

Project Dissertation Report
On
**“Comparative Study on Growth of Reverse Mortgage
in India”**

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2K16/MBA/18

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CERTIFICATE FROM THE INSTITUTE

This is to certify that the Project Report titled “**Comparative Study on Growth of Reverse Mortgage in India**”, is a bona fide work carried out by **Mr. Eklavya Vats**, of MBA 2016-18 and submitted to Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-42 in partial fulfilment of the requirement for the award of the Degree of Master of Business Administration.

Signature of Guide

Signature of HOD

(Dr. Rajan Yadav)

Place:

Date:

DECLARATION

I, **Eklavya Vats**, student of MBA 2016-18, of Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-42, declare that the final project report on “**Comparative Study on Growth of Reverse Mortgage in India**”, submitted in partial fulfilment of Degree of Masters of Business Administration, is the original work conducted by me. The information and data given in the report is authentic to the best of my knowledge. This report is not being submitted to any other University for award of any other Degree, Diploma and Fellowship.

Eklavya Vats

Place:

Date:

ACKNOWLEDGEMENT

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CHAPTER 1

EXECUTIVE SUMMARY

Elderly people all over the world share one common hardship – insufficient finances. Many of them do not have regular income, because they do not work or the savings during their earning life would have been used up. On the expense side, the situation worsens with increased medical needs, associated costs and increased cost of living due to inflationary pressures. In countries like India, where pension schemes are recently gaining popularity, only small ratio of these elderly people who were in „working class“ would have been lucky enough to be covered under pension schemes.

Still many of them may have one real asset – a dream house. Until recently the only choice to meet the financial needs is selling or mortgaging their house, which was often a painful decision. This painful reality would mostly increase their financial burdens rather than easing them, because their monthly housing expenses may well be higher than before or they may still run out of funds.

The Reverse Mortgage is a promising financial solution to the elderly house owners who want to use their house to source their income that can meet their financial commitments. The attractive part of this solution is that the house owners can live in their house as long as they wish without bothering about repayment of loan. The contingency to repay loan arises when the house owner dies, sells the house or moves out of it.

This project deals with the Reverse Mortgage concepts. It highlights the important features of Reverse Mortgages. It presents the risks from lender’s perspective while providing elaboration for two of the critical risks - Crossover and Longevity. It brings up the relevance of Reverse Mortgages to India market.

CHAPTER 2

INTRODUCTION

A Reverse Mortgage is a form of financial arrangement between an „Equity rich-Cash Poor“ Borrower and a Reverse Mortgage Lender. This arrangement allows elderly persons to convert their substantial house equities into loans in the form of cash advances requiring no repayment until a future time. At the same time they will allow the borrowers to remain in their houses until their death, sale of the house property or until they move out permanently. Interest accrues on these loans but no repayment of loan and loan interest is required during as long as any of the events mentioned above do not occur. As the borrower receives payments, the amount of the debt secured by the Reverse Mortgage rises over time. This process of converting house equity into spendable cash while the house owner is still living in the house is called „Home Equity Conversion“ or simply Reverse Mortgage.

Lenders offer Reverse Mortgages because there is potentially large and growing market as the number of elder house owners is increasing in every country.

Features of Reverse Mortgages

- **Minimum Age Limit:** Typically the borrowers should be more than 60 years of age. Lenders fix this age limit duly considering the guidelines in the social security system and other welfare measures offered by the government and also the, retirement age of the working class.

- **Loan Amount:** Maximum Loan Amount to borrowers depends on the house value, borrower’s age, cost of the loan and the payment plan selected by the borrower.
Typically, the loan amount or the Principal Limit is the maximum lump-sum payment a borrower can receive or the net present value of monthly payments or Line of Credit. The loan amount is restricted to percentage of the property value. In Roll up type of Reverse Mortgages offered in UK, higher amounts are granted in return for a higher interest loan. In some other cases, when the borrower get fewer amounts initially, further amounts will be made available depending on the property value. However, there are some restrictions which limit the time at which the borrower can apply for further advance.

- **Loan Interest:** Loan interest charged on the debt of the borrower can be fixed or adjustable. For Fixed Rate Reverse Mortgages, the loan interest would remain same until it is repaid. In case of adjustable rates, the rates are adjusted at defined time periods based

on some reference rate like T-Bill rate. Interest rate caps for the period as well as for life time are typically specified for these adjustable rates. In some cases as in Fixed Repayment Mortgage in UK, there is no explicit interest rate, but borrower agrees that when the house is sold, he will be pay the lender a higher sum than the amount borrowed. The higher amount will depend on the age and life expectancy. However, when borrower dies, the lender may charge interest on this higher sum from the date borrower die until the mortgage is actually repaid.

- **Payment Options:** Once the loan amount is determined, it will be disbursed according to the payment option chosen. The borrower will have the typical options like receiving a lump sum amount or a series of monthly payments or access line-of-credit.
- **Repayment:** No repayment is required on Reverse Mortgages as long as the borrower lives in the house as a principal residence. The full loan balance becomes due and payable when the borrower sells the house or permanently moves away or when the borrower dies. When the loan is payable due to death of the borrower, borrower's heirs can repay the outstanding loan and take title to the property or lender can sell the property and pay off the loan. If the property value is more than the outstanding loan balance, the difference is paid to the heirs.
- **Debt Limit:** The debt on a Reverse Mortgage equals all the loan advances received including any advances used to finance the loan costs or pay off prior debt, plus all the interest that is added to loan balance. Even if the loan balance grows to be greater than the home's future value, the borrower's debt is limited by the value of the home. This feature is called the "Non- Recourse" or "No Negative Equity Guarantee" and it protects the borrower, his estate and heirs from "deficiency judgments," that is, from being required to pay back more than the home's value.
- **Loan Costs:** Loan costs typically include an origination fee, appraisal fee, mortgage insurance fee, and other closing costs. There are usually caps on these upfront costs, which may be financed as part of the Reverse Mortgage.
- **Mandatory Occupation:** The borrower must occupy the property. The borrower's income and credit worthiness are not of concern because payments are made from the lender to the borrower.
- **House ownership:** Typically, lender does not own the house. The borrowers retain the title to the house and are responsible for taxes, insurance and upkeep. In the Home reversions schemes sold in UK, the lenders buy a share of the borrower property, so that there is transfer in the ownership to the lender.

