Nonetheless, if data could be obtained, one could test variables such as home prices and income and see how it affects the popularity of reverse mortgage.

Moreover, this research could also function as an example of what factors might affect the implementation of financial products in general, this also being part of the purpose of the research. Using the findings obtained in this thesis could be valuable when structuring a research examining how other financial products get implemented.

Obviously, there are many ways one could to about to extend the research being conducted in this thesis. Hopefully, this research could serve as a general introduction into reverse mortgage and let coming researchers more easily select relevant theories based on the findings of this research, thus laying the ground for further research within the subject.

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Appendix

Interviewee	Interview setting	Date and length of interview	Position and characteristics of Interviewee
Alpha	Personal meeting at the office of **Alpha**. Jacob conducting the interview, Viktor taking notes.	2013-05-03 35 minutes	Man, around 30 years of age. Working as branch manager at a local office. Substantial experience both of selling reverse mortgage and coaching others to do it.
Bravo1	Personal meeting at the office of **Bravo1**. Jacob conducting the interview, Viktor taking notes.	2013-05-02 37 minutes	Woman, around 60 years of age. Working as a mortgage salesman with much experience selling both normal mortgages and reverse mortgage.
Bravo2	Skype meeting, conducted at School. Viktor conducting the interview and taking notes.	2013-05-06 40 minutes	Woman in her middle ages. Working as a reverse mortgage specialist, having long experience working with the product.
Charlie	Personal meeting at the office of **Charlie**. Jacob conducting the interview, Viktor taking notes.	2013-04-30 36 minutes	Woman, around 45 years of age. Working as a mortgage salesman, selling both mortgage and reverse mortgage.
Delta	Skype meeting, conducted at School. Jacob conducting the interview, Viktor taking notes.	2013-04-29 32 minutes	Man, in his middle ages. Long experience from finance, working with marketing and communication of reverse mortgage.
Echo	Skype meeting, conducted at School. Jacob conducting the interview and taking notes.	2013-05-15 38 minutes	Woman in her middle ages. Reverse mortgage specialist with experience both from selling and strategy work.

Foxtrot	Skype meeting, conducted at School. Viktor conducting the interview and taking notes.	2013-05-16 39 minutes	Man in his middle ages. Reverse mortgage specialist with a managerial position. Practical knowledge of selling the product.

Table Appendix: Interview and Interviewee Characteristics
Source: the authors