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Reverse Mortgage Scheme-Golden Wheel for Senior Citizen

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Abstract:

Joint Family system in India has reduced drastically. In today's time current generation prefer to stay in nuclear families as a result of it security concern for the senior citizens are rising. With increased longevity of life and a higher standard of living it has become very difficult for the senior citizen to survive. To provide safe and secure living the government of India has launched a reverse mortgage scheme in 2007 to enable senior citizens to avail loan against their house mortgage without resorting to sale. The Scheme is being initially launched by Dewan Housing Finance by the name "Saksham Scheme" and by PNB bank by the name "PNB Baghban". Initially the scheme was not popular as many couples were not aware of it and there is also an emotional hindrance. But with the increasing insecurity and rising financial needs slowly and gradually the scheme has gained lot of momentum and it is being opted by many senior citizen . By 2050 it is being expected that almost every couple will opt for it to have a better future for the rest of their life by staying in their own houses rather than going to old age homes. Various banks and institutions like SBI, IDBI , Canara Bank, State Bank of Mysore, LIC housing finance and various other have come out with the scheme in the recent years but there is strong need to make senior citizen aware of it and to make the guidelines very clear and transparent so as to have an increased acceptance to the scheme.

Keywords: Reverse Mortgage, Banks

1. Introduction

In India the number of senior citizen are rising rapidly with increased dependency on old age home. Cost of living is rising with increased concern for health issues. Security is the main concern for the senior citizen and they need periodic cash flows to meet their regular needs. House is the largest wealth component for the senior citizen. To address the various needs of senior citizen like-food, health and other daily requirements the scheme of the reverse mortgage which is popular in other parts of the world specifically in US economy is gaining momentum in India as well . In this scheme senior citizen mortgage their property to a lender who in turn makes periodic payments to them. Senior citizens are not required to return the loan during their lifetime along with interest to the lender. In case of death of the borrower or even if the spouse leaves the house permanently, lender sales the property and gets the money back along with the accumulated interest. The legal representatives of the senior citizen also have an option to release the mortgage property by paying the loan amount along with accumulated interest without resorting to the sale of the property. The scheme is different from the forward mortgage which occurs when a property is purchased and generally opted when the borrower has good financial condition and steady income.

In India with reduction in joint family culture and increased urbanization, most of the senior citizens are forced to look after themselves. With increase in the cost of living and longer life expectancy it is becoming difficult for the senior citizen to maintain the standard of living and their daily financial needs. The government of India has launched the scheme of reserve mortgage in 2007 to help senior citizens those who own the house but don't want to sell it. PNB (Punjab National Bank) is the first national bank to come with the scheme in India by the name "PNB Baghban".

2. Features of the Scheme

2.1. The Following are the Features of the Scheme

- The Scheme allows senior citizen (Above the Age of 60 years) to avail the periodic cash flows by mortgaging their own property.
- Senior citizens are not required to repay the loan along with principal and interest to the borrower.
- The scheme is extended through PLIs (Primary Lending Institutions) viz. Various Schedule Banks (IDBI, Bank of India, Andhra Bank, SBI and others) and Housing Finance Companies registered with National housing Bank.
- The amount of loan to be rendered to borrower is decided after assessing the value of the property , age of the borrower and the prevailing interest rates.
- Borrower has an option to take the loan through annually/bi-annually/quarterly/monthly instalments or in lump-sum or as per the agreement or combination of three.
- Maximum tenure of the loan is 20 years

- The amount of loan can be used by senior citizens to meet their basic daily needs, financial needs except using it for speculative, trading or business purposes.
- The residential property is valued after every specific time period as being decided by the reverse mortgage lender which may be once in every five years.
- The loan amount may be revised by the lender anytime on the basis of revaluation of the borrower's property.
- The residential property can be used by the borrower till they are alive.
- The lender has the right only to the mortgage property of the borrower.
- Liability of the borrower is limited only to the net realizable value of the property.
- The Loan amount is repaid to the lender including principle and interest on the death of borrower or when he/she leaves the house permanently either by the sale of the property or by getting the loan reimbursed through the legal heirs not resorting to sale.
- Borrower or legal heirs of borrower also have an option to pay the loan during the loan tenure or later without any prepayment charges.

3. Working of Reverse Mortgage Loan

The life expectancy of the Indian citizens is being rising sharply over the last few decades. Senior citizens didn't have regular source of income as they don't have any support from their children's who wants to be independent and prefer to have nuclear families, so to meet their basic needs and to make them self independent the Government of India launched the reverse mortgaged scheme in 2007 to give them a life of dignity and enable them to live in their own houses with the same living standards rather than going to old age homes.

In the scheme borrowers pledged their property with the lender, the monetary value of the property is calculated by the bank on the various criteria's like demand for the property, current prices of the property and the present condition of the house. Loan is disbursed by the bank to the borrower in the form of monthly, quarterly, bi-annually and annual payments after taking into account the interest and inflation cost. As the loan instalments increases the interest of the senior citizens in the property decreases.

