Discussion of

Reverse Mortgages: What Homeowners (Don't) Know and How it Matters

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Financial innovation and reality

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- Is there a market failure?

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  - Rule of thumb behavior: Consume income (=housing service flow), not principal (=home equity) as in case of "income"-generating mutual funds, stocks with dividends, etc.
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  - Lack of product knowledge? (Focus of this paper)
- Alternatively: Do *economists* use the wrong model and misunderstand costs/benefits?

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  - RM becomes due upon move
  - Consuming out of home equity has depleted equity buffer: insufficient funds to pay for long-term care
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- Example: Nakajima and Telyukova (2014) find, in calibrated life-cycle model, that
  - bequest motives
  - medical expense and nursing home moving risk
  - transaction costs

  go a long way in explaining lack of RM demand.

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- Information treatment: no significant effect on WTA

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- Peers variable might proxy for u: If I have positive u, my neighbors and friends might have positive u, too.

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- Other uncertainties: tax treatment of RM, size of bequest

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- Other uncertainties: tax treatment of RM, size of bequest
- Whether to prefer to consume a little more now and face these risks later on is perhaps not so clear

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- Results illustrate difficulty of reaching/influencing HH with information and education
- Caveat (empirical analysis): Reverse causality problem
- Caveat (interpretation): There are potential downsides and risks of RM and it is difficult to evaluate how a risk averse individual might feel about these risks