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Study on Reverse Mortgage Loans in India

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Abstract: ***Old age comes with its own set of problems. Senior citizens are increasing component of the Indian society and dependency in old age is increasing in country like India. As a person grows older, and his regular source of income dries up. His dependency on others increases significantly. With health expenses on 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 to meet their financial needs and maintain their current living standards become important.***

Revere mortgage loan has become one of the innovative monetary tool through which the people above 60years can liquidate their housing wealth and can receive cash inflows at a time when they are in need and want to live their post retirement life independently. This can be done by way of mortgaging their self acquired house property with institutions which provide reverse mortgage scheme.

Keywords: Reverse Mortgage, Senior Citizens, interest rate, home loan.

I. INTRODUCTION

This scheme was introduced in year 2007 which aimed at providing income to senior citizens who were in need of timely payment or lump sum payment when actually they are no longer earning or not having regular source of income. The scheme aims at providing regular income to senior citizens of India. The benefit of reverse Mortgage scheme can be availed by couples as well. The only condition for couple is that spouse should be above 55 years. The interest rate for this scheme is said to higher than the home loan i.e. in forward mortgage. This scheme generates additional source of income to senior citizens having self acquired house property. This scheme enables the citizens to convert their own big fixed asset into home equity. It acts as one source of income to senior citizens to meet their day to day requirements pertaining to food, other expenses, medicines, repair and maintenance of house. The reverse mortgage loan is provided on the basis of the assessed value of the house property. The age of borrower and assess value of the house property is the two important things while calculating reverse mortgage loan. This loan is only applied if their house property is 20 years old as per the national housing bank guidelines.

Despite the product's potential to alleviate financial pressures faced by India's elderly population, the uptake of reverse mortgages has been slow. Cultural factors, a lack of financial literacy, and regulatory complexities have hindered its adoption. In India, homeownership is not only an economic asset but also holds significant emotional and cultural value. Many seniors are reluctant to part with their homes, which are often seen as important inheritance assets for their children. Additionally, there are concerns regarding the terms of the loans, including interest rates, tenure, and the risk of the borrower outliving the loan.

This article aims to explore the reverse mortgage market in India, analyzing its current state, challenges, and opportunities for growth. It investigates the barriers to adoption, including cultural and socioeconomic factors, as well as the regulatory and financial frameworks that impact the product's viability.

II. LITERATURE REVIEW

Kochhar (2020) argues that reverse mortgages in India have struggled due to the complex and unfamiliar nature of the product. There is a general lack of trust among Indian seniors, who view homeownership as a crucial part of their social identity and inheritance. Additionally, the financial literacy level in rural and semi-urban areas is low, limiting the widespread acceptance of such schemes. Furthermore, the Banking Codes and Standards Board of India (BCSBI) has pointed out the inadequate disclosure practices by banks offering reverse mortgage schemes, which leaves many potential borrowers unaware of key details like interest rates, terms, and the implications of default (Kochhar, 2020).

Additionally, India's strong family support system reduces the perceived need for reverse mortgages. Elderly individuals often rely on their children or relatives for financial support, which diminishes the demand for such products. Vasudevan & Nair (2020) suggest that reverse mortgages would only gain traction if there is a societal shift toward recognizing financial independence in old age as a desirable goal.

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In the article of Economic Times Wealth section dated 5th august 2019 discussed whether senior citizens should opt for reverse mortgage scheme to take the benefit of regular income cited with the example of Mr. Gandhi a retired person living in his self home and children are independently living separately. In his case it was discussed by the author that he should opt for reverse mortgage loan as he alone stays in that house and his children are living independently and had no interest in returning back to Gandhi to live with him. In this case reverse mortgage will be beneficial for him. But it is important to understand pros and cons of the RML before availing it and it should be preferred as last resort and not a routine financing avenue.

