Is Reverse Mortgage A Significant Financing Option For Retirees?

*Mahesh Kumar**
*Vinod Kumar***
*Narinder Kaur****

ABSTRACT

Though Indian population is comparatively young, but due to its huge population base senior citizen component is growing at the fastest pace. Due to increase in life expectancy, most senior citizens have to spend a long retired life for which they have not planned. Lack of social security measures, high inflation, gradual collapse of joint family system, steep rise in the health care costs and little savings has increased the vulnerability of the retired people. This has created a demand for products that could provide retirement solutions for the ageing population. Reverse mortgage loan facility is one such product that was introduced in the Union Budget 2007-08. Reverse Mortgage Loan enables senior citizens to avail themselves periodical payments or lump sum from a lender against the mortgage of his/her house. As bulk of the savings of middle class retirees is typically locked in house property, reverse mortgage has the potential to become a powerful device to finance retirement expenditure. The government also wants to promote it as it can significantly ease the fiscal burden which rapid demographic ageing imposes on state-funded old age social security measures. The National Housing Bank, a subsidiary of RBI, came out with operational guidelines on reverse mortgage in 2007. Since then, most of the public sector banks started offering this product to senior citizens. Despite tremendous potential, very few people have used this financing option till date.

As very little is known about this new product, this paper has primarily attempted to explain the concept of reverse mortgage, its regulatory framework, pros and cons and Indian specific conditions favouring the development of reverse mortgage market. It shall also suggest some measures to promote its use.

Key Words: Ageing, Longevity, Reverse Mortgage, Senior Citizen, Pension, Retirement, Annuity.

Introduction

Due to higher standards of living, better access to health care and higher life expectancy, most of the developed economies are confronted with the problem of aging population. Now, this ageing population is undermining the current and future sustainability of their universal and liberal old age social and income security programmes. The decline in their young population is reducing the growth rate and tax base and increase in the old aged population is putting pressure on public expenditure leading to high deficit financing and government debt. Currently most of the Europe and U.S. is reeling under the fiscal pressure generated by their liberal old age social and income security programmes. Attempt at social security reforms in the form of increasing the retirement age, eligibility age for full pension benefits and cutting back on some other liberal entitlements is meeting with stiff public resistance. We have seen this recently in France and England.

The developed economies especially USA and countries of Western Europe woke up in the mid 1980s to these realities and started with the pension and social security reforms (CRIISP, 2011). One important feature of these reforms is that government in these countries is increasingly shifting the responsibility of providing for old age social security from the state to private sector and individuals. In this context, the policy makers in these countries started looking for new financial products that can help the elderly to provide for their own long term care. This search focussed their attention to the assets in possession of the elderly. They discovered that bulk of the wealth accumulated by old people during their working years is in the form of house property whose value has increased considerably in recent years. This housing wealth was seen as a potential additional source of financing the retirement expenditure of the aged population. Thus born the idea of reverse mortgage loan facility. In this loan facility, a senior citizen who owns a house property but needs additional cash flows can mortgage his property with a lending institution and get the much needed payment in the form of annuity or lump sum based on property valuation.

In India, due to the huge population base, senior citizen population is significant. In fact, India is the second largest global hub of senior citizens. Due to high growth rates and better health care facilities, life expectancy is also rising. With increase in life expectancy most future retirees will need to build a corpus big enough that could sustain them for 15 to 20 years. The long retired lives, high inflation, steep rise in medical costs, gradual collapse of joint family

* *Associate Professor, Commerce, S.G.N.D. Khalsa College, Delhi University, India.*
** *Associate Professor, Commerce, S.G.N.D. Khalsa College, Delhi University, India.*
*** *Associate Professor, Commerce, Punjabi University, Patiala, India.*

system, little social security and low savings has increased the vulnerability of the aged population.

These concerns have created demand for new financial products and arrangements that could help stretch out the available savings, provide liquidity to illiquid assets and make life easier for retired people (Rajagopalan, 2006). We are already seeing a growth in life insurance with pension plans. Keeping in mind the specific needs of the retirees, soon we could expect an increased availability of guaranteed pension products and variable annuity products. We could also see introduction of inflation adjusted annuities, in which regular payment is indexed to the rate of inflation. To provide for the old age social and income security for a large number of people in the unorganised/informal-sector like wage earners and self-employed, the New Pension System (NPS) was made accessible to them from 1st May 2009. This is to be based on the voluntary contribution by members during their working life and not funded by state.

