REVERSE MORTGAGE IN INDIA

A STUDY FOR HOUSING DEVELOPMENT FINANCE CORP LTD

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RESEARCHED BY

SHRINIWAS MARATHE & PRADEEP BHAVE

FOR MONEYLIFE FOUNDATION

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4. Canara Bank
5. Central Bank of India
6. IDBI Bank
7. Union Bank of India

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Sucheta Dalal and Debashis Basu

(Trustees, Moneylife Foundation)

Executive Summary

The number of senior citizens in India is increasing steadily. Thanks to better food and healthcare, longevity is also rising. Estimated longevity at the time of retirement (60 years) is 81 years in urban areas now. This has brought to the forefront the most important issue for senior citizens, namely that of financial security, especially the quest of an option that would take care of their daily needs and rising healthcare costs.

However, due to poor financial literacy and extremely high property prices in India (relative to the income levels), millions of savers are likely to retire with a large chunk of their savings locked up in the apartments that they live in. They may not be poor in terms of net worth, but would not have the cash required to meet the rising cost of retirement living. In other words, they would be asset rich but cash poor.

This is where Reverse Mortgage Reverse Mortgage is useful. A reverse mortgage is a type of home loan for older homeowners that requires no monthly mortgage payments but gives them a monthly payment instead. Borrowers are still responsible for property taxes and homeowner's insurance. Reverse mortgages allow elders to access the home 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 room needs to be repaired only if the owner(s) wish to sell the house or move out of it. Otherwise, the repayment of loan needs to be done only after the death of borrower(s) by legal heirs.

Unfortunately, Reverse Mortgage Loans (RML) have not been popular in India, despite the product having been around for about 10 years now.

This paper includes the demand and supply scenario, analysis of the currently available Reverse Mortgage products, analysis of the present regulatory framework, misconceptions about the scheme and incentives required to make Reverse Mortgage a popular product for both customers and banks, and how Reverse Mortgage schemes can be made affordable and popular among borrowers and lenders.

There are more misconceptions about the Reverse Mortgage Loans than about other financial product available in India. The following popular misconceptions were revealed through our study on all Reverse Mortgage Loans;

1. That the most feared one is that ownership of the mortgaged property passes on to the lender.
2. That Reverse Mortgage Loan is required to be repaid like a conventional home loan
3. That eligibility for the Reverse Mortgage Loan is decided by credit scores and income criteria
4. That entire entitlement under Reverse Mortgage Loan needs to be availed upfront
5. That Reverse Mortgage Loan will render the borrower ineligible for certain Government benefits
6. That the surplus left, if any, on adjustment of the Reverse Mortgage Loan is retained by the lender
7. That in case the property depreciates and the Reverse Mortgage Loan is 'underwater', the borrower should own up the shortfall
8. That payments in respect of taxes, maintenance, upkeep, and insurance of the mortgaged property is the lenders' responsibility
9. That there are restrictions imposed by lenders on how Reverse Mortgage funds can be used

Risks for Lenders and Borrowers

The complexity in Reverse Mortgage exposes a lender to several risks such as mortality, interest rates and real estate prices. It is an unusual product for a typical elderly borrower, creating fears of debt burden, eviction and inability to bequeath property. Legal, taxation and other regulatory uncertainties still persist.

The major risks for lenders, in order of their importance are longevity risk, market risk or real estate price fluctuations, early repayment by the borrower, interest rate risk, moral hazard, adverse selection, and reputation risk (such as litigation).

Similarly, for borrowers the major risks are mis-selling of Reverse Mortgage by the lender, comprehensibility, high-overhead costs, valuation risks, interest and compounding risk, and emotional issues.

International Scenario

Almost in all countries, the scheme started as the Social Security initiative aimed at financial protection of the Senior Citizens of the country. Thus one major factor that plays an important role in the success/ failure of such schemes is the participation of the government by way of formulating the law and getting a strong regulatory mechanism in place. This would keep under control the misuse by either of the participants in the scheme.

Reverse Mortgage has been in existence in Europe for several centuries but in highly localised and personalised contexts. The modern version of the Reverse Mortgage was introduced in US with the support of the Federal Government in late 1980s.