- **Other features:** Prior to closing, the house is appraised to determine its value and to make sure that it meets minimum property standards. In cases where repairs are needed, the cost of these repairs may be financed as part of the loan.

Risks to RM lenders

Mortality Risk: This is the risk that an RM borrower lives longer than anticipated. The lender might get hit both ways: he has to make annuity payments for a longer period; and the eventual value realized might decline. However, this risk is usually „diversifiable“, if the RM lender has a large pool of such borrowers. Possibility of adverse selection (of predominance of relatively healthier borrowers) is counterbalanced by the possibility that even borrowers with poor health may be attracted by RM’s credit line or lump sum options.

However, there is no literature on one possible source of systematic risk. Since RM is projected to substantially improve the monthly income and/ or liquid funds of the RM borrowers, would it not itself result in a systematically higher life expectancy amongst them than otherwise? Perhaps this lacuna is due to the relatively short experience with RM so far.

Interest Rate Risk: Given that the typical RM borrower is elderly and is looking for predictable sources of income/ liquidity, RM loans promise a fixed monthly payment / lump sum / credit line entitlement. However, for the lender, this is a long-term commitment with significant interest rate risks.

While fixing the above, the lender has to account for a risk premium and thus can offer only a conservative deal to the borrower. This interest rate risk is not fully diversifiable within the RM portfolio. Most of the RM loans accumulate interest on a floating rate basis to minimize interest rate risks to the lender. However, since there are no actual periodic interest payments from the borrower, these can be realized only at the time of disposal of the house, if at all.

Moral hazard: Once an RM loan is taken, the homeowners may have no incentive to maintain the house so as to preserve or enhance market value. This might be especially true when the loan balance is more or less sure to cross the sale value. Since the benefit would accrue mainly to the lenders and the cost borne by the homeowner, it is perhaps not sensible to assume otherwise.

The more important point is that some time during the tenure of an RM, an elderly borrower may simply be physically incapable of maintaining the home as per loan requirements. Though the RM loan contract provides for foreclosure under such conditions, this seems to be impractical and sure to result in litigation and bad publicity for the lender. These problems have begun to crop up already.

Types of Reverse Mortgages

| TYPES | DESCRIPTION |
|------------------------------|--|
| TERM | Borrower receives monthly payments for a set period of time. The loan is repaid with interest at the end of the set term unless he moves out or dies during the term. |
| SPLIT TERM | Borrower receives monthly payments for a set term. The payments will stop at the end of the set term. Expiration of the term is not a contingency to repay the loan as in the case of Term Reverse Mortgages. The loan has to be repaid when the homeowner dies or moves or sells the home. |
| TENURE | Borrower receives monthly payments as long as he lives in the house. Loan has to be repaid on death of borrower or on his move-out. |
| LINE OF CREDIT | Line-of-credit reverse mortgage offers borrowers access to a source of money they can use whenever and however they choose. The principal limit is approved based on the borrower's home value, age, origination fee, and percentage of shared appreciation the lender is entitled to. The entire line of credit may be advanced at closing. |
| HYBRID TERM/TENURE | Hybrid term/tenure reverse mortgage combines the features of term or tenure plan and line-of credit plan. It allows the borrower to set aside part of the principal limit at origination to establish a line of credit. The borrower receives the rest of the principal limit in the form of equal monthly payments as long as the term does not expire or the borrower lives in the home. |
| LIFETIME | Borrower receives monthly payments as long as he is alive even if he is NOT staying in the mortgaged house. The contingency to repay occurs on the death of the borrower. An annuity attached to this reverse mortgage enables income to be provided for life. |
| ROLL UP | A lifetime Reverse Mortgage offered in UK, with an added feature of lending additional cash advance to the borrower in return for higher loan interest rate. |
| FIXED PAYMENT LOANS | The borrower gets cash in lump sum. Instead of being charged interest on the loan, borrower agrees that when house is sold he will pay the lender a higher sum than the amount borrowed. |
| SHARED APPRECIATION MORTGAGE | Borrower agrees with the lender that they can have a share in any increase in the value of the borrower house when it is sold. Here the interest rate may be very less or nothing. |

Forward Vs Reverse Mortgage

| FORWARD MORTGAGE | REVERSE MORTGAGE |
|---|---|
| Purpose is to purchase a home | Purpose is to generate income |
| Borrower population is general population | Borrower population consists of aging seniors with equity in their houses |
| Borrower needs income to qualify | No income qualification is necessary |
| Before closing, borrower has no equity in the home. At closing, borrowers equity is very less | A borrower has substantial equity in the house at closing |
| During the loan term, borrower makes monthly loan payments and as a result loan balance reduces. | During the loan term, borrower receives monthly payments from the lender and as such loan balance increases. |
| At the end of the loan term, borrower's liability is zero | At the end of loan term, borrower's liability is more |
| Borrower's equity increases over time – Loan balance decreases as payments are made to the lender – “Falling Debt and Rising Equity Transactions” | Borrower's equity decreases over time. The loan balance rises as loan advances are made to the borrower, interest is added to the outstanding loan balance, and no repayments are made. "Rising debt, falling equity" transactions. |
| Borrowers have more incentive to make capital investments to maintain the house | Borrowers have less incentive to make capital investments to maintain the house |
| Borrower makes repayment of the loan | No need to make repayment of the loan until death or move out or sale of the property. |

REVERSE MORTGAGE IN INDIA

The concept of reverse mortgage, although new in India, is very popular in countries like the United States. Recently, National Housing Bank (NHB), a subsidiary of the Reserve Bank of India (RBI), released draft norms of reverse mortgage (the final guidelines are awaited). Following are some of the key features of the scheme from the draft norms.