Although they are short of regular cash flows, most middle class senior citizens in urban areas fortunately own houses whose values have increased considerably in recent years. Huge amount of seniors wealth is locked in house properties. Traditionally property is considered to be an illiquid asset. But seniors can now generate liquidity from their house property through a number of arrangements:

i. **Sell the home and move to another location on rent:** This could provide additional liquidity to the senior citizen in times of need. This alternative is not preferred as this will force seniors to look around for accommodation and keep on worrying about the rising rents. They would rather like to remain in their social environment and maintain their social standing.

ii. **Rent a part of the house**

iii. **Arrangement with builder:** Recently this option is becoming popular in big cities. In this, a senior citizen having a high value house property in good location but facing a cash crunch can enter into an arrangement with builder to construct multi-story flats at his property. In most such arrangements the builder gets a share in the property in the form of one floor. In return, builder takes the responsibility of construction and also pays a substantial sum to the owner. The owner gets the much needed cash and continues to live at the same place.

iv. **Reverse Mortgage:** Encouraged by the success of reverse mortgage internationally in many of the developed countries, Indian government too introduced this loan facility in the union budget 2007-08. This could be seen as an attempt to promote voluntary efforts by property owning middle class senior citizens to provide for their own old age security. In this scheme, an individual with age of 60 years and above is given loan against the mortgage of his/her self occupied property. This loan is mainly given in the form of a regular annuity either for a fixed term or for a lifetime.

Concept of Reverse Mortgage

A reverse mortgage is a loan available to senior citizens against the mortgage of his self occupied house property. Reverse mortgage, as its name suggests, is exactly opposite of a typical mortgage, such as a home loan. In a typical or forward mortgage, you borrow money in lump sum right at the beginning and then pay it back over a period of time using Equated Monthly Instalments (EMIs). In reverse mortgage, you pledge a property you already own. The bank, in turn, gives you money either as lump sum or as regular income flows for a fixed tenure/life time. These can be thought of as reverse EMIs. Although you mortgage the house to bank, you can live in it till you and your spouse are alive. The purpose of a forward mortgage is to purchase a home, while the purpose of a reverse mortgage is to generate cash in times of need. Reverse mortgage works like a pension scheme for senior citizens, who live in a house they own.

The Finance Minister, while presenting the Union Budget, 2007-08, had announced that the National Housing Bank (NHB) will introduce a reverse mortgage scheme for senior citizens. NHB is the principal financial institution for housing, established under an Act of the Parliament, as a wholly owned subsidiary of Reserve Bank of India. NHB is also the regulator of housing finance companies.

Pursuant to the Government's Budget announcement for 2007-08, NHB empowered with the responsibility of regulating the Reverse Mortgage Loan (RML), announced the draft guidelines. After receiving public comments and incorporating the same, came up with final "Reverse Mortgage Loan (RML): Operational Guidelines" at the end of May 2007 and subsequently revised and notified them in May 2008.

Reverse Mortgage Scheme was also notified by the Government of India vide Notification No. 93/2008/F.No. 142/06/2008-TPL in September, 2008. It was to be known as reverse mortgage scheme 2008. The scheme is presently implemented by 23 Banks and 2 housing finance companies.

Brief History of Reverse Mortgage

There is a long history of the use of equity release mortgages as methods of financing retirement and aging (Huan and Mahoney, 2002). As early as 400 years ago, European investors purchased homes from elderly persons and allowed them to stay in the same house rent-free for the rest of their lives. During the crash of 1929, a financial product called the home-equity reversion was created in England. The concept was subsequently brought into U.S and became known as home-equity conversion loans or reverse mortgages in the 1970s and 1980s. In the U.S. this product has developed and evolved the most, both in variety and volumes. The product did not gain widespread acceptance until 1988 when U.S. Federal Government began sponsorship of its own reverse mortgage program. It authorised the Department of Housing and Urban Development (HUD) to create the Home Equity Conversion Mortgage (HECM) program. HECM program is insured by the U.S. Federal Housing Administration. Currently HECM program is most popular in U.S. and is gaining increasing popularity.

The reverse mortgage loan is currently available in numerous countries, notably the U.S., Great Britain, Japan, Canada, Australia and New Zealand where it is attracting more and more consumers. Reverse Mortgage scheme has been particularly famous and quite successful in United States of America. In India this concept has been taken from America and is being customized to suit our local needs. One thing that has adversely affected the demand for reverse mortgage in recent times in many of these countries is the decline in property prices.