Another significant issue is the lack of comprehensive actuarial data to inform the terms of the reverse mortgage agreements. Reverse mortgages depend heavily on the valuation of the property and the age of the borrower. However, in India, property valuation can be inconsistent, particularly in rural and semi-urban areas where real estate markets are less transparent (Bhargava & Yadav, 2018)

As per the reports of NHB, till 2013, reverse mortgage loan worth rs.1,800 cores have been sanctioned and loan worth Rs. 800 cores have been already been disbursed after this scheme got introduced (Ghosh, 2013). Despite the expected popularity and usability of this concept, only a few research studies have been conducted. A report from National Housing Bank has been released before launching this product in India they did a research work, and said there are around 3.87 million people who own the house and all are above 65 years in 2006.

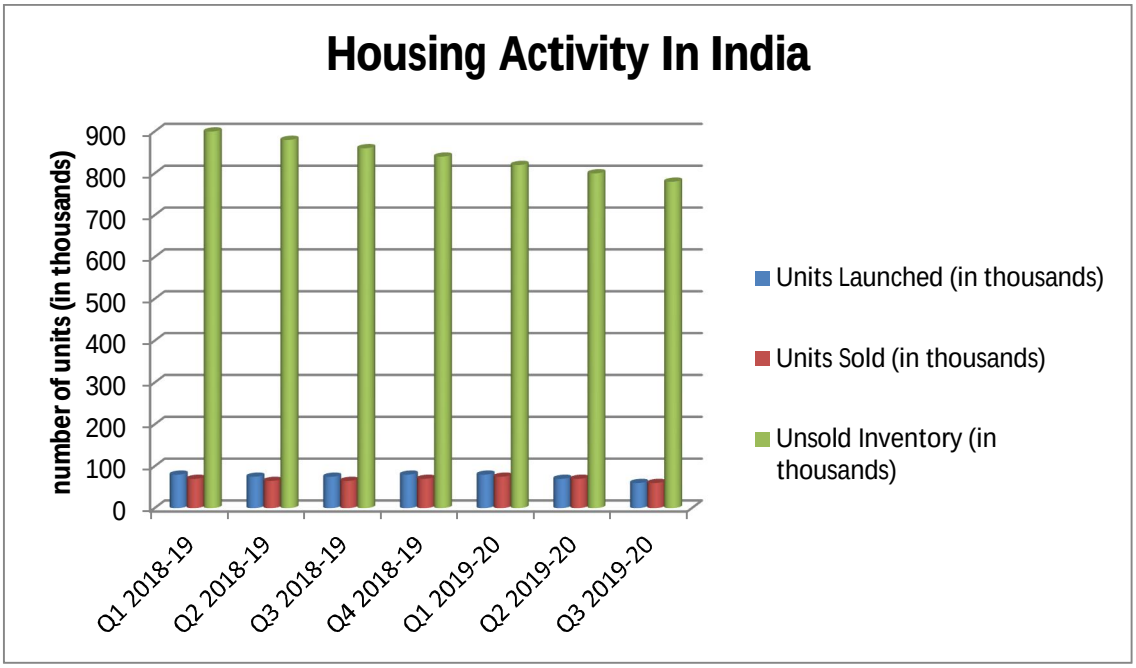
III. RESEARCH METHODOLOGY

It is a written report which is done to know more about the specific topic. The reason behind this report is to make a certain decisions to know more accurately more about it. It helps in solving our problems. The present data study concentrates on both qualitative and quantitative data. The research is designed on the previous research studies and literature available.

The data for this research is collected through secondary source. Data from various books and official websites is collected for further analysis.

