
Reverse Mortgage-An Ideal Financials Product for Senior Citizen.

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Introduction

One of the most important issues for many seniors today is how to secure their retired life and most importantly how to continue to live comfortably in their homes after retirement. Today seniors are living longer and the majority of them will be living in their own houses. At the same time, many are living on fixed incomes and/or on the proceeds of investments that do not meet their financial needs. Some require additional sources of income to cover day-to-day expenses, while others need cash to pay for more significant costs such as health care services, home repairs etc. In order to help the senior citizens especially in the evening of their life, keeping in mind these necessities, banks have developed a scheme styled as 'Reverse Mortgage' so that they live their life peacefully.

REVERSE MORTGAGE

- A reverse mortgage is a loan available to senior citizens. Reverse mortgage, as the name itself suggests, is exactly opposite of a typical mortgage, such as a home loan.
- "A reverse mortgage is a loan available to senior citizen and is used to release the home equity in the property as one lump sum of multiple payments. The homeowner's obligation to repay the loan is deferred until the owner dies, the home is sold, or the owner leaves"

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 through selling the house and recovering the loan through its proceeds.

REVERSE MORTGAGE IN INDIA

A reverse mortgage (or lifetime mortgage) is a loan available to senior citizens and was introduced in India in the year 2007, which was already a well known concept in the West. There are about 80 million senior citizens in India (larger than the entire population of Britain) and the number is on increase. Estimates show that India's old age population will increase to 113 million by 2016, 179 million by 2026, and 218 million by 2030. As per reports only 8 million (employees of Central government, state government as well as those of some public sector undertakings) enjoy the benefit of pension after retirement, which ensures cash flow for their maintenance. The others have traditionally depended on their children for their financial needs. Seven out of ten elderly people in India are below the poverty line but 10 percent of them receive pension. In urban India, the elderly face loneliness and insecurity as their family members have either migrated or are too busy to provide support. In rural India, shrinking land holdings and a vast landless population has led to conflict among families. As a result, in the last phase of their life elders feel uncared and unsecured. In these circumstances, 'Reverse Mortgage' is a novel scheme to help this segment tide over the golden years with ease and financial security.

Types of Reverse Mortgage Products

- **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.

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- **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
- **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
- **Shared Appreciation Mortgage-** This provide loans at a below market interest rate. In return, the lender gets a pre-aged share in any appreciation in the property value over the accumulate value of the loan.

How is it different from Traditional Home Loan?

When one buys a house through a home loan, every EMI one pays towards servicing the loan, increases ones equity in the house. Once loan is paid in full, equity in the house becomes 100 percent. In the reverse mortgage, exactly opposite happens. When one pledges one's house for reverse mortgage with a Bank, equity in ones house decreases with every disbursal that the Bank makes to him/her. In traditional home loan, borrowers need to have sufficient income to service the debt i.e. to pay EMI. The same is not required in case of RML

How does it help the elders?

- In the old age when medical and day to day expenses increase, RML takes care of the same.
- Helps unlocking illiquid wealth to generate income i.e. helps in converting investment of residential property to lump sum cash or periodical income.
- Provides security when few old age social security schemes and financial help lines exist in the changing social structure, supporting older people in family is becoming rare
- No one would like to shift to newer and unknown place at the old age; RML allows staying the borrower in the same house till their death.
- When there is no source of income exists on outliving their retirement income or no income for spouse after demise, RML comes to help.
- RML allows retaining the title of the property till death, as our society is very sensitive in home ownership issue.
- While granting reverse mortgage loan current income and debt to income ratio are not considered. So the person without any income can get the loan.

The following are the guidelines given by RBI for Reverse Mortgage

- Any house owner over 60 years of age is eligible for a reverse mortgage.
- The maximum loan is up to 60% of the value of residential property.
- The maximum period of property mortgage is 15 years with a bank.
- The borrower can opt for a monthly, quarterly, annual or lump sum payments at any point as per his discretion.
- The revaluation of the property has to be undertaken by the bank once every 5 year.
- The amount received through 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.

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. 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

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- 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.

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