Features

Reverse Mortgages in Italy’s Ageing Economy: Turning Housing Wealth into Retirement Security

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1. Introduction

Reverse mortgages (so called “*prestito vitalizio ipotecario*” in Italy), function as a practical solution for converting illiquid housing assets into a source of financial support during old age. In essence, a reverse mortgage is a loan secured by the borrower’s primary residence that allows homeowners, typically aged 60 or older, to withdraw part of the property’s value in the form of cash or periodic payments. Repayment of principal and interest is generally deferred until the borrower’s death or the sale of the home, meaning that the obligation is usually settled by heirs or from the sale proceeds. This structure enables continued ownership and occupancy, while providing access to housing wealth without the need to sell or relocate. This structure enables continued ownership and occupancy, while postponing debt amortization and capitalized interest, which can offer increased financial flexibility for elderly individuals who possess substantial housing wealth but limited liquidity (ABI, 2016).

Their relevance is particularly evident in Italy, where elderly households display both high rates of homeownership (2024: 7.8 out of 10 Italian households own their residence) and considerable real estate wealth (homes count for approximately 50% of the overall net wealth in 2024). Moreover, the Italian context, similarly to the major European countries, combines increasing life expectancy (83.4 years in 2025) and demographic ageing with an ongoing downsizing of welfare systems, both with respect to healthcare assistance and pension adequacy. Pension entitlements are progressively tied to individual contribution histories, and replacement rates are likely to decline for a substantial share of future retirees.

Socio-Economic Relevance and Barriers

Pressures on public healthcare budgets have intensified, while private spending related to long-term care continues to expand. These trends weigh heavily on older individuals whose modest pension income is often insufficient to cover the rising costs associated with ageing, increasing their financial vulnerability. Long-standing cultural preferences for homeownership have concentrated wealth in residential property, resulting in many pensioners being “asset rich but income poor” (Beltrametti, 2017; Baldini and Causi, 2016). This situation reduces economic resilience precisely when medical and assistance needs become more frequent.

In this context, reverse mortgages represent a valuable complement in addressing these emerging socio-economic challenges and offer a response to this imbalance by enabling older homeowners to unlock part of the value embedded in their homes without selling the property or relinquishing occupancy rights. In contrast to the sale of bare ownership, which immediately transfers title to a third party, this product maintains full ownership in the hands of the borrower and provides heirs with several options once the contract reaches maturity. This alignment with Italian family preferences, supported by a precise legal framework, makes reverse mortgages a plausible solution for broader adoption strengthening retirement security (Boj et al., 2022).

Nevertheless, the market for home equity conversion products in Italy remains embryonic when compared with countries such as the United States and the United Kingdom, where similar tools are well established (Beltrametti, 2017; Di Lorenzo et al., 2020). Cultural expectations regarding inheritance and a cautious approach toward innovative financial instruments have historically slowed their adoption (Di Lorenzo et al., 2020). Until recently, regulatory uncertainty, particularly regarding consumer safeguards, transparency requirements, and pricing, combined with limited access to specialized financial counselling, has further impeded market development (Baldini and Causi, 2016; Marciniuk, 2021). On this point, the European Commission has repeatedly stressed the importance of strengthening consumer protection mechanisms tailored to complex financial contracts, to ensure alignment with broader regulatory objectives (Choi et al., 2022).

Given these considerations, discussing the regulatory architecture is essential for understanding how reverse mortgages operate in practice and for recognizing the specific characteristics that distinguish the Italian framework from those in other jurisdictions.

2. The Italian Regulatory Framework

The regulatory framework (Law No. 44/2015) stipulates that reverse mortgages can be granted only by banks and financial intermediaries as medium to long-term loans with annual capitalization of interest and expenses, secured by a first-rank mortgage on residential property and reserved for elderly people. By preserving ownership in the hands of the borrower, the product offers a broader set of options for the borrower or their heirs at maturity than the sale of bare ownership for drawing liquidity from illiquid real estate assets (Camera dei Deputati, 2014).

The current discipline stipulates several key elements:

Eligibility: minimum age of 60 years (reduced from the previous 65), with access restricted to natural persons.

