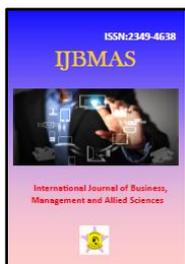

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**REVERSE MORTGAGE: A GOLDEN WALKING STICK FOR SENIOR
CITIZEN**

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ABSTRACT

Old age comes with its own share of problems. As a person grows older, and his regular source of income dries up, his dependency on others can increase significantly. With health care expenses on the rise and little social security, living the golden years respectfully can be quite a challenge for senior citizens. In such a scenario, a regular income stream that can help them meet their financial needs and maintain their current living standards becomes important.

Reverse mortgage an agreement by which a home owner borrows against the equity in his home and receives regular tax free payments from the lender. Here equity is the value of the property over and above any mortgage or other liabilities relating to it. Thus, reverse mortgage is a contract between a homeowner and a financier which enables the homeowner to receive a stream of income, especially in retirement, from the future realizable value of the home. The objective of this paper is to provide an overview of the reverse mortgage market in Indian Banks and how it is relevant for Indian market today.

Key Words: Retirement Planning, Reverse mortgage, Senior Citizens and Indian Banks.

Introduction

A reverse mortgage is a type of loan which a senior citizen can avail against the self-occupied residential property. In this scheme, senior citizens can avail loan in lieu of their house either in lump sum or installments or combination of both for a fixed term or till the borrower is alive. These loans can be extended by schedule banks and housing finance companies registered with National housing bank in India. This scheme was launched in 2007-08 Union budget with an objective to provide financial independence to senior citizens who have limited source of income at retirement age having a residential house. With the increase in longevity and lack of social security schemes, there was dire need for such schemes which can provide regular cash flow to senior citizens to meet their medical and living expenses.

Basic features of Reverse Mortgage:

Reverse mortgage can be defined as “an agreement by which a home owner borrows against the equity in his home and receives regular tax free payments from the lender.” Here equity is the value of the property over and above any mortgage or other liabilities relating to it. Thus, reverse mortgage is a contract between a homeowner and a financier which enables the homeowner to receive a stream of income, especially in retirement, from the future realizable value of the home. A simple definition of reverse mortgage can be “A reverse mortgage is a loan available to seniors and is used to release the home equity in the property as one lump sum or multiple payments. The homeowners obligation to repay the loan is deferred until the owner dies, the home is sold, or the owner leaves (e.g., into aged care)”. The analysis of definition provides some basic features of reverse mortgage products. These are

- 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
- 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 from.

- 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

The various considerations which needs to be taken while pricing a product of this nature are

1. Age of the borrower- If it is a joint borrowing then the age of the younger borrower is considered.
2. Value of the Property- Then value of the property plays a major role in determining the price for and RM product
3. 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

Significance of Reverse Mortgage Market for 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 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 and 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.

Objective of the Study

Reverse mortgage is a very good option for retirement plan. However, growth of this loan scheme is very slow in Indian housing sector. Following are the objective of the study:

- 1) To study the opportunities available for reverse mortgage loan in Indian market
- 2) To identify the challenges faced by stakeholders while processing reverse mortgage loan
- 3) To understand the reason behind slow growth of reverse mortgage in Indian housing sector

RESEARCH METHODOLOGY

The research is done by the following research methodology to analyze and justify the objectives. This is an Empirical research. This is based on both primary as well as secondary data

Primary Data: The primary data collected through structured questionnaires and interviews. The researcher collected data from State Bank of India .This data was collected from different Urban and Suburban areas of Karnataka.

Secondary Data: The secondary data collected from books, magazines, newspapers, research journals, reports, government publications and from regulatory bodies. Online research papers from Ebsco, Emerald, J-Gate. The secondary data is available in abundance.

Tools and techniques of Research

- **Tools of Research:** The primary data collected through a structured questionnaire/instrument. The research was done by using Stratified random sampling. Sample size was 50samples.
- **Techniques of Research:** Chi-square test
- **Analysis of Data:** Analysis of data was done on the basis of the above mentioned techniques.

The interpretation based on analysis, tables, graphs, pie charts

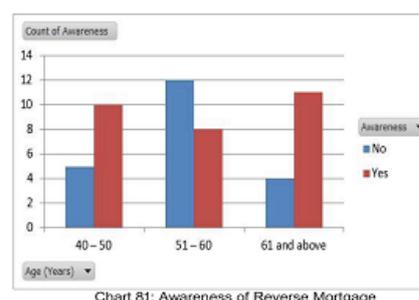
Data Collection and Analysis:

As mentioned in research methodology primary data collected from a questionnaire and sample size was 50. Out of 50 samples 15 are senior citizen (above 60 years), 20 are 50-60, and 15 are 40-50.