IV. DATA ANALYSIS AND INTERPRETATION

Figure 1: Housing activity in India



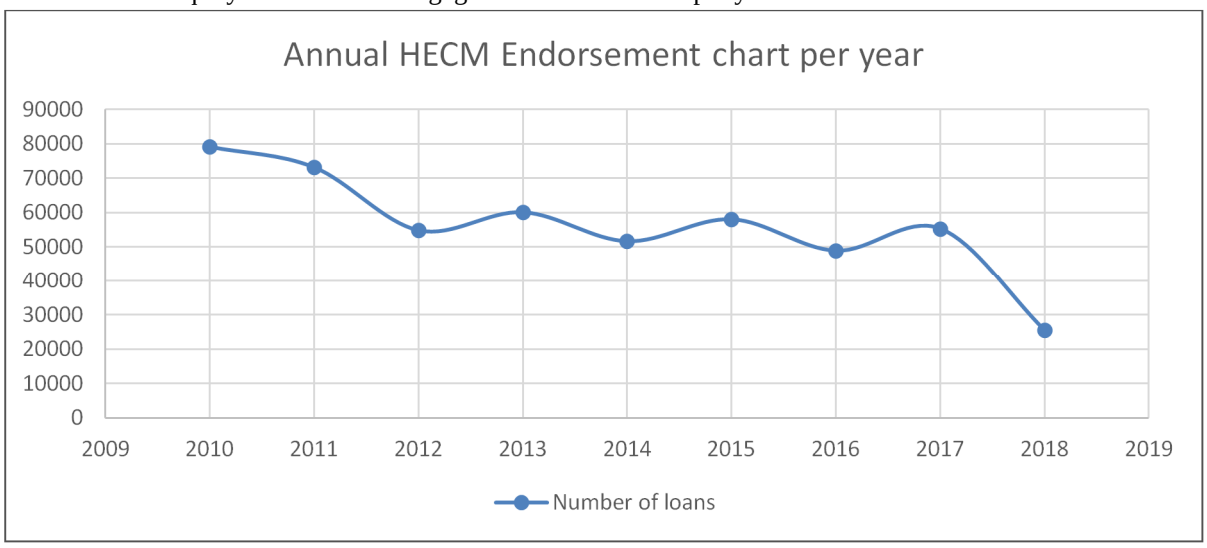
Interpretation:

The number of units launched and sold remained relatively stable between Q1 2018-19 and Q3 2019-20. However, the gap between units launched and sold is significant, contributing to the persistence of unsold inventory. The graph is showing that the housing activity of India where the figure is keep declining.

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The percentage of selling the house property is keep on declining which means these people are using their houses for loan. Unsold inventory (red line) shows a **declining trend**, indicating that some backlog of housing units is being absorbed, but it's still at high levels.

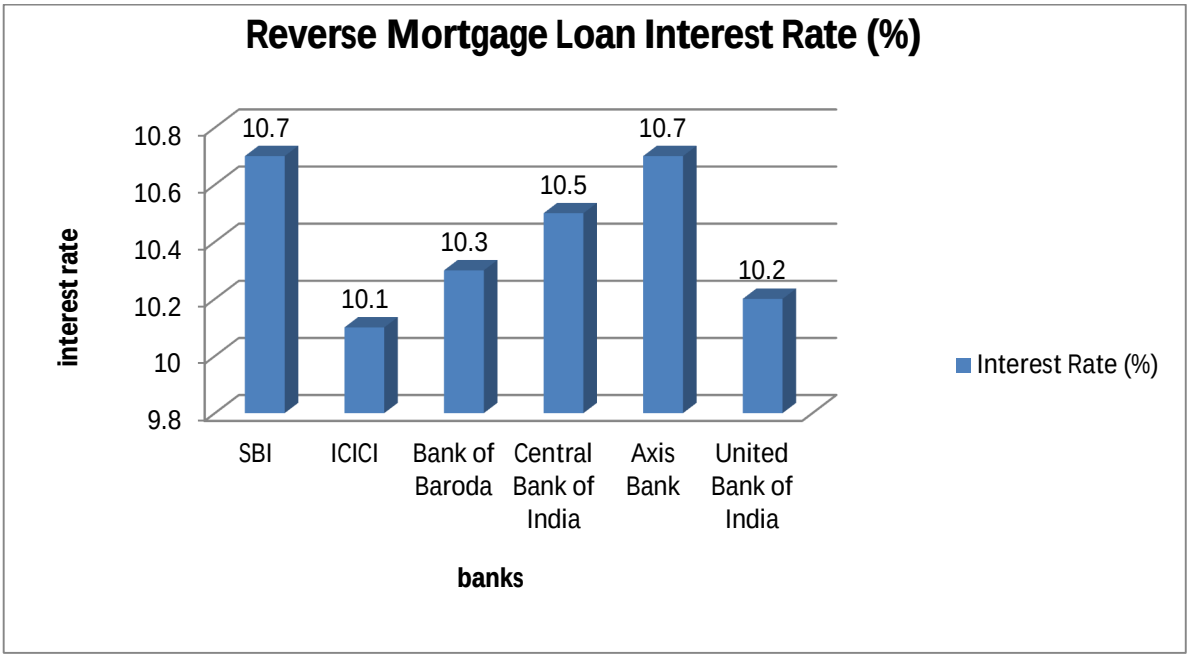
Figure 2: Annual House Equity Conversion Mortgage Endorsement chart per year