Maturity: defined by the death of the borrower or the disposition of the asset (partial or full transfer of ownership), at which point repayment of principal, interest, and annualized fees becomes due. To limit moral hazard—stemming from the possibility that borrowers neglect proper maintenance when downside risk is borne by lenders (Shiller, 2000)—the financing institution may demand early repayment if the borrower materially reduces the property's value. Regulation lists such actions, including the creation of third-party liens, unauthorized modifications to the property, willful or grossly negligent damage, and inadequate maintenance leading to loss of building compliance.

Optional amortization: borrowers may choose to start repaying interest and principal before ordinary maturity.

Security: mandatory first-rank mortgage on the borrower's residential property.

Repayment: at maturity through settlement of the outstanding balance by heirs or the sale of the mortgaged property. If heirs do not repay within 12 months of maturity, the lender may sell the property at market value as assessed by an independent appraiser. Should sale proceeds be insufficient, the lender absorbs the loss under a statutory no-negative-equity-type safeguard; any surplus is returned to the borrower's estate (Servizio Studi del Senato, 2014).

These provisions are designed to maximize heirs' flexibility and effectively embed an option to benefit from favorable real estate market conditions relative to debt dynamics.

Transparency and Disclosure

Marketing and transparency rules mirror those applied to standard mortgage contracts but impose additional pre-contractual disclosure requirements. Lenders must provide repayment plans and, for floating-rate loans, simulations illustrating the borrower's exposure to interest rate risk, assuming a 300-basis-point increase over the initial contractual rate.

Projections must cover the period from the borrower's current age to at least age 85, with a minimum duration of 15 years. Disclosure must also specify: (i) the loan-to-value ratio based on the appraised collateral value, and (ii) the net amount disbursed after ancillary costs such as notarial fees, appraisal charges, and insurance premiums (Ministry for Economic Development, Decree No. 226/2015). During the life of the contract, and in line with general transparency requirements, the lending institution is required to provide at least annual reporting on the financed amount and the projected repayment obligation at maturity.

3. Household Preferences and Market Practice

Although the demand for instruments capable of converting housing wealth into spendable income is considerable in Italy, the market for these products has developed slowly. Several elements help explain this situation. Among older households (with heads aged 60 and above), homeownership reaches nearly 80%, while younger families (with heads under 35) have experienced declining ownership rates and a marked shift toward renting since the mid-1990s. Furthermore, more than 61% of older individuals living alone occupy large dwellings (with four or more rooms plus accessory spaces), which represent considerable wealth potential without requiring relocation (Prometeia et al., 2015).

As highlighted by Baldini and Causi (2016), the prolonged effects of the economic downturn, characterized by slow recovery and persistent poverty, reinforce the need to consider every available tool to support the incomes of particularly vulnerable groups, especially senior citizens.

Income and Wealth Polarization

Approximately 1.3 million elderly households report annual incomes below €20,000 but reside in properties worth at least €200,000. When using an adjusted income metric, 12.4% of elderly homeowners fall within the lowest income quintile, yet one-third of this group owns properties belonging to the top three value quintiles (Beltrametti, 2017). This scenario suggests that many older homeowners in Italy are effectively "house rich but cash poor." Moreover, the share of residents aged 60 and above is not only increasing, but expected to accelerate. Italy currently records one of the largest proportions of individuals aged 65 and older in Europe, exceeding 20% of the population, compared with 16–18% in the United Kingdom and France (Eurostat, 2021).

Given these demographic and economic pressures, the advantages associated with home equity conversion products become more salient.

Available Options and Comparative Features

In the Italian context, two broad categories of contractual arrangements permit homeowners to access housing wealth while continuing to live in their properties: property transfer mechanisms and debt-based instruments.

Property transfer options include (i) selling bare ownership while retaining lifetime habitation or usage rights, and (ii) transferring full ownership combined with a lease or residence agreement. Selling bare ownership preserves lifelong occupancy for the original owner but shifts title immediately.