1. Reverse Mortgage Loans (RMLs) are to be extended by Primary Lending Institutions (PLIs) viz. Scheduled Banks and Housing Finance Companies (HFCs) registered with NHB. The PLIs reserve their discretion to offer Reverse Mortgage Loans. Prospective borrowers are advised to consult PLIs regarding the detailed terms of RML as may be applicable to them.

2. Eligible Borrowers:

- Should be Senior Citizen of India above 60 years of age.
- Married couples will be eligible as joint borrowers for financial assistance. In such a case, the age criteria for the couple would be at the discretion of the PLI, subject to at least one of them being above 60 years of age. PLIs may put in place suitable safeguards keeping into view the inherent longevity risk.
- Should be the owner of a self- acquired, self-occupied residential property (house or flat) located in India, with clear title indicating the prospective borrower's ownership of the property.
- The residential property should be free from any encumbrances.
- The residual life of the property should be at least 20 years.
- The prospective borrowers should use that residential property as permanent primary residence. For the purpose of determining that the residential property is the permanent primary residence of the borrower, the PLIs may rely on documentary evidence, other sources supplemented by physical inspections.

3. Determination of Eligible Amount of Loan:

- The amount of loan will depend on market value of residential property, as assessed by the PLI, age of borrower(s), and prevalent interest rate.
- The table given hereunder may serve as an indicative guide for determining loan eligibility :

| Age | Loan as proportion of Assessed Value of Property |
|----------|--|
| 60 – 65 | 40% |
| 66 – 70 | 50% |
| 71 – 75 | 55% |
| Above 75 | 60% |

- The above table is indicative and the PLIs will have the discretion to determine the eligible quantum of loan reckoning the „no negative equity guarantee' being provided by the PLI. The methodology adopted for determining the quantum of loan including the detailed tables of calculations, the rate of interest and assumptions (if any), shall be clearly disclosed to the borrower.
- The PLI may consider ensuring that the equity of the borrower in the residential property (Equity to Value Ratio - EVR) does not at any time during the tenor of the loan fall below 10%.
- The PLIs will need to re-value the property mortgaged to them at intervals that may be fixed by the PLI depending upon the location of the property, its physical state etc. Such revaluation may be done **at least once every five years**; the quantum of loan may undergo revisions based on such re-valuation of property at the discretion of the lender.

4. Nature of Payment:

Any or a combination of the following:

- Periodic payments (monthly, quarterly, half-yearly, annual) to be decided mutually between the PLI and the borrower upfront
- Lump-sum payments in one or more tranches
- Committed Line of Credit, with an availability period agreed upon mutually, to be drawn down by the borrower

Lump-sum payments may be made conditional and limited to special requirements such as medical exigencies, home improvement, maintenance, up-gradation, renovation, extension of residential property etc. The PLIs may be selective in considering lump-sum payments option and may frame their internal policy guidelines, particularly the eligibility and end-use criteria. However, these conditions shall be fully disclosed to potential borrowers upfront.

It is important that nature of payments be decided in advance as part of the RML covenants. PLI at their discretion may consider providing for options to the borrower to change.

5. Eligible End use of funds

The loan amount can be used for the following purposes:

- Up gradation, renovation and extension of residential property.
- For uses associated with home improvement, maintenance/insurance of residential property
- Medical, emergency expenditure for maintenance of family
- For supplementing pension/other income
- Repayment of an existing loan taken for the residential property to be mortgaged
- Meeting any other genuine need

Use of RML for speculative, trading and business purposes shall not be permitted

6. Period of Loan: Maximum 15 years.

7. Interest Rate: The interest rate (including the periodic rest) to be charged on the RML to be extended to the borrower(s) may be fixed by PLI in the usual manner based on risk perception, the loan pricing policy etc. and specified to the prospective borrowers. Fixed and floating rate of interest may be offered by the PLIs subject to disclosure of the terms and conditions in a transparent manner, upfront to the borrower.

8. Security:

- The RML shall be secured by way of mortgage of residential property, in a suitable form, in favor of PLI.
- **Commercial property will not be eligible for RML.**

9. Valuation of Residential Property:

- The residential property should comply with the local residential land-use and building bye laws stipulated by local authorities, with duly approved lay-out and building plans.
- The PLI shall determine the Market Value of the residential property through their external approved value(s). In-house professional values may also be used subject to adequate disclosure of the methodology.
- The valuation of the residential property is required to be done at such frequency and intervals as decided by the PLI, which in any case shall be **at least** once every five years. The methodology of the revaluation process and the frequency/schedule of such revaluations shall be clearly specified to the borrowers upfront.
- PLIs are advised not to reckon expected future increase in property value in determining the amount of RML. Should the PLIs do so in their best commercial judgment, they may

do so under a well-defined Policy approved by their Board and based on professional advice regarding property prices.

10. Provision for Right to Rescission:

As a customer-friendly gesture and in keeping with international best practices, after the documents have been executed and loan transaction finalized, Senior Citizen borrowers may be given up to three business days to cancel the transaction, the “right of rescission.”. If the loan amount has been disbursed, the entire loan amount will need to be repaid by the Senior Citizen borrower within this three day period. However, interest for the period may be waived at the discretion of the PLI.

11. Loan Disbursement by Lender to Borrower:

- The PLI will pay all loan proceeds directly to the borrower, except in cases pertaining to retirement of existing debt, payments to contractor(s) for the repairs of borrower's property, or payment of property taxes or hazard insurance premiums from the borrower's account set aside for the purpose.
- In case the residential property is already mortgaged to any other institution, the PLI may, at its discretion, consider permitting use of part proceeds of RML to prepay/repay the existing housing loan. The loan amount will be paid directly to that institution to the extent of the loan outstanding with that institution with a view to release the mortgage.
- *Periodicity:* The loan will be extended as regular monthly, quarterly, half-yearly or annual periodic cash advances or as a line of credit to be drawn down in time of need or in lump sum.
- The PLI will have the discretion to decide the mode of payment of the loan including fixation of loan tenor, depending on the state and market value of the property, age of the borrower and other factors. The rationale behind the decision of mode of payment and fixation of the loan tenor shall be clearly disclosed to the borrowers.