In recent years, the reverse mortgage market has once again become healthy, after experiencing a brief drop during the housing crisis of 2006. Now it is healthier and stronger than ever before, and with newer laws in place to protect homeowners, it has become a more viable retirement vehicle.

Reverse Mortgage has become very popular in most developed countries such as Australia, Canada, US, China, etc. While there may be a few differences in the structure and facilities offered by these countries, what they have in common is the fact that respective governments of each of these countries extend support and incentives for Reverse Mortgage

In the US, the system of state regulation of licensed or registered mortgage lenders would generally provide protection for reverse mortgage loan borrowers from the risks of potential fraud or abuse that could be presented by lenders that operate outside of any formal system of licensing and regulation, as pointed out by the research produced by White & Case LLP to Moneylife Foundation (See annexure 3).

In Australia, reverse mortgages are offered by the Commonwealth Government's Department of Human Services, as well as private lenders such as banks. Reverse mortgages in that country are specifically regulated under the National Consumer Credit Protection Act 2009 (Cth) (NCCP Act). This regulatory regime was created after the global financial crisis in Australia, primarily in 2010 - 2012. As per the research memorandum from White & Case, Australia, at the first stage, the Australian statutory framework broadly regulated persons who engage in credit activities, including the requirement to hold an Australian credit licence. The second stage provided specific consumer protections within at-risk areas of the credit industry –such as reverse mortgages. (See annexure 4)

Our Findings

- It is difficult to evaluate the reliability and effectiveness of all the schemes by various lenders as these have been in existence only for the last 10 years or so.
- None of the loans under the schemes have come to a stage of ensuing security as yet.
- Also, the response and behaviour of the legal heirs is not tested to get an idea of the extent to which repayment in this manner would be acceptable to them.
- In most cases, however, where the Loan-to-value (LTV) is less than 100%, it can be safely assumed that the heirs would be more than glad to settle the loan if they are financially sound.
- Whereas the risk to the lenders of the Loan amounts exceeding the value of Security (LTV in excess of 100%) reduces with a drop in interest rates, the borrowers benefit with higher annuity payments.
- Whether it is China, UK or India, the psychology of the seniors remains the same: "Leaving legacy to the next generation'. This thinking is preventing this section of the society, susceptible to financial woes, from exploring the power of their hard-earned asset, their HOME, from supplementing their income in case of need.

Suggestions

We have suggested some new designs of Reverse Mortgage products that are suitable for Indian conditions.

It is an established fact that the Reverse Mortgage scheme has not attracted as much attention of the borrowers as it was expected to. Then the lenders have given a cold shoulder to the Reverse Mortgage scheme due to several risk factors. Under the circumstances, some introspection is needed both by borrowers and lenders to make Reverse Mortgage schemes work, since the product is important for India's ageing population.

The negative emotional response of borrowers to Reverse Mortgage is not India centric. Anywhere in the world, where Reverse Mortgage has not gathered momentum, this phenomenon is held responsible for its failure of the scheme. The supply side i.e. the lenders also need to shed their overcautious approach and shift their strategies to make Reverse Mortgage work.

A little more acceptability of the Reverse Mortgage Loan scheme can be brought about with implementation of these suggested modified schemes.

1. Discounted monthly payments rising yearly or with other suitable periodicity
2. Reverse Mortgage with reduced payout to the surviving borrower till death
3. Line of credit can be provided to borrowers
4. Reverse Mortgage with share in future gains in property value
5. Reverse Mortgage in tranches (This is an attempt to introduce an actuarial element in the scheme without involving an insurance company)
6. Reverse Mortgage with periodical review of payouts concurrently with property valuation
7. Insurance for shortfall in property value to cover Reverse Mortgage loan
8. Interest subvention by government
9. Reverse Mortgage with payouts or part of the loan funded by the government
10. Raising the eligibility criteria for age of the borrower

The government actually should be actively involved in this product and needs to do a lot in this regard from the social security angle. However, unfortunately, except for a couple of amendments in the Income tax law, the government seriously lacks on legislative front. The government has to initiate action on the front of passing laws from protection of the borrowers from unscrupulous lenders particularly because the scheme deals with property matters. It also has to put a strong regulatory mechanism in place.

