European Economic Letters
ISSN 2323-5233
Vol 15, Issue 1 (2025)
http://eelet.org.uk

A Comprehensive Analysis of Reverse Mortgages within the Indian Retirement Landscape

Ms. Parita Bengali[1],
[1]Research Scholar
Department of Business and Industrial Management
Veer Narmad South Gujarat University, Surat
Email: parita.bengali@gmail.com
Dr. Krishna Kedia[2]
[2]Assistant Professor,
School of Business,
Auro University, Surat
Email: krishna.kedia92@gmail.com
Dr. M. C. Roopa[3]
[3]Dr. M. C. Roopa
HOD & Associate Professor,
SSIT, Sri Siddhartha Academy of Higher Education (Deemed to be University), Tumkur.

ABSTRACT
Rearward mortgage loan has been gaining popularity as a agency of financial provision for aged citizen worldwide. This paper examines the conception of reverse mortgage loans in the Indian context and canvas its potential benefit and drawbacks as a strategic retreat provision tool. This paper sheds light on Reverse Mortgage as a potential lighthouse of hope, offering a comprehensive analysis of its function in strategic retirement planning for Indian seniors. Additionally, the subject explores the key features of reverse mortgage loans, such as eligibility criterion, loan sum of money, sake rate, and repayment alternative, and assess their implications for retired person in India.

Apply existing literature, financial reports, and regulative frameworks, the study aim to provide a comprehensive overview of the reverse mortgage loans in the Indian context. Cultural attitudes towards home ownership and financial products are also examined through existing data sources, providing insights into potential cultural barriers and opportunities for the adoption of reverse mortgage loans. The empirical findings contribute to a deeper understanding of how ethnic factors shape the acceptance and utilization of fiscal instruments designed for retirement planning.

Integrating these various elements, this research aims to offer a nuanced perspective on the benefits and risks associated with reverse mortgage loans in the Indian context. The outcomes of this study hold relevance for policymakers, financial planners, and individuals looking to enhance their retirement planning strategies within the dynamic and culturally influenced Indian financial landscape. By tackling these roadblocks and fostering cultural acceptance, Reverse mortgage can be strategically woven into retirement planning, unlocking a financially secure and dignified future for India's seniors.

***Keywords**: Reverse Mortgage, Retirement Planning, Financial Security, Indian Seniors, Challenges, Opportunities.*

Introduction
Reverse mortgage loans have been gaining popularity as a agency of fiscal preparation for senior citizen worldwide. This report examines the concept of reverse mortgage loanword in the Amerind context of use and analyses its potential benefits and drawback as a strategic retreat provision peter. This theme analyses Reverse Mortgage as a potential beacon of hope, offering a comprehensive analysis of its role in strategic retirement planning for Indian seniors. Additionally, the discipline searches the key feature of inverse mortgage loan, such as eligibility criteria, loan amount of money, interest rates, and repayment options, and appraise their deduction for retirees in India.

Utilize exist literature, financial reports, and regulative fabric, the study get to allow for a comprehensive overview of the dynamic surrounding inverse mortgage loans in the Indian context of use. Cultural attitudes towards home ownership and financial products are besides examined through live data reference, providing sixth sense into potential cultural barrier and opportunities for the adoption of reverse mortgage loans. The empirical findings kick in to a deep understanding of how ethnic factors shape the acceptance and utilization of financial legal instrument plan for retirement planning.

The primary assets- a house, that has usually grown in its financial value and represents significant amount of one’s assets. To address these issue, Reverse Mortgage may be a useful option. It is a type of home loan for older homeowners that provides a monthly payment without requiring monthly mortgage payments. Borrowers are still responsible for property taxes and homeowner's insurance. With Reverse Mortgage, elders can access the equity they have built up in their homes now and defer payment of the loan until they die, sell, or move out of the home. The repayment of the loan only needs to be done after the death of the borrower(s) by legal heirs. Unfortunately, Reverse Mortgage Loans have not been popular in India, despite being around for about 16 years. This paper delves deeper into the topic, analyzing the demand and supply scenario, currently available Reverse Mortgage products, the present regulatory framework, misconceptions about the scheme, and incentives required to make Reverse Mortgage a popular product for both customers and banks.

Overall, the paper presents a detailed overview of Reverse Mortgage in India, highlighting its benefits and challenges. It provides valuable insights into how the product can be made more accessible and popular among seniors, ensuring their financial security in their golden years.