The loan amount becomes due either on the death of the last surviving borrower, or if the borrower wants to sell the house. Before resorting to the sale of the property bank gives an option to the next kin of the family to pay the loan along with accumulated interest. If the next kin is not in a position to settle the loan, the bank recovers the same through the sale of the property. Any surplus left after the settlement of the loan including accrued interest and other expenses then it will be given back to the legal heirs. If the amount realized from the sale of the property is less than the loss or deficit will be borne by the bank. The loss could be due to overestimation of the property by the bank or when the valuation of the property is not according to the movements in real estate markets.

The product is like a golden stick for the senior citizen and can be of great help to them when they have no support from their children and also cannot sold the property due to some reasons.

4. SWOT Analysis of the Scheme

4.1. Strengths

- The scheme provides regular cash flows to the senior citizen
- Loan is provided without any additional criteria.
- On the death of the borrower the spouse can continue to stay in house for another 15 years.
- The borrower is exempted to pay loan on regular cash flows.
- On the death of the couple, legal heirs are entitled to get the surplus from the sale of the property.
- Legal Heirs also an option for prepayment of the loan without resorting to the sale of the property.
- All payments under RML are exempt from income tax under Section 10(43) of the Income-tax Act, 1961
- The borrower also an option to cancel the mortgage scheme within 3 days of its approval and returning the loan amount.

4.2. Weaknesses

- The tenure of the loan is only 20 years and if in case spouse lived for more years then loan amount will not be paid further.
- The criteria for the valuation of the property is not mentioned anywhere clearly.
- Three days very less for cancellation of the scheme by the borrower, the time limit should be extended to at least 15 days or 1 month.

4.3. Opportunities

- Reverse mortgage scheme is like a golden stick for the senior citizen
- Senior Citizen can stay in their homes with the same standard of living.
- The scheme enables senior citizens to meet their daily requirements and financial needs.
- The loan amount can increased on the basis of revaluation of the property.

4.4. Threats

- The basis for the valuation of the property is ambiguous.
- Increase in the rate of interest will increase the burden on the borrower.
- The loan has non-recourse guarantee, in case if the rate of the property depreciates then the lender has an option to seize the borrower's property or can even use various tactics to force the senior citizen to move out of the house.
- If the borrower does not pay for the insurance, taxes or repair the property timely then in that case lender also may force the borrower to force the sale of the property.

5. Popularity of Reverse Mortgage Scheme in India

The scheme is launched by the government of India in 2007 but even now the scheme has not gained much popularity. There could be various reasons to it.

- Less Popularity of the Product: Many senior citizens are not aware of the reverse mortgage scheme.
- Limited time Period: The loan is available only for 20 years. The loan availability should be made for the entire life of the senior citizens
- Stringent Norms: Guidelines for the valuation of the property are not clear and not mentioned anywhere properly, hence it is very important that the norms should be clearly defined so that the senior citizen feel free to avail the facilities.
- Emotional hindrance: Many senior has an emotional attachment to their property. They don't want their property to be sold which they had made through years of hard work. Children's also has resentment to the scheme as they don't want to lose their family home.
- RMLeA (Reverse Mortgage Loan enabled Annuity) not opted by banks: No bank offer RMLeA except union bank of India and central bank. This is mainly because annuity linked product did not have any tax incentive as of now.

The details of some of the banks and institutions providing reverse mortgage to the senior citizens are as follows:

Institution /Bank Name	Launch Date
Dewan housing Finance	Sept 2006 (Saksham Scheme)
PNB	14 th April 2007 (Baghban)
SBI	12 th Oct 2007
LIC Housing finance	28 th Feb 2008
Union Bank of India	April 2008
Canara Bank	5 th Oct 2008 (Canara Jeevan)
State Bank of Mysore	29 th May 2009
Bank of Baroda	26 th May 2011 (Borada Ashray)
UCO Bank	8 th August 2013 (UCO Swabhimani)
IDBI	25 th May 2013

Table 1

There are many more institutions, public and private sector banks in the que for popularising the scheme like ICICI, Axis Bank, Indian Bank, Allahabad Bank, Oriental Bank of Commerce.

6. Conclusion and Recommendation of the Study

Reverse mortgage scheme popular in other countries like U.S has gained lot of momentum in India as well. The scheme is like a golden stick for the senior citizens as it enables them to maintain their standard of living and meet their daily financial needs without depending on others. Senior citizen don't have any regular income source as they have exhausted all their saving either in meeting the expenses or blocked in the illiquid assets. The scheme is initially launched in the year 2007 by PNB Bank by the PNB Baghban with an aim to enable senior citizens (60 Years Above) to avail the loan from the bank against the property without resorting to sale. The scheme is at a very nascent stage with various loopholes in it. It is important for the banks to draft very clear and transparent guidelines. The scheme should be linked with the annuity plans and the term of loan should also be extended from 20 years till the life time of the borrower. Banks should focus more on educating senior citizens about the benefits of the scheme and briefing them about the terms and conditions. Since the scheme is gaining popularity gradually in India. Till now less than 500 applicants have avail the scheme but by 2050 it is expected that every senior citizen is going to take the shed of the scheme rather than moving to old age homes.

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