Interpretation :

The above figure is about annual HECM endorsement per year. In 2010,2011 and 2013 the number of people purchasing the RML product is highest because of senior citizen feel there is need of income to survive so in this year more number of senior citizens are purchasing the RML product. The most notable decline occurred between 2017 and 2018, where endorsements nearly halved. Other significant drops are seen between 2011 and 2012 and between 2013 and 2014 because of some factors like lack of awareness, fear of losing property. Some recovery was observed in 2013 and 2017, where loan endorsements increased slightly compared to the preceding years.

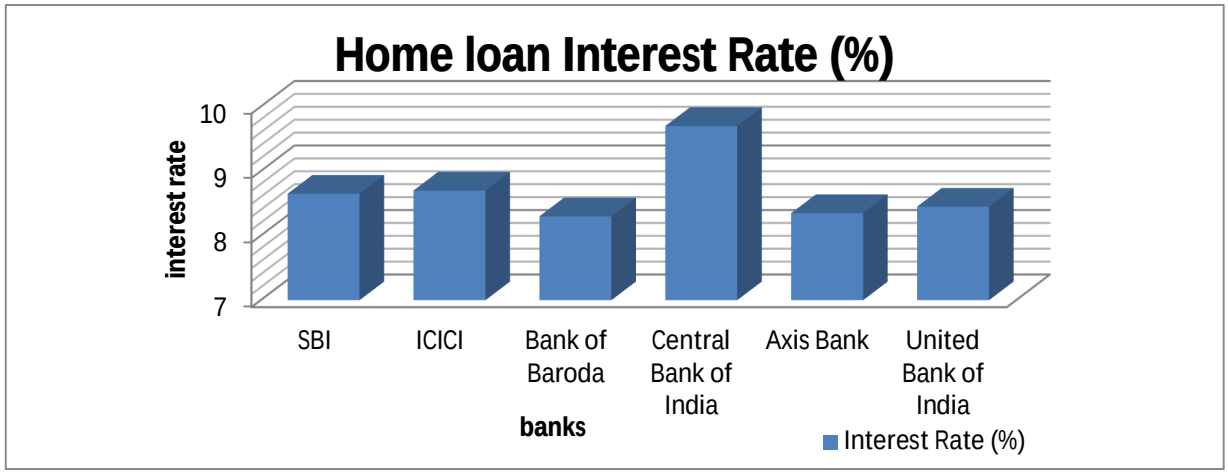
Figure 3 : Reverse Mortgage Loan Interest Rate



Interpretation :

Various banks are offering reverse mortgage loan to senior citizens at their own terms and conditions. In this chart six banks are providing loans they are SBI, ICICI, Bank Of Baroda, Central Bank Of India, Axix Bank, United Bank Of India at different interest rates. SBI and Axis bank is providing 10.7% high interest rate to the reverse mortgage loan. ICICI bank interest rate is 10.1%. Bank Of Baroda interest rate is 10.3%. central Bank of India interest rate is 10.5%. united bank of India interest rate is 10.2%. ICICI bank is providing low interest rate on Reverse Mortgage loan.

