

# A Study of Reverse Mortgage Scheme in India

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## I. INTRODUCTION

Reverse Mortgage Scheme is quite a new concept in India but it has already come into the knowledge of other countries and also very popular in the country like USA. This scheme is a type of loan which gives access to this scheme to the senior citizens.

It enables to access the tax free income by securing their home without selling them to other. Though the concept is innovative, interesting and new but haven't got that much popularity from India.

**Reverse Mortgage** provide cash in lump sum, monthly installment which is fixed, or through credit against the value of their property which they have given as the mortgage. This loan is applicable to those who are 60 or above.

The Reverse Mortgage Loan was came into India in 2007 with the motive of supporting senior citizens as at this age they do not have a regular source of income which will make their life burdensome to live. It enable them in meeting their expenses like medicine, food, or for any home requirements.

RML is a benefited financial tool for senior citizens who want to live as their own. This loan is only applied if their house property is 20 years old as per the National Housing Bank guidelines.

In India there are two types of RML which are available in the Indian market.

1. Regular Reverse Mortgage Loan
2. Reverse Mortgage Loan-enabled Annuity

BASIS	RML	RMLeA
Parties involved	Two parties i.e. the bank and the borrower	Three parties i.e. the bank, the issuer, the borrower/annuitant
Annuity Sourcing Institution	The lender bank	The life insurance company
Maximum period of loan	20 years	Lifetime

Maximum Lump sum payment	50%	25%
Quantum of Annuity payment	Lower	Higher
Basis of revision of amount of annuity	Revaluation of the mortgaged property by the bank	Bonus additions by the insurer + Revaluation of the mortgaged property by the bank

If one is planning to go for this loan then it must be noted that both are different and their purpose is also different. In India banks offers 40% to 50% market value of the residential property. Some banks often claim that they charge only one time processing fee i.e. 0.5% of the loan amount but in actual there are many charges which they charge but do not tell in the starting. Payment of the loan is only due if the individual passes away or move out of his/her property.

National Housing Bank has introduced some norms under this scheme which has to be followed.

#### 1. ELIGIBILITY

- Life of the house must not be less than 20 years.
- Property must be used as the permanent residential property. Physical inspection can be done by the any member of the bank as per the PLIs Primary Lending Institutions.
- Borrower must have the ownership of the residential property.

#### 2. DETERMINING THE VALUE OF THE PROPERTY

- Value of the loan is depend on the market value of the property

Age	Loan as proportion of Assessed Value of Property
60-65	40%
66-70	50%

71-75	55%
Above 75	60%

### 3. METHOD OF PAYMENT

- Payments can be done monthly, quarterly, half-yearly, annual.
- Lump- sum payment is allowed but has a condition and limited requirements to special cases such as renovation, extension of residential property, up-gradation.

### 4. END USE OF FUNDS

- Medical use, home improvement, living, renovation of the home.
- For pension/income.
- For the repayment of any existed loan.

### 5. PERIOD

Period of loan is maximum 15 years.

### 6. INTEREST RATE

Interest charges on reverse mortgage loan is fixed by the Primary Loan Institutions which can depend upon the risk perception, or on the basis of the loan pricing policy. Fixed and Floating rate of interest is being offered to the borrower.

### 7. SECURITY

Commercial property is not eligible for RML but the mortgage one is.

### 8. VALUATION OF THE MORTGAGED PROPERTY

The valuation of the property is required to be done at least once every five years.

### 9. PROVISION OF RECISSION

When the senior citizen has submitted all the documents related to the transaction and residential property related, there is a right to recission which will be given to the senior citizens in case they want to cancel the transaction. A time period of 3 to 4 days is given to do so.

### 10. DISBURSEMENT OF LOAN

- The PLI will decide the mode of payment
- It can be extended to monthly, quarterly, annually, half-yearly.
- In case the borrower has given its property already to the other institution, the payment will directly goes to their account to release the mortgage from that institution.
- The mode of payment will clearly disclosed to the borrower.

### 11. DOCUMENT CLOSING

- A proper document will be provided to the borrower where the benefits, reverse mortgage loan material and specimen documents will be clearly written.
- There will be a certain fees amount which will be charged from the borrower for the closing costs.
- Items included from where the fess will be charged are- Registration, Valuation charge, Title examination fees, etc.

### 12. LOAN SETTLEMENT

- If the borrower of the loan moved out of the residential property, or he dies then only the loan will become due or payable.
- Interest of loan will be passed to the estate of the property.

### 13. PREPAYMENT

- The borrower can do the prepayment of loan anytime he wants.
- There will be no penalty charges.

### 14. AGREEMENT OF LOAN

- The borrower can use the residential property until his last breath or in case he is living in that home primarily.
- A detailed agreement will be given to the borrower.
- A Registered Will must be given to the PLI's by the borrower mentioning that they are using the Reverse Mortgage Loan.

- Property must be insured against natural calamities, fire.
- All charges of the house must be paid e.g. electricity, water bill.
- A representative of PLI's will be sent to the borrower house for the inspection.

#### **15. INDEMNITY/INSURANCE**

PLI will obtain a legal title for the indemnity of the residential property.

#### **HOW REVERSE MORTGAGE WORKS?**

A reverse mortgage uses a portion of the house as a mortgage and provide the loan instead of the house. In simple language, it enables to access the tax free income by securing their home without selling them to other.

Those who are taking this loan they will get a fund in cash with the help of which they will be able to survive their life after they are 60 and have taken this scheme. Generally, this loan has been introduced with the perspective of helping them when they have no source of income and will make their life easier.

In this case, you do not have to make the payment of monthly installments. If your house is free from any loans and you have given your property for this RML than you can enjoy the benefits of having this cash which you will receive when you are using your house as a mortgage.

#### **USAGE OF REVERSE MORTGAGE FUND**

#### **TYPES OF REVERSE MORTGAGE**

When you have reached your retirement and you just want access to that fund than you can simply go for the Reverse Mortgage Loan. There are respective reasons for which they need it:

1. For home improvement.
2. Debts.
3. Increase their savings.
4. Want to create an account for emergency.
5. For medical emergency.

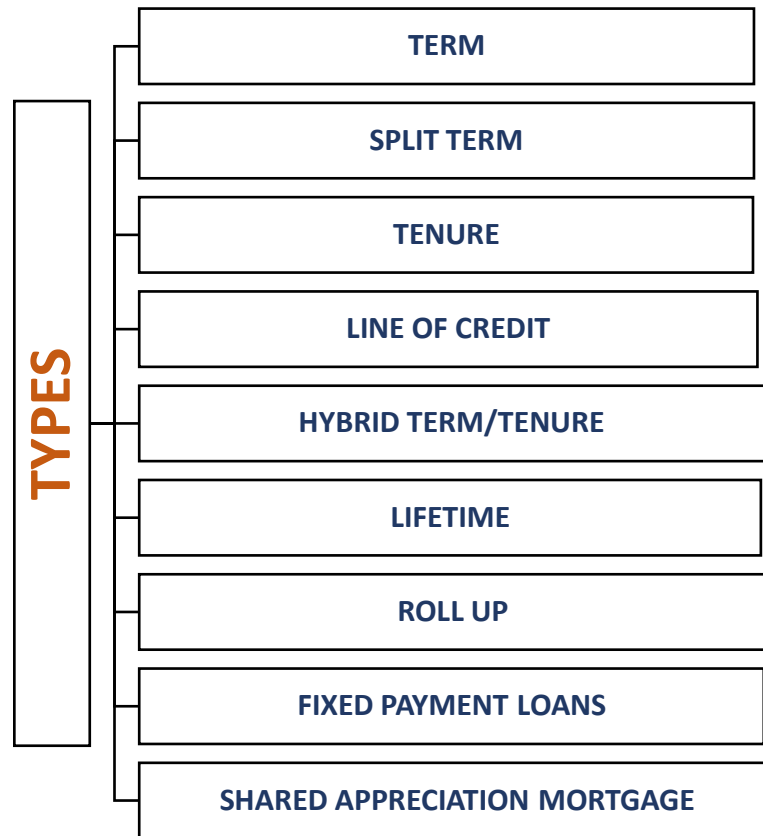
#### **RESPONSIBILITIES UNDER RML**

Reverse Mortgage Loan comes with the certain responsibilities which need to be take care of because it is still a loan which need to be remembered. Borrower must keep their home in good condition and must make the payment of taxes on time.

