

REVERSE MORTGAGES – THE FINANCIAL INSTRUMENT FOR RETIRED PERSONS: PROSPECTS FOR THE IMPLEMENTATION IN UKRAINE

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Pensioners make up a quarter of the population of Ukraine. Frequently, they have no other income than pension payments when they reached a retirement age. The size of pension payments often does not allow maintaining minimum vital functions. Many retirees own the real estate, which under certain conditions can be transformed into an asset that will bring additional revenue. People in the United States, Australia and European countries can receive funds from their homes and remain living in it. For this they use a financial instrument named the reverse mortgages. Still there was no attempt to implement this tool in the financial market of Ukraine. The main purpose is to reveal the nature of reverse mortgages as a financial instrument and evaluate the possibility of its implementation in Ukraine from the perspective of potential supply and demand. We review the existing theoretical and empirical literature on functioning of reverse mortgages in Western countries. We compared the pros and cons of the use of reverse mortgages and alternatives of using housing for income. At last, we have tried to estimate the potential quantity of beneficiaries of reverse mortgages in Ukraine based on the analysis of population data of the State Statistics Service of Ukraine. Reverse mortgages, on the one hand, can be interpreted as a loan secured by real estate, on the other, sale of housing in instalments. Receivers of reverse mort-

gages must meet certain requirements, such as: achieve 60 or more years old, have estate on property rights and remain to live in property under the reverse mortgages. The amount of payment is calculated individually for each person based on the age of the recipient, the cost of housing and the type of interest rate for a reverse mortgages. Reverse mortgages is a hard financial instrument. Therefore, we compared reverse mortgages with alternative sources of income from real estate: Lifetime rent, lease, sale and departure from the house. The aging population, life expectancy, low value of pension benefits and the presence in the country of lonely elderly people, who own the property, are factors that contribute to the formation of the demand for reverse mortgages in Ukraine. For financial institutions that shape the proposal, the reverse mortgages are long money. The current level of inflation, the central bank discount rate and the dynamics of housing prices suggest the high cost of reverse mortgages in Ukraine. Despite the potential demand, the implementation of reverse mortgages in Ukraine now seems unlikely because of the existence of factors that cause its high cost (inflation, high discount rate of National Bank, unfavourable dynamics of property prices). Only economic growth and stabilization of the financial system can be the basis for the appearance of reverse mortgages in the financial market of Ukraine.