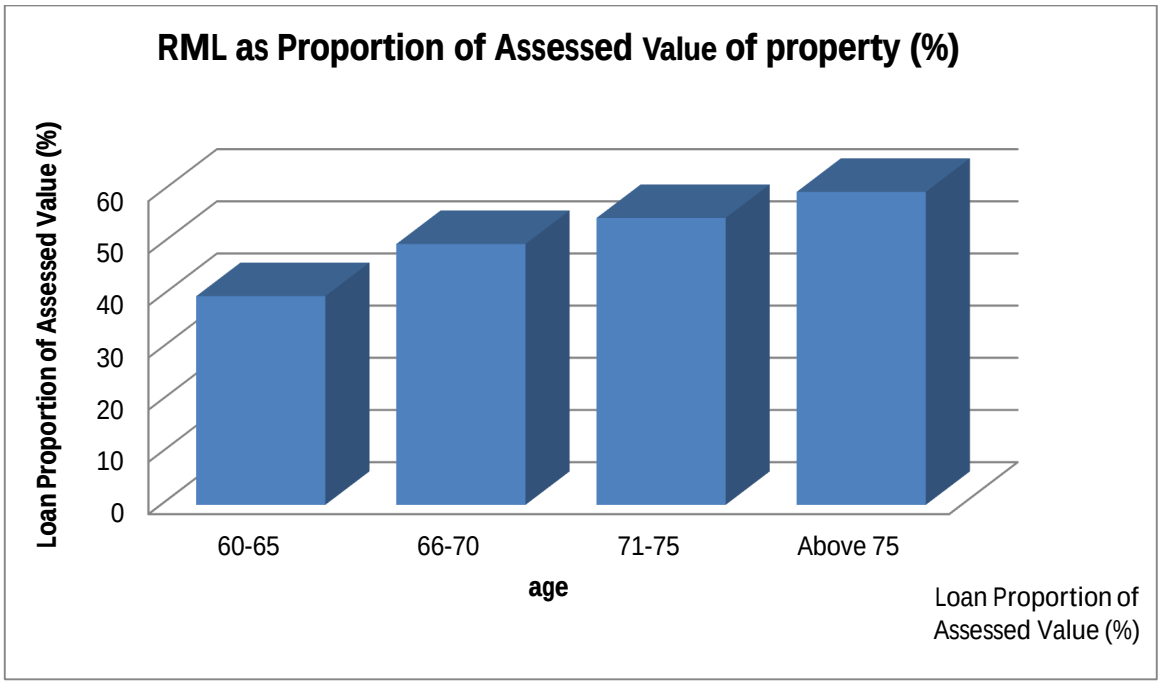
Figure 4 : Home Loan Interest Rate



Interpretation :

Various banks are offering home loan at their own terms and conditions. In this chart six banks are providing loans they are SBI, ICICI, Bank Of Baroda, Central Bank Of India, Axix Bank, United Bank Of India at different interest rates. Central Bank Of India is providing high interest rate on the home loan which is 9.70%. ICICI interest rate is 8.7%, Bank Of Baroda interest rate is 8.3%, SBI interest rate is 8.65%, Axis Bank interest rate is 8.35%, United Bank Of India interest rate is 8.45%. The interest rate on the home loan is highest in Central Bank Of India and it is very low in Bank Of Baroda.

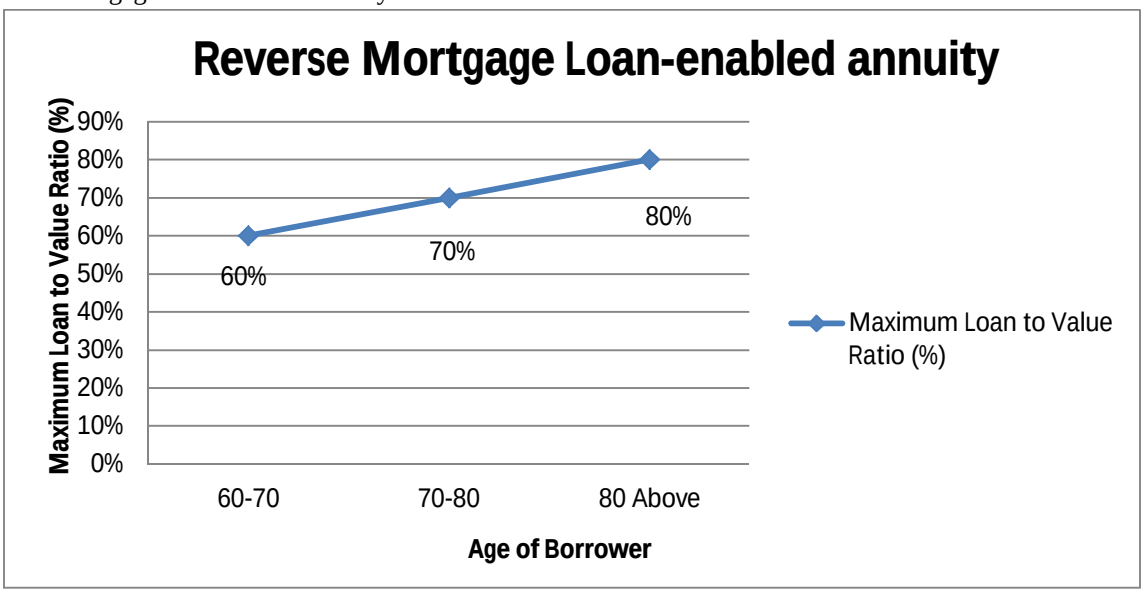
Figure 5 : RML Loan as proportion of assessed value of property :