If the borrower follows all the guidelines and make the needed payments than his loan will not be held due while if he do not uses the house as its primary residence and not maintaining the house in good condition or not paying the bills, charges than his loan will be held due and it will be for 6 months.

#### **ISSUES RELATED TO TRANSACTION OR LEGAL PROCEDURE**

- Counselling session
- Costs charged as stamp duties, title cost, and registration charges.
- Payment of tax is the responsibility of the borrower not the lender.
- Restriction of entries in banks.



- A. **TERM-** Borrower will receive the monthly payments for the certain period of time. Repayment of loan with interest will be done when the borrower dies or he moved out of the property.
- B. **SPLIT TERM-** The payment will stop at the set end of period only until the borrower will receive the money.
- C. **TENURE-** borrower will receive the monthly cash as long as he lives in the house.
- D. **LINE OF CREDIT-** It offers access of money to the borrower. The limit of fund is depends on the house value, age of house. The cash will be received advanced.
- E. **HYBRID TERM/TENURE-** This type of reverse mortgage loan has made up by combining the line of credit, term or tenure plan. Borrower will receive the equal monthly payment until the plan expires.
- F. **LIFETIME-** The borrower will receive the payment even if he is not living in the primary residential property.
- G. **ROLL UP-** It is an additional feature which has been introduced in UK offering cash in advance with interest.
- H. **FIXED PAYMENT LOANS-** Borrower promised the lender that he will pay the amount to the lender more than he has borrowed. He will receive the payment all in advance in lump-sum without any interest.
- I. **SHARED APPRECIATION MORTGAGE-** The borrower will be agreed to give the value of increased part within its property to the lender without having any interest.

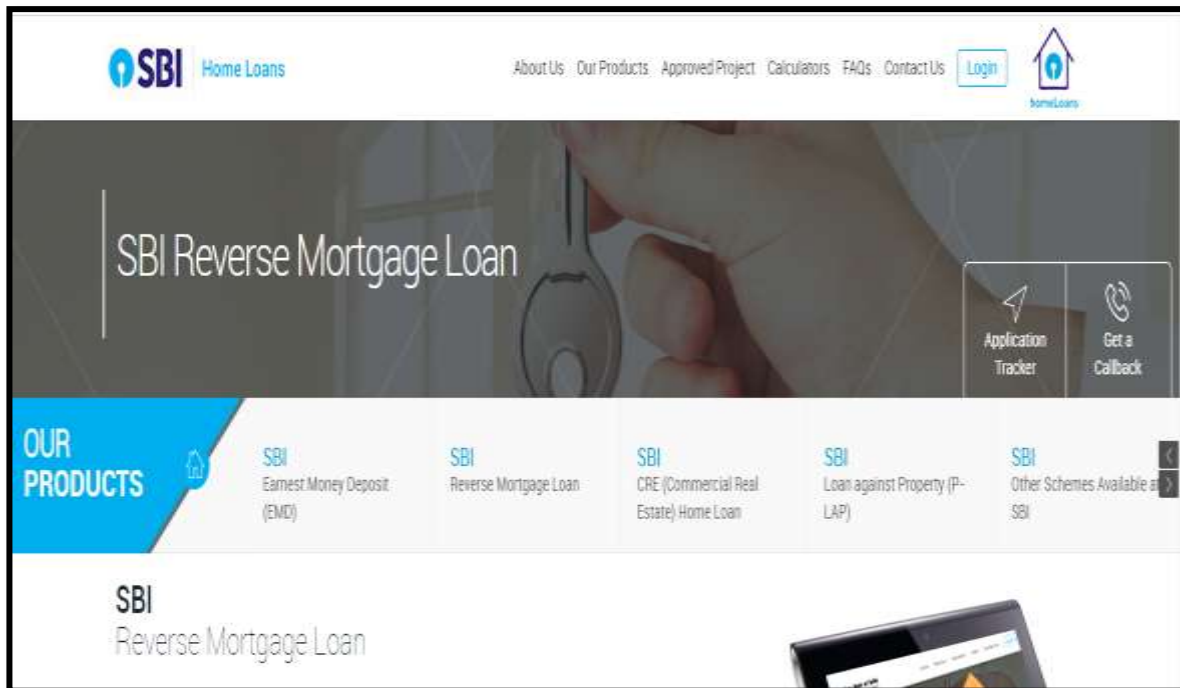
**SOURCES OF INCOME OF SENIOR CITIZEN**

SOURCE	MEN	WOMEN	ELDER
Pensions/Rent	9-10%	5%	7-8%

Work	65%	15%	40%
Transfers	22%	72%	52%

## REVERSE MORTGAGE SCHEME IN BANKS

### A. SBI STATE BANK OF INDIA



#### FEATURES

- Low interest rates
- Low processing fees
- No hidden charges
- No prepayment penalty
- Minimum Age: 60 years when single borrower. In case of joint borrowers, spouse's age should be more than 58 years.
- Loan Tenure : 10-15 years, depends on age of borrowers
- Loan Amount: Minimum Rs. 3 lakhs & Maximum Rs. 1 crore

