REVERSE MORTGAGE SYSTEM OF INDIA

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Abstract

Reverse mortgage as an innovative financial product enables senior citizens to mortgage their house property with a lender and convert part of the home equity into tax-free income without having to sell the house. Despite growth in this market and the expected popularity of the concept, the results are not satisfactory in India. The present study tries to explore various factors affecting the choice of potential buyers of Reverse Mortgage Loan in India. It tends to establish the linkage between demographic variables and their effect on attitude towards reverse mortgage. The analysis resulted in extraction of five factors using factor analysis technique, namely, Financial Independence, Revenue returns, Risk involvement, Complex Structure and Ownership. Keyword: Reverse Mortgage, Retirement Planning, India, Financial Independence Reverse mortgage as an innovative financial product enables senior citizens to mortgage their house property with a lender and convert part of the home equity into tax-free income without having to sell the house. Despite growth in this market and the expected popularity of the concept, the results are not satisfactory in India. The present study tries to explore various factors affecting the choice of potential buyers of Reverse Mortgage Loan in India. It tends to establish the linkage between demographic variables and their effect on attitude towards reverse mortgage. The analysis resulted in extraction of five factors using factor analysis technique, namely, Financial Independence, Revenue returns, Risk involvement, Complex Structure and Ownership.

Keyword: Reverse Mortgage, Retirement Planning, India, Financial Independence

Introduction

The concept of reverse mortgage, although new in India, is very popular in countries like ,The United States. Recently, National Housing Bank (NHB), a subsidiary of the Reserve of India (RBI), released draft norms of reverse mortgage (the final guidelines are awaited).

A Home Equity Conversion Mortgage (HECM), the most common type of reverse mortgage, a special type of home loan only for homeowners who are 62 and older. A reverse mortgage loan, like a traditional mortgage, allows homeowners to borrow money using their home as security for the loan should be Senior Citizen of India, above 60 years of age.

Home Equity Conversion Mortgages (HECMs), the most common type of reverse mortgage loan, are a special type of home loan only for homeowners who are 62 and older. One must either own a home outright or have a low mortgage balance

Points to Remember in Reverse Mortgage a reverse mortgage is available to citizens of India who are over the age of 60. The maximum loan provided under this scheme is 60% of the property cost, up to a maximum of Rs.50 lakh. The minimum tenure of the loan is 10 years while the maximum tenure varies from bank to bank.

In order to help generate regular income in the old age and to provide financial security, the concept of 'Reverse Mortgage' has been introduced. General belief behind Reverse Mortgage is that individuals make their saving choices to spread consumption over their lifetime, during their working period as well as retirement. Housing forms a significant part of their savings and they are generally left in cash crunch during their old age.

The use of Reverse Mortgage Loans can help the impaired elderly to continue living in their homes (Stucki, 2005) as well as in their consumption smoothing. Reverse Mortgage is an innovative financial instrument that allows the homeowner, 60 years or older, to convert a part of their housing equity into cash. Reverse Mortgage is a financial product that enables senior citizens (60 +) who own a house, to mortgage their property with a lender and convert part of the home equity into tax free income (exemption limit) without having to sell the house (Pahuja, 2016). It is similar to home equity loans except that the borrower does not pay back the loan until he/she dies or decides to sell the house (Shan, 2008). Reverse Mortgage has a potential to become a great option of financing the post retirement requirements of 'cash rich - asset poor'. Researchers as well as academicians believe that there is enormous market for Reverse Mortgage loans

Need of The Study:

Reverse mortgage as an innovative financial product enables senior citizens to mortgage their house property with a lender and convert part of the home equity into tax-free income without having to sell the house. Despite growth in this market and the expected popularity of the concept, the results are not satisfactory in India. The present study tries to explore various factors affecting the choice of potential buyers of Reverse Mortgage Loan in India. It tends to establish the linkage between demographic variables and their effect on attitude towards reverse mortgage.

The analysis resulted in extraction of five factors using factor analysis technique, namely, Financial Independence, Revenue returns, Risk involvement, Complex Structure and Ownership.

Primary Objective:

- To understand about the working of reverse mortgage system
- To understand about the qualification for reverse mortgage eligibility

Secondary objective:

- To analyze its working, its process and bank approach towards reverse mortgage.
- Determination of Eligible Amount of Loan and its repayment process, if any.

Scope of the study:

The study is limited to reverse mortgage system in India. The study covers the working, qualification, and its process.

Limitation of the study:

- The researcher's knowledge is limited.
- The study is limited only to the available sources in websites, magazines and company brochures.
- The study is limited to reverse mortgage system in India and does not include overseas operations.

Review of Literature

This section covers review of literature from some of the important research papers, studies and articles as published by different authors.

According to Foote, in the CRS report for Congress (2007), Reverse Mortgages are the opposite of traditional mortgages in the sense that the borrower receives payments from the lender instead of making such payments to the lender. Reverse Mortgages are designed to enable elderly homeowners to remain in their homes while using the equity in their homes as a form of income.

Mohammed and Sulaiman (2017) have stated that the elderly population faces lack of sufficient finances to fund increased medical needs and associated cost. He also stresses on inadequacy of social security systems such as pension schemes and other welfare schemes that are meant to support the elderly after their active working age.

Rajagopalan (2007), one of the pioneers in research on Reverse Mortgage in India, suggested that Reverse Mortgage, is an attractive option to the elderly to finance their consumption needs on their own, without the necessity of moving out of their homes or worrying about loan repayment.

Caplin (2000) talks about the Reverse Mortgage Market, its problem and prospects and further he observed that for households who intend to stay in their current home for life and do not have a strong bequest motive are likely to favour Reverse Mortgage as a potentially important option.

Mitchell and John (2004) professed that Reverse Mortgage could alleviate some of financial strain that population axing imposes on Japanese economy of the future. Japan's high raging rate, decline in fertility leading to small size of family, combined with high life expectancy have made it imperative that the aging populations considers Reverse Mortgage to supplement their income post retirement.

R Rajagopalan (2006), in his paper explored the prospects for reverse mortgage products in India and concluded that, if designed properly and offered by an empathetic lender, RM might turn out to be the vanguard product to build up brand equity for the lender in this niche segment. Demographic projections indicate that this segment is the fastest. However, the actual size of the RM markets in India is nowhere near its estimated potential, for a variety of reasons from the demand, supply and regulatory considerations. Any interested RM lender in the Indian market must proceed with caution.

Dr. V Chandrasekar (2007), in his research paper titled "Reverse Mortgage in

India: Social Implications" found that, despite the potential for reverse mortgage, there are several issues that may slow its spread as a reliable and acceptable means of income generation. These issues include, complexity of reverse mortgage loan, fears of a debt burden, eviction and inability to leave a legacy behind by way of a bequest, lack of comprehensive database useful to construct the appropriate environment for reverse mortgage etc. He concluded that, key to the efficacy of reverse mortgages is the development of a strong financial and regulatory infrastructure that will minimize loopholes, prevent fraud, and make this product successful in serving the needs of the senior citizens in India.

Singhal Saket & Jain Amit (2008), in their research paper concluded that, As at present, India is poised for a strong economic growth, we should not miss any avenue to accelerate or support the growth momentum. Home equity/ Reverse Mortgage products are such products that have the potential of not only increasing the liquidity in the economy but also diversifying many risks. Besides insurance and pension products, actuaries with their long term horizon are in the position to play a leading role in designing products like reverse mortgage needing inputs both from actuarial and finance/investment domains.

Prof. Sachin Napate (2012), concluded that, though the concept of reverse mortgage still in infancy stage in India, with the changing social milieu in India and the collapse of the joint family system, introduction of reverse mortgage products could be a worthwhile experiment. Instead of being dependent on their children for monetary support, this would be a good option for the elderly to continue with a graceful lifestyle.

V. Sivarama Krishnan (2009), in his study attempted to compare forward mortgage with reverse mortgage and found that, While the home equity conversion mortgage enjoys the advantages of government guaranteed performance, no-recourse funding, and of not requiring any qualifying credit or income standards, it also has high transaction costs. In researching data for this paper, the author encountered substantial difficulty in locating empirical studies on this topic and in obtaining accurate information from purveyors of reverse mortgages. Relating to the second issue, the authors contacted over 12 reverse mortgage vendors and none was willing to provide details without verification of an attained age of 65 and willingness to subject to a sales contact.

Research Methodology

RESEARCH DESIGN

This study basically adopts mixed methods approaches (integrated research design). That is, exploratory research design to identify and classify the factors and descriptive research design to estimate the effect of each factor on reverse Mortgage construct. Existing literatures to identify the underlying factors used qualitative techniques like literature review, focus group discussion, in-depth interviews and expert opinion survey Cadogan et al (1999).

Authors like Netemeyer et al (1996), Bahia and Nantel (2000) noted that compared to any other qualitative technique focus group discussion and in-depth interview can help in identifying and determining factors of a latent construct in both depth and in-breadth (Eysenbach and Köhler 2002; Chan 2001; Parasuraman et al 2005) and thus, this study attempts to use qualitative techniques such as (a) literature review, (b) focus group interviews (from lenders perspective), (c) in-depth interviews (from borrowers perspective) and (d) expert opinion survey (for refining the factors) to identify the factors of reverse Mortgage. In order to find the effect of each factor on the underlying construct, this study adopts the descriptive research design. The descriptive research design helps to determine how, what, when and why certain conditions happen. Since this study attempts to test what is effect of each factor in determining the latent construct, descriptive research design would be the appropriate approach to be adopted. The measurement items would be developed for each factor and would be tested for reliability and validity, once the items satisfies both the test it would be subjected to estimate the effect on the underlying construct using multivariate techniques.

Data Analysis

1. The Reverse Mortgage System Interest rates& Fees

- **Processing Fee**

1. 0.50% of the loan amount.
2. Minimum: Rs. 2000/-
3. Maximum: Rs. 20,000/-

*Plus applicable taxes

- **Post-sanction**

1. Stamp duty payable for Loan agreement &mortgage
2. Property insurance premium.
3. CERSAI Registration Fee of Rs 50 + GST up to Rs 5 Lakh limit and Rs 100 + GST for limits above Rs 5 Lakh.

Reverse Mortgage Steps

The Steps to Obtain a Reverse Mortgage

Reverse Mortgages have helped thousands of seniors remain in their homes and create a more solid financial foundation. At Guarantee Mortgage they make it as easy as possible for them to obtain a Reverse Mortgage that works for them. They are here for them every step of the way, helping them understand and customize a loan that meets thier unique situation. They know this type of decision can at times be daunting; they encourage them to seek advice and counsel of those they trust the most, whether it be family, an attorney, a financial planner, a tax specialist or other trusted professional. The following steps are here to help guide them and give them an idea of what to expect throughout the process of obtaining a reverse mortgage.

Step 1: Education and Research

Contact one of our knowledgeable Reverse Mortgage Specialists and they can create a comparison of available Reverse Mortgage programs that fit them specific situation. Within this consultation they will help you to evaluate each option available.

They recommend them to consult other organizations for information such as: The National Reverse Mortgage Lenders Association (NRMLA) which is the "national voice and conscience of the reverse mortgage industry."

Another great industry resource is the U.S. Department of Housing and Urban Development (HUD)

Step 2: Counseling

Once they have completed thier research and have determined that they want a Reverse Mortgage, they must attend Reverse Mortgage Counseling. Counseling is mandatory; however they look at it as an educational checkpoint to confirm the research. There is a cost associated with this mandatory service that averages $125 per session. Pending on available State and Federal funding, this cost may be waived by the counseling organization. Sessions generally range between 1-2 hours and are often done over the phone but they have the right to receive face-to-face counseling if desired.

Step 3: Application

Upon completion of Reverse Mortgage counseling it is time to schedule an appointment with one of their knowledgeable Reverse Mortgage Specialists who will guide them through the paperwork package. The application can be done in person with a Reverse Mortgage Specialist or via mail.

Step 4: Appraisal and Escrow

Once they have received their signed and dated counseling certificate and have completed the application process, they will coordinate for an appraiser to go out to their home. The appraiser will follow a process to determine the value of their home. At this time they also open escrow to order a title report and ensure that there are no Federal or State tax liens on the property. It usually takes 1-2 weeks to receive a completed appraisal and title report.

Step 5: Underwriting

Once they have received all of the preliminary reports, inspection reports, and reviewed the loan package for completeness and compliance, they submit the loan for review and approval from the underwriter (the person who approves the loan). The underwriter then goes into a review process and may request further documentation.

Step 6: Closing

When their loan receives a final approval they will set up a signing appointment at the Title Company or a Mobile Notary who will go to a location convenient to them. Signing the final loan documents takes about an hour. Once the documents are fully executed they will be returned to Guarantee Mortgage for funding.

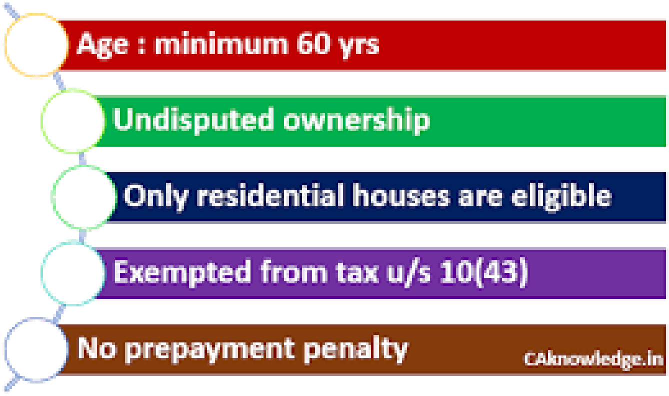
Step 7: Disbursement

By law, refinance loans have a three-day right of rescission to cancel the loan. After the three-day "waiting" period, funds are disbursed and recorded with the County. Purchase loans are typically recorded and funded within two business days.

Reverse mortgages are loans offered to homeowners who are 62 or older who have equity in their homes. The loan programs allow borrowers to defer payment on the loans until they pass away, sell the home, or move out. Homeowners, however, remain responsible for the payment of taxes, insurance, maintenance, and other items. Non payment of these items can lead to a default under the loan terms and ultimate loss of the home. FHA insured reverse mortgages have an up front and ongoing cost; ask your loan officer for details. These materials are not from, nor approved by HUD, FHA, or any governing agency.

2. Qualification for reverse mortgage eligibility

- Resident Type: Resident Indian
- 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



- A misconception among some people is that a reverse mortgage only looks at the equity in the home. The equity will be considered along with the amount of debt in other areas. The credit history can also have a major impact on the eligibility.
- The history of late or outstanding payments on credit card, mortgage or other loan accounts can affect reverse mortgage eligibility. The reverse mortgage lender may suggest waiting for a period of time so that the borrower can repair his or her credit, and then re-apply for the loan.
- The amount that is owed on the current mortgage also plays a role in their eligibility. If they do not own your home outright, they must have a low enough mortgage balance that can be paid off with the proceeds from the reverse mortgage loan.
- And they must still be able to keep up on taxes, insurance, and various other property charges once they have the loan. The lender will help determine this through a thorough financial assessment of the borrower.
- Whereas forward or traditional loans use ratios to determine eligibility where they determine a percentage of the income as an acceptable level to be paid toward their mortgage and then a higher level to be paid toward their total debt, reverse mortgages use what is called the residual income method of qualification.
- This is where the underwriter will take all the obligations (housing and other debts) and subtract it from the monthly income to determine how much money left to live on each month.
- This is the left over or residual income. HUD has different residual income levels required for different parts of the country depending on living costs and for the size of their family.

3.Features

- The loan is available only to senior citizens owning a home
- The loan can be in the form of Lump-sum or multiple payments like annuity etc
- Homeowner does not have obligation to repay the loan till the house is his prime residence 10th Global Conference of Actuaries 188
- The payback is done once the owner dies or leaves the house. This is done though selling the house and recovering the loan through its proceeds. Thus a home owner going for reverse mortgage may take his payment in the following form.
- A lump sum at the beginning (can be used for home improvement health expenses etc)
- Monthly payments till a fixed term
- Monthly payments as a life-long annuity
- Establishing a credit-line with or without accrual of interest on credit balance
- A combination of the above Some lenders have come out with plans different from the above to suit the requirements of the borrowers.

Some of such plans are

1. Home Reversion / Sale and Lease Back-

The homeowner sells the house but keeps the right to live in the house till the time it is his prime residence. The amount could be used for home improvement, any other health need etc.

2. Interest-only Mortgage-

The borrower takes lump sum and pays only interest during his lifetime. The principal is recovered through the sale of the home

3. Mortgage Annuity/ Home Income-

The loan is used to purchase an annuity for the homeowner. The advantage is that even if the homeowner moves out of the home, the annuity will continue till his death

4. **Shared Appreciation Mortgage**-

This provides loans at a below market interest rate.. In return, the lender gets a pre-agreed share in any appreciation in the property value over the accumulated value of the loan. The various considerations which needs to be taken while pricing a product of this nature are

• Age of the borrower-If it is a joint borrowing then the age of the younger borrower is considered.

• Value of the property- Then value of the property plays a major role in determining the price for an RM product

• Expected Interest Rate- As the product resembles the normal annuity product in some sense, the current and expected interest also plays a major role in pricing the product.

Il**lustration – Regular Reverse Mortgage vs RMLeA**

Rajat Sharma, 60, a retired government servant, owns a property worth Rs. 1 Crores and is willing to take a Reverse Mortgage scheme. His payouts in a regular Reverse Mortgage Scheme and RMLeA scheme are shown in the table below:

- Value of the house – Rs. 1 Crores
- Age of Borrower – 60
- Rate of Interest – 12.75%

Particular	**Regular Reverse Mortgage**	**RMLeA**
Payment Period	20 years	Lifetime
loan to Value (LTV) Ratio	90%	55%
Loan Value	Rs. 90 lakhs	Rs. 55 lakhs
Lump Sum Payment to Borrower	Option of up to Rs. 3,56,126 for medical requirements only	Option of up to Rs. 13,75,000 for medical requirements only
Monthly Payment	**Rs. 8,218**	**Rs. 24,709***
Amount to be recovered by the bank upon death of borrower after 20 years	Rs. 90 lakhs	Rs. 6.4 Cr.

Monthly payout for RMLeA is calculated assuming the scheme with return of lump sum (Rs. 55 lakhs) i.e. on borrower's death, the insurer will return the lump sum amount back to bank. The payout can be even higher in case of without return of lump sum scheme.

Eligible Borrowers	**Determination of Eligible Amount of Loan**
Should be Senior Citizen of India above 60 years of age.	The amount of loan will depend on market value of residential property, as assessed by the PLI, age of borrower(s), and prevalent interest rate.
Married couples will be eligible as joint borrowers for financial assistance. In such a case, the age criteria for the couple would be at the discretion of the PLI, subject to at least one of them being above 60 years of age and the other not below 55 years of age.	The PLIs will have the discretion to determine the eligible quantum of loan reckoning the 'no negative equity guarantee' being provided by the PLI. The methodology adopted for determining the quantum of loan including the detailed tables of calculations, the rate of interest and assumptions (if any), shall be clearly disclosed to the borrower.
Should be the owner of a self- acquired, self occupied residential property (house or flat) located in India, with clear	The PLIs would ensure that the equity of the borrower in the residential property (Equity to Value Ratio - EVR) does not at any time during the tenor of the loan fall below 10%.

title indicating the prospective borrower's ownership of the property.	
The residential property should be free from any encumbrances.	The PLIs will need to re-value the property mortgaged to them at intervals that may be fixed by the PLI depending upon the location of the property, its physical state etc.

Advantages to the Borrower:

- Higher standards of living and better access to health care
- Homeowners in reverse mortgages will be protected against inflation
- Retains the principal flavour of a defined benefit scheme by providing a guaranteed base income
- Reverse mortgage can supplement retirement income
- Also with the burgeoning real estate market in India there is a good possibility of the value of the house appreciating more rapidly than the mortgage loan increasing. In such a scenario, there could be some equity left over for heirs.
- There is no upper age limit for getting the benefit of the reverse mortgage facility.
- It is a non-recourse loan, which means the bank/financial institution can never come after any person or estate for repayment of the loan. The lender can only receive payment of the loan from the value of the home.
- Tax free payments from the lender.
- The payment method can be setup as a line of credit to be drawn at the time of need (monthly, yearly or quarterly). In case they want a line of credit, then they will be required to pay a commitment fee.
- The spouse can use the property after the borrower's death.
- In case the residential property is already mortgaged to any other institution, the lender may, at its discretion, consider permitting use of part proceeds of loan to prepay/repay the existing housing loan. The loan amount will be paid directly to that institution to the extent of the loan outstanding with that institution with a view to release the mortgage.

Disadvantage to the Borrower:

- The biggest challenge would be balancing the need for supplementing retirement income and the desire and wish to bequeath homes to children.
- Compounded with the natural reluctance of many seniors, who have worked a lifetime to pay off a housing loan to go back into debt, irrespective of the merits of the scheme, the psychological acceptance of this concept in itself would, no doubt, be difficult.
- One clause that is likely to draw a lot of criticism is the one that fixes the maximum loan tenure at 15 years.
- Very high transaction costs, possibly amounting to as much as 14% make it very unattractive to potential borrowers, especially when there is a desire/ plan to move out.
- If the loan is prepaid then the borrower will have to pay an additional cost.
- Homeowners may fear that they may have to vacate their house in case they become too ill in future to afford maintaining the house as per the loan requirements and the lender insists upon foreclosure.
- Excessive procrastination when decisions involve current costs and future benefits.
- If the loan proceeds are used to buy an annuity, the interest part of the annuity may attract income tax.
- If the house is sold so as to result in a capital gain, the sale proceeds will attract capital gains tax.

Bank Approach On Reverse Mortgage System In India

SBI:

SBI Reverse Mortgage Loan provides an additional source of income for senior citizens of India, who have a self-acquired or self-occupied home in India. This product is beneficial for senior citizens who do not have adequate income to support themselves. The Bank makes payments to the borrower /borrowers (in case of living spouse), against mortgage of his / their residential house property. The borrower is not expected to service the loan during his lifetime.

Axis bank:

- The borrower shall maintain the home as their permanent primary residence.
- The borrower shall regularly pay the property taxes and insurance.
- The home is maintained to preserve its value.
- The residential property must be free from any encumbrances.

Union bank:

- To provide a source of regular income for senior citizens who own self occupied house property in India.
- Income in the form of monthly payout or combination of monthly payout and lump sum.
- Lump-sum available for medical purpose only.

Canara bank:

A reverse mortgage is a way for older homeowners to access the wealth that's tied up in their home. It is a type of equity release product (ERP) that essentially allows older Australians to borrow money by using the equity in their home as security for the loan. They can choose to receive the loan as either a lump sum, a regular income stream, a line of credit, or as a combination of any of these options.

Unlike a regular mortgage, they don't have to repay a reverse mortgage until all borrowers on the loan either sell the house, move into aged care, or die. However, many lenders may allow them to make voluntary repayments if they want to. They must repay the loan in full, including interest and fees.

National Housing Bank (NHB)

- Central Bank of India
- Andhra Bank
- State Bank of India (SBI)
- Corporation Bank

List of Banks That Offer Reverse Mortgage Scheme

- Indian Bank
- Dewan Housing Finance Limited (DHFL)
- LlC Housing Finance
- Canara Bank

Rule for self-employed and salaries earing person in reverse mortgage

Salaries	self-employed
3 months' pay slip 6 months' pay slip/2 years bonus proof (in case of variable pay) 6 months bank statement showing salary credits 2 years Form 16 (or employment continuity proof) For NRI Salaried- • 3 month pay slip • Appointment letter/contract letter • Continuums Discharge Certificate for Shipping cases • 6 month Domestic NRE/NRO a/c statement • 6 month international salary a/c statement • Overseas credit report • Valid visa copy/OCI card • Passport copy • POA details	2 years. ITR, Computation of Income, P&L, Balance sheet with CA seal and sign For Asha HL - 1 yr. ITR, Computation of Income, P&L, Balance sheet with CA seal and sign Tax Audit Report (If Gross Turnover Exceeds Rs 1 Cr or Gross Receipts Exceeds 25 Lac) 6 months bank statements of personal and business accounts If ITR is filed without digital sign - CPC and tax paid challan Business continuity proof (3 years for HL / 5 years for LAP)

Reverse Mortgage Loan Interest Rate

Bank Name	Reverse Mortgage Interest Rate
SBI	8.05%
Axis Bank	8.50%
IDBI	8.10%
HDFC	8.50%

Reverse Mortgage in Indian: An Exploration of Issues:

The global market for Old Age Social and Income Security (OASIS) products are projected to grow substantially and India is no exception. Defined benefit schemes, both publicly and privately funded, are facing many risks and their viability is under threat. This has prompted the development of many products for sharing such risks, with pure defined contribution plans at one extreme. In fact, the Government of India (GOI) has shifted all its recent recruits to such a defined contribution plan. However, defined contribution plans convert only the financial savings during working age into income streams in old age.

To the extent savings during working age is locked up in house property, it cannot be encashed for old age needs except through selling and / or moving out. This would be the case even if traditional loans were taken against house property, as they have to be repaid, either through instalments or on maturity. This is where reverse mortgage (RM) has a potential market: as an instrument to convert equity in a house property into an income stream, without any debt servicing or relocating worries. RM products are not available in India as of now. This paper is based on a small desk research and contains the following:

• A Survey of Literature on RM, both academic as well as practice oriented.

• Preliminary exploration of India specific issues.

Home Equity Conversion:

RM is only one among a range of actual or potential financial instruments, which could enable a house-owner to get liquid funds, against his home equity. Tightly integrated markets in housing, housing finance including secondary markets, and home equity conversion can together enhance social welfare in a wide-ranging manner . Home equity conversion products may be useful to all those who are "house-rich but cash poor", not necessarily only the elderly.

The range of such home equity conversion products includes the following:

• Home Reversion / Sale and Lease Back

The homeowner sells his house outright now, but retains the right to live in it for life for a nominal/reduced rent. The sale proceeds may be paid in a lump sum or as an annuity. This could very well be an intra-family transaction.

• Interest-only Mortgage

This could be useful to those who are in need of an immediate lump sum, but still have only limited loan-servicing capacity. During the tenure of the loan, the borrower is required to make only interest payments. The principal is due only on maturity or death or a permanent move or sale.

• Mortgage Annuity/ Home Income

This is suitable for the very old for whom life annuity rates are more attractive. The loan amount is used to buy a life annuity. The mortgage interest is deducted from the annuity and the balance is paid as periodic income. The principal is repaid on death or sale of the house. The attraction is that the annuity will continue even if the borrower sells the house or moves out permanently.

• Shared Appreciation Mortgage

This provides loans at a below market interest rate. The loan is repaid at death or moving or sale. In return, the lender gets a pre-agreed share in any appreciation in the property value over the accumulated value of the loan.

As the markets for RM developed in U.S., some of these features have been incorporated as options in the standard RM product.

Significance of Reverse Mortgage in India:

The society in India has under-gone huge changes in last 4-5 decades. Nuclear family has replaced the joint family system. The system of family supporting the older people has gone. As mentioned earlier the public pension system has not been able to provide an alternate support to old people. This condition leaves the older people in jeopardy. They face following issues

• Outliving their retirement income

• Depending on their children to help pay expenses

• Getting sick and having no way to pay the expenses

• Not being able to guarantee an income for their spouse after they are gone

being able to live as long as they like in their own home Looking at the current situation, the needs for a product which can help these people to solve some of these problems is always a welcome step. Reverse mortgage or equity release products tries to answer all these problems. Every Indian, irrespective of its income level tries to build a home for himself during his working life. Reverse mortgage will give him/her an opportunity to generate income from that very home. As the ownership remains with the borrower, he can transfer the home to his successors also if the later agrees to pay the loan amount. Such a product relieves the pressure on government also to provide old age security and thus government also needs to support such initiative. Many economies have been benefited from this arrangement and the market for such products has increase quite a lot in these markets.

Salient Features of Reverse Mortgage

1. Tax Benefits – Payouts from both regular Reverse Mortgage and RMLeA are tax-free in the hands of the borrower.

2. Eligibility Criteria –

- To apply for Reverse Mortgage, the applicant should have completed 60 years of age. In case of married couples, one of them needs to be atleast 60 years old and the other should not be less than 55 years old.
- The house should be self-acquired and self-occupied. The property should be permanent primary residence of borrowers.
- `Property should have clear title and should be free from any encumbrances.
- Residual life of property should be minimum 20 years.

3. Loan to Value Ratio (LTV) – Maximum loan available in case of a regular Reverse Mortgage is up to 90% of house value and in case of RMLeA, up to 60% of house value.

4. Tenure – For a regular Reverse Mortgage, minimum tenure is 10 years and maximum tenure allowed is 20 years. Whereas RMLeA is provided for lifetime.

5. Disbursements – The loan can be provided through monthly/quarterly/half-yearly/annual disbursements or a lump-sum or as a committed line of credit or as a combination of the three.

6. Maximum Monthly Payment – As per NHB guidelines, the maximum monthly payment is capped at Rs.50, 000.

7. Maximum Lump Sum Payment – The maximum lump-sum payment is restricted to 50% of the total eligible amount of loan subject to a cap of Rs.15 lakh, which can be used only for medical treatment for self, spouse and dependants, if any. The balance loan amount would be eligible for periodic payments.

8. Prepayment – Borrowers can pre pay the loan at any time during the loan period without any prepayment charges.

9. Revaluation – The revaluation of the property has to be done by the lender once every 5 years.

10. Eligible End Use of Funds

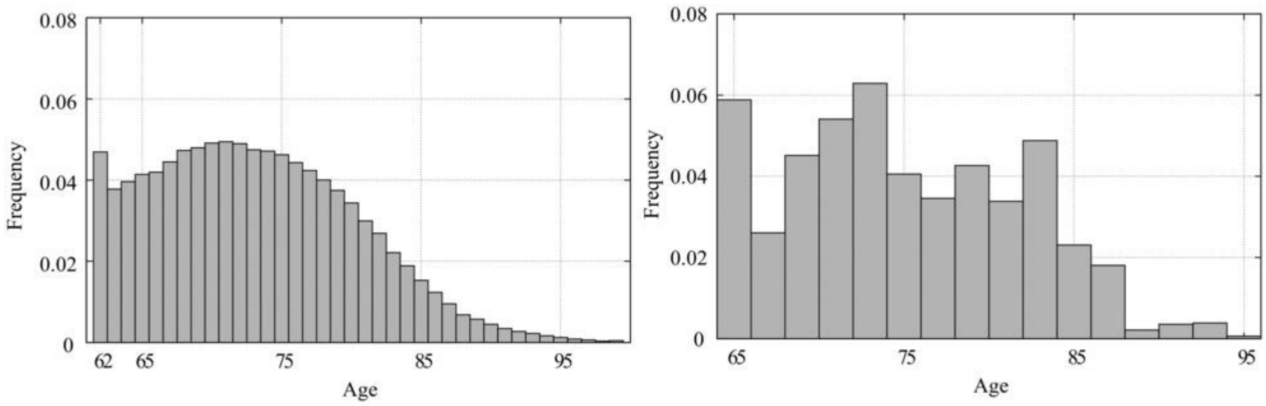
- Up gradation, home improvement, renovation, maintenance and insurance of house.
- Medical, emergency expenditure for maintenance of family
- To supplement pension/other income
- To meet any other genuine need

Proceeds from Reverse Mortgage Loan cannot be used for speculative, trading and business purposes

11. Foreclosure – The loan could be foreclosed by the lender, if:

- The borrower declares himself as bankrupt.
- The borrower does not stay in the house for a continuous period of more than one year.
- The borrower has not paid property taxes and fails to insure the home.
- The said property is donated or abandoned by the borrower.
- The borrower rents out or sells off part or entire house, or creates any other encumbrances on the property.
- The borrower commits fraud or misrepresentation.
- The government under any statutory requirements, seeks to acquire the property for public use or condemns the property for health or safety reasons.

Comparison between America and India



Panel A. Data – Shan (2011) Panel B. Model

Reverse mortgage loans (RMLs) allow older homeowners to borrow against housing wealth without moving. Despite rapid growth in this market, only 1.9% of eligible homeowners had RMLs in 2013. In this paper, we analyze reverse mortgages in a calibrated life-cycle model of retirement. The average welfare gain from RMLs is 252 per homeowner, and 1,770 per RML borrower. Bequest motives, uncertainty about health and expenses, and loan costs account for low demand. According to the model, the Great Recession's impact differs across age, income, and wealth distributions, with a threefold increase in RML demand for lowest income and oldest households.

12. Economical Factor

The paper investigates what economic factors contribute most to the uptake of reverse mortgage by the Indian elderly homeowners. Binary logistic regression is used on a cross-sectional primary dataset of 410 elderly homeowners residing in different metro and non-metro cities of India. The result reveals that economic factors play an important role in reverse mortgage decision making. Coefficients related to employment status, income, cash sufficiency, insurance and financial wellbeing of the children are found to be significant factors that influence the elderly homeowners in opting for reverse mortgage. Being employed, cash constrained and absence of insurance are significant and positive determinants of reverse mortgage uptake.

While higher family income of elderly homeowners significantly reduces the probability in reverse mortgage participation. Further, the results indicate that financial wellbeing of children plays a significant and positive role in uptake of reverse mortgage by parents. Possession of high home equity and financial assets does not contribute significantly to reverse mortgage uptake. Overall results suggest that more liberal provisions like enhancing the cap of loan limit and higher Loan to Value (LTV) ratio should be introduced so that it can work like a cushion for elderly homeowners in their later life.

Title Indemnity/Insurance

The PLI shall obtain legal opinion for ensuring clarity on the title of the residential property.

Foreclosure:

- The loan shall be liable for foreclosure due to occurrence of the following events of default.
  - If the borrower has not stayed in the property for a continuous period of one year
  - If the borrower fail to pay property taxes or maintain and repair the residential property or fail to keep the home insured, the PLI reserves the right to insist on repayment of loan by bringing the residential property to sale and utilizing the sale proceeds to meet the outstanding balance of principal and interest.
  - If borrower declare himself/herself/themselves bankrupt.
  - If the residential property so mortgaged to the PLI is donated or abandoned by the borrower.
  - If the borrower effect changes in the residential property that affect the security of the loan for the lender. For example: renting out part or all of the house; adding a new owner to the house's title; changing the house's zoning classification; or creating further encumbrance on the property either by way taking out new debt against the residential property or alienating the interest by way of a gift or will.
  - Due to perpetration of fraud or misrepresentation by the borrower.
  - If the government under statutory provisions, seeks to acquiring the residential property for public use.
  - If the government condemns the residential property (for example, for health or safety reasons).

Option for PLI to Adjust Payments:

- The PLI shall have the option to revise the periodic/lump-sum amount at such frequency or intervals based on revaluation of property, which in any case shall be at least once every five years.
- Borrower shall be provided with an option to accept such revised terms and conditions for furtherance of the loan.
- If the Borrower does not accept the revised terms, no further payments will be effected by the Lender. Interest at the rate agreed before the review will continue to accrue on the outstanding amount of the loan.

Conclusion

Reverse mortgage, though the concept is not even a decade old, is not getting the requisite popularity in India. The study probed into various factors that affect its usage amongst the potential users. In total, five factors that affect the attitude of potential buyers towards reverse mortgage have been identified i.e. Financial Independence, Revenue Returns, Risk Involvement, Complex Structure and Ownership. While the banks should promote this product by emphasizing on the factors like financial independence, revenue returns and ability to maintain the ownership, they should work upon the factor like complex structure and risk involvement. The advertisements and awareness campaigns should focus on these areas for increasing the popularity of the product. The use of reverse mortgage is an important topic and is worthy of further investigation. This study is a nascent attempt to explore various factors affecting the attitude of potential buyers of this product. This research has been limited to develop better understanding of retirement decisions in India with a small sample of respondents from Ghaziabad district only. A more detailed evaluation of the growth factors including the impact of taxation on household decisions is recommended, that too on a Nation-wide context. The scope of the study may be enhanced to further include a state-wise comparison amongst users' perception. Also, the economic investigation of drivers impacting both the demand and supply side of these loans would be of interest Reverse mortgage, though the concept is not even a decade old, is not getting the requisite popularity in India. The study probed into various factors that affect its usage amongst the potential users. In total, □ve factors that affect the attitude of potential buyers towards reverse mortgage have been identi□ed i.e. Financial Independence, Revenue Returns, Risk Involvement, Complex Structure and Ownership. While the banks should promote this product by emphasizing on the factors like □nancial independence, revenue returns and ability to maintain the ownership, they should work upon the factor like complex structure and risk involvement. The advertisements and awareness campaigns should focus on these areas for increasing the popularity of the product. The use of reverse mortgage is an important topic and is worthy of further investigation. This study is a nascent attempt to explore various factors affecting the attitude of potential buyers of this product. This research has been limited to develop better understanding of retirement decisions in India with a small sample of respondents from Ghaziabad district only. A more detailed evaluation of the growth factors including the impact of taxation on household decisions is recommended, that too on a Nation-wide context. The scope of the study may be enhanced to further include a state-wise comparison amongst users' perception. Also, the economic investigation of drivers impacting both the demand and supply side of these loans would be of interest

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