

A Study on Awareness of Reverse Mortgage - A New Innovative Financial Practice in India

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ABSTRACT

A Reverse Mortgage is a loan for senior home owners that allows borrowers to access the portion of the home equity and uses the home collateral. This loan generally doesn't have to be repaid until the borrower no longer occupies the home as their primary residency. The awareness of the reverse mortgage is generally 0% among Indians. Though this concept was introduced in India 12 years back (2007) to improve the life of house owning senior citizens.

Reverse mortgage enables senior citizens to convert their one big asset i.e their home into a source of regular income without giving up ownership. It is called reverse mortgage because the lender is making payments to the borrower. Hence the study is being undertaken.

Keywords: RML, RMLeA, NHB, RBI.

I. INTRODUCTION

The NHB (National Housing Bank), a Reserve Bank of India (RBI) subsidiary, had been entrusting with the responsibility of preparing the regulations for Reverse Mortgage. This innovative scheme aims at enabling senior citizens to bring in value out of their house property without a need for selling it.

As the name indicates, a reverse mortgage is a mortgage 'in reverse'. The reverse mortgage loan was introduced in India 12 years back (2007) to improve the life of house owning senior citizens. RML is a loan that enables the senior citizens to meet their day to day expenses pertaining to food, medicine and repair of the house at an age when majority of the people do not have a regular source of income in India, RML is a friend of the rainy season. Minimum age availing the RML is 60 years, irrespective of gender difference, and if a couple seeks a joint loan, then the age limit for the spouse is 55 years or above. The applicant must have his/her owned purchased house as RML cannot be secured against ancestor's property. It is called reverse mortgage because the lender is making payments to the borrower. There are various factors on which banks and other financial institutions assess the value of property but its minimum residential life shouldn't be less than 20 years. Whereas age of individual, RML plan and prevailing interest rates are some standard criteria for calculating the monthly or lump sum amount. Presently Rs. 50000 ceiling limit in monthly payment plans, and 60% of the loan amount is maximum lump sum limit.

Undoubtedly, RML is great financial tool for senior citizens who want to live independently even in the old age. But to get maximum benefit for any tool the user must be aware of its flip side too, because superficial knowledge of RML may cause many incessant trouble in the post retirement phase. So, to ensure the peace of mind at the crucial age, one need to be very smart as well as cautious while dealing with the sale gimmicks of loan providers. One should make oneself assured that he will not be cheated after signing the papers. Hence besides doing extensive research in advance, one should also seriously take the advice/precaution.

➤ FEATURES OF REVERSE MORTGAGE LOAN

1. Eligibility

- ✓ Individuals owning legalized - residential house or flat and who is a resident of India and above the ages of 60 can avail this loan.

- ✓ The residential house must be in his name or jointly with his spouse.
- ✓ If the loan is in joint account then one of the spouse must be 60 years and the other must be at least 55 years.
- ✓ The minimum legalized residential property value should not be below Rs. 5 lakhs.

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

2. Margin

- ✓ 20% margin has to be maintained.

3. Maximum loan amount

- ✓ The maximum loan amount is Rs. 1 crore along with Interest.
- ✓ Lump sum pay-out is permitted in the event the borrower has to undergo medical treatment. The maximum limit on that is Rs. 15 lakhs.

4. Disbursement

- ✓ Maximum tenure allowed is 20 years.
- ✓ The amount paid to the borrower per lakh is as follows:

Tenure	Monthly Installment (in Rs.)
10	432
11	365
12	311
13	267
14	229
15	198
16	172
17	150
18	130
19	114
20	100

5. Processing Charges

- ✓ Amount equivalent to half month's loan installment is charged as a processing fee.

6. Security

- ✓ The Residual life of the residential property has to be at least 20 years old.

7. Repayment

- ✓ The legal heir of the borrower, after the borrower's death will have the chance to settle the loan along with the interest without having to sell the property. The loan is due and is to be paid in 6 months after the death of the last surviving spouse.
- ✓ The borrower can also pay the loan at any time during the loan tenure, if he wishes to and has enough funds to pay for it.

8. Prepayment Charges

- ✓ If the loan is transferred to another lender, usually a 2% fee is charged.