#### ELIGIBILITY

- Resident Type: Resident Indian

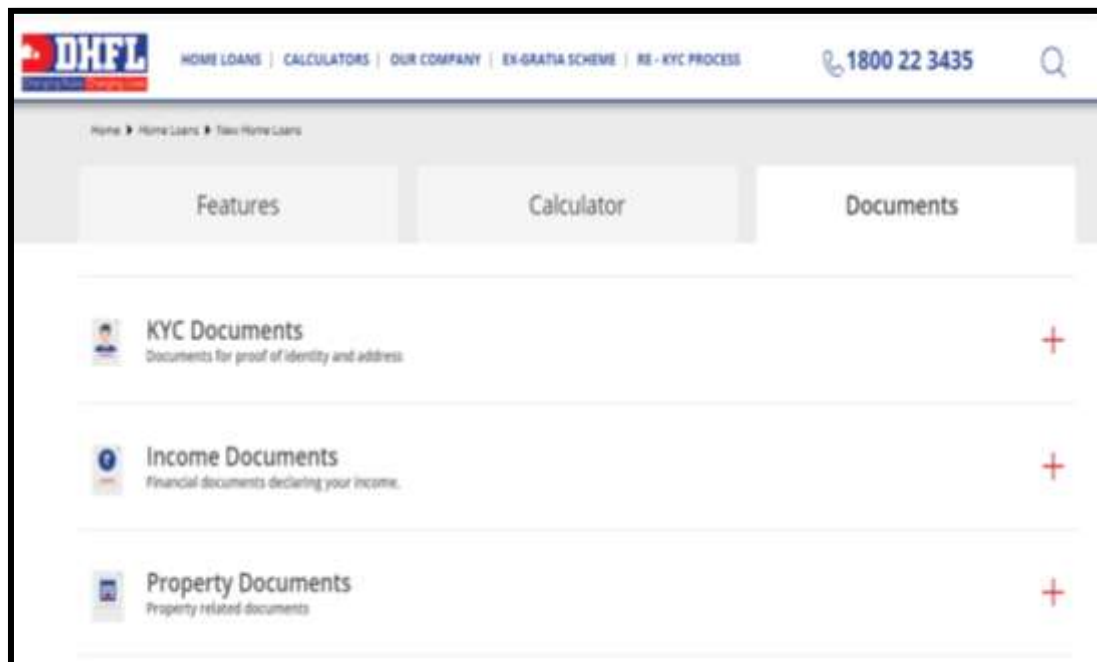
INTEREST RATES & FEES

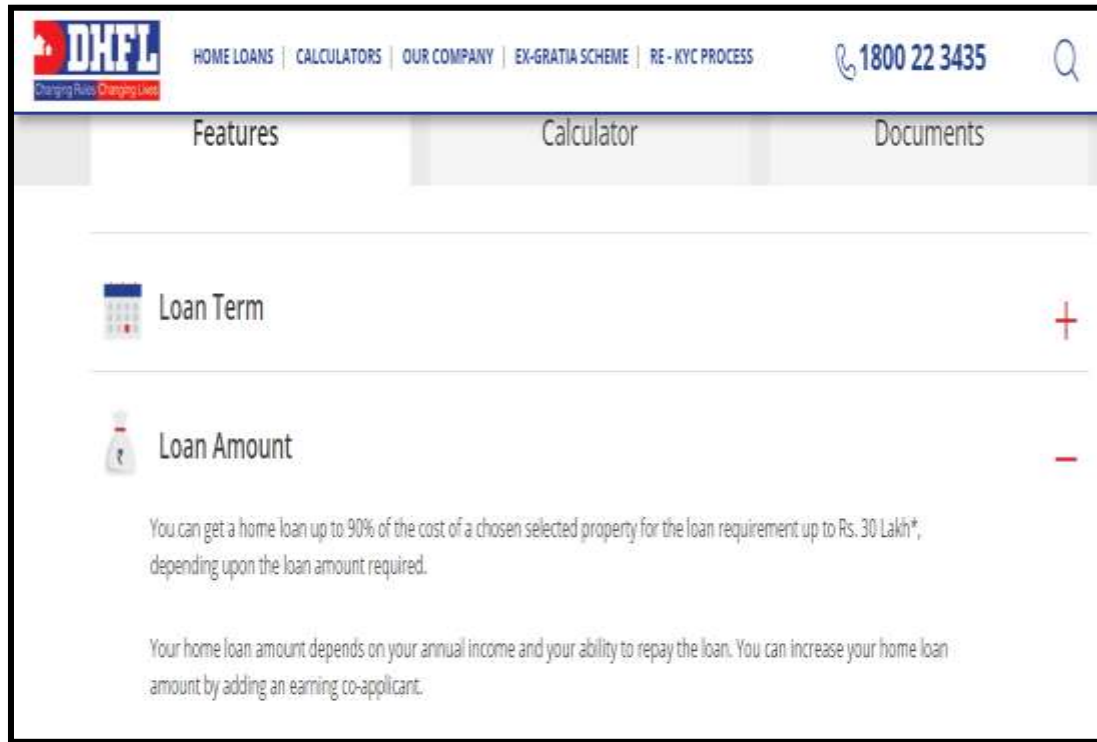


DOCUMENTS REQUIRED

- Employer Identity Card
- Proof of Residence
- Loan Application with 3 passport size photographs.
- Proof of Identity- PAN, VOTER'S ID
- Property Papers.
- Account Statements of last 6 months.
- Income proof.

B. DHFL DEWAN HOUSING FINANCE CORPORATION





### WHY REVERSE MORTGAGE LOAN IS FAILURE IN INDIA

India is always known to be as a more cultural, traditional, family oriented country whose values are quite different from the other countries like US. Let's study in detail why it doesn't gave a success story in India.

1. **CULTURE-** It is believed that in India that the house will pass on to one generation to other generation in a family and will not be used to get a loan or for the repayment of debt. No family would want to pass on the debted home to their children or their children's children. Handing over the family property is consider to be normal in India like any other countries.
2. **FAMILIES-** In India parents help out their children when they are in need of anything and also they expect the same from their children when their parents become older. If the child lives far from their parents and is the earning member of the family then he/she will send money to their parents in case they need it. No child will leave their parents helplessly that they will go for the reverse mortgage loan.
3. **LACK OF AWARENESS-** There are many number of senior citizens who do not know about this and they didn't even heard of it name and also do know what it is for. They

just think it is as a complex process and doesn't sound good to them to opt it. Even if they do know about this they do not want to use it and will continue to be live with their children even after they marry and or may also shift with them where they work.

E.g. It is a real example of a YouTube vlogger Sunny Manocha who used to live in India with his family and soon got shifted to the other city Toronto which is in Canada. When he got settled there he took his mom with him who is now living in Canada with his son.

After reading this it can concluded that the vlogger showed his family values and also his love for his mother. His mother is a senior citizen so even if she have heard of this term she didn't go for it and is now in Canada.

### That's why our India is different from other countries and so as its values.

4. **WE INDIAN INVEST-** I want to share one of the experience of mine when I went to Singapore and our tour guide told us something which will be useful to understand this more clearly. He told us that in Singapore they don't save they just earn it and then spend



it and do not believe in saving it all but in India our parents starts investing when we do not even born in this world.

They save money for our education, business, for our marriage and also for so many things. It is a nature of every Indian and they do believes in savings thinking it would help them their children when they are in need of it.

That's why they do not show care for reverse mortgage loan because they have already been saved a part of their income for their future needs.

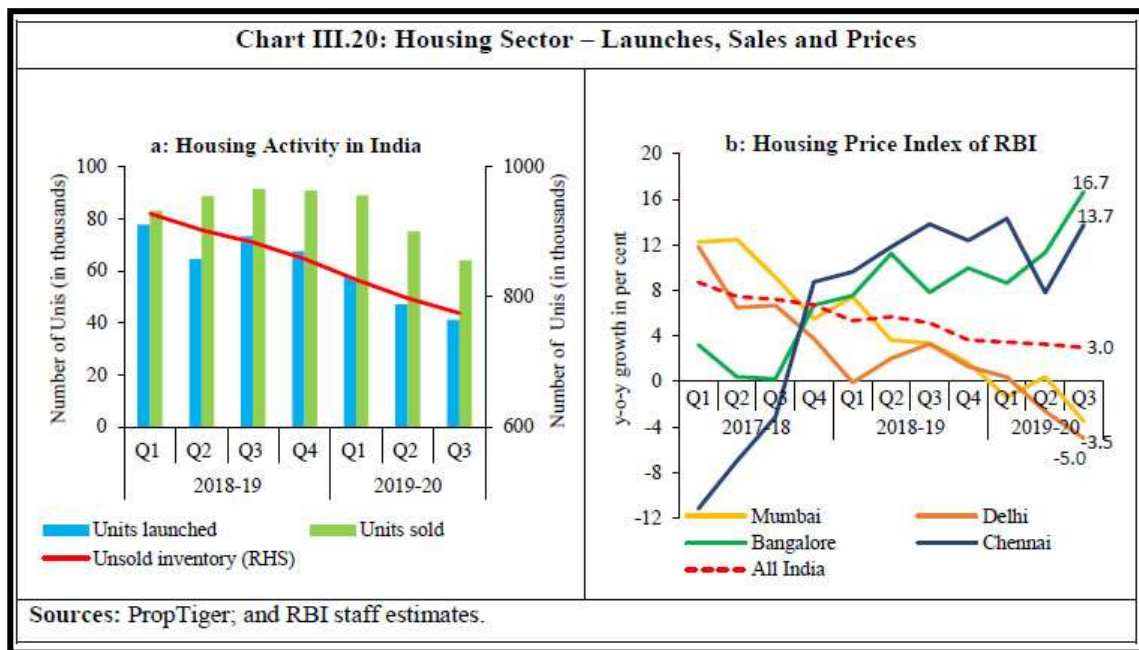
5. OUR HOME IS An EMOTION- We Indians loves our house we do not think of it as a place

where we live. Our home is like an emotion and also to the senior citizens who are really very attached to their home. They worship their home and couldn't think of selling it or use it as a source of debt.