Regulatory Framework in India

Some of the important operational guidelines as announced by NHB and appearing at its official website are as under (NHB, 2008) :

- If you are a home owner, above the age of 60 years, owning a self acquired, self occupied home or flat in India, with a clear title, you are eligible for a reverse mortgage loan. If you or your spouse so wish, you can both apply for the loan together as co-owners. In this case, if one spouse dies, the second spouse continues to receive periodic payments. The only clause here is that the co-owner should be at least 55 years of age.
- The maximum loan you can receive is up to 60% of the value of your home.
- The loan tenure is capped at 20 years. This does not mean that once the loan tenure is over, you have to vacate the home. It only means that your periodic payments will cease once the loan tenure is over. But you and your spouse can continue to live in the house till lifetime.
- You can choose to receive the payment in a lump sum or you can choose to receive payment periodically, or as a committed line of credit. If you choose to receive periodic payments, you can receive them in a monthly, quarterly, half yearly or yearly mode.
- Your property will be re-valued at least once in 5 years, and based on the revaluation, your lender has the option to change the periodic payments you receive.
- The reverse mortgage loan is available at a rate comparable to the normal housing loan rates. The interest rates can be fixed or floating.
- Reverse mortgage loans apply only to residential properties that are self occupied by the borrower. This is not applicable to commercial properties. Reverse mortgage loan is not provided for houses on power of attorney.
- The residual life of the property should be at least 20 years, and the property title should be free of any encumbrances.
- The loan amount may be used by the senior citizen borrower for regular day to day expenses, renovation of residential property, medical exigencies, etc. However, use of loan for business and speculative purposes is not permissible.
- The borrower has to pay all the taxes, electricity and water charges regularly. The borrower has to keep the property insured against fire, earthquake and other perils.
- The loan involves certain initial costs which borrower has to bear. These include loan processing charges, documentation charges, property valuation charges etc. These costs are 1% of loan amount or Rs. 20,000 whichever is higher.
- The loan becomes due and payable with accumulated interest, only on the borrower's death or on the borrower leaving the house property permanently. The bank will give their heirs two options -- settle the overall outstanding loan and retain the house, or the bank will sell the house, use the proceeds to settle the outstanding loan and give the rest to the heirs. The borrower(s) or his/her heirs also have the option of prepaying the loan at any time during the loan tenor, without any prepayment levy.

- It is a non-recourse loan which means the lender can recover his dues only from the property and not the borrower's estate.

- The loan agreement carries a right of recession clause which gives borrower three days times to cancel the loan transaction.

The initial Reverse mortgage scheme (2008) based on above guidelines was facing some problems from both borrower and lender point of view. The payment tenure was restricted to maximum 20 years but the borrower wished to receive the payment for lifetime. The quantum of periodic payments to borrower was too low and was mainly dependent on interest rate. Also, there was uncertainty over continuance of periodic payments to borrower if property value declined. The banks (lender) also felt that this is a long term product involving a number of risks like longevity, interest rate and property valuation. The banks due to short term nature of their operations were not too keen to assume all these risks. There was a need for creating risk sharing arrangements.

The National Housing Bank (NHB) took note of this and came up with a revised version of reverse mortgage loan facility in 2009. The new improved version is known as "Reverse Mortgage Loan enabled Annuity" (RMLeA). This new product is based on tie-up between banking and life insurance sector. This new product will provide assured life time annuity to house owning senior citizens against mortgage of their residential property. It also ensures a higher annuity amount to borrower. Two banks (Central Bank of India and Union Bank of India) are providing the new product in tie up with Star Union Dai-ichi Life insurance Company Limited (SUD Life). The terms of (RMLeA) are similar to reverse mortgage scheme (2008).

In the new version, the bank mortgages the property and after assessing the value of property pass on eligible loan amount in lump sum to a life insurance company. The insurer, in turn, works out an EMI based on actuarial calculation and makes regular payments to the borrower for lifetime through the bank. Unlike regular reverse mortgage, where the banks make the payment, here the bank merely acts as an interface between the insurer and the customer. Borrower will have dealing only with bank. The new model also makes the product viable for banks. Earlier, banks had to bear 100% of the risks involved in the product. But with the new product, the risks are divided between the insurance company and the bank. Typically, the bank bears the 'property mortgage related risk', while the insurance company bears the 'longevity risk' (the possibility that senior citizen lives exceptionally longer). This leads to specialisation and better efficiency in the system which ultimately benefits the borrower.

In the new version loan to value ratio varies between 60% and 75% depending on the borrower age. The new version (RMLeA) gives borrower the option of taking 25% of the amount as lump sum and the remaining is compulsorily to be taken in the form of life time annuity. The borrower can choose between two annuity options. These options are:

i. Life time annuity 'without return of purchase price': This gives annuity to the borrower till his death. Under this, the bank sells the house and offsets the loan with accumulated interest after the death of the borrower. In case husband and wife are joint borrowers they can obtain separate life time annuities within the loan amount.

ii. Life time annuity 'with return of purchase price': Under this, after the death of the borrower and the spouse, the insurer will return the lump sum the bank paid to it at the time the loan started. The bank will use the money to offset the loan and will, subsequently, sell the house to recover the balance, if any. If the heirs want to get back the property, they will have to repay only the interest.

Important differences between Reverse Mortgage Scheme (2008) and RMLeA (2009):

- Tax treatment of the amount received by the borrower: The annuity that a borrower get through RMLeA is taxable in his hands against the tax-free regular payment that the earlier version gave. All payments made under reverse mortgage loan scheme (2008) are exempt under section 10(43) of the Income-tax Act. But, monthly or periodic annuity payments are defined as 'salaries' under section 17 and are taxable.

- Value of the annuity: While under the regular reverse mortgage product, annuity value will alter with interest rates movement, the value of the annuity will remain constant for lifetime under RMLeA (2009)

- Upfront interest: Unlike in the simple reverse mortgage product, where the bank made periodic payments, under RMLeA, the banks pay a lump sum to the life insurer. The liability of the banks to recover the loan starts immediately and, therefore, the interest is levied upfront.

- Tough prepayment: While under the simple reverse mortgage product, borrower will only have to prepay the instalments already received, under RMLeA, borrower will have to settle the entire outstanding loan. The mortgage will be released but the annuity payment continues. RMLeA is meant for those who are willing to leave their house mortgaged for lifetime. Otherwise, prepayment can cost dear.

Table I below shows the indicative amount of annuity likely to be available under two options.

Table I: Indicative Monthly Annuity Under Both Versions of Reverse Mortgage

Particulars			RMLeA (2009)		RM SCHEME (2008)
			Life Time Monthly Payments		Monthly payments for A 20 year Term
Age	Property Value(Rs.)	Loan To Value %	Without Return of Purchase Price Option (Rs.)	Return of Purchase Price Option (Rs.)	Assuming Interest @ 10.5%p.a. (Rs.)
60	50,00,000	60%	17,295	10,955	3,701
65	50,00,000	60%	19,935	11,335	3,701
70	50,00,000	60%	24,080	12,095	3,701
75	50,00,000	70%	35,830	16,555	4,318
80	50,00,000	75%	51,597	24,941	4,626

Reverse mortgage seem to provide a low annuity amount but we must also remember that both borrower and his/her spouse have the house for lifetime. If the retiree sells the house he could earn more, but would be forced to look around for accommodation and keep worrying about rising rents.

Evaluation Of Reverse Mortgage Scheme

Benefits: Reverse mortgage scheme offers number of advantages for all stakeholders including borrower, lender and government. Some of these advantages are:

i. This loan could become a useful supplement to retirement income for senior citizens with little or no pension and shortage of cash inflows to meet the expenses at that stage of life. It makes them financially independent.

ii. As the loan is not to be paid back, there are no eligibility requirements like income qualification to avail this loan.

iii. There is no upper age limit for getting this loan. In fact higher the age, the more is the eligible amount of loan.

iv. The money received by borrower under this scheme is tax free. Borrower has the flexibility to receive the loan money in the form of a lump sum, annuity, credit line or combination of them as per his/her requirements.

v. Borrower gets the lifetime right to stay in his own home.

vi. Borrower can never owe more than the value of his home at the time of loan settlement. If the loan amount with accumulated interest grows to more than the value of house, the lender has to bear the loss.

vii. There are no restrictions on the use of funds except that they cannot be used for business or speculative purposes.

viii. At the macro level, implementation of reverse mortgage schemes could reduce the burden on the government and employers who are paying pensions, whether in the public or in the private sector, and would thus be an indirect measure to bring in pension reforms.

ix. Considering the present trend of increase in property prices, it is very likely that even after settlement of reverse mortgage loan there would still be something left for legal heirs. To some extent this will take care of the desire of the senior citizens to leave some inheritance for the children.

x. It can provide a good business opportunity for the lender. There are crores of rupees locked up in property values in urban areas. With senior citizen population being the fastest growing segment of the Indian population, the demand for this product could grow substantially in times to come.

xi. The increased awareness of the availability of reverse mortgage loan will motivate people to build or buy their homes early in their lives and thereby, save for their retirement voluntarily. This would increase the economic activity.

Drawbacks:

i. If the borrower decides to reallocate to other place, then he/she will be required to repay the loan. This could limit borrower's freedom of choice.

ii. Initial loan processing costs associated with the scheme are quite high. The loan facility will therefore make sense if it is used for a long term.

iii. If real estate prices go down at some stage, the revaluation of property could entitle borrower to lower annuity value, when in fact he would need higher amount with each passing month.

iv. It becomes difficult for senior citizen to bequeath the home to children.

Conditions Favouring Reverse Mortgage Market in India

Currently there are a number of factors that favour the development of reverse mortgage market in India. Some of the important factors are:

i. **Demographic Changes:** Significant demographic changes are taking place in India over the last few decades. These changes are in the form of decline in fertility rates, increase in life expectancy, increase in absolute number and proportion of the aged population, increase in old age dependency ratio, rapid urbanisation and increased life expectancy of women leading to greater feminization of population(Asher, 2008; Rajan, 2006). India is currently reaping demographic dividend through its large youthful workforce. But over time, this large workforce will retire and add to economic burden. *According to the Census 2001, the number of* older persons in India was 77 million, or 7.5% of the total population. It is projected that the number of older persons will be 96 million in 2011 (or 8.2%), 133 million by 2021(or 9.9%) and 301 million (or 17.3%) in 2051 (Rajan, 2006).

A large number of old and retired people with long retired lives, high inflation, steep rise in medical costs and limited pension coverage could pose a danger to the old age social security in the country. In this context, the introduction of reverse mortgage could be seen as major initiative to promote voluntary efforts by house owning middle class senior citizens to provide for their own old age security. This could significantly reduce the fiscal burden which ageing population puts on the government for retirement provisioning.

With changing lifestyles the younger generation are migrating from not only rural to urban areas but from country to another as well, leading to rapid urbanisation and increase in old age dependency ratio. The old age dependency ratio (number of old persons 60+ years) to the working age group (15-59 years) has increased from 9.8 per cent in 1981 to about 12.6 per cent in 2001. (Census of India, 2001). It is projected to increase to 16.0 in 2021, 19.0 in 2031and 28.2 in 2051. (Rajan, 2006). Index of ageing as defined by the ratio of population above 60 years of age to the population of 0-14 years was 21.1 in 2001 is projected to increase to 81.7 in 2051(Rajan, 2006). If the house owning senior citizens wish to remain financially independent in their old age, they can look into reverse mortgage.

Female life expectancy at ages 60 years and 70 years is slightly higher than that of males. As women are increasingly living longer than men, greater feminization of population is taking place (Liebig and Rajan, 2003). Reverse mortgage can provide income and social security to female population after the death of their spouses. Decline in fertility implies that in times to come old people will have few children. This could reduce the pressure on seniors to bequest the property to children. They can use their residential house property through reverse mortgage to generate additional liquidity for old age consumption.

ii. **Insufficient retirement income:** The main sources of revenue for seniors are pensions, private retirement funds, paid work and interests or dividends from savings and investments made over their lifetime. According to the 1991 census reports, India has an estimated 314 *million workers, of which a mere 11 per cent are covered by the formal* pension system. In the past, the pension system in the formal sector (for government employees) was defined benefit pension scheme. This meant that the subscriber knew the amount he would get on retirement. But not anymore. Taking a cue from the developed countries which were facing enormous fiscal pressure due to increasing burden of pension liabilities, Indian Government too felt that defined benefit pension scheme may not be fiscally sustainable in the long run. Therefore it shifted all its new recruits who joined service on or after 1st January 2004 to New Pension System (NPS), which is a defined contribution pension scheme(Asher, 2008).. In this the regular contribution is governed by rules but what the subscriber gets on retirement depends on the performance of fund manager that is selected by him to manage his fund. From 1st May 2009, NPS is made applicable to large number of those in the informal sector like self-employed, wage earners etc.