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Research Objectives

- To study the concept and scope of Reverse Mortgage Reverse Mortgage products and features in India.
- To study the need, applicability, acceptability, utility and viability of Reverse Mortgage or similar available products in the Indian scenario.
- To evaluate the Indian products particularly in the light of typical circumstances prevalent in India and parameters affecting the Reverse Mortgage products.
- To find out practice and acceptability of Reverse Mortgage prevalent in other countries.
- To examine incentives (refinance/ funding, and / or interest subvention), available from the state to enhance acceptability of the product.
- To probe sustainability of these products in the light of future changes in next two decades.
- To suggest changes in design and mechanism for new products / modifications to existing products, which are suitable and sustainable in the Indian scenario in next two decades.

Research Design

- Study of material / research papers, articles available on Reverse Mortgage Loans (RML) in the public domain.
- Gather live field data as regards supply and demand for the product in India.
- Study lending methodology and practices by interacting with local lenders in the field.
- Analytical study of the variants of the scheme prevalent and practiced in India and factors responsible for their success/ failure.
- Identify the parameters peculiar to the Indian scenario.
- Study the impact of the aforesaid parameters on the functioning of the scheme.
- Study and analyse the systems, modalities and practices, regulatory and legal provisions in respect of Reverse Mortgages in other countries.
- Study of the future impact of demographic, political, economic and regulatory environment over two decades and suggest suitable policy changes.
- Suggestions for systemic and procedural modifications necessitated by changes in parameters towards providing viable and robust working models.
- Wherever possible, provide Mathematical Models with examples for the sake of Clarity.

Research Methodology:

- Collection of articles and research documents available in public domain in respect of Reverse Mortgage Loans.
- Collation of information relevant to this research report and a brief summary of the facts.
- Presentation of information so collected, in an easily comprehensible format.
- Designing questionnaires for lenders and borrowers for sharing their feedback on the functioning and implementation of the scheme.
- On site visits to lenders to ascertain the ground situation and obtain such data - as is not available in public domain as regards the offtake, number of cases, response of borrowers, methods adapted at various stages like marketing of the scheme, disbursal, recovery and implementation of the scheme.
- Identifying risk perceptions of borrowers and lenders and factors peculiars to the Indian scenario.
- Collate the data and examine sustainability on multiple risk parameters.
- Tabulating the analysis in a comprehensible format.
- Exploring sources abroad for firsthand information about similar schemes running in various country(ies) as regards legal and regulatory practices, players involved, their eligibility, loan quantum, repayment mechanism etc.
- Design improvisation over the existing schemes to suit the peculiar nature of regulatory constraints, psychology of borrowers, risk optimization for both lenders and borrowers and ease of operation.
- Illustrate with mathematical models

Chapter 1

Why this Study – Relevance in India:

- The research work was felt to be essential, particularly as the current Indian situation does not see much off take under the Reverse Mortgage schemes. A need was felt to probe impediments in effective functioning of the schemes, since the product is important for the security of India's ageing population with higher life expectancy. Also, given the importance of house ownership in the Indian psyche, this is an obvious product for our society in the future.
- The research is carried out for critical evaluation of the existing schemes for providing loans to senior citizens in the form of Reverse Mortgage Loans, their significance from the social security angle and their utility or otherwise.
- The roles of other agencies like the Regulators and the Government also need to be evaluated from the social responsibility angle.

What are Mortgage Loans?

- Mortgage is a legal agreement, which conveys **conditional right to the ownership** of the property of the borrower to the lender, as security for the loan offered.
- The lenders normally offer finance in the form of a Mortgage loan, at a certain rate of interest, for a certain period (tenor of the Loan) and against the security of an asset in some form.
- The most popular form of Mortgage is the Conventional or Simple or Regular mortgage.

Regular Mortgage:

The characteristics of regular Mortgage are as follows:

- The lender releases the loan to the borrower for **acquiring ownership of an asset** (a house in the context of this report), which is mortgaged to the lender by entering into either equitable or registered mortgage.