12. Closing:

The PLIs will provide in writing, a fair and complete package of reverse mortgage loan material and specimen documents, covering inter-alia, the benefits and obligations of the product. They may also consider making available a tool kit to illustrate the potential effect of future house values, interest rates and the capitalization of interest on the loan.

The closing costs may include the customary and reasonable fees and charges that may be collected by the PLIs from the borrower. The cost for any item charged to the borrower shall not normally exceed the cost paid by the lender or charged to the lender by the provider of such service(s). Such items may include:

- Origination, Appraisal and Inspection Fees. The borrower may be charged pro-rata origination, appraisal and inspection fees by the PLI /appraiser.
- Verification Charges of external firms
- Title Examination Fees
- Legal Charges/ Fees
- Stamp Duty and Registration Charges
- Property Survey and Valuation charges

A detailed schedule of all such costs will clearly be specified and provided to the prospective borrowers upfront by the PLIs.

13. Settlement of Loan

- The loan shall become due and payable only when the last surviving borrower dies or would like to sell the home, or permanently moves out of the home for aged care to an institution or to relatives. Typically, a "permanent move" may generally mean that neither the borrower nor any other co-borrower has lived in the house continuously for one year or do not intend to live continuously. PLIs may obtain such documentary evidence as may be deemed appropriate for the purpose.
- Settlement of loan along with accumulated interest is to be met by the proceeds received out of Sale of Residential Property.
- The borrower(s) or his/her/their estate shall be provided with the first right to settle the loan along with accumulated interest, without sale of property.
- A reasonable amount of time, say up to 2 months may be provided when RML repayment is triggered, for house to be sold.
- The balance surplus (if any) remaining after settlement of the loan with accrued interest, shall be passed on to the estate of the borrower.

14. Prepayment of Loan by Borrower(s)

- The borrower(s) will have option to prepay the loan at any time during the loan tenor.
- There will not be any prepayment levy/penalty/charge for such prepayments.

15. Loan Covenants:

- The borrower(s) will continue to use the residential property as his/her/their primary residence till he/she/they is/are alive, or permanently move out of the property, or cease to use the property as permanent primary residence.
- *Non-Recourse Guarantee:* The PLIs shall ensure that all reverse mortgage loan products carry a clear and transparent „no negative equity' or „non-recourse' guarantee. That is, the

Borrower(s) will never owe more than the net realizable value of their property, provided the terms and conditions of the loan have been met.

- *Loan Agreement:* The PLIs shall enter into a detailed loan agreement setting out therein the salient features of the loan mortgage security and other terms and conditions, including disbursement and repayment of the loan, in addition to the usual provisions, which are ordinarily incorporated in a mortgage loan document.
- The loan agreement may also include a provision that the borrower shall not make any testamentary disposition of the property to be mortgaged and even if it does so, it would be subject to the mortgage created in favor of the lending institution. In such a case, the borrower shall make a testamentary disposition of the mortgaged property in favor of any of his/her relatives, subject to the discharge of the mortgage debt by such legatee and a statement that the heirs shall not be entitled to challenge the validity of the mortgage as also the right of the mortgagee to enforce the mortgage in the event of death of the borrower unless the legal representative is willing to undertake the responsibility for discharging in full the amount of loan and accrued interest thereof.
- In addition, the PLI may also consider obtaining a Registered Will from the borrower stating, inter-alia, that he/she has availed of RML from the PLI on security by way of mortgage of the residential property in favor of the PLI, meaning thereby that in the event of death of the borrower (and co-borrower, if any), the mortgagee is entitled to enforce the mortgage and recover the loan from the sale proceeds on enforcement of security of the mortgage. The surplus, if any, has to be returned to the heirs of the deceased borrower(s).
- The PLIs may consider taking an undertaking from the prospective borrower that the “Registered Will” given to the PLI is the last “Will”, prepared by him/her at the time of availing the RML facility as per which the property will vest in his/her spouse name after his/her demise. The borrower will also undertake not to make any other „Will' during the currency of the loan which shall have any adverse impact on the rights created by the borrower in the PLI's favor by way of creation of mortgage on the immoveable property mentioned under the loan documentation for covering loan to be allowed to his/her spouse and interest thereon, even after the borrower's death.
- The PLI will ensure that the borrower(s) has insured the property against fire, earthquake, and other calamities.
- The PLI will ensure that borrower(s) pay all taxes, electricity charges, water charges and statutory payments.
- The PLIs will ensure that borrower(s) are maintaining the residential property in good and saleable condition.
- The PLI may reserve the option to pay for insurance premium, taxes or repairs by reducing the homeowner loan advances and using the difference to meet the obligations/expenditures.

- The PLI reserves the right to inspect the residential property/premises or arrange to have the residential property/premises inspected by its representatives any time before the loan is repaid and borrower(s) shall render his/her/their cooperation in respect of such inspections.

16. Title Indemnity/Insurance

- The PLI shall obtain legal opinion for ensuring clarity on the title of the residential property.
- The PLI shall also endeavor to obtain indemnity on title related risks, as and when such indemnity products are available in India.

17. FORECLOSURE:

- The loan shall be liable for foreclosure due to occurrence of the following events of default.
 - If the borrower has not stayed in the property for a continuous period of one year
 - If the borrower(s) fail(s) to pay property taxes or maintain and repair the residential property or fail(s) to keep the home insured, the PLI reserves the right to insist on repayment of loan by bringing the residential property to sale and utilizing the sale proceeds to meet the outstanding balance of principal and Interest.
 - If borrower(s) declare himself/herself/themselves bankrupt.
 - If the residential property so mortgaged to the PLI is donated or abandoned by the borrower(s).
 - If the borrower(s) effect changes in the residential property that affect the security of the loan for the lender. For example: renting out part or all of the house; adding a new owner to the house's title; changing the house's zoning classification; or creating further encumbrance on the property either by way taking out new debt against the residential property or alienating the interest by way of a gift or will.
 - Due to perpetration of fraud or misrepresentation by the borrower(s).
 - If the government under statutory provisions, seeks to acquiring the residential property for public use.
 - If the government condemns the residential property (for example, for health or safety reasons).