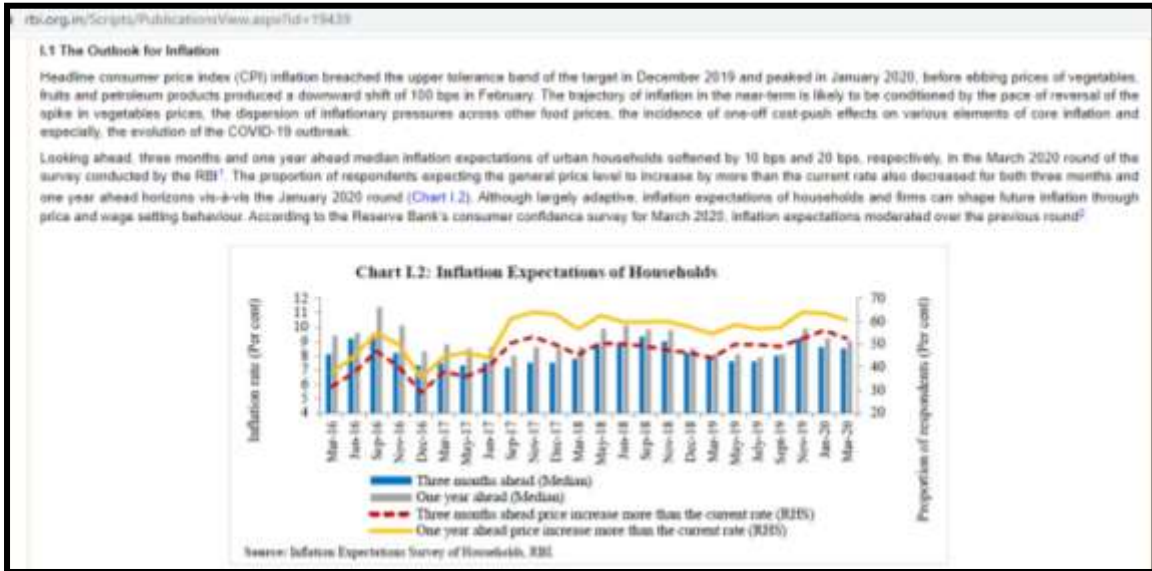
Memories, feelings, emotions, their values all the things are attached to their house that's why even if they are in need of funds they will think for a different option to get the help but will not use their home.

6. LONG PROCESS- Reverse Mortgage Loan carry a longer documentation process. That's why many senior citizens do not want to go for this and try to avoid it.

**PERFORMANCE OF REVERSE MORTGAGE LOAN INDIA**

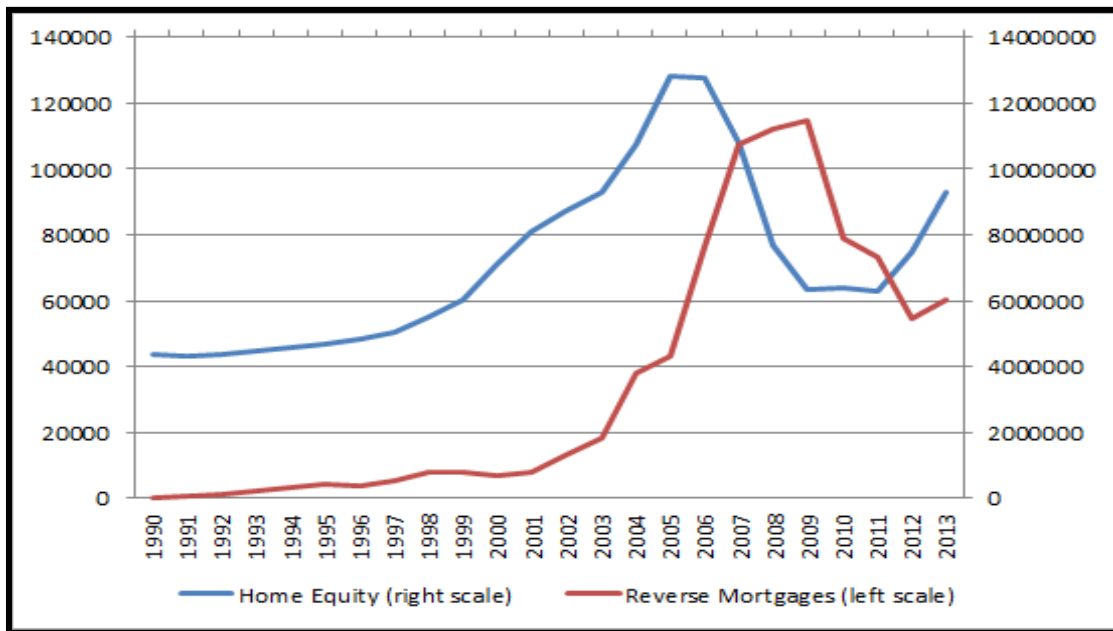


This graph is showing the housing activity of India where the figure is keep declining. The percentage of selling the house property is keep on declining which means these people are using their houses for the loan.



This report has been released by RBI Reserve Bank of India where they have shown the impact of inflation on households which we can see through the above graph that from March 2016-

March 2020 there has been continuous upside downside figures which has been recorded by the RBI. Due to the inflation the prices are increasing ahead more than its current rate.



This figure is showing that the percentage of mortgage is low and the home equity percentage is higher. Though people are not going for mortgage property but keeping their home to themselves and it also has shown a growth in 1990-2004 and then 2010-2013.

## II. LITERATURE REVIEW

This review of literature is based on the information collected through the comprehensive reports, data, statistical report, to understand the main intend of this study. Reverse Mortgage is a complicated term said by Chandrashekhar, this

term creates a burden, fear of debt among the customers where they are also afraid of losing their precious thing, their home to the other one or we can say to the bank.

As per the Kasbekar report, 2008 the population of senior citizens will reach by 220 million in 2030 and it is the indication towards the demand of Reverse Mortgage Loan for more. Paul Chakravani did the research relevant to the Indian market. The author has studied that what benefits or services are banks or financial institutions offering to the market. There are few drawbacks with this product but also many more benefits.

According to the author, at macro level, Reverse Mortgage can decrease the pressure on the government and on the employers who are getting their pension for the living and it would result in demand for the reverse mortgage scheme.

Rajgopalan, studied the scope of reverse mortgage loan in India, He said that in other countries like US they are facing the budgetary problems, due to the shortage of income sources which will soon be faced by the India in the near future like US is facing. As all the savings or the retirement money of the individual will all goes in their residential property, nothing will be left for them. The, Reverse Mortgage will act as a savior to their life which will create the source of income for them.

Mohammed and Sulaiman, said that the population of senior citizen will face a shortage of fund. Their medical emergency, their bills will keep on rising in the future.

A report from National Housing Bank has been released where before launching this product in India they did a research work, and said that there are around 3.87 million people who own the house and all are above 65 years in 2006. They have said that it is important to invest in housing asset rather than in any financial asset.

As per the report of NHB, Interest paid on loan is attractive in case of home loan that's why

the investment is beneficiary in them for the later time period. For the post-retirement it is a good choice to make.

### RESEARCH METHODOLOGY

The main purpose of having research methodology in the report is that it clears the about what the report is all about, what is the purpose of doing it so, what are the outcomes that this report will bring out, or how are we measuring it. It gives us an advanced knowledge and also help us out to know the others opinion on this particular report.

Here, we develop an analytical approach while reviewing the report, it also develops the critical and analytical work. It is a written report which is done to know more about the specific topic. The reason behind this report is to make a certain decisions to know more accurately about it.

It helps us in solving our problems, our doubts where we will use the scientific approach in this.

