

Opportunities and Challenges of Reverse Mortgage Scheme in Indian Scenario

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Abstract—Major part of a person's lifetime savings is used to buy or build a house; hence, people are emotionally attached with their property. Senior Citizens are a growing section of the society and dependency in old age is increasing. They need a retirement plan/regular cash flow stream for supplementing pension/other income and addressing their financial needs. Reverse mortgage is a welcome instrument that helps them convert some or all of their rising but locked home equity into a cash stream that can comfortably sustain them in their old age. In many developed country reverse mortgage loan scheme is very famous. Despite having many advantages and global acceptability, reverse mortgage has not managed to captivate the Indian market because of multiple reasons. It is expected that this scheme will grow after few years in India. Age group of more than 40 years is interested in this scheme as they believe that this scheme will be helpful in their old age. This paper studies opportunities and challenges faced by mortgage industry in lieu of reverse mortgage scheme in India.

Keywords: Reverse mortgage, Retirement plans, Home loan

I. INTRODUCTION

Mortgage sector is an essential part in today's life. Basic necessities of a human being are "Roti, Kapda or Makan". Once a man starts earning, his first aim is to buy his own home. A person spent half of his life in saving for his own house, which he wants to keep for his children.

Indian society has undergone drastic changes. Nuclear family has replaced the joint family system. The system of family supporting the older people is eliminating day by day. The situation in the urban areas shows of a rejection of the older people by next generation and it is spreading to rural areas also. In nuclear family regime the position of aged becomes vulnerable (Brar, 2011).

Due to the above situation, in 2007-2008 union budgets Former Finance Minister Mr. P. Chidambaram introduce reverse mortgage scheme in India. This scheme was new for Indian market but in western country this scheme is like regular home loan scheme and also known as Home Equity Conversion Mortgage (HECM). It is a mortgage in reverse! Seriously though, it is the ability for a homeowner to access home equity. Of course the home equity line of credit (HELOC) exists, but after this brief education you will see the stark differences between the two alternatives (Salter, 2014).

Population aging is a worldwide phenomenon, and India is no exception. Census reports indicate that the Indian population has approximately tripled during the last 50 years, but the

number of elderly Indians has increased more than fourfold. India is the second most populous country in the world with nearly a fifth of the world's population. According to the United Nations in July 2016, the population stood at 1,326,801,576. India is projected to be the world's most populous country by 2022 (Index mundi, Oct 2016).

Life expectancy of the elderly people is increasing due to education, better medical facility and health awareness etc. Worldwide respective government tries to make their senior citizens life easier so they can live happily in their old age.

II. LITERATURE REVIEW

Across the globe, retail lending has been the most spectacular innovation in the commercial banking sector in recent years (Thingalaya et al., 2009). Retail loans comprise consumer credit for specific purpose and credit for general use. The surge in credit to the retail segment across developing as well as developed economies has occurred due to commercial banks shifting from traditional banking activities to a broad-based lending portfolio. The growth of retail lending, especially, in emerging economies, is attributable to the rapid advances in information technology, the evolving macroeconomic environment owing to financial market reform, and several micro-level demand and supply side factors (Rao, 2013). Technology induced innovative financial products have facilitated strengthening of balance sheets and income structures of banks. Technology has enabled a significant reduction in cost of external finance for borrowers,

while banks have benefited from product innovations, and lower transaction cost associated with collection, processing and use of information. This, in its wake, has offered banks better techniques for risk management and pricing of products. The surge in retail lending, however, has certain limitations. Retail lending may accentuate indebtedness of households, with implications for sustainability of private consumption and saving in the medium to longer horizon. Rapid increase in retail loans may impinge on bank credit for investment activities with implications for economic growth. Several cross section studies suggest that retail lending may, however, pose various risks with implications for banks' asset quality (Gaur, 2009).

The mortgage industry in the US is both huge and highly developed, offering numerous mortgage products with a range of repayment options. The United States of America has the most active mortgage market in the world, and mortgage services are provided by a number of entities, including individual and organizational mortgage providers. Other types of mortgage brokers work in both individual and as organizational capacities. With all the players involved and with intense competition spurring constant innovation, there are numerous types of mortgage products available in the US (i.e. Reverse mortgage and Forward mortgage, etc.).

Having alternative sources of retirement income is critical for those who are currently retired, those retiring in the near future, and those planning to retire in the next 30 to 40 years. One alternative available to many Americans is a reverse mortgage. Surveys show that Americans tend to store more than two-thirds of their wealth in their homes, which implies that housing, as a retirement asset, will grow in importance in the future (Society of Actuaries, 2011). This alternative may be particularly attractive to the baby boomer generation who have high homeownership rates and have conserved their home equity (Poterba et al., 2011). According to the U.S. Census Bureau (2011b), in 2011, the homeownership rate was more than 70 percent among younger baby boomers and more than 80 percent among older, retiring baby boomers (Johnson, 2014).

