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A Study on Reverse Mortgage loan in Indian Prospects

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ABSTRACT

The Nationwide survey analysis shows that despite of high Net worth value, the elderly people in India continue to suffer from social, medical and financial problems. Every 10th person of over 1.2 billion population crossing the age of 60 years and a majority of them facing financial crisis or financially dependent on others. With the growth of elderly population, the old age security has become one of the prime concerns for Indian Government. Keeping in view this concern, the concept of “Reverse Mortgage”, Introduced by the Union Government in 2007, an innovative financial product for the needy Senior Citizens of India, to generate a regular income or take care of an exigency after the retirement or the age of 60 years. Owing to various reasons, people might have failed to build sufficient corpus to meet their expenses when they are no longer earning or their might be unforeseen contingencies for which they require huge outlay of funds without the regular flow of income. During that sunset year, a reverse mortgage loan can convert their existing residential property into an alternate retirement corpus. As such this paper makes an attempt to describe the prospects of Reverse Mortgage loan in India.

KEYWORDS: Reverse Mortgage, Senior Citizen, Financial Product, and Retirement Planning

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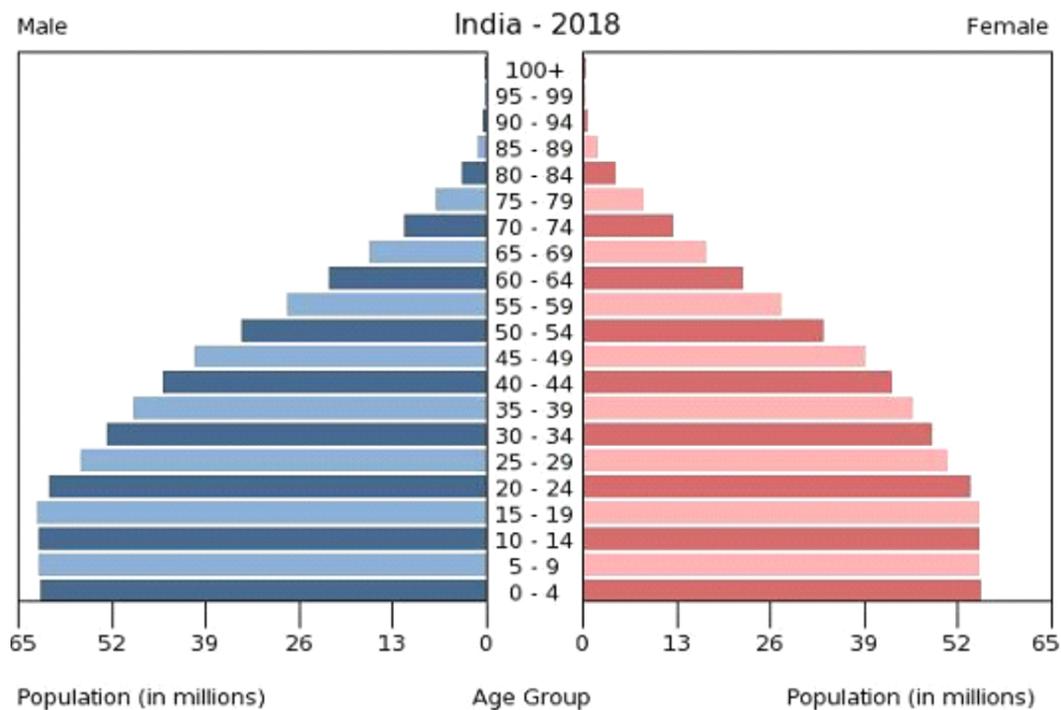
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INTRODUCTION

House accounts for a large chunk of life time savings. It need not only be a home to a family but can also be a part of retirement plan. Senior Citizens are an increasing component of the Indian society and dependency in old age is increasing in the country. While on the one hand, there is a significant increase in longevity and low mortality, on the other hand cost of healthcare facilities is spiralling and there is little social security. Reverse mortgage is a mortgage “in reverse”. In normal mortgage, a house buyer borrows funds from the bank to acquire property or to finance his home. But in a reverse mortgage, the owner of the residential property surrenders his property to the lender to raise funds. This concept was introduced in 2007 to improve the lives of Senior Citizens owning a house. After retirement, when people may not have regular source of income or enough savings in cash to meet their running expenses, Reverse Mortgage Loan (herein after referred to as “RML”) becomes a “Golden walking stick” for Senior Citizen in old age which enables them to meet their day to day expenses pertaining to food, medicines, repair of house and other daily needs.