Under the debt-based category, as discussed earlier, homeowners may rely on:

- standard mortgage loans requiring regular repayment of principal and interest, (ii) mortgages with interest-only payments (with principal repayment postponed to the heirs);
- (ii)reverse mortgages (*prestito vitalizio ipotecario*), which, as defined above, allow older homeowners to obtain liquidity by borrowing against the value of their homes while retaining ownership and occupancy rights.

Nevertheless, cultural expectations, particularly the desire to bequeath property unencumbered by debt, may reduce the appeal of reverse mortgages, despite their potential usefulness.

Overall, these arrangements can provide significant support to older Italian homeowners by supplementing retirement income without requiring relocation. Each solution, however, carries specific implications. Selling bare ownership is irreversible and typically yields higher upfront amounts but completely removes property rights from heirs. In contrast, reverse mortgages allow borrowers to determine loan size more flexibly, preserve ownership, and offer the possibility of early repayment. Additionally, the reverse mortgage market is subject to regulatory transparency, which enhances consumer protection and predictability. This design mitigates several drawbacks: it maintains the possibility of inheritance, reduces the uncertainty linked to variations in life expectancy (under certain conditions discussed later), and improves market clarity.

Ultimately, the decision among these alternatives depends on individual circumstances, including financial needs, health prospects, and bequest motives. Yet, as identified by Baldini and Causi (2016), while reverse mortgages in the United States, the United Kingdom, and other jurisdictions are widely used to address liquidity constraints among elderly homeowners, in Italy, older individuals are often perceived as “unbankable,” and the most prevalent approach is the sale of bare ownership.

4. Conclusion

Italy's demographic transformation—characterized by rapid population ageing and welfare retrenchment—creates an urgent need for financial instruments capable of converting illiquid housing wealth into retirement income. Reverse mortgages represent a viable and well-regulated solution to address the widespread condition of elderly Italians who are "house rich but cash poor”. Reverse mortgages in Italy operate within a rigorous regulatory framework that offers significant protections to elderly borrowers. Yet despite these safeguards and a compelling demographic need, market penetration remains limited.

This disconnect reveals three fundamental challenges that must be addressed to unlock the potential of reverse mortgages as a retirement planning tool.

First, the regulatory framework is sound but underutilized. Italy's legislation provides robust consumer protections, including no-negative-equity guarantees, mandatory transparency requirements, and flexibility for heirs. The legal architecture compares favourably with international standards and effectively balances the interests of borrowers, lenders, and families. However, regulatory clarity alone has proven insufficient to stimulate market development. Approximately 1.3 million elderly households with annual incomes below €20,000 own properties worth at least €200,000, yet reverse mortgage adoption remains marginal compared to the sale of bare ownership or other property transfer mechanisms.

Second, cultural barriers and information asymmetries constrain demand more than product design. The Italian preference for bequeathing unencumbered property to heirs creates psychological resistance to debt-based solutions, even when these preserve ownership and offer greater financial flexibility than irreversible property sales. This cultural dimension is compounded by limited product awareness and a shortage of qualified financial advisors trained to counsel elderly clients on complex equity release options. Without trusted guidance, many eligible households default to suboptimal choices or forgo liquidity entirely.

Third, a coordinated effort involving lenders, policymakers, and professionals is essential for responsible market growth. Scaling reverse mortgage adoption requires three parallel interventions:

- (i) standardization of pre-contractual documentation to enhance comparability and reduce complexity;
- (ii) accreditation of independent counselling services to ensure households receive impartial advice tailored to their circumstances;
- (iii) professional training programs for financial intermediaries, notaries, and real estate agents who interact with elderly clients. These measures would not aim to maximize transaction volumes but rather to ensure that reverse mortgages serve their intended purpose—enabling financial dignity and resilience for older Italians without compromising the values embedded in homeownership.

The evidence presented indicates that reverse mortgages are a practical response to the intersection of demographic realities and household wealth concentration in residential property but they will not replace traditional wealth management strategies or family support networks. As Italy's elderly population continues to grow and pension adequacy declines, ignoring instruments capable of unlocking housing equity becomes increasingly untenable. The challenge ahead is not whether reverse mortgages should expand, but how they can be integrated responsibly into retirement planning, supported by clear information, ethical advisory practices, and sustained regulatory oversight.

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