In India, as the retirement age comes retired government employees get pension but a retired private sector employee does not have any regular income. People used to keep saving for their retirements but sometimes it may not be sufficient to live their retired life with no cash crunch. Due to lack of sufficient fund old age people suffer many problems. Now people want to live healthy life but on the other side they can only work till the age of 60. They need some regular income after their retirement. Reverse mortgage is a very good option for senior citizens. In US people used to take reverse mortgage to get regular income every month and mortgage their home to financial institution. This situation arises because usually they do not stay with their children. Their

children used to stay in nuclear family and they actually do not interest in their parents' property.

Reverse mortgage- Reverse Mortgage is the 'reverse' of a conventional mortgage loan.

In a conventional mortgage loan, the borrower starts with a large loan and low equity in his house. As he pays his regular mortgage installments, he reduces his outstanding loan amount and increases his house equity.

In contrast, an RM borrower starts with a very high equity in his house. The lender extends a non-recourse loan secured by the house property. The borrower may choose to receive the proceeds through

- A lump sum at the beginning
- Monthly payments till a fixed term or a life-long annuity
- Establishing a credit-line with or without accrual of interest on credit balance
- A combination of the above

The borrower need not move out of the house or make any payment to the lender, as long as he is alive and continues to live in the house or does not sell it. Therefore the loan and interest accumulates till maturity. There is no credit or income requirement to be satisfied. Even if the accumulated loan and interest goes above the realizable value of the house at disposal, the repayment is capped at that value only. Hence RM is a case of 'raising debt, falling equity' (Rajagopalan, 2006).

A. Reverse mortgage in India

With the growth of aging population, Old age security has become one of the prime concerns for the Indian Govt. In order to help senior citizens Finance Minister P Chidambaram in Union Budget for 2007-08 came up with a new financial product i.e 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". Thus Reverse Mortgage is a contract between a home owner and a financier which enables the homeowner to receive a stream of income, especially after retirement (Brar, 2011).

To know more about reverse mortgage it is very important to know reverse mortgage first. "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 homeowner's obligation to repay the loan is deferred until the owner dies, the home is sold, or the owner leaves (e.g., into aged care)".

Following are the features of reverse mortgage scheme in India (Brar, 2011):

- 1) The loan is available to senior citizens owning a house.

- 2) It is a tailored product to monetize the locked up equity in the asset.
- 3) There is no upper age limit for availing this product.
- 4) There are two parties involved in it. One is the borrower i.e the senior citizen and other is the lender i.e Bank /HFC.
- 5) There is no income requirement of any kind which is usually inseparable from any other type of loan.
- 6) It does not involve losing ownership of the house. One can stay in house and it enables regular inflow of funds.
- 7) Cash flows can be arranged at periodic intervals. It can be in the form of lump sum or multiple payments like annuity etc. The borrower can use this amount for any purpose except speculation.
- 8) The quantum of loan and interest rate depends on several factors like age, valuation of the property, structure of asset, maintenance of the property. Revaluation of the property has to be taken once in every 5 years as a result the loan amount will be adjusted considering above mentioned factors. The loan amount is directly correlated with the age.
- 9) The interest rate on the product will be determined by the banks and HFCs based on the risk perception and loan pricing policy. HFCs and Banks offer fixed or floating rate of interest subject to transparent disclosure of terms and conditions to the borrower.
- 10) The amount received through reverse mortgage is not considered as income as it is not taxable.
- 11) Loan is not required to be serviced i.e there is no payment requirement on a continuing basis as required in other loans, repayment is due on the occurrence of an event or at the end of the term, i.e. 15 years.
- 12) The lender will recover the loan along with the accumulated interest by selling the house after the death of borrower or lapse of time period for which loan has been taken. Any excess amount will be remitted back to borrower or his heirs.
- 13) Before resorting to sale of house, preference will be given to the owners or his heirs to repay the amount along with interest and get the mortgaged released.

In India government stops pension for the employee who joined government job after 2003. Hence people who works as a government employee but joined in 2004 or after will not get pension. RM mortgage is very good option for these type of retired senior citizens.

III. 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

IV. 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.

- 1) *Primary Data:* The primary data collected through structured questionnaires and interviews. The researcher collected data from mortgage financial institutions. This data was collected from different Urban and Suburban region of Navi Mumbai.
- 2) *Secondary Data:* These 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.

A. *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 50 samples.
- *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.

V. 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 8.1. Awareness of Reverse Mortgage and Chart 8.1 Awareness of Reverse Mortgage*)

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*).

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 8.2: 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.

VI. RESULT AND DISCUSSION

Reverse mortgage was introduced almost 9 years back in Indian financial market but this term is still new for many people. People who belong to age of 45 years or more are not aware about it. Many people are not interested to know or understand more about this term, hence financial institutes are also not sending their time and advertisement expense on this product.

Reverse mortgage is an opportunity for Indian mortgage sector. Below are the opportunities arising out of reverse mortgage scheme in Indian market:

- 1) This financial product is meant for people whose property has good value but is short of cash flow to meet their expenses. They are often called "asset rich but income poor". Reverse Mortgage will give them opportunity to generate income from that very home.
- 2) RM will ensure regular income against the value of their property that helps them in attaining higher standards of living and better access to health care.
- 3) RM is useful to senior citizens who are not cared by their children. They can live independent life by mortgage their property.
- 4) It can supplement retirement income. They can plan for pilgrimage etc. by resorting to this financial product.
- 5) It is a non-recourse loan under which the bank/HFCs will never come after any person for repayment of the loan. The lenders can only receive payment of the loan from the value of the house.
- 6) The proceeds from the Reverse Mortgage being payments on capital account will be exempt from taxation.
- 7) It does not involve losing ownership of the house and at the same time a stream of cash flow is arranged at periodic

intervals. The security net for the lender is the security of the house whose value is always on rise.

However reverse mortgage has multiple benefits but this product is facing many challenges is taking off in India. Following are the challenges that stakeholders are facing in India:

- 1) Unawareness of this product in Indian mortgage sector. Although this product was introduced 8-9 years back but many people are not aware about this product.
- 2) People believe that due to this product they lose their property which is ultimately reduction of their assets.
- 3) Emotional attachment with the property. A person spent his whole life to build a house, it is an emotional decision for them to mortgage their property
- 4) Parents consider it as most valuable assets and want to keep their property for their children.
- 5) Many senior citizens believe that because of lack of awareness financial institution may cheat them.
- 6) Senior citizens, who get their government pension, consider that government pension is sufficient to live their old age life comfortably.

Mentioned opportunities and challenges show that although senior citizen are getting my benefits and this scheme has wonderful opportunities in Indian market but people are not interested in this scheme. Challenges are faced by all stakeholders as financial institutes are not giving information about it and on the other side, due to unawareness and emotional attachment with the property borrowers are showing disinterest in this scheme.

VII. 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.

VIII. TABLE AND CHARTS

Table 8.1: 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

Table 8.2: 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 post-retirement	7
Total	39

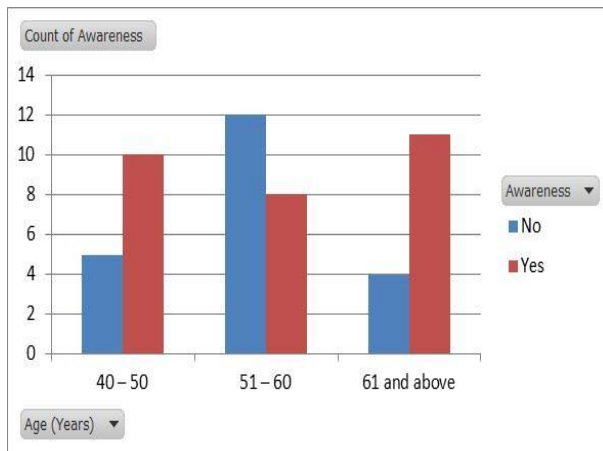


Chart 8.1: Awareness of Reverse Mortgage

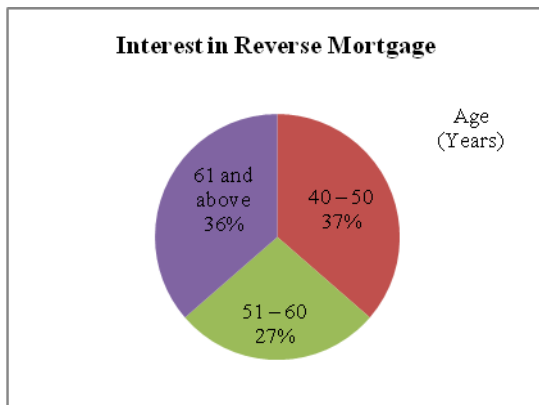


Chart 8.2: Analysis of interest in Reverse Mortgage

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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?
Strongly Agree,
Agree
Not Agree
No Idea