Figure: 1 Indian population demographics 2018



Source: The World Factbook, CIA

As per figure no 1, the ageing population in India is around 13.99 %, which constitute a significant proportion of Indian Population. A closer look at the above pyramid reveals an interesting detail about the future trends in demographics. It indicates that in another 10 years or more, the Indian population stratum which belongs to 45 years and above age group will be nearing their

sixties. With the retirement days nearing, there would be a need for financial planning for generating liquidity to support their day to day needs as well as contingencies

0-14 years: 26.98%	(male 185,736,879 /female 164,194,080)
15-24 years: 17.79%	(male 122,573,662 /female 108,109,968)
25-54 years: 41.24%	(male 276,283,581 /female 258,563,835)
55-64 years: 7.6%	(male 49,334,703 /female 49,197,817)
65 years and over: 6.39%	(male 39,184,523 /female 43,654,994)

Reverse mortgage loan

Reverse mortgage loan (here in after referred to as “RML”) is a financial product for the ageing people, who own a house and want to live independently in old age. RMLs are to be extended by Primary Lending Institutions (PLIs) viz. Scheduled Banks and Housing Finance Companies (HFCs) registered with NHB or any other class of institutions as may be notified by Government of India.

The major features associated with RML are

- i. Increasing life expectancy (cost of medical treatment rising tremendously)
- ii. Disintegrated Joint Family system
- iii. Existing pensions and retirement benefits are insufficient to meet regular expenses.
- iv. Geriatrics or old age needs
- v. The public pension system has not been able to provide a complete support.
- vi. To make the provisions for self as well as spouse to maintain a standard of living.
- vii. To sustain a comfortable and dignified life.

Eligibility Criteria for reverse mortgage

- i. A house owner with minimum age of 60 years and above is eligible for a Reverse mortgage Loan.
- ii. Married couples are eligible for RMLs provided at least one of them should be above 60 years of age and the other not below 55 years of age.
- iii. The house should be self-acquired and self-occupied. The property should be permanent primary residence of borrowers.
- iv. The residential Property should be free from encumbrances.
- v. The residual life of the property should be at least 20 years.

Determination of Eligible Amount of loan

- i. The amount of loan will depend on market value of residential property, as assessed by the PLI, age of borrowers and prevalent interest rate.
- ii. The PLIs would ensure that the equity of borrower in the residential property (equity to value ratio- EVR) doesn't at any time during the tenor of the loan falls below 10%.
- iii. The PLIs will need to revalue the property mortgaged to them at least once in every five years, the quantum of loan may undergo revisions based on such revaluation of property at the discretion of the lender.

Table 1 : LTV Ratio for RMLeA

Age of the Borrower (Years)	Maximum Loan to Value Ratio
Between 60 and 70	60%
Between 70 and 80	70%
80 and above	75%

Source: www.nhb.org.in

Eligible End Use of Funds

The loan amount can be used for following purposes:

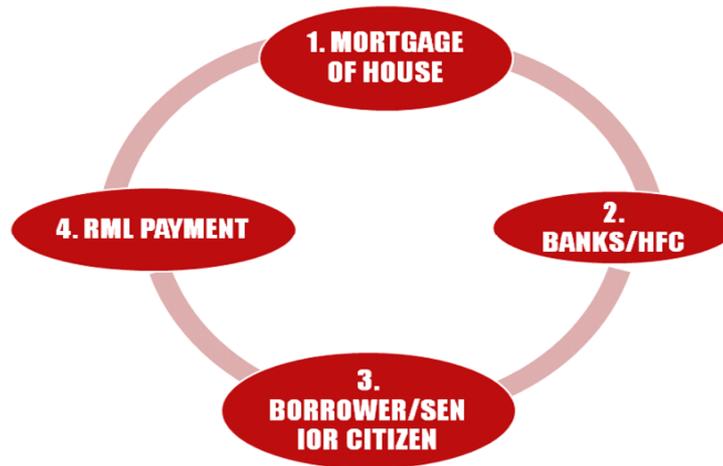
- i. Upgradation, renovation and extension of residential property.
- ii. For uses associated with home improvement, maintenance/insurance of residential property.
- iii. Medical, emergency expenditure for maintenance of family.
- iv. For supplementing pension and other income.
- v. Meeting any other genuine need.

Use of RML for speculative, trading and business purposes shall not be permitted.

Types of Reverse Mortgage Loan available in Indian Market

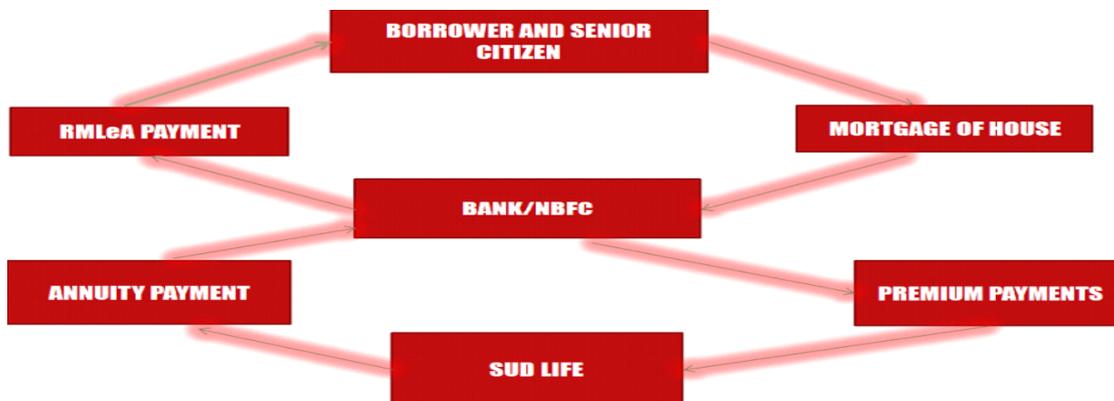
- **Regular Reverse Mortgage Loan-** In pursuant to the Government Budget for 2007-08, Finance Minister had introduced the RML scheme in May 2007 in India. The NHB (National Housing Bank), a subsidiary of the Reserve Bank of India (RBI) had been assigned the responsibility of preparing the regulations for the same. Though this concept is very popular in the United States (USA) and United Kingdom (UK), the concept has started gaining popularity in India in recent times. This innovative financial product aims at enabling Senior Citizens to fetch value out of their home without the need for selling it. But the loan payment to the Senior Citizens would stop after the completion of 20 years.

Figure: 2 Working of RML



- Reverse mortgage enabled Annuity-** This new scheme was launched in 2010 is much more refined than the one introduced in 2007. RMLeA is the result of collaboration of life insurance sector with the Banking Sector and Housing Finance Market. This scheme is presently implemented by 23 Banks and 2HFCs. In RML, payment to the Senior Citizens would stop after completion of 20 years, this limitation was overcome by RMLeA and it offers better benefits. RMLeA provides higher annuity payments for the entire lifetime to the annuitant to ensure that he live with dignity after retirement.

Figure: 3 Working of RMLeA



Rmlea is superior to RML

In a Regular RML, lender will make a pay-out till the end of the tenure. For instance, say your property value is 1 crore and loan-to-value (LTV) ratio is 90%. At an interest rate of 12.75%, monthly pay-out will be 8,218 for 20 years. Say you survive this tenure, though you can still stay in the house, regular income from the lender will stop.

In RMLeA, however, the LTV is lower at 60-75% depending on the borrower’s age. Here the lender makes a one-time payment to an insurer. The insurer works out a monthly payment based on

actuarial calculation that it will pay for life. Usually annuities are offered at an interest rate of 6% a year. The pay-out in RMLeA is much higher than RML. So, for a property worth 1 crore, with an LTV of 60%, the lender will give the insurer 60 lakh in lump sum. The insurer will calculate a monthly pay-out for life. And the pay-out is likely to be around 25,000 per month.

Benefits of RML/rmlea

- i. Life time payment till demise of surviving borrower.
- ii. No repayment till borrower lives or occupies house.
- iii. Borrower liability does not exceed the value of the house.
- iv. Loan settlement through sale of house.
- v. Heirs may repay without sale of house.
- vi. All the payments under RML are exempt from income tax under sec 10(43) of the income tax act, 1961.

Limitations of RML/ rmlea

- i. RML scheme is applicable for the entire country including rural, semi urban and urban areas, but the property should be mortgageable. In some rural areas agricultural land cannot be mortgaged and hence Reverse Mortgage Loans cannot be considered against a house constructed on such agricultural land.
- ii. In order to get the Reverse Mortgage Loan, the property should be self-acquired, self-occupied and free from encumbrances and must have clear title in favour of the borrower.
- iii. In order to avail the benefits of Reverse Mortgage the beneficiary should continue to pay all taxes related to the house, must insure it and maintain the property as your primary residence.
- iv. The lender will revalue the property mortgaged to it at intervals that may be fixed depending upon the location of the property, its physical state etc. NHB has advised that such revaluation may be done once every five years and quantum of loan may undergo revisions based on such revaluation at the discretion of the lender.