Little or no pension and low accumulated savings increases the vulnerability of retired people. They are either forced to extend their working life or look around for new financing option through which they could supplement their retirement income. Reverse mortgage is one such option.

iii. **Housing wealth owned by senior citizens:** Seniors typically possess more financial assets than younger persons, usually accumulated over the years. Housing wealth constitute most of the non-pension wealth of most middle class senior citizens. Elderly people on an average possess greater housing wealth than the population average, but they also have incomes that are much lower than those received by younger groups.

NHB commissioned a research that found there were 3.87 million house-owning individuals above 65 years in India in March 2006. A report by global consultancy firm Celent, had estimated the market potential of reverse mortgage market at three million households in 2007, which is expected to grow to six million by 2015 (Celent, 2008). The large housing wealth possessed by senior citizens provides a great market opportunity for an innovative financial product like reverse mortgage.

iv. **Rising real estate prices:** The value of housing wealth possessed by middle class senior citizens is not only significant but is growing fast. Over the last few decades property prices have increased considerably in the entire urban landscape. Prices have shot up many fold. Houses worth a few lakh of rupees 10 to 15 years ago are worth crores of rupees today. Although the property value of house owning retiree could be in eight figures but their monthly cash inflow in many cases is hardly above four figures. It has given rise to a large number of 'house-rich but cash-poor' property owners. Since a large portion of middle class seniors wealth is locked in their homes, higher real estate values has substantially increase the value of these assets as a source of funding the post retirement expenditure. Reverse mortgage is an important financing option that can convert the rising residential property prices into a source of regular income for retirees in times of need.

v. **Disintegrating Joint Family System:** In the not too distant past, our age old tradition of joint family system took good care of the old and retirees. It provided the financial and psychological support to the aged people. They felt so secure that they hardly felt the need of financial planning for a comfortable retired life. But with Indian economy opening up and becoming increasingly globalised, joint family system is collapsing fast (Rajan at el., 1999; Bhattacharya, 2005). The migration pull triggered by globalisation is moving the young people away from the parental home to other cities and even other countries in search of better jobs where their parents cannot always follow them. Even in the same cities many parents and children prefer to live independently. With nuclear family becoming the norm for young people, vulnerability of the old people has increased. As per Census of India 2001, about one-third of the population in India no longer lives in their place of birth, and 7 per cent of elderly couples live on their own. With the changing social landscape in which the joint family system is fast collapsing, the use of reverse mortgage could be a useful addition to retirement financing options. Instead of being dependent on their children for monetary support the elders can use this option to lead an independent and graceful life.

vi. **Changing attitudes:** Over a period of time people's attitudes are changing about debt, about being financially independent and about importance of leaving an inheritance for children. Not more than two decades ago, people hated debt and living on borrowed funds. But the new generation has changed all that as can be seen through growing volumes of home loans, vehicle loans, education loans and increased use of credit cards. An NHB study has indicated that most senior citizens are opting to stay independently rather than with their children. They also wish to be financially independent. The high economic growth rates leading to low fertility is reducing the average size of family. With reduced family size and children well settled, there is less pressure to leave inheritance for children. This change in attitudes could encourage seniors to use reverse mortgage and convert their housing wealth into an important additional source of funding the post retirement expenditure.

All the above factors point to a great potential for a product like reverse mortgage to provide a solution to the financing needs of middle class house owning retirees The number of such people is large and growing with increasing urbanisation. Most people in the middle class try to build a home for them during their working life. Reverse mortgage gives them an opportunity to generate income from that very home when other sources dry up in times of retirement. This can also reduce the pressure on the government to provide old age security. Therefore government also wish to promote it. Despite great potential theoretically, in reality the reverse mortgage market has remained weak. According to National Housing Bank, only around 7,000 loans amounting to around Rs 1,400 crores have been sanctioned till March 31, 2010.

Conclusions And Suggestions

As the scheme holds a huge potential, this section will suggest some policy measures to promote its use by the middle class house owning senior citizens. Some of the important measures could be:

- There is a need to create better awareness about the product. Most of the eligible senior citizens do not even know that such a product exists. The seniors who know it are not familiar with its detailed features. The level of financial literacy is low even among the well educated people in our country. The banks, because of their regular interaction with senior citizens can play the lead role in promoting and creating wide spread awareness about this product. They should train their staff, so that they have good knowledge of this new product and patience to deal with senior citizens. There is a need for greater propaganda by all associations of senior citizens, magazines, newspapers and government departments at the centre and state level dealing with matters pertaining to senior citizens to explain the reverse mortgage scheme and its benefits to senior citizens. The role of the government in terms of promoting the financial literacy levels in general and seniors in particular is very important.