While doing the analysis of reverse mortgage awareness, it is observed that in the age group of 40 -50 years majority of the people are aware about reverse mortgage i.e.10 out of 15 are aware about reverse mortgage. In 51-60 year age group awareness of RM is less only 8 are aware out of 20 and the senior citizens i.e.61 years and above awareness in 11 out of 15 samples. (Table 1. Awareness of Reverse Mortgage and Chart 1.1 Awareness of Reverse Mortgage)

Table 1: Awareness of Reverse Mortgage

Awareness of Reverse Mortgage			
Age (Years)	No	Yes	Grand Total
40-50	5	10	15
51-60	12	8	20
61 and above	4	11	15
Grand Total	21	29	50



Above analysis shows that awareness of reverse mortgage is there in Indian mortgage sector but only awareness is not sufficient with this factor interest in reverse mortgage is need to be identified. Hence the next analysis done on the basis of people who are aware as well as interested in RM.

In this analysis, it was observed that total there were 29 people who are aware about reverse mortgage but out of which only 11 are interested in reverse mortgage. Also in that 11 samples senior citizen and baby boomer are more interested than 51-60 years age group(Chart 8.2: Analysis of interest in Reverse Mortgage).

Table 2: Analysis of Reason for Disinterest in RM

Reason for Disinterest	No.
Unawareness about the product	21
Do not have owned property	1
Don't want to give the property for mortgage	4
Have other source of income	6
Have sufficient savings for postretirement	7
Total	39

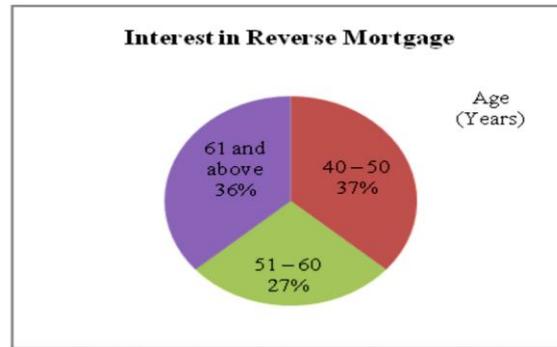


Chart 82: Analysis of interest in Reverse Mortgage

The above analysis shows that although people are aware about reverse mortgage but they are not interested in RM, Hence it became important to know the reasons for disinterest or what challenges the stakeholders are facing. Mainly there are 5 reasons for disinterest. Out of 50 samples there were 39 samples who were not interested in RM. It was observed that major reasons are unawareness of the product, people believe that they have sufficient saving and they do not want to mortgage their property (Table 2: Analysis of Reason for Disinterest in RM).

Source of income for post-retirement mentioned by people are government pension, provident fund, dependence on children, investment in security market, fixed deposit and self-employment.

CONCLUSION

With the changing social pattern in India and with the breakup of joint family system, launching of Reverse Mortgage could be a good initiative for senior citizens. There is a new ray of hope in the area of mortgage loans for senior citizens In India. In India with the help of good health facility life expectancy of elderly people is also increasing. Most of the senior citizens believe that they have sufficient funds to survive and they want their property to pass on to their children due to social consideration and attachments. In this research it is also observed that many people have more than one property and they do not stay with their children but due to emotional attachment they do not want to mortgage their property and ready to live with available resource.

The current Indian scenario shows that after few years down the people will take interest in this scheme as the regular expenses will increase and government pension or return from their investment will not be sufficient for them. Although this scheme is in childhood stage but will work in India very soon. Now, the next generation (25-40 years) is taking interest in this scheme.

Reference:

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- <http://www.sbi.co.in/>
- Reverse Mortgages Get a Makeover, (2016). Kiplinger's Personal Finance.
- <http://www.reversemortgage.org/>

ANNEXURE

Questionnaire

Name: _____

Sex : Male Female

1. Age (Years)*: 40 - 50

51 - 60 61 and above

2. Do you have any source of income after retirement?

Yes No

3. Are you aware about reverse mortgage loan?

Yes No

4. Have you contacted any financial institution regarding reverse mortgage
Yes No
5. Are you interested in reverse mortgage?
Yes No
6. Please give reason for disinterest:*

 - a. Don't want to give the property for mortgage
 - b. Have other source of income
 - c. Have sufficient savings for post-retirement
 - d. Any other, Please Specify

7. Please specify which financial options you are considering other than reverse mortgage*:
 - a. Government Pension
 - b. Provident Funds
 - c. Fixed Deposit
 - d. Investment in Security Market
 - e. Dependent on Children
 - f. Any other, Please Specify.....
8. Do you think that reverse mortgage is very expensive way of Loan option?
 - a. Strongly Agree,
 - b. Agree
 - c. Not Agree
 - d. No Idea