Interpretation :

How much % of loan senior citizens can take against the assessed value of property depends on borrowers age. The lender will appoint a valuator to assess the property and determine the maximum loan amount. For the senior citizens of age 60-65 the loan is 40% of assessed value. For the senior citizens of age 66-70 the loan is 50% of assessed value. For the senior citizens of age 71-75 the loan is 55% of assessed value. For the senior citizens of age 76-60 the loan is 60% of assessed value.

Figure 6 : reverse mortgage loan-enabled annuity:



Interpretation :

This figure shows reverse mortgage loan-enabled annuity loan as proportion of assessed value of property. Loan-to-Value (LTV) Ratio Increases with Age. For borrowers aged 60-70, the maximum Loan-to-Value (LTV) ratio is around 60%. For borrowers aged 70-80, the LTV ratio increases to approximately 70%. Borrowers aged 80 and above have the highest LTV ratio, nearing 80%.

V. FINDINGS AND SUGGESTIONS

A. *Findings*

1) According to housing activity in India, the gap between units launched and sold is significant, contributing to the persistence of unsold inventory**,** which means that people are using their houses for home loans.
2) Number of HECM (Home Equity Conversion Mortgage) loans endorsed has shown a declining trend from 2010 to 2018. In 2010, there were 79,106 loans, which dropped significantly to 25,538 loans by 2018.
3) Home loan interest rate is very low compared to reverse mortgage loan interest rate.
4) RML Loan as proportion of assessed value of property is more for 70+ years senior citizens.
5) Loan-to-Value (LTV) Ratio Increases with Age. Borrowers aged **80 and above** have the highest LTV ratio, nearing **80%**.
6) In market the reverse mortgage scheme is very low penetrated in the market when compared to other senior citizen savings scheme and post office monthly deposit scheme.
7) There are also some senior citizens who are applied for this scheme and what we have seen is the performance, it is clearly visible that the growth of reverse mortgage loan in our India is quite low and it is decreasing nowadays.

B. *Suggestions*

1) The declining trend in HECM loan endorsements highlights the need for both financial institutions and policymakers to adapt strategies to market realities. Ensuring policy alignment may help stabilize or reverse the decline in future years.
2) Encourage Financial Literacy to support initiatives for improving financial literacy among seniors regarding reverse mortgages and other retirement planning tools.

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3) It is only beneficial for senior citizens who are above 60 years of age and having assets but poor cash and also for those senior citizens whose children are living separately and not staying together with them and has no interest in returning or possessing the house property.