18. Option for PLI to Adjust Payments:

- The PLI shall have the option to revise the periodic/lump-sum amount at such frequency or intervals based on revaluation of property, which in any case shall be at least once every five years.

- Borrower shall be provided with an option to accept such revised terms and conditions for furtherance of the loan.
- If the Borrower does not accept the revised terms, no further payments will be effected by the Lender. Interest at the rate agreed before the review will continue to accrue on the outstanding amount of the loan. The accumulated principal and interest shall become due and payable.

19. Counseling and Information to Borrowers:

- The PLIs will observe and maintain high standards of conduct in dealing with the Senior Citizens and their families and treat them with special care.
- The PLIs shall clearly and accurately disclose the terms of the RML without any ambiguity.
- The PLIs should clearly explain to the prospective borrowers the terms and conditions of RML, the methodology followed for valuation of the residential property, the method of determination of eligible quantum of loan, the frequency of re-valuation and review of terms and all related aspects of the RML.
- The PLIs may suggest to the Senior Citizens to nominate their „personal representatives' usually a close relative who the PLI can contact in the event of any potentialities.
- The PLIs may counsel the prospective borrowers about the possible impacts to the borrowers due to adverse movements in interest rates and property price fluctuations.
- The PLIs shall clearly specify all the costs to the Borrower(s) that are associated with the transaction.
- The PLIs shall in no way assert or imply to the borrower(s) that the borrower(s) is/are obligated to purchase any other product or service offered by the PLI or any other associated institution in order to obtain a reverse mortgage loan.
- Take reasonable steps to check out the background and procedures of third parties before accepting referrals of business from them, and refuse to accept referrals from those that are found unacceptable. Members shall disclose to clients any third party with a financial interest in the reverse mortgage transaction.
- Overall, the PLIs shall treat the Senior Citizen borrower fairly.

ROLE OF DIFFERENT PLAYERS

- **Regulatory Authority**

It is concerned with the broad monitoring of the working and growth of the concept in the country.

In INDIA the regulatory authority is National Housing Bank (NHB)

The National Housing Bank (NHB) was established on 9th July 1988 under an Act of the Parliament viz. the National Housing Bank Act, 1987 to function as a principal agency to promote Housing Finance Institutions and to provide financial and other support to such institutions. The Act, inter alia, empowers NHB to:

- ✓ Issue directions to housing finance institutions to ensure their growth on sound lines
- ✓ Make loans and advances and render any other form of financial assistance to scheduled banks and housing finance institutions or to any authority established by or under any Central, State or Provincial Act and engaged in slum improvement and
- ✓ Formulate schemes for the purpose of mobilization of resources and extension of credit for housing

- **Lenders:**

This would one who accepts the decision of reverse mortgage of the consumer. It can be a Housing Finance Company (HFC), Bank or any Financial Institution.

- **Beneficiary:**

He/she is the person who takes Reverse Mortgage Loan.

- **Trustee:**

He/she is responsible for the custody of the Assets and ensures transparency and fair play in transaction to the satisfaction of lenders and borrowers.

- **Nominee:**

He/she who is the spouse of the borrower and who can continue with the RML after the dismissal of the borrower

- **Legal Heirs:**

He/she who will have the first right of the house before it is sold by the bank.

CHAPTER 3

RESEARCH OBJECTIVES

- To study the concept of reverse mortgaging.
- To study the features and risks of the reverse mortgage schemes in India.
- A Comparative study of the growth of reverse mortgage loans in Indian banks over past few years.

LITERATURE REVIEW

1. TITLE: Potential Beneficiaries from Reverse Mortgage Products for Elderly Homeowners: An Analysis of American Housing Survey Data

AUTHOR: Sally R. Merrill, Meryl Finkel and Nandinee K. Kutty

FINDINGS: This paper uses American Housing Survey (AHS) data to estimate the potential size of the market for unrestricted reverse mortgages. A variety of reverse mortgage loan programs have been available to elderly households for over a decade. The number of unrestricted reverse mortgage loans issued by the private sector has been quite small. About 12,000 loans have been issued through mid-1992. Some researchers take this to mean that the size of the potential market for reverse mortgages is also quite small. Other researchers claim that current low levels of activity reflect supply and demand problems, but that the potential market is in fact quite large. This paper explains why selection in the US reverse mortgage market to date has been advantageous rather than adverse. Reverse mortgages let "house rich, cash poor" older homeowners transfer wealth from the wealthy period after their home is sold to the impoverished period before. Near absence of demand seems to contradict life cycle consumption theory and has been blamed in part on large up-front fees. These fees, in turn, are justified by adverse selection and moral hazard concerns related to length of stay in the home. In fact, reverse mortgage loan histories and the American Housing Survey reveal that single women who are reverse mortgage borrowers depart from their homes at a rate almost 50 percent greater than observably similar non-participating homeowners. This surprising fact appears to arise from the phenomenon that the types of people who wish to take equity out of their homes through reverse mortgage borrowing are also likely to take out the remaining home equity by selling their homes. Reverse mortgages are usually seen as a vehicle for increasing the income of poor, elderly households. This perspective, coupled with the relatively slow growth of reverse mortgage programs, has led some observers to question the growth potential of the reverse mortgage market. This article presents a more expansive view of reverse mortgages as a financial tool for tapping housing equity for various purposes and at various stages in the life cycle. Three market segments for reverse mortgages are discussed: elderly persons living alone, other elderly households, and non-elderly households. Potential uses include turning housing equity into personal human capital investment accounts, enabling children to provide care for their disabled parents, funding elderly households' long-term care insurance, and sustaining consumption. Recent progress in product development and availability and political pressures to find private financing for health and long-term care suggest that the reverse mortgage market has considerable growth potential. Reverse mortgages have been suggested as a

promising financial tool to help low-income older homeowners who want to remain in their houses. However, actual use of this option has been much below early estimates of potential demand. This study explored response to the new option through open-ended interviews of homeowners who had received reverse mortgage counseling. Decision-making was influenced by attachment to home, family input, and financial attitudes, including desire to leave a legacy. In general, homeowners took reverse mortgages only as a “last resort” that enabled them to maintain their independent. This paper argued that there are many impediments to the growth of both the supply and the demand sides of the market for reverse mortgages. On the demand side, we focused on such standard forces as transactions costs and moral hazard, and on fewer standards, yet arguably more profound, psychological forces. On the supply side, we focused on regulatory uncertainty, and its impact on the incentive to innovate. We outlined policies that would help stimulate development of new forms of housing finance by reducing regulatory uncertainty. We believe that encouraging innovation is particularly important in a market such as the reverse mortgage market, in which psychological inertia makes it hard to predict exactly which products will succeed, and which will fail.

CHAPTER 5

RESEARCH METHODOLOGY

Research methodology in a way is a written game plan for conducting research. Research Methodology has many dimensions. It includes not only the research methods but also considers the logic behind the methods used in the context of the study and explains why only a particular method or technique has been used. The basic task of research is to generate accurate information for use in decision making. Research can be defined as the systematic and objective process of gathering, recording and analyzing data for aid in making business decisions.

As the project involves analyzing of financial structure, the research is descriptive in nature, covering financial parameters and come of the important ratios to carry out research.

The data collection is done primarily through secondary sources like annual reports of the subject banks, newspapers, journals etc.

CHAPTER 6

DATA ANALYSIS

PUNJAB NATIONAL BANK REVERSE MORTGAGE SCHEME

PNB is the first Public Sector Bank to come out with a Reverse Mortgage concept based product for senior citizen titled "PNB Baghban". The product addresses one of the very important requirements of the society in the fast changing culture of Indian society. The salient features of the product are given hereunder:

Objective

To address the financial needs of senior citizens owning self-occupied property (house) by generating income / supplementing pension / other income, for their day to day requirement.

Eligibility

The residential house/flat owner, who is resident of India, of the age of 60 years & above, is eligible to raise the loan under this Scheme.

Maximum Amount of Loan

The qualifying amount of loan will depend on the realizable value of residential property, after maintaining margin of 20%. The maximum qualifying amount of loan, along with interest, shall be restricted to Rs.100 lac. (Along with interest) and to be paid monthly on reverse annuity basis.

Rate of Interest

Base Rate (BR) is 10.25% w.e.f. 9th Feb 2013.

Interest Rate for Reverse Mortgage Scheme is BR+2.5%.

Tenure of Loan

The loan shall be extended as regular fixed monthly payments during the loan period. i.e. 10-20 years or till the death of the last surviving spouse, whichever is earlier. Depending on the age of the beneficiary, a chart containing the amount of monthly instalments (calculated on "Reverse Annuity" basis) to be paid to the senior citizen borrower for different tenors of loan per lac of rupees is as under :-

| | | | | | | | | | | | |
|----------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|----|
| TENURE (years) | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| MONTHLY INSTALLMENTS (Rs.) | 420 | 350 | 300 | 250 | 220 | 190 | 160 | 140 | 120 | 100 | 90 |

Payment of lump sum amount, with a maximum of Rs.15 lacs, under the scheme can also be considered selectively on merit, for meeting medical exigencies of senior citizen borrower and his/her spouse & dependents.

Repayment

Loan to be recovered only after the death of both the spouses and no loan repayment during the lifetime of borrower.

Settlement of loan, along with accumulated interest, to be met by the proceeds received out of sale of residential property and any surplus to be paid to heirs. The loan will, as such, become due for recovery and payable six months after death of the last surviving spouse. However the legal heirs/legatee of the deceased borrowers will be given first option to settle the loan, along with the accumulated interest, without sale of the property.

Pre-repayment

The option to pre-pay the loan at any time during the currency of loan or later, is available. However, in case there is any takeover of loan by other financial institution/ bank, a charge of 2% on the amount taken over, will be levied.

UNION BANK OF INDIA- REVERSE MORTGAGE SCHEME

Purpose

To provide a source of regular income for senior citizens in the form of monthly payout or combination of monthly payout and lump sum (available for medical purpose only) amount.

Eligibility

- Indian citizen above 60 years.
- Owns self-acquired and self-occupied residential property in India
- Individual, either singly or jointly with spouse, in case of a living spouse older than 55 years, as co-applicant; number of surviving spouses on the date of sanction should not be more than one.

Residential Property

- The property against which the borrower proposes to raise the loan should be his/her permanent primary residence.
- The property should be self-acquired and self-owned.
- Borrower(s) will be required to inform the bank when they cease to use the residence as their permanent residence.

Quantum of Loan

- Minimum Rs. 1 Lakh inclusive of interest
- Maximum up to Rs. 100 Lakhs inclusive of interest subject to max 90% of the market value of the property depending on location.

Tenure of Loan

- Minimum tenure of 15 years and maximum tenure of up to 20 years, if the borrower's age is between 60 and 65.
- Minimum tenure of 10 years and maximum tenure of 20 years, if the borrower's age is above 65.

Rate of Interest

Interest rate is 12.50% (Fixed & to be reset every five years).

Prepayment Penalty

There is NO prepayment penalty if the loan is adjusted by the borrower from his own verifiable legitimate sources

A penalty of 2% on the average balance of the preceding 12 months, if the loan is taken over by any other Bank /FI or adjusted by the borrower in lumpsum from any third source/party (except genuine sale).

Security

Equitable mortgage (E.M.) of the residential/ commercial property, which is in the name of the borrower and/ or his family members. The co-owners of the property need to join in as co-borrowers

Insurance

Property insurance is compulsory to the tune of the value of the property.

IDBI BANK – REVERSE MORTGAGE SCHEME

Purpose

Finance to Senior Citizen on regular basis for the purpose of,

- Up gradation, renovation and extension of residential property.
- For uses associated with home improvement, maintenance/ insurance of residential property,
- Medical, family emergency expenditure, for supplementing pension/other income, meeting any other genuine need other than for speculative, trading and business purposes.

Loan Amount

Up to Rs 2 Cr. (Subjected to market value of residential property as assessed by the bank, age of the applicant and prevalent Interest rate).

Eligibility

Should be

- Married couples will be eligible as joint borrowers for financial assistance, provided that at least one of them is above 60 years of age and the other not below 55 years of age.
- Should be the owner of a self- acquired/ inherited, self -occupied residential property (house or flat) located in India, with clear title indicating the prospective borrower's ownership of the property and should be free from any encumbrances.

Loan Tenure

Maximum up to 20 years.

Repayment

Outstanding loan (Principal + Interest) amount shall become due and payable six months after death of the last surviving borrower/spouse, or the borrower permanently moved out to Old age homes or to an institution or to relatives.

Mode of Disbursement

Any or a combination of following,

- Periodic Payments. (Monthly, Quarterly, Half yearly, annual). (Maximum monthly payment is capped at Rs. 50,000)
- Payment of Lump sum amount (restricted to 50% of the total eligible amount of loan subjected to maximum cap of Rs. 15 Lakhs).

Security

The loan shall be secured by way of equitable Mortgage of self-acquired / self occupied residential property in favor of the Bank. Commercial property will not be eligible for RML.

BANK OF BARODA – BARODA ASHRAY (A REVERSE

MORTGAGE LOAN)

Purpose

For supplementing the cash flow stream of senior citizens in order to address their financial needs.

Eligibility

- Should be
- Married couples will be eligible as joint borrowers provided one of them is above 60 years of age and age of spouse is not below 55 years at the time of application.
- Should be the owner of a residential property (house or flat) located in India in his/her own name.

Residential property should be used as permanent primary residence (fully self -occupied property).The Commercial property will not be taken as a security under the product

Maximum Amount

The maximum loan amount inclusive of interest for entire tenure of the loan shall be restricted to Rs. 1 crore subject to value of the property.

Options to adjust payments

The Bank shall have the option to revise periodic annuity amount, if lump-sum payment is taken or at the interval of every 5 years based on valuation of the property.

Repayment of Loan

The loan shall become due and payable when the last surviving borrower dies or would like to sell the home / permanently moves out of the home for aged care to an institution or relatives. The loan will, as such, become due for recovery and payable.

- Settlement of loan, along with accumulated interest, to be met by the proceeds received out of sale of residential property.
- The borrower(s) or his/her/their estate shall be provided with the first right to settle the loan along with accumulated interest, without sale of property. A reasonable period of 2 months may be provided when repayment is triggered, for house to be sold.

Rate of Interest

Rate of Interest is BR+ 1.75%

Base Rate (BR) is 10.25% w.e.f. 9th Feb 2013

Security

Simple / Equitable mortgage of the Residential property

Tenure

15 years. The tenure may further be extended till survival of the borrower/s subject to advance value of the property.

Insurance

Insurance of the residential property mortgaged to the bank shall be regularly taken. The premium charges are to be borne by borrower.

COMPARATIVE ANALYSIS OF REVERSE

MORTGAGE LOANS

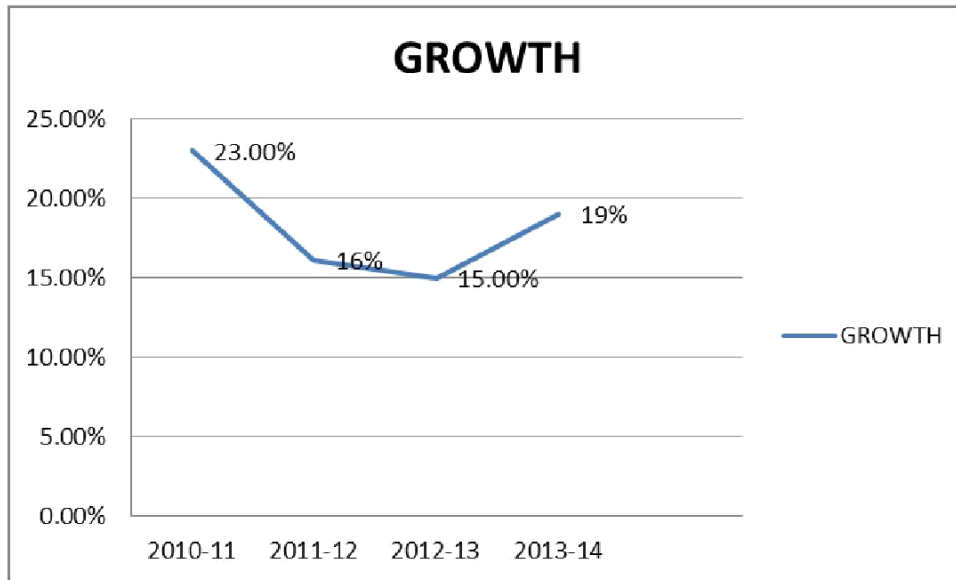
PUNJAB NATIONAL BANK

| YEAR | AMOUNT (Crore) |
|------|----------------|
| 2010 | 818 |
| 2011 | 1006 |
| 2012 | 1169 |
| 2013 | 1343 |
| 2014 | 1597 |

Interpretation: The reverse mortgage loans in PNB have shown an upward trend over a past few years. In 2010 the quantum of loan was Rs. 818 crores, followed by Rs. 1006 crores in 2011, Rs. 1169 crores in 2012, Rs. 1343 crores in 2013 and Rs. 1597 crores in 2014.

| YEAR | GROWTH |
|------|--------|
|------|--------|

| | |
|---------|--------|
| 2010-11 | 23% |
| 2011-12 | 16.13% |
| 2012-13 | 15% |
| 2013-14 | 19% |



Interpretation: The reverse mortgage loans in PNB showed an overwhelming growth in the financial year 2010-11 of 23%, there by the growth declined to 16% in 2011-12, 15% in 2012-13, 19% in the financial year 2013-14.

| YEAR | AMOUNT (Crore) |
|------|----------------|
| 2010 | 612 |
| 2011 | 691 |
| 2012 | 802.4 |
| 2013 | 978 |
| 2014 | 1114 |

Interpretation: The quantum of reverse mortgage loans in Union Bank of India has shown a constant growth over the last 4 years, with Rs. 612 crores in 2010, followed by Rs. 691 crores in 2011, Rs. 802.4 crores in 2012, Rs. 978 crores in 2013 and Rs. 1114 crores in 2014.

| YEAR | GROWTH |
|---------|--------|
| 2010-11 | 13% |
| 2011-12 | 16% |
| 2012-13 | 21.88% |
| 2013-14 | 14% |

Interpretation: The reverse mortgage loan in Union Bank of India has shown a fluctuating growth, with 13% in 2010-11 to 16% in 2011-12 to 21.88% in 2012-13, there by a decline in growth to 14% in 2013-14.

BANK OF BARODA

| YEAR | AMOUNT (Crore) |
|------|----------------|
| 2010 | 727 |
| 2011 | 973 |
| 2012 | 981 |
| 2013 | 1336 |
| 2014 | 1817 |

Interpretation: The reverse mortgage loans have shown an excellent growth in Bank Of Baroda in all the years barring 2012. It had Rs. 727 crore in the year 2010, Rs. 973 crore in the year 2011, Rs. 981 crores in the year 2012, Rs.1336 crores in the year 2013 and Rs. 1817 crores in the year 2014.

| YEAR | GROWTH |
|---------|--------|
| 2010-11 | 33.76% |
| 2011-12 | 30% |
| 2012-13 | 35% |
| 2013-14 | 36.2% |

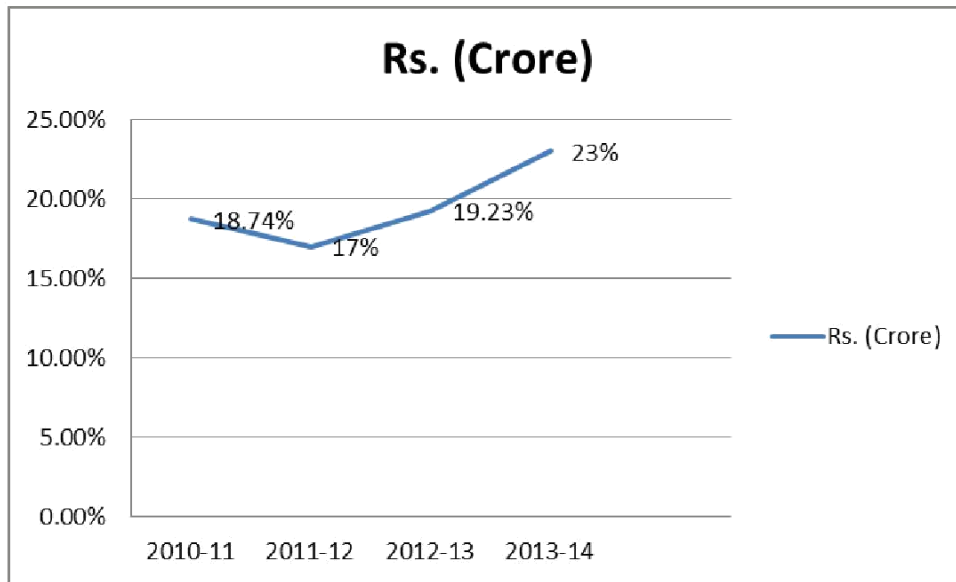
Interpretation: The growth rate has been steady barring the year 2011-12, where in the rate of growth has declined.

| YEAR | AMOUNT (Crore) |
|------|----------------|
| 2010 | 806 |
| 2011 | 957 |
| 2012 | 1119 |
| 2013 | 1335 |
| 2014 | 1642 |

Interpretation: The quantum of reverse mortgage loans has increased at approximately a constant rate. It was Rs. 806 crores in the year 2010, Rs.957 in the year 2011, Rs. 1119 in the year 2012, Rs. 1335 in the year 2013 and Rs. 1642 in the year 2014.

| YEAR | GROWTH |
|---------|--------|
| 2010-11 | 18.74% |

| | |
|---------|--------|
| | |
| 2011-12 | 17% |
| 2012-13 | 19.23% |
| 2013-14 | 23% |



Interpretation: The reverse mortgage loans in IDBI have shown a low paced growth with an increase or decrease of not more than 1-2% through out.

COMPARATIVE ANALYSIS

| YEAR | PNB (Rs. In crore) | UNION BANK (Rs. In crore) | BANK OF BARODA (Rs. In crore) | IDBI (Rs. In crore) |
|-------------|-----------------------------------|--|--|------------------------------------|
| 2010 | 818 | 612 | 727 | 806 |
| 2011 | 1006 | 691 | 973 | 957 |
| 2012 | 1169 | 802.4 | 981 | 1119 |
| 2013 | 1343 | 978 | 1336 | 1335 |
| 2014 | 1597 | 1114 | 1817 | 1642 |

CHAPTER 7

CONCLUSION

Reverse mortgage, offers an attractive option to the elderly to finance their consumption needs on their own, without the necessity of moving out or worrying about indebtedness or repayment.

Demographic projections indicate that this segment is the fastest growing segment all over the world.

RM, if widely available, might in fact encourage more people in the working population to increase the proportion of their savings invested in housing.

Rm is a growing sector of financing the daily needs by senior citizens and has shown magnificent growth over a past couple of years.

CHAPTER 8

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