Literature Review

Elder population in the societies face a number of issues due to lack of comprehensive old age income and social security system, increased medical expenses, inadequacy of savings upon retirement, lack of health care financing (Ishaq et al., 2017), fewer pensions, and high consumer debts and mortgages (Arora et al.,) long term care.

Existing studies have talked about the nature of housing equity from various angles. Most retirees do not regard housing wealth as fungible asset. They regard their house simply as a place to live in and thus do not make any consumption decisions based on that asset (Walker, 2003). Most elderly have a strong attachment to their home and for them home is an emotional and psychological resource (Gibler and Rabianski, 1993). Chia and Tsui (2005) have also confirmed that social dimensions like bequest motive and psychological dimensions like reluctance to mortgage the home are significant obstacles to the success of Reverse Mortgage. The use of Reverse Mortgage Loans can help the impaired elderly to continue living in their homes (Stucki, 2005) as well as in their consumption smoothing. (Kang ,2010), there has been a growing popularity of reverse mortgages among senior citizens who need cash.

(Srinivasan 2008) discussed the pros and cons of this emerging product. The scope of the paper was to provide an overall evaluation of reverse mortgage from the economic and social viewpoint. Reverse Mortgage (RM) loans as hybrid financial products that allow elderly homeowners to borrow against the collateral of their housing wealth wherein the homeowner is not required to pay off the debt or make interest payments on the loan as long as he / she is alive or chooses to stay in the house (Chatterjee 2016).

(Mohammed and Sulaiman 2017) have stated that the elderly population faces lack of sufficient finances to fund increased medical needs and associated cost .He also stresses on inadequacy of social security systems such as pension schemes and other welfare schemes that are meant to support the elderly after their active working age. Reverse Mortgage is an innovative financial instrument that allows the homeowner, 60 years or older, to convert a part of their housing equity into cash. Reverse Mortgage is a financial product that enables senior citizens (60 +) who own a house, to mortgage their property with a lender and convert part of the home equity into tax free income (exemption limit) without having to sell the house (Pahuja, 2016). It is similar to home equity loans except that the borrower does not pay back the loan until he/she dies or decides to sell the house (Shan, 2008). Reverse Mortgage has a potential to become a great option of financing the post retirement requirements of ‘cash rich - asset poor’. Researchers as well as academicians believe that there is enormous market for Reverse Mortgage loans.

A survey should be carried out to assess the demand potential of Reverse Mortgage in different parts of the country, in Metros, Urban and Semi-urban areas. This would help design new Reverse Mortgage products to suit the needs of market (Kumar et al.,2008).

The qualifications for Reverse Mortgage Loan may vary from countries to countries. The lender (usually a bank or housing finance institution) makes monthly payments to the borrower. The borrower may opt for lump sum or quarterly payments as well. The loan need not be serviced as long as borrower is alive or decides to sell the house. Upon the death of borrower, the loan is repaid through sale of the house. The Reverse Mortgage was introduced in USA in 70s and 80s and was introduced in India as recently (in year 2007). However, liquidating housing liquidity to finance post retirement living is not a recent phenomenon. There is a long history associated with use of methods of releasing home equity to finance retirement (Huan et al., 2002). The concept of Reverse Mortgage originated in England during 1930s with the name “Home Equity Reversion Program”. European investors used to buy the homes of elderly, full or a part thereof, and paid them cash, lump sum or as regular income and allowed them to stay back in home rent free for rest of their lives (Huan and Mahoney, 2002). India is experiencing a demographic shift with an aging of the population due to increased longevity rates. For many older Indian households, their largest single asset is their primary place of residence (Daptardar & Dasgupta, 2014) The home equity liquidation continued throughout Europe in some form or another and finally gave way to loan model equity scheme which was closer to Reverse Mortgage loan in features.

Research Objectives

This study endeavours to address the following research questions:

- What are the factors that could serve as barriers or facilitators for the provision and acceptance of Reverse Mortgages?
- Which factor holds the most significant influence in determining the acceptance of Reverse Mortgages?

Through meticulous inquiry, this research aims to unravel the intricate dynamics surrounding Reverse Mortgages, shedding light on the pivotal determinants shaping their adoption and acceptance among potential beneficiaries. By conducting thorough analysis and empirical investigation, this study endeavours to offer actionable insights for policymakers, financial institutions, and stakeholders involved in retirement planning and housing finance. By diving deep into the complexities of reverse mortgages, we seek to provide valuable knowledge that can inform decision-making and drive positive outcomes in the realm of financial planning and housing security.

Research Methodology

Data Collection

The research is done by the following research methodology to analyze and justify the objectives. This is Empirical research. This is based on secondary data. The secondary data collected from books, magazines, newspapers, research journals, reports, government publications and from regulatory bodies. Online research papers from Ebsco, Emerald, J-Gate. The secondary data is available in abundance.

Scope of the study

The study is limited to reverse mortgage system in India. The study covers the working, qualification, and its process. Limitation of the study: The researcher's knowledge is limited. The study is limited only to the available sources in websites, magazines and company brochures. The study is limited to reverse mortgage system in India and does not include overseas operations.

Discussion

History Of Indian Mortgage Sector:

India, being the second largest democratic country, was perhaps the first to respond positively to the growing international concern on housing development by evolving a shelter strategy and through organization of housing markets (United Nations Human Settlements Programme (Habitat), 1988; Harvey, 2000). It evolved sector policy in the late 1990s besides attempting to organize a financing system. These measures set to themselves goals to achieve in coordination with governments at different tiers. Especially, to boost the housing activities in the market, fiscal incentives in the form of exemptions to both individuals and corporate sector were introduced largely in the 1990s. In India, Initially people took their loans from small traders, zamindars or tehsildar and these people charge higher rate of interest on the amount borrowed by borrower. This was a very big problem in rural area. Nowadays rural people are also become aware about the different mortgage loan schemes. Government considers this sector as an important part in their every year union budget. By taking mortgage loan borrower also get tax benefits so people prefer to take home loan for investment purpose and to get tax benefits. On the other side, for few borrowers purchasing a home is necessity and few believe in increasing their wealth or assets.

Shelter Policy is the first bold step towards addressing the various housing problems of the country. In many respects, the National Housing and Habitat Policy-1998 (NHHP) as adopted by the Indian Parliament are different as compared to the National Housing Policy of 1987. The NHHP is claimed to have initiated ''Housing Revolution'' leaving aside all the hangovers against ever increasing population. It emphasized creating a facilitating environment for the growth of housing activity rather than government taking on the task of building. In order to do so, it laid the foundation to build public-private partnerships for tackling the housing and amenities problems.

In last two decades, Government of India made new policies which are helpful for people who want their own house. In 2015, Government of India has taken a very significant step towards it by launching Pradhan Mantri Awas Yojna, 'Housing for all scheme', especially planned for the people who can't afford a house under their financial circumstances. This scheme is targeting the Lower Income Groups (LIG) and Economically Weaker Section of our society (EWS), basically the urban poor.

Government helps them by giving financial benefit so that everybody has their own house by the year 2022.

Status of Reverse Mortgage in India:

Senior Citizens are a growing section of the Indian society and dependency in old age is increasing in the country. While on the one hand, there is significant increase in longevity and low mortality, on the other hand cost of good health care facilities is spiralling and there is little social security. Senior Citizens need a regular cash flow stream for supplementing pension/other income and addressing their financial needs. Also, secular increase in residential house prices has created considerable “home equity “wealth. Government of India introduced the Reverse Mortgage Scheme in its budget 2007-08. The National Housing Board has been given the task of drawing up the regulatory mechanism to enable the use of reverse mortgage in the country (Bantwa & Acharya, 2012).

Individuals would accumulate house properties during their life time. However, after retirement due to liquidity issues Senior citizens might not be able to utilize the benefits from such house property, so reverse mortgage provide the solution to this problem. The basic specialty of reverse mortgage loan is borrower do not need to repay the loan till his or her death and he/she will get monthly or lump sum payment from the mortgage bank to fulfil his/her requirement.

The Journey so Far Loans under the Reverse Mortgage product are actively offered by around 17 banks and financial institutions. Some others have the scheme on the shelf without much underlying activity. The major leaders in this field are State Bank of India, Central bank of India, IDBI Bank, Bank of Baroda, Punjab National Bank, Union Bank of India and Canara Bank. All banks offer a plain vanilla Reverse Mortgage scheme as was prescribed by NHB.