- The extent of the loan is decided by deducting a certain percentage (called margin) from the asset value, depending on the credit rating of the borrower and the realizable value of the asset.
- This ensures that the borrower also has a stake in the value of the asset.
- The loan is normally released in a single instalment, though it can be made available in tranches as per the requirement of the borrower to optimize outlay by way of interest.
- The interest is charged with monthly/quarterly rests and compounding is done at monthly/ quarterly intervals.
- The repayment is normally in Equated Monthly Instalments or EMIs as they are popularly known. The quantum of the EMIs is decided so that a regular timely repayment in the form of EMI would square off the loan entirely, at the end of the tenor of the loan.
- The ownership of the asset (house) remains with the borrower, with the lender creating a charge on the house, to the extent of the outstanding loan amount.
- Thus, in a regular mortgage, the loan amount decreases with every repayment by EMI and the share of the borrower in home equity increases, while 'loan to value (of the asset)' ratio (LTV) keeps falling.

The reverse mortgage:

The characteristics of the Reverse Mortgage are as follows:

- The Reverse Mortgage, on the other hand, has a diametrically opposite format.
- The borrower(s) own(s) a House/flat, which is financially illiquid for him.
- The lender provides periodic pay-outs to the borrower(s) against mortgage of the otherwise illiquid asset. The payouts could be monthly/ quarterly/ yearly as per the requirements of the borrower(s)/as laid down in the scheme of the lenders.
- The tenor of the loan is normally a function of the residual ages of both the property and the borrower (senior citizen in the context of this research).

https://en.wikipedia.org/wiki/Mortgage_loan
http://www.businessdictionary.com/definition/mortgage.html

- The extent of loan is a function of (a) the tenor of the loan, (b) the Interest rate on the loan and (c) the realizable value of the depreciated asset.
- The Interest is charged with monthly/quarterly rests and is compounded at monthly / quarterly intervals, in the same manner as in case of regular mortgage loans.
- The amount of the periodic payouts is decided such that the aggregate of all payouts, along with the interests charged thereon, would accumulate to the sanctioned loan value by the end of the tenor of the loan.
- The ownership of the property rests with the borrower, the lender getting the conditional right to ownership (by virtue of the mortgage documents executed by the borrowers in favour of the lenders) to the extent of the outstanding loan (as in case of the regular mortgage)
- The proportion of loan amount as compared to the value of the property (**LTV**) goes on increasing with every Monthly Payout to the borrower, and levy of monthly interest. Consequently the stake of the **Lender** in the property goes on increasing.
- The behaviour of the **LTV** being exactly opposite to that in the 'regular mortgage', this lending pattern is called 'reverse mortgage'.

Review of the Indian Demographic scenario:

As per the Census Report of 2011, and other available sources, demographically India is 2nd in the world with a population of 134 crore with the male to female ratio at 1000: 940. Life expectancy at retirement (at age 60) in India is 77.2 in males and 78.8 in females. Higher life expectancy can be attributed to higher marriage age, reduction in malnutrition among infants and children, lower birth rate and improved medical facilities.

Table 1: India - Demographic Evolution over past 60 years				
Sr.	**Parameter**	**1960-61**	**2010-11**	**2016-17**
1	Life Expectancy at Birth (Males) in years	42.51	65.80	* 67.6
2	Life Expectancy at Birth (Females) in years	41.03	68.33	* 70.1
3	Sex Distribution (Females per 1000Males)	941	943	929
4	Population in Age Group 0-14	41.1%	29.5%	* 27.98%
5	Population in Age Group 15-60	56.0%	62.5%	* 62.67%
6	Population in Age Group 60+	2.9%	8.0%	* 9.35%
7	Old Age Dependency Ratio (% of 65+ to 15-64)	7.9	11.4	* 11.9
8	Gross savings rate	Is mentioned on Pg. 19, 1st para		

The table 1 above reveals that over the last 40 years, the demographic and economic parameters have displayed marked changes. **(Values marked * are estimated)**