### ❖ DATA COLLECTION

Data collected in this report is done on the basis of both

- Primary Data
- Secondary Data

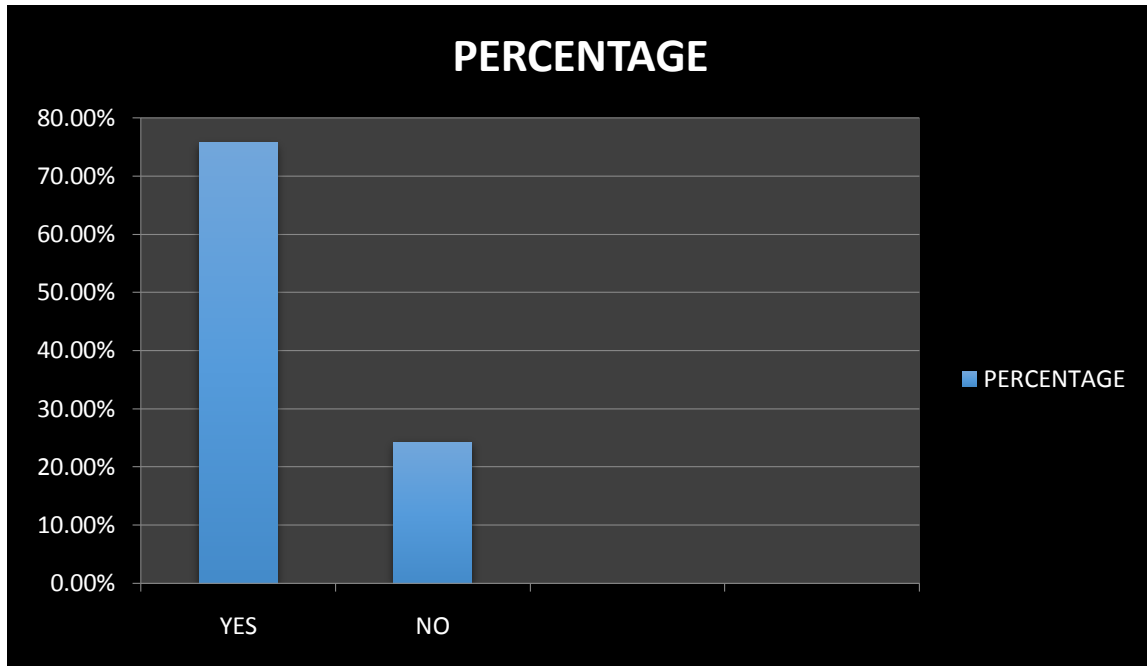
**A. Primary Data-** Primary Data is the data which will be collected by the reports, case study or all the available data which can be accessible by everyone who are seeking to do this research. The methods here which were used were form books, pdf file, articles, Wikipedia, books, etc.

**B. Secondary Data-** Secondary Data has been collected in this report based on the questionnaire which we have prepared to collect the information.

### III. DATA ANALYSIS

**QUES1:** Do all of you belong to the age of 60 or above?

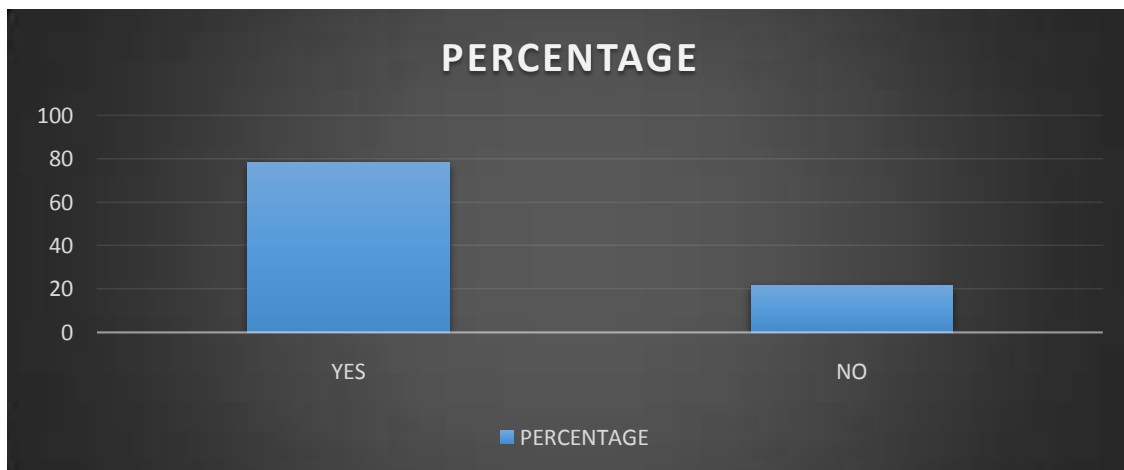
Criteria	Frequency	Percentage
YES	53	75.7%
NO	17	24.3%



It is clear from the above table that 75.7% respondents are the proprietors and co-owners belong to the age 62 or more seasoned, and 24% example of respondents do not fall in this category.

**QUES2:**Do you live in the primary resident property?

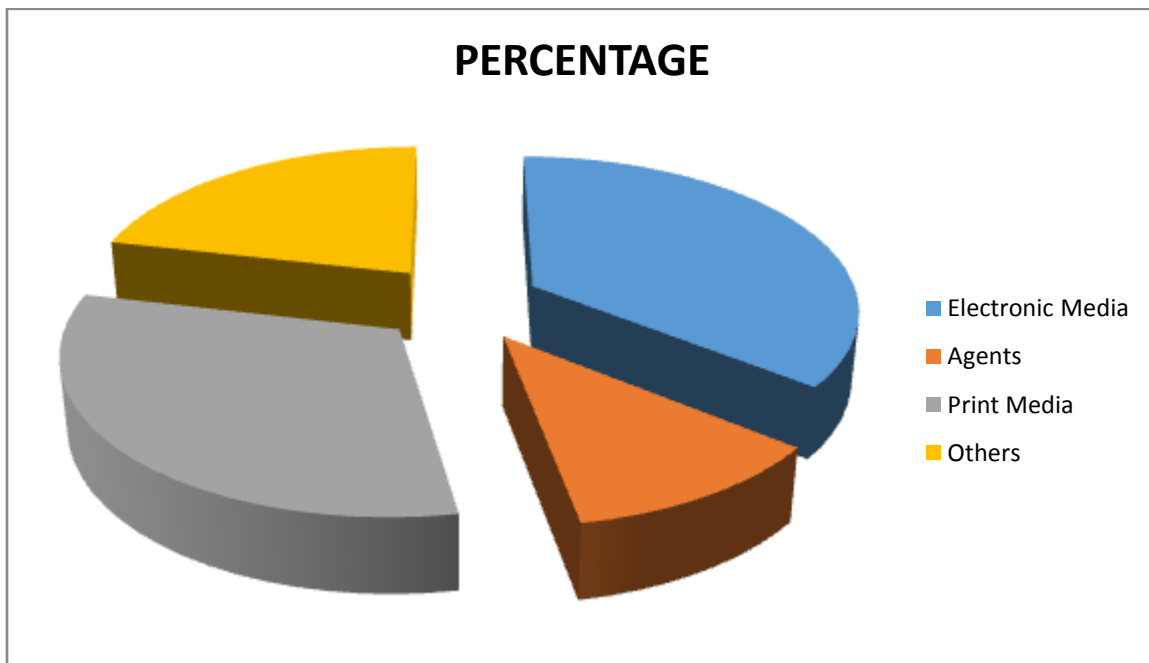
Criteria	Frequency	Percentage
YES	55	78.5%
NO	15	21.5



It is understandable from the above table that 78.5% example of respondents have believe that house is their main living place, and that 21.5% example of respondents don't think that way.