Top Reverse Mortgage Banks in India

- State Bank of India
- Bank of Baroda: “Ashray”
- Punjab National Bank: “Baghban”
- Canara Bank: “Canara Jeevan”
- Central Bank of India: Swabhiman & Swabhiman Plus schemes for Reverse Mortgage Loans.

Challenges That Stakeholders Are Facing In India:

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

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

Risk Perception of The Lenders:

The major risks for the lenders in order of their importance are:

1) Longevity risk: The borrower/ spouse may outlive the tenor of the loan. Due to the covenants of the Reverse Mortgage scheme, lenders cannot enforce security till the death of the last surviving borrower spouse. Though periodic payments cease at the end of the tenor, the loan would accumulate interest till the death of the last surviving borrower spouse.
2) Market Risk or Real estate price fluctuations: The real estate pricing has normally displayed a trend where the rate of return has exceeded that on the conventional fixed income financial assets, sometimes even bullion and equity markets. However, it has not been a thumb rule. The rise in real estate prices can be more than offset by the depreciation in the property value over the long tenor of the loan coupled with the fact that the sale of property by lenders normally ends as a distress sale with a sizable discount to market price. Further, the condition that the residual life of the property to be 5 years in excess of the tenor of the loan, might result into the property fetching lower value than the outstanding loan, in case the borrower/ spouse outlives the tenor of the loan or even a situation where the property doesn’t get sold due to much reduced residual age.
3) Early Repayment by borrower: Early repayment by the borrower might cause a mismatch in the Asset and Liability Maturity. This may turn detrimental to the interest of the lenders particularly in the falling interest rates scenario.
4) Interest rate risk: This risk may definitely be of a serious nature, particularly in case of a fixed Interest rate Reverse Mortgage loan, because this is a no-recourse loan. However, currently since most of the loans are on floating rate basis, this risk is much reduced.
5) Moral Hazard risk: Factors like negligent usage by borrowers/ not carrying out repairs when required, omission to insure the property, insurance rejecting the insurance claim (in case such a claim arises) are examples of the moral hazard risk. These factors may erode the realizable valuation of the property considerably.
6) Adverse Selection: The lender is exposed to the risk of getting a borrower mix resulting in inadequate recoveries. This risk arises if majority borrowers outlive the tenor of the loans.

7) Reputation Risk (Litigation): The legal heirs of the borrower/relatives/ medical attendants staying with the borrowers would be rendered without shelter after the death of the last surviving spouse. This may result in unnecessary litigation thereby delaying the sale of the property if and when needed, pushing the loan to value (LTV) higher than 100%. This may also lead to loss of reputation for the lender in case the aggrieved parties resort to litigation/ try to create undesired situations.

Risk Perception of the Borrowers:

The borrower faces the following risks:

1) Mis-selling of the scheme by the lender: The lenders may resort to Mis-selling of the scheme for various reasons like achieving the targets, selling fixed interest scheme in a falling interest rate scenario, with intentions of profiteering/ taking advantage of financial illiteracy of the elderly borrowers. This was observed in the US on a large scale.
2) Comprehensibility: The borrower may not have knowledge of financial products or may not possess the expertise to understand the working of the scheme due to intricacies involved like compounding of interest, selection of appropriate loan tenor, valuation of securities etc.
3) High Overhead Costs: The costs related to availing the loan like processing, documentation, Mortgage, Valuation of the property, Search report and running costs, if any, may prove to be substantial overheads connected with the loan. Though currently these costs are low and the prepayment of loan is also without any cost to the borrower, these costs may rise in future, particularly the legal costs. However, this is more of a risk to the lender except in case of a foreclosure/ recall or optional early repayment by the borrowers/ relatives.
4) Valuation Risk: The longer the tenor of the loan, the lesser would be the realizable value of the property due to the depreciation factor. This may compel the lender to have a conservative approach as regards valuation of the property. The lower the valuation, the lesser would be the monthly payout.
5) Interest Rate and Compounding risk: The interest charged on the loan is on a compounding basis. This has spiralling effect on the outstanding loan amount. Further, any rise in the interest rates applicable would mean higher outlay for the borrower. This poses a risk to the borrower only in case there is a Foreclosure/ Recall of the loan or early repayment by the borrower. In all other cases it becomes the risk for the lender due to the no-recourse nature of the Reverse Mortgage Loan.
6) Emotional Issues: Senior citizens availing Reverse Mortgage may face a situation of children/ relatives emotionally detaching from them due to the diminished probability of inheriting their property, as the Reverse Mortgage loan would be adjusted by sale of the property. This could happen despite the legal binding on them as per Maintenance and Welfare of Parents and Senior Citizens Act 2007 (MWPSCA).