9. Insurance

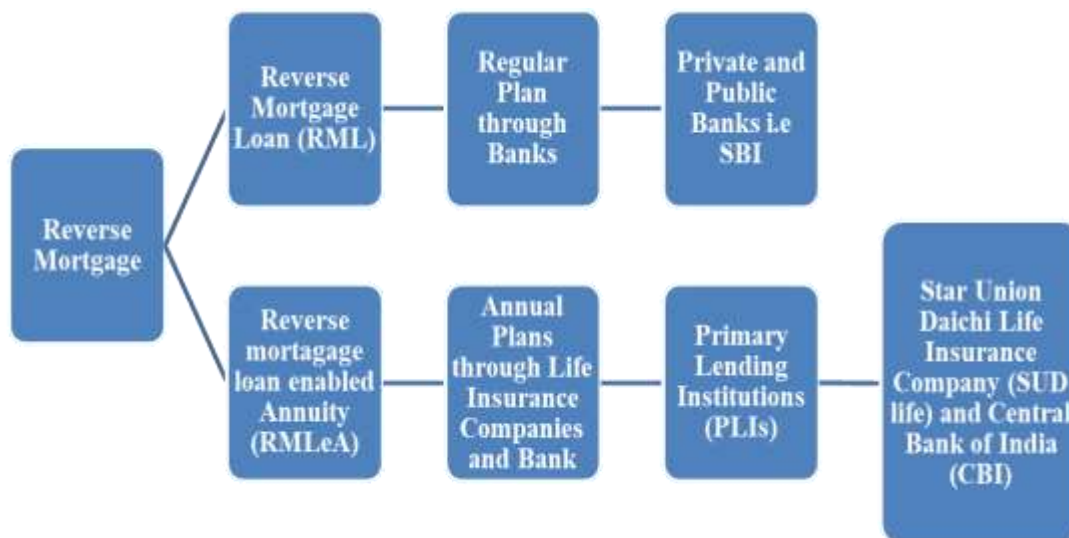
✓ The borrower has to cover all the home insurance premiums.

10. Taxation

✓ Payments under Reverse Mortgage loan are exempt from Income Tax under 10(43) of the Income Tax Act, 1961 but periodic annuity are subject to tax under Section 17, 56 and 80CCC in the hands of the borrowers.

❖ **There are mainly two types of RML available in Indian market.**

1. Regular RML
2. RMLeA (Reverse Mortgage loan enabled annuity).



II. REVIEW OF LITERATURE

1. According to life-cycle model, developed by **Modigliani and Brumberg (1954), Friedman (1957) and Ando and Modigliani (1963)** individuals make their saving choices to smooth consumption over their lifetime. Theoretically, households build savings during their working period and use those savings to meet their consumption needs at old age. If the people with housing wealth want to smooth consumption over their life-cycle, they should reduce their housing wealth by switching from ownership to renting or selling the existing unit and moving to a smaller unit or use the option of reverse mortgage to release and use some housing equity with age. However, most research does not support the hypothesis that the elderly are likely to release their housing wealth in old age. They rarely use it through any home equity release method
2. **(Menchick and David 1983; Auerbach and Kotlikoff 1987; Hubbard, Skinner and Zeldes 1994; Venti and Wise 2004)** suggests that elderly households do not use their savings in old age to the extent predicted by life-cycle models. These studies have shown that elderly wealth accumulation continues after retirement, when households should be reducing their savings. Much of the literature attributes the high savings of retirees to the desire of the elderly to leave bequests.
3. **Short (1984)** in his study found that savings pattern during retirement seemed to be an extension of savings and spending patterns developed during working years. Participants in the survey who were relatively high savers in the early years continued to save as they aged.
4. **Hurd (1990)** also points out that even those elderly, who spend their non- housing financial assets during retirement, apparently choose to maintain their housing equity. Studies by Skinner (1989), Engelhart (1996) and Levin (1998) also observed that housing wealth does not seem to impact consumption and savings decisions of elderly homeowners.

5. **Bishop and Shan (2008)** using HUD data on all HECM loans made from 1989 to 2007, found that very few eligible homeowners have used reverse mortgages to achieve consumption smoothing until recently when the reverse mortgage market in the U.S. witnessed substantial growth. From its inception in 1989 to the end of 2007, out of tens of millions of eligible homeowners, less than 400,000 loans have been originated through the HECM program.
6. According to **Kang (2010)**, there has been a growing popularity of reverse mortgages among senior citizens who need cash. The paper describes the mechanics of reverse mortgage loan, its benefits, drawbacks and the costs (financing cost, closing cost, a mortgage insurance premium (MIP), a servicing fee, and interest) included. The paper concluded that in case of the death of the borrower, or when the borrower moves to another home within a few years after getting the loan, the loan can be very expensive in terms of high financing costs.
7. **National Housing Bank (2006)** commissioned a research before launching this product and found that there were 3.87 million house-owning individuals above 65 years in India in March 2006. It estimated the market size for the scheme in India to be Rs 5,000 crore.
8. As per the reports of **NHB**, till 2013, reverse mortgage loans worth Rs. 1,800 crores have been sanctioned and loans worth Rs. 800 crores have already been disbursed after this scheme got introduced (**Ghosh, 2013**). Despite the expected popularity and usability of this concept, only a few research studies have been conducted.

III. RESEARCH METHODOLOGY

This study involves a Descriptive Research consist of primary and Secondary data. The Study primarily aims to measure the awareness level about Reverse Mortgage among the Senior Citizens of India. A Structured questionnaire containing 18 questions was used for the sample survey. The sample was selected by using Non-Probability – Convenience Sampling Technique for the current research. The sampling criterion included senior citizens (above age of 60 years) people. The sample size of 100 respondents was finally included for further analysis.