Table 2 – India –Composition of Population (Agewise) - Projections (in Crores)									
Age Group	**2017 (Estimated)**			**2035 (Projections)**			**2050 (Projections)**		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
0 to 19	26.37	23.66	50.03	25.17	22.86	48.03	23.00	21.19	44.19
20 to 54	34.29	31.86	66.15	41.85	38.45	80.29	43.26	39.56	82.81
55 to 59	2.80	2.72	5.52	4.12	4.09	8.21	5.37	5.16	10.53
60 to 74	4.90	4.99	9.89	8.15	8.45	16.60	11.72	12.14	23.86
75 to 100	1.21	1.44	2.66	2.50	2.90	5.40	4.16	4.99	9.14
Total	**69.57**	**64.68**	**134.25**	**81.80**	**76.74**	**158.54**	**87.50**	**83.03**	**170.53**
Composition of Population - Projections (as %ages)									
0 to 19	19.64%	17.63%	37.27%	15.88%	14.42%	30.30%	13.49%	12.42%	25.91%
20 to 59	27.63%	25.76%	53.39%	29.00%	26.83%	55.83%	28.51%	26.22%	54.74%
60 to 100	4.55%	4.80%	9.35%	6.72%	7.16%	13.88%	9.31%	10.04%	19.35%
Total	**51.82%**	**48.18%**	**100.00 %**	**51.60%**	**48.40%**	**100.00 %**	**51.31%**	**48.69%**	**100.00%**
Source: https://www.populationpyramid.net/india/									

Sources:
https://www.epw.in/system/files/pdf/1964_16/36-37/growth_of_population_in_india_196181.pdf
http://www.censusindia.gov.in/vital_statistics/srs_report/9chap%202%20-%202011.pdf
https://www.livemint.com/Politics/ixPbHQK7HGSOpUnoZnu7lO/Only-28-of-Urban-India-lives-in-rented-houses-Economic-Sur.html
https://www.indexmundi.com/india/life_expectancy_at_birth.html
https://www.jagranjosh.com/general-knowledge/census-2011-literacy-rate-and-sex-ratio-in-india-since-1901-to-2011-1476359944-1
https://www.indexmundi.com/facts/india/life-expectancy-at-birth
https://knoema.com/atlas/India/topics/Demographics/Age/Life-expectancy-at-birth
https://data.worldbank.org/indicator/NY.GDS.TOTL.ZS?end=2017&start=1960
http://www.worldlifeexpectancy.com/your-life-expectancy-by-age-female

The table indicates that while the percentage of working population (age group 20 to 59) remains almost stagnant, probably the awareness about birth control would help in reducing population in lower age group. The indications are that there is a marked shift in the distribution of projected **dependent** population (between age groups below 20 and above 60). Whereas the population projections in the age group 0 to 19 show a probable decrease from 37.27% to 25.91%, the population of senior citizens exhibits almost a corresponding increase. Translating the percentages in actual numbers would mean that the population of senior citizens is projected to rise from an estimated 12.5 crore to 22 crore in 2035 and 33 crore in 2050. These are clear indications that the need for providing social security to this age group will be even more acute in next three decades.

Review of the Socio-Economic Scenario:

- Retirement age in government services is 58 years to 65 years for employees from various professions. The higher the retirement age, the lower are the employment opportunities for the economically productive population in the age group 15-60.
- With the onset of globalization in 1993-94 and after the advent of technology, migration from the rural and semi urban cities to urban and metropolitan cities has increased due to rapid growth of industry in these areas. This raised the income levels considerably.

- The gross saving rate in India moved from 7.9% in 1961 to32.7% in 2010-11 before dropping to 29.8% in 2017. The poor financial literacy or virtually the absence of it resulted in the savings not being optimally directed with the basic principles of asset creation namely Returns, Risk, Safety and Liquidity.
- Traditionally, the growth rates in real estate prices have been phenomenal as compared to those for other financial investments, (except for stagnant / downward movement in 1990's till 2003-04) prompting people to direct their savings to real estate, (Primary data about property indices not readily available). The tendency to buy houses, by availing home loans at affordable EMI's from banks/ financial institutions, was on rise. Such loans were for longer durations of 15 to 20 years. (SBI pioneered a hike in tenure to 30 years). Consequently the percentage of population staying in rented houