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## Reverse Mortgage: A Vision to Bring Smile to the Elderly

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### Abstract:

*This paper seeks to explore and contribute to the scientific understanding of the concept of reverse mortgage in India. In the current scenario, our country is facing a demographic shift. There is a substantial increase in number of our elderly population who have a single large asset as their place of residence and are eventually retired from the full time workforce. Also, there is an increased expectations on the quality of life among our elderly but they are facing budgetary constraints. The pertinent problem they face is that they are asset rich but cash poor. This provides a massive incentive to develop the financial products which are tailored to the elderly. Since there is an extensive increase in the living expenses like medical, electricity, transportation etc and the bulk of savings being locked up in the home equity, reverse mortgage is a potent device which provides a solution to their problem. Through this paper we would like to examine the scope and the significance of reverse mortgage in India.*

### 1. Introduction

REVERSE MORTGAGE is an agreement by which a homeowner borrows against the equity in his home and receives regular payments from the lender. The borrower by mortgaging the property with the bank continues to reside in his property till the end of his life and receives a regular periodic payment on it. Broadly speaking, it is just the opposite of the conventional mortgage system. In the conventional mortgage loan, the borrower begins with the low equity in the house and substantial loan amount as he uses his house as collateral and receives one time lump sum payment. Gradually, as the borrower pays his installment, his proportion of the house equity increases.

In contrast, the reverse mortgage borrower begins with a high stake on his house. RM enables a borrower who owns a house to sell his house to the lender and avail a steady flow of the stream of cash by retaining the residential rights in the property till their death.

Reverse mortgage, offers a lucrative option to the elderly to finance their consumption needs on their own, without any need of moving out or worrying about indebtedness or repayment. If designed properly and offered by a compassionate lender, RM might turn out to be the lead product to build up brand equity for the lender in this niche segment. In India, most of the people, spend their lifetime savings to buy a house, making RM a welcome device.

Reverse mortgage, although new in India, is very popular in other countries like USA, UK & EUROPE. In India, it was introduced in the financial budget of 2007-2008 by our then finance minister P. CHIDAMBARAM to bring smiles on the wrinkled faces.

With the development of senior citizens, old age safety has become one of the important concerns for our Indian government. The PFRDA Bill and other such measures provide a ground for this notion. But, all these measures are decent options for people who are into their employment and thus can save some amount of money for their retirement now.

But one of the segments which have been neglected is the one who are in their retirement phase and who may not have enough cash to sustain their life. Pension by Central and State Governments are not enough to sustain them. These people may not have enough income or saving in cash, but may have assets which may not be providing income. To overcome this problem, The National Housing Bank, an apex body on housing finance in India, came out with its guidelines on reverse mortgage in early 2007.

The draft guidelines of reverse mortgage in India have been framed by national housing bank, a subsidiary of RBI, and have the following features:

- Any house owner over 60 years of age is eligible for a reverse mortgage.
- The maximum loan would be upto 60-90% per cent of the value of the residential property
- The maximum period of property mortgage is 15 years with a bank or HFC (housing finance company)
- The revaluation of the property has to be undertaken by the bank or HFC once every 5 years.
- The amount received through a reverse mortgage is considered as loan and not income; hence the same will not attract any tax liability
- Reverse mortgage rates can be fixed or floating and hence will vary according to market conditions depending on the interest rate regime chosen by the borrower.

- 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.
- The loan installments could be paid by the bank to the borrower 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.
- The usual charges in regard to the appraisal fee, documentation charges, etc. have to be borne by the borrowers. The borrower is liable to pay the taxes on his property.

## 2. SWOT Analysis

### 2.1. Strengths

- Flexibility in obtaining the cash flows:  
The senior citizens are entitled to get regular cash flows at their choice - monthly, quarterly, half yearly and annually. Hence, he can plan his olden days as per his wishes.
- No consideration to the income of the borrower while advancing loan  
The loan is given without any income criteria of the borrower at an age where normal loans are not available. He should only have his property with him.
- No repayment of the loan during the lifetime  
The borrower or his spouse is not required to repay the loan amount as the same becomes due after his death or his spouse death, whichever is later.
- No tax liability on the cash flows received  
Tax treatment of a RML will be as loan, not income, so no tax will be payable on the regular cash flows.
- A procedure to unlock the revenue potential locked in fixed assets  
A substantial amount of the hard earned money gets unlocked from his residential property which otherwise was illiquid.
- Proper revaluation of the property is done, once in 5 years  
The loan amount gets revised with every valuation of the property, which is done once in 5 years. If the value of the property increases, the installment received by the borrower also increases.

### 2.2. Weaknesses

- Lengthy and complicated procedure  
For an elderly person, the documentation process is very lengthy and tedious and therefore it becomes difficult for them to understand it. The process is complicated and thus is a major weakness.
- Poor marketing of the product  
The RM product although famous in developed countries is not well known to the senior citizens of India. There is an insufficient marketing of this product. Many of all elderly are still unfamiliar with the product pros and cons as neither the banks nor HFC is pushing up the product.
- Maximum tenure of mortgage is 15 years  
This RM product has a maximum tenure of 15-20 years only. And thus no 60 years old couple would wish to put them in a situation whereby they will be asked to redeem the principal plus interest payments when they are 75 or 80 years old.
- Influence of children on elderly  
Children of the elderly have antipathy against this product as they feel that this is an option of giving away their home and legacy to banks.

### 2.3. Opportunities

- Change in demographics  
Senior citizens are set to rise to 140 million by 2025 and thus paving a great way to the market of RM products in India. Also, majority of these elderly are asset rich but cash poor and thus RM product market has a great potential.
- Increasing expectations of quality of life  
Influenced by the ideas of west, today the senior citizens have increased expectations about the quality of life. They aim at living a life with higher standards than be dependent upon their children to pay their expenses.
- Collapse of joint Hindu family system  
Due to the emergence of nuclear families, needs and wants of elderly have taken a backseat by the children. So, in this changing socio-cultural scenario, there is a great prospective demand for RM products in India.
- Inadequate social security by government  
In India, Public pension system has not been able to provide sufficient support to our elderly and thus they face budgetary constraints paving a great way to reverse mortgage.

### 2.4. Threats

- Ambiguous valuations at the time of disposal  
The lenders may under price the asset at the time of disposal as they are interested only in their loan amount. They may not take the initiative to obtain the best price for the asset and dispose off that asset.

- **Manipulations and forgery**

The lenders may try to manipulate the things in their favour and take the advantage of old age of the borrower. Also, still in india, land and buildings records are prepared manually and scams are common. So, there are probable chances of forgery.

### **3. Conclusion**

India being a developing economy has a lot of potential for RM products. Every indian, during his lifetime must try to build a house for himself. So, It is a great opportunity for those elderly who have assets at their disposal but are otherwise cash poor. Without creating a debt burden, RM products helps in unlocking their operational age savings for the old age needs. As a financial tool, RM is an good option to augment the income in old age. But, this product is still in its infancy stage and banks have to create a lot of awareness about this scheme. It would take some time for the people to accept this scheme. Also, the indian banking industry must try not to make the documentation process too much complicated for our seniors and make the schemes more friendly.

Also, so many socio economic changes in our society paves a great way to the market of reverse mortgage in india.

Joint families are being replaced with nuclear families. Family system of supporting the elderly is no longer existent. Thus, instead of depending on children and living the life in jeopardy, this RM scheme provides a remedy. It provides an opportunity to generate the income from their own asset.

Thus, it can be concluded that if this scheme is designed properly and promoted aggressively, it can provide a fantastic market for the RM lenders and can bring smiles on the wrinkled faces.

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