**QUES3:** Are you aware about the reverse mortgage scheme or not?

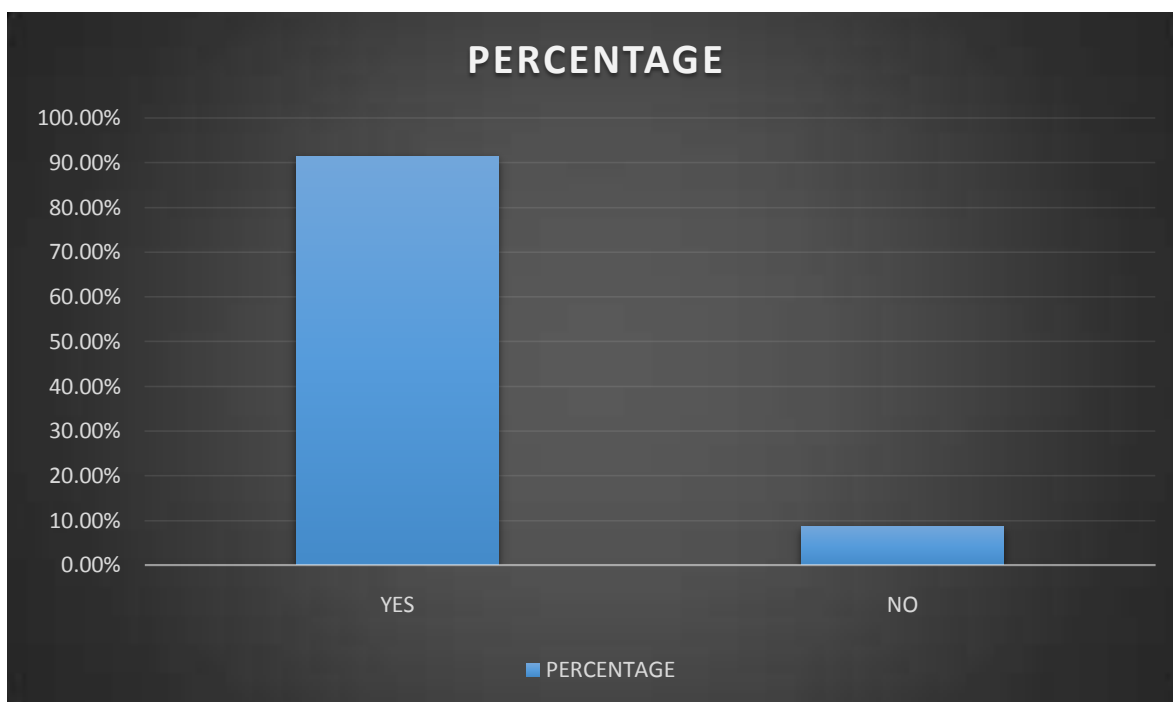
Electronic Media	25	35.7
Agents	8	11.4
Print Media	22	31.4
Others	15	21.4



It is clear from the above table that 35.7% example of respondent have resulted that Mortgage from Electronic Media, that 11.4% example of respondent come to know about Reverse Mortgage from Print Media, 31.4% example of respondent from Agents and 21.4% example of respondent think about others sources.

**QUES4:**Do you know what benefits you will receive if you go for this?

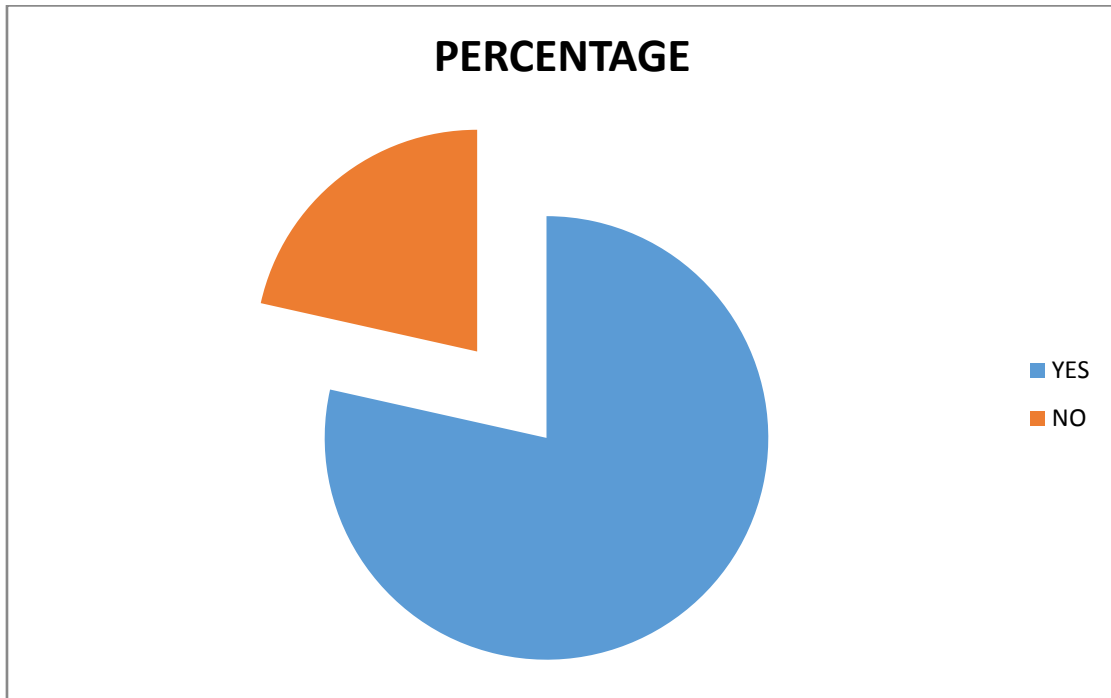
Criteria	Frequency	Percentage
YES	64	91.4
NO	6	8.5



It is obvious from the above table that 91.4% example of respondents imagine that they were examined that 8.6 with your beneficiaries.

**QUES5:**Have you ever consulted with any financial institution or bank for the reverse mortgage loan?

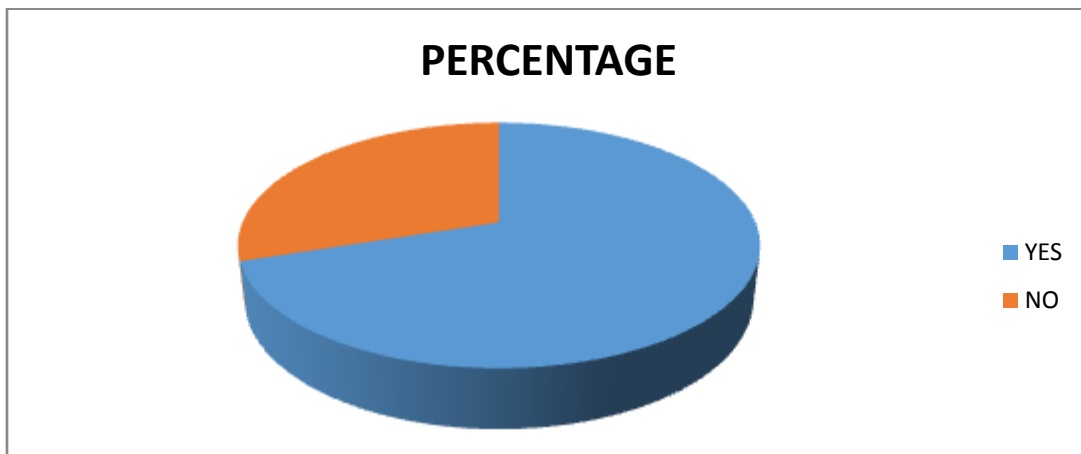
Criteria	Frequency	Percentage
YES	55	78.5
NO	15	21.4



It is obvious from the above table that 78.5% example of respondents have considered all monetary choices prior to seeking after a Reverse Mortgage Loan, and just 21.5% example of respondents don't that.

**QUES6:** Are you seeking any legal advice from the advisor for the reverse mortgage loan?

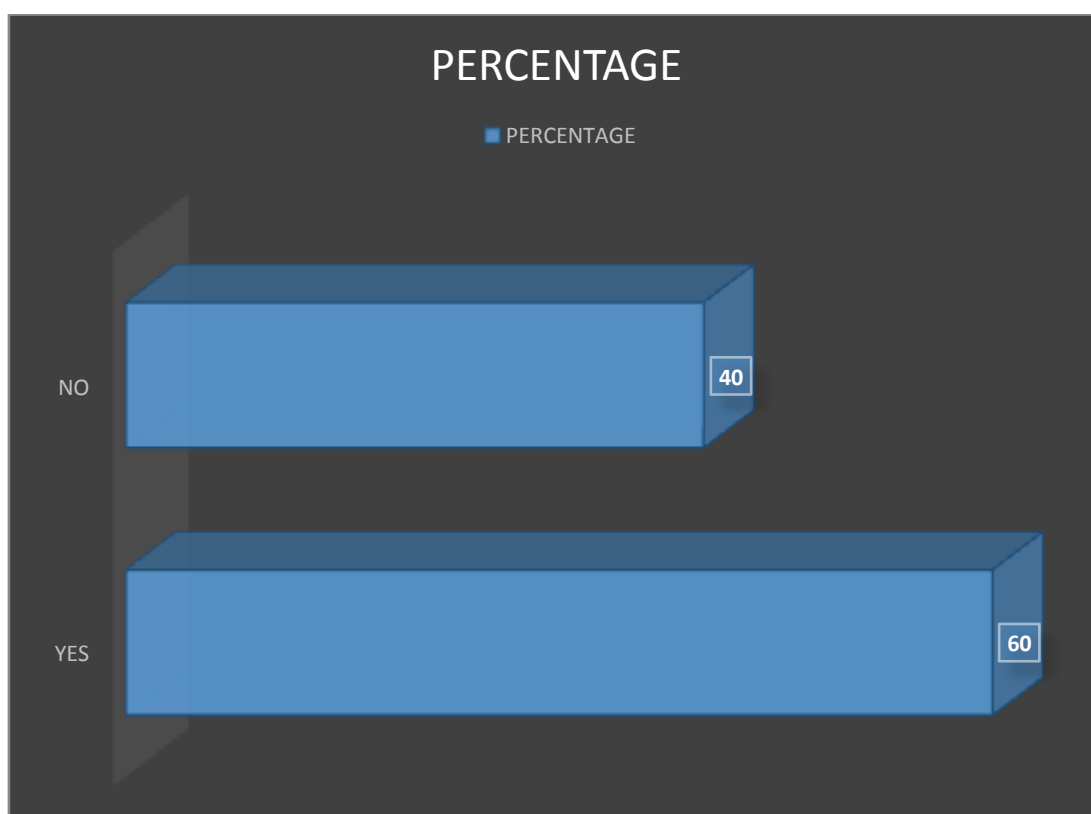
Criteria	Frequency	Percentage
YES	49	70
NO	21	30



It is obvious from the above table that 70% example of respondent looks for autonomous lawful counsel about the advance conditions/contract, and other 30% example of respondent doesn't concur with it.

**QUES7:** Is Reverse Mortgage Loan expensive?

Criteria	Frequency	Percentage
YES	42	60
NO	28	40

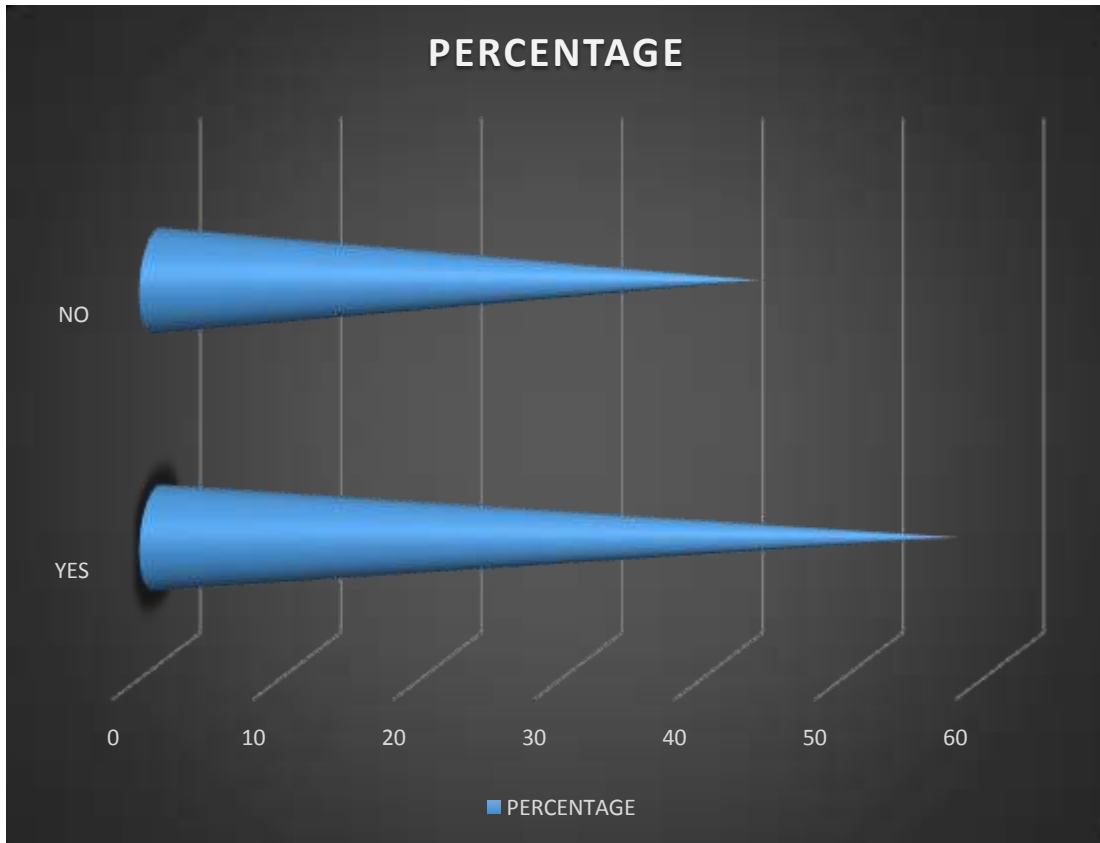


It is clear from the above table that 60% example of respondent think that opposite contract is extravagant method of Loan choice, and other 40% example of respondent try not to think with it.