Popularity of the scheme in India

Though introduced in 2007, Reverse Mortgage has not gained much popularity in India for the following reasons:

- i. Inadequate marketing of the product. Recent reports indicate that many of the Senior Citizens are not aware of the existence of such a product.
- ii. Many banks which offer Reverse Mortgage have capped the maximum loan amount available for individuals to a maximum amount of Rs. 50 lakhs to 1 crore.

- iii. Children have resentment for a Reverse Mortgage as they see it as giving away their family home or legacy.
- iv. Reverse Mortgage is a relatively new concept in India. It would take some time for a change in mind set of individuals to accept it. As a financial tool, Reverse Mortgage is ideal to augment a Senior Citizen's income in his years ahead. Despite all its shortcomings in India, it could make good the shortfall in one's pension or income to live a quality life ahead.

Actions taken by NHB's to promote RML

- i. Senior Citizen counselling centre are opened in Chandigarh, New Delhi (2 centres), Hyderabad, Kolkata and Bengaluru.
- ii. To impart preliminary advice and information on RML/RMLeA.
- iii. Training, seminars and conferences are conducted by Banks and HFCs.
- iv. Product research for value additions and new business models are developed.

Table 2 Amount of loan disbursed by PLIs till 31st March, 2018

REVERSE MORTGAGE LOANS			
(Rs in crores)			
Outstanding as on 31 st March ,2018			
S.No.	Primary Lending Institutions	No. of Accounts	Amount
1	Allahabad Bank	7	1.46
2	Andhra Bank	25	6.63
3	Bank of Baroda	127	19.04
4	Bank of India	11	0.71
5	Bank of Maharashtra	6	1.64
6	Canara Bank	11	1.82
7	Central Bank of India	399	215.50
8	Corporation Bank	104	16.76
9	IDBI Bank Ltd.	70	13.03
10	Indian Bank	77	8.43
11	Indian Overseas Bank	142	16.38
12	Oriental Bank of Commerce	2	0.70
13	Punjab & Sind Bank	101	20.59
14	Punjab National Bank	139	30
15	State Bank of India	4473	704.11
16	Syndicate Bank	23	3.96
17	UCO Bank	46	8.97
18	Union Bank of India	72	20.49
19	United Bank of India	22	2.46
20	Vijaya Bank	124	25.02
21	The Federal Bank	2	0.15
22	Axis Bank	176	24.95
		6159	1142.80

**As per the information furnished by banks*

RECOMMENDATION

To the Society

- i. Retired people need not depend on transaction from their children as to satisfy their current need.
- ii. Retired people need not worry about their old age days if they own a house.
- iii. Reverse mortgage will improve the welfare of elderly households that are now unable to gain access to most of their wealth without selling their house.

To the Banks

- i. Banks and Financial institutions should promote this product by emphasising on various factors such as the ability to maintain ownership, revenue returns, and financial independence.
- ii. The complex structure of issuing reverse mortgage loan requires consumer protection.
- iii. Efforts should be made to reduce the cost of these loans by designing new products with improved features.

To the Regulatory Authority:

- i. The operational issues that create hurdles for reverse mortgage loan are limited annuity period, desire to bequest home and high interest.
- ii. The level of awareness about reverse mortgage loan is very low, target group awareness should be increased through educational efforts
- iii. Still, the Reverse mortgage penetration in India is very low. Citizens saving schemes and post office monthly deposits being the most preferred Retirement planning tool.

CONCLUSION

Every Indian, irrespective of its income level tries to build a home for himself during his working life. A Reverse Mortgage can become good option for retirees who wish to have a better lifestyle but are lacking in covering their expenses from the meagre income that they are getting from other sources. Considering the benefits and drawbacks simultaneously, and if the former outweighs the latter, then surely a decision of getting a Reverse Mortgage Loan will not ever make anyone repent. This product will create confidence in the old age people even in the absence of their regular source of income and they can independently continue their life with the same standard of living. Such a product also, relieves the pressure on Government to provide old age security and thus Government also needs to support such initiative. Many economies have benefited from this arrangement and the

market for such products has increased quite a lot in the UK and the USA market but in India it still needs to increase.

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ONLINE SOURCE

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