- Reverse mortgage is an unconventional and a complex product for most senior citizens. The concept of reverse mortgage greatly appeals to them. Their initial response to the product is mostly positive. But as the use of this loan facility involves a decision about their most important asset, various apprehensions dissuade them from actually using it. They are apprehensive about accumulating high debt, possibility of eviction, inability to bequeath property, legal and taxation aspects. Most of their apprehensions are due to lack of clarity about the product features. To create better understanding we need more interaction with user group. There is a need to present consumers with complete, impartial and clear information. The role of good counselling assumes special significance in this regard. Mandatory counselling for every customer on the lines of one provided in United States could improve the situation. The NHB should prepare a list of approved reverse mortgage counsellors. It should be made mandatory for anyone seeking reverse mortgage loan to undergo counselling session with one of these approved counsellors.

- At present the amount of funds that a retiree gets through reverse mortgage is too low. On annualised basis you hardly get 2.5% of qualifying loan amount. To make the product attractive, the lenders should give up their conservative outlook and provide higher annuity amount to eligible home owning senior citizens. As the property prices have increased substantially in recent years, the cap on the maximum loan amount of Rs. 50 lakhs or one crore should be raised so that more annuity amount could be provided to eligible senior home owners.

- Government should be pressurised for tax-exemption of life time annuity under the new version (RMLeA) by all the stake holders of welfare of senior citizens. Making life time annuity income tax exempt should enhance the appeal of the new version for the seniors. Taxation issue is also important for lenders. They would also find the product viable for them, if regulations permit them to deduct interest payments accumulated on their reverse mortgage loans but not receivable by them until the sale of the house. The government should address these tax related concerns to improve the reverse mortgage market.

- The government should take initiative in building a database on mortgaged properties, quality of houses their residual life, value of transactions etc. Recently Credit Information Bureau India Ltd (CIBIL) launched a data base on mortgaged properties in consultation with National Housing Bank. The database will contain information on properties against which owners have availed loans, summaries of those loans and comprehensive information on those properties. It will help lenders share and access mortgage information, exercise stronger due diligence and reduce fraudulent transaction (Business Line, Sep 2, 2010). CIBIL has a database of 160 million consumer or individual records and has already received over six million mortgage records from lenders.

- Greater participation of the life insurance sector in this market could help in risk sharing and making available lifelong annuity stream to a large number of borrowers. The process has already started in the form of new version of the scheme but it should accelerate in times to come.

- The lender should explore alternative ways to structure reverse mortgage payments so as to make the product more appealing to borrowers. The lenders could think of the variable annuity to take care of the age related changing needs of the senior citizens. Another option could be inflation indexed annuity in which annuity payments could be indexed to the rate of inflation. Even the lump sum payment could be given in more than one tranche because senior citizens could face financial emergency on more than one occasion requiring lump sum amount.

- People should be made to realize that government due to fiscal constraints and high income inequalities cannot provide for the old age income and social security of all citizens. Government may not have financial resources considering the current numbers and growth projections of elderly population. In the absence of state and family support, middle class senior citizens should look to their house property to generate much needed cash in times of need.

- Sincere efforts should be made by the lender to simplify the initial procedure and paperwork associated with using this loan facility. Also, the upfront costs should be kept as low as possible.

- As the volumes are already high in normal home loan market, banks at present are not focussing their attention on a new and unconventional product like reverse mortgage. But there are billions of rupees invested by seniors in the house property waiting to be tapped through this new and innovative product. Banks should promote this product to make more money by capturing the larger share of mortgage market.

To conclude, we can say that India has all the necessary condition for the success of reverse mortgage program like aging population, low coverage of assured pension, no pension for large number of people working in informal (non-government) sector, rising cost of living and health care, declining joint family system, growing urbanization, retirees owning substantial house properties and rising property prices. Considering the current size and growth of its elderly population the provision of any liberal and universal old age social security in India is unlikely due to financial and fiscal constraints. In such a scenario, reverse mortgage has the potential to become a significant retirement financing option for house owning senior citizens, by provide liquidity to their otherwise illiquid housing wealth. This could also reduce the burden on the state by encouraging individual's initiative to provide for their own long term care.