**QUES8:** Do you agree it is a lengthy and complicated process?

Criteria	Frequency	Percentage
YES	40	57.1
NO	30	42.9

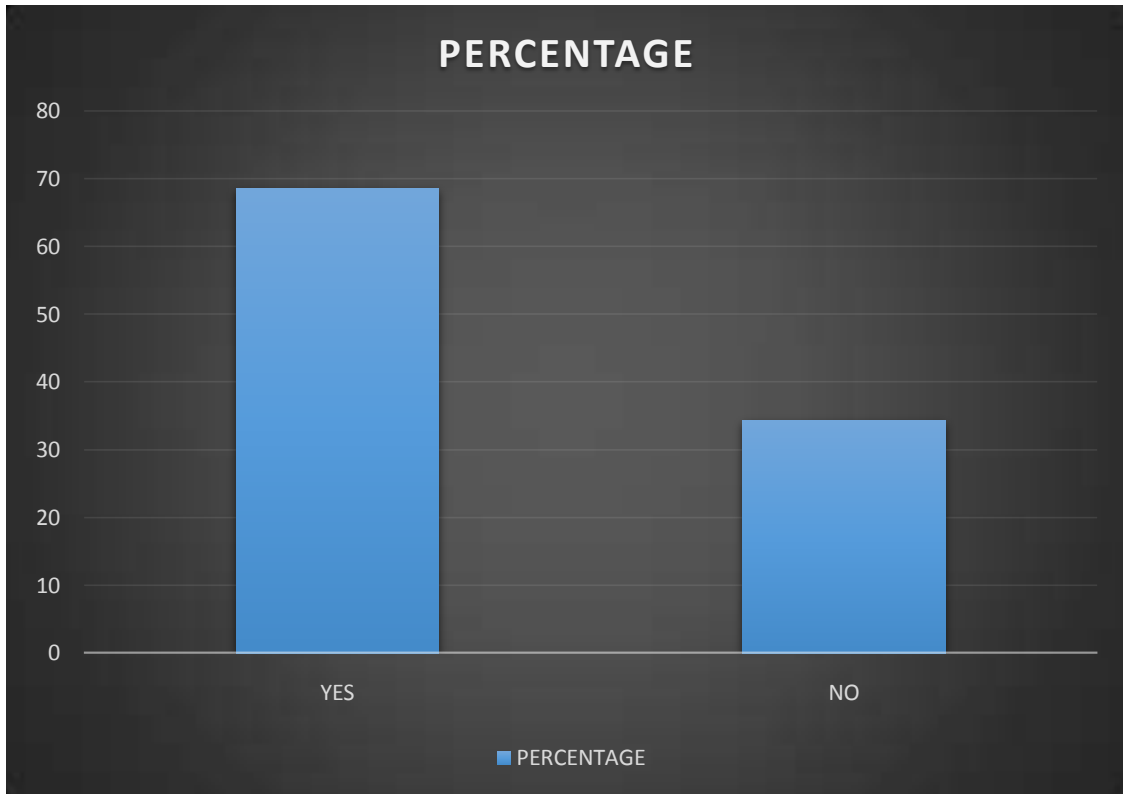




It is clear from the above table that 57.1% example of respondent consider any options other than home buyback useful and other 42.9% example of respondent don't concur with it.

**QUES9:** Have you ever taken into consideration any financial options earlier than pursuing a reverse mortgage scheme?

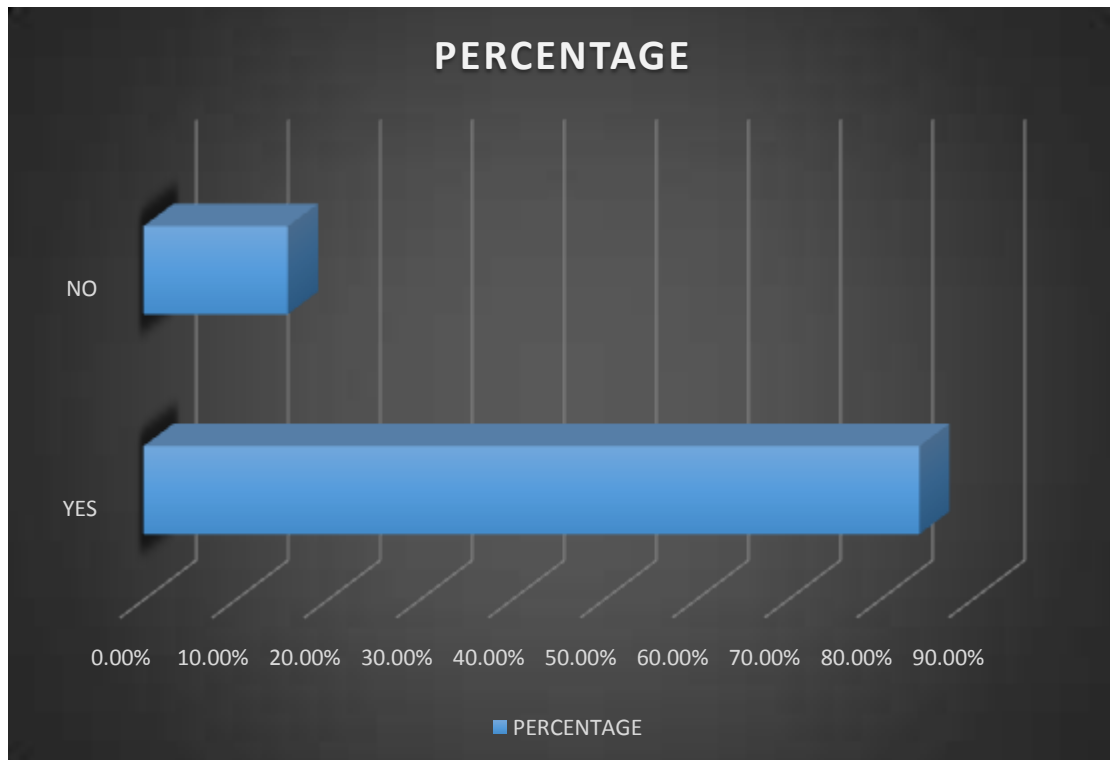
Criteria	Frequency	Percentage
YES	48	68.6
NO	22	31.4



It is obvious from the above table that 68.6% example of respondents have thought about all monetary choices prior to seeking after a Reverse Mortgage Loan, and just 31.4% example of respondents don't agree with this statement.

**QUES10:**have you ever received counseling from a HUT-accepted home equity Conversion mortgage (HECM) Counselor?

Criteria	Frequency	Percentage
YES	59	84.2
NO	11	15.8



It is apparent from the above table that 84.3% example of respondent you got advising from a HUT-Approved Home Equity Conversion Mortgage (HECM) Counselor, and other 15.7% example of respondent don't think that way.

#### IV. FINDINGS AND CONCLUSIONS

##### ❖ FINDINGS

1. Result which we have received from the survey has showed that people or the senior citizens are not using their homes as a mortgage but instead they are holding it without giving it to any other financial institution or bank.
2. The term “mortgage” is familiar to them, they do know what it is but they do not know what this reverse mortgage scheme is? Or even if they do, they do not want to know what it is? Or how it will help them.
3. If there is any need of fund, they did gone for the other options but they never care to ask about this scheme, as if it doesn't exist.
4. There are also few senior citizens who have applied for this scheme and what we have seen is the performance, it is clearly visible that the growth of reverse mortgage loan in our India is quite low and also it is decreasing every year.
5. There is a lack of awareness about this scheme as they believe that the institutions who are

providing them with this loan may charge a high fee or other additional charges or even they might also lose their homes which they are giving as a mortgage to the bank or financial institution.

6. Also, what we have seen is that this scheme is new with lots of advantages and have conceptual ideas and also has been recorded and viewed as a successful scheme in other countries.
7. Indian culture is different and also have moral values and lots of emotions that's why that's not good for the elder people according to them to give their house to somebody-else but they want to give their immediate home, their resident property to their family member.

##### ❖ CONCLUSION

1. If there is a proper awareness of reverse mortgage, it will be a huge success in India and will also the needy senior citizens who are in need of funds as it may not only for the living place but also it will help them in case they need for other purposes.
2. It will create a high demand and supply of this product if the working people of the India will take that reverse mortgage scheme in their future or for their parents.

3. This scheme can also be used for the medical emergency, though it is a lengthy process but, it will result in benefit later on for sure.
4. Place where we live is important, and if we do not have any security that it will be ours or not our life will get miserable in our future, that's why it is introduced with tax free income, which will help and attract the policies.
5. Before going for this, it is advisory to consult a legal advisor and also do communicate with the others about this.

#### **SUGGESTIONS**

1. Bank can make the Reverse Mortgage loan payable where the senior citizen will pay the amount at a certain fixed period and then can have the ownership of his/her mortgaged property.
2. Proper marketing can be done.
3. They can increase the time of loan given to 20 years.
4. They can take help of Life Insurance Company to make this scheme work.