VI. CONCLUSION

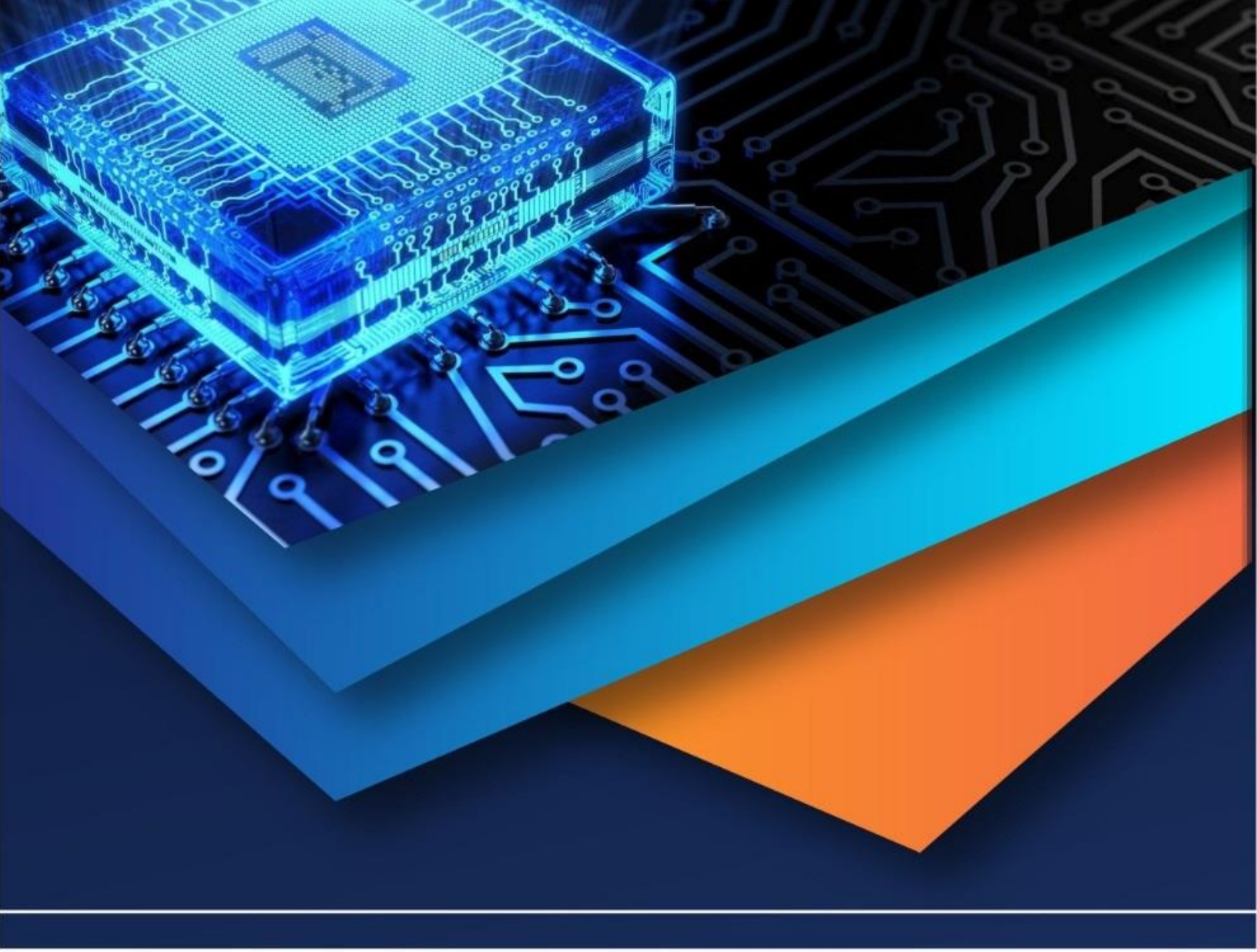
The reverse mortgage scheme offers a viable financial solution for seniors, particularly those aged 62 or older, who seek to tap into the equity of their homes to supplement retirement income. It allows homeowners to access funds without the need to make monthly loan repayments, which can be especially beneficial for retirees with limited income. By converting home equity into cash, reverse mortgages can provide financial stability, helping to cover medical expenses, home repairs, or day-to-day living costs.

However, reverse mortgages come with significant risks and considerations. While they offer immediate financial relief, the loan balance increases over time due to accruing interest, reducing the homeowner's equity and potentially leaving little inheritance for heirs. Additionally, borrowers must continue to meet responsibilities like property taxes, insurance, and home maintenance. Failure to do so may result in foreclosure.

Despite these risks, a reverse mortgage can be an effective tool for those who intend to live in their homes for the long term and need additional funds for retirement. It is important for borrowers to thoroughly understand the terms, fees, and potential long-term consequences, as well as to seek professional financial advice to ensure it aligns with their overall financial strategy.

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