In India, with continuous rise in life expectancy, financial planning for the post retirement life has become very important today. The retirees need to build their nest big enough that could sustain them for long periods of retired life. Most of savings during working life and wealth accumulation by seniors in urban areas is in the form of ownership of house properties. Therefore, in our country reverse mortgage has the potential to significantly improve the retirement security of a large and growing urban middle class.

Despite huge market potential very few eligible senior home owners have used this unique financing option in practice. There is no need to be disheartened by this poor experience initially. Even in the USA, where reverse mortgages are very popular today, the initial response was no better. In most of the developed countries, where the product is popular today, not even one percent of the eligible senior population has used the product till date. In India, the product is slowly evolving. Changes are being made in the product based on the users feedback. Indian population is gradually ageing and related issues are slowly attracting the attention of the policy makers. In times to come, more and more retirees will surely use this product for their old age needs, in the absence of other viable options.

Yes, reverse mortgage is indeed a significant retirement financing option for the senior citizens. But to improve its take off, what is called for is the sustained efforts in the form of regulatory changes, tax concessions, financial literacy, increasing awareness through media, counseling centers, mandatory counseling and increased information flows. The government should also promote it to reduce the economic burden on state of the ageing society. In times to come, demographic changes, changes in the pension system, social and cultural changes will compel the retirees to give a serious thought to the option of reverse mortgage.

References

Asher, M.G., (2008); Pension reform in India, in J. Raghbendra (eds.), The Indian economy sixty years after independence (New York: Palgrave Macmillan), pp. 69–92.

Bhattacharya, P., (2005); Implications of an Aging Population in India: Challenges and Opportunities. http://www.silverinnings.com/docs/Ageing%20Indian/ Implic ation%20 of%20Ageing%20population%20in%20India.pdf (accessed on 10 August, 2011).

Celent, (2008); Report on 'Reverse Mortgage Market: Early Days for India. http://www.celent.com/ reports/reverse-mortgage-market-early-days-india (accessed on 26th July, 2010.

Census of India: (1991, 2001, and 2011)

CRIISP (2011); Report of The Committee to Review Implementation of Informal Sector Pension. http://pfrda.org.in/writeread data/linkimages/CRIISP%20 Report 9681894859.pdf (accessed on 17th August, 2011).

Huan, C., and J. Mahoney, (2002); Equity Release Mortgages Housing Finance International 16(4): 29-35.

Iyer, K.C., and G.C. Tripathi, (2009); Assessment of Reverse Mortgage Products in Indian Market. http://ssrn.com/abstract=1330056 (accessed on 24th May, 2010).

Liebig, P.S., and S. I. Rajan, (2003); An Aging India: Perspectives, Prospects and Policies, (USA: Haworth Press).

NHB (2008); National Housing Bank, Reverse Mortgage Operational Guidelines. http://www.nhb.org.in/ (accessed on 7th January 2011).

Raghvan R.S., (2009); Reservations on Reverse Mortgage, The Chartered Accountant 57(8) :1403-1407.

Rajagopalan, R., (2006); Reverse Mortgage Products for the Indian Market: An Exploration of Issues. Working Paper . T.A. Pai Management Institute, Manipal.

Rajan, S. I., U.S. Mishra and P.S. Sarma, (1999); India's Elderly: Burden or Challenge? New Delhi: Sage Publications.

Rajan, S. I., (2006); Population Ageing and Health in India. Mumbai: Cehat Publications.

Redfoot, D. L., K. Scholen, and S. K. Brown, (2007); Reverse mortgages: Nicheproduct or mainstream solution? Report on the 2006 (AARP) national survey of reverse mortgage shoppers.

Schiller, R. J., and A. N. Weiss, (2000); Moral hazard in Home Equity Conversion. Real Estate Economics 28(1):1-31.

Scholen, K., and Y.P. Chen, (1980); Unlocking home equity for the aged. Cambridge, Mass: Ballinger Publishing Company.

STUCKI, B. R., (2005); Use Your Home to Stay at Home: Expanding the Use of Revere Mortgages for Long-Term Care. Washington, D.C.: National Council on Aging.

Vaidyanathan, R., and M. Venkataraman, (2006); Unlocking the Income Value of Housing Assets in India through Reverse Mortgage. Paper presented at10th APRIA conference, Tokyo, Japan.