Drawbacks of the Schemes:

The fact that the number and amount of Reverse Mortgage Loans has not attained a critical mass, it is difficult to brand the scheme as a success. The factors responsible for the scheme not taking off can be categorised as follows:

- **Systemic Factors:**

1) Capital adequacy norms stipulate risk weight of 125% for Reverse Mortgage Loans as against 75% for Home Loans. The lenders, who are struggling for compliance of norms for capital adequacy, would tend to refrain from lending under Reverse Mortgage Scheme.
2) The periodic payments cease on the expiry of the tenor, when probably the need for such a loan could be felt more acutely by the borrower in view of his higher age.
3) The situation where the borrower and the spouse die before the expiry of the tenor of the loan and the legal heirs are not financially capable to repay the loan, would result in a distress sale of the property by the lenders. This may eventually result in loss of valuation to the lenders/ heirs.
4) There are other options available to the owners of the property like sale of property and buying a property at cheaper location, renting out part of the property, taking paying guest, bequeathing the property to that heir who agrees to a similar arrangement as in RMLPP etc.

- **Factors Attributable to The Lenders:**

1) Incorrect / exaggerated risk perception resulted into the banks showing reluctance to evolve the system.
2) Due to these reasons the scheme was never really marketed. As a result, the target section is totally unaware of the scheme.
3) The lenders perceive the efforts reward ratio as unfavorable. The conventional home loan and Reverse Mortgage both require the same amount of effort on the part of the lender for the evaluation of a case. However, for the lender, the conventional home loan creates an asset of a much greater value as compared to a Reverse Mortgage loan as it takes years to build up the portfolio to a sizable amount.
4) In case of conventional home loans, income by way of interest is much more- in fact in multiples of that from the Reverse Mortgage Loans- although both reflect on the income and expenditure account instantly.

5) The increased longevity resulting in the borrower/ spouse outliving the tenor of the loan. Consequently, the quantum of outstanding loan may exceed the property valuation. This is perceived as a major risk by lenders as compared to the credit risk.

- **Factors Attributable to The Borrowers:**

1) The level of financial literacy on the part of the general public is very low or negligible. The case is worse for reserve mortgage. Only a few senior citizens, who are the target group, exhibit the flexibility to know and accept the scheme provisions.
2) The target segment of the scheme has a strong emotional attachment with the property, which they have acquired through hard work.
3) They wish to bequeath the property to their off-springs/ legal heirs rather than have it sold by the lenders.
4) They have strong views about being indebted to any one, and definitely not so towards the end of their life. So, the idea of taking a loan, even though without the liability to repay, is not quite accepted or understood by people.
5) Normally a comparison with EMI for housing loan and the monthly payouts is made. Whereas the EMI for home loans availed/ advertised by lenders are around Rs900/1000 per lakh for a 20-year loan.

- **Risks Not Anticipated / Not Factored in By Banks:**

1) Near relatives/ children, attendants or any other persons forcibly occupying the property to the detriment of the lender and consequent possible litigation.
2) Property coming up for redevelopment and consequent relocation of borrower/ related costs and uncertainty caused due to nonperformance of the developer(s).
3) Lenders normally do not distinguish between a flat in a co-operative society and an owned house / row house / landed bungalow. The determination of realizable value differs considerably, in both these cases since the land price does not depreciate with time.

Conclusion/ Suggestion

Implementing these suggested modifications could increase the acceptance of the Reverse Mortgage Loan scheme. These include:

1) Discounted monthly payments that increase yearly or at suitable intervals.
2) Reduced payout to the surviving borrower until death. 3. Allowing a share in future property value gains.
3) Periodically reviewing payouts based on property valuation.
4) Providing insurance for any shortfall in property value to cover the loan.
5) Government-funded payouts or loan portions.
6) Increasing the borrower's age eligibility criteria.
7) Government and Banks in collaboration may attempt to create more awareness about Reverse Mortgage among general public.

The government should play an active role in this scheme, focusing on social security aspects. However, legislative actions are lacking beyond a few amendments in the Income Tax law. Legislation is crucial to protect borrowers from unethical lenders, especially concerning property matters, and to establish a robust regulatory framework.

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