➤ OBJECTIVES OF THIS RESEARCH PAPER

1. To study the detailed concept of an innovative financial tool i.e Reverse Mortgage.
2. To understand the need and importance of Reverse Mortgage in India.
3. To find the awareness level about Reverse Mortgage among the senior citizen of India.
4. To know various benefits in the form of Revenues and taxes are available in Reverse Mortgage Loan.

➤ SCOPE OF THE STUDY

1. Reverse mortgage are expected to address the issues of elderly people with high cost of medical care. Awareness of Reverse mortgage perhaps has not reached to masses.
2. The researchers have made an attempt to measure the level of awareness level among senior citizens about reverse mortgage which is almost nil in the societies like India where the family values have a lot of variance from their western counterparts.
3. Researchers also suggested some measures to reach the awareness of Reverse mortgage to masses.
4. Researchers feel that this study is very pertinent in today's changing society and will encourage the other researchers to study and further investigate this all important issues.

➤ HYPOTHESIS OF THIS RESEARCH PAPER

H₀: There is a lack of awareness about Reverse Mortgage concept among Indian Population.

H₁ : In spite of awareness about Reverse Mortgage people don't prefer to adopt it.

➤ SOURCE OF DATA COLLECTION:

- ✓ Secondary source: Literature review
- ✓ Primary source: Questionnaire and Expert survey opinion.

IV: FINDINGS OF THE STUDY

For the purpose of this study, to measure awareness level of Reverse Mortgage among Senior Citizens the people above the age of 60 were selected through Google Link Survey Form and 100 respondents were found from different categories like Government Employee, Private Employee, Businessman, Professionals, Unemployed. The Study Reveals while analyzing the results for the purpose of findings:

1. While analyzing, respondents were found 50% Female & 50% Male.
2. It is found from study that, 50% respondents were under-graduate, 15% were post-graduate and 35% were from others i.e they may be illiterate, or else.
3. Majority of the senior citizens availed the different kinds of loan during their working tenure but after retirement they didn't avail any loan facilities.
4. Almost 75% respondents have own legalized - Residential Property but after the age of 60 years it was found that 56% are dependent individual on their children or on some other sources for their livelihood, rest 44% are managing their day to day expenses either by earning themselves, Pension and their savings.
5. It is found that 4% government employee respondents those who were working with any Nationalized Banks and 4% professionals respondents (Chartered Accountant, Lawyer) were aware about Reverse Mortgage Loan (RML) but none of the respondents availed this service till today.
6. In spite of Reverse Mortgage is an excellent financial planning tool for Senior Citizens but no one is opting the benefit of RML and RMLeA schemes.
7. It is found that Reverse mortgage is providing not only helping hands to senior citizens but also provides so many benefits like better livelihood, self-dependence, house remains with the borrower till death, protected even if the housing market declines, several options of disbursement, etc.

V: SUGGESTION OF THE STUDY

1. As per the findings, it is suggested that Reverse Mortgage is an excellent financial planning tool for elderly legalized home owner hence they should avail this facility as their Retirement Income.
2. In old age the medical expenses of Individuals are expected to increase generally so Reverse Mortgage can allow senior citizen to facilitate regularly without being dependent on children or any other source.
3. Though this scheme is well established and provided satisfactory results to senior citizen in European countries but in India this scheme is still not so popular in spite of an attractive and beneficial Innovative financial service for Senior Citizens.
4. To make this scheme more popular and beneficial among senior citizens as need of hour, the Reserve of India (RBI) should take necessary steps.
 - ✓ Creating Awareness level by including in the concept of Reverse Mortgage Scheme in Curriculum, advertisement in Newspapers, Magazines, TV Channels, Media, etc.
 - ✓ Reserve Bank of India (RBI) should motivate Banks and Insurance Companies for encouraging the target customer.
 - ✓ Banks should make the existing customers aware about this scheme through Verbal Communication, Hoardings, Pamphlets, Meetings, etc.

VI: CONCLUSION OF THE STUDY

Elder people in the society face a number of issues due to lack of comprehensive old age income and social security system, increased medical expenses, inadequacy of savings upon retirement, lack of health care financing, so the study concludes that Reverse Mortgage is the innovative financial tool for such people but the awareness level about Reverse Mortgage scheme and its benefits among the senior citizens is seen almost Negligible. Reverse Mortgage expected to lend a helping hand to senior citizens for their longer life with high cost of medical expenses and their livelihood. The major reason for not availing this scheme is lack of awareness and knowledge about the pros and cons instead of their attachment with property or socialist pressure. The Researchers feels that this study is relevant in today's changing society and if the accurate guidance and knowledge will be provided to senior citizens than the chances of acceptance and popularity will improve about this scheme and Reverse mortgage loan can become a backbone for them.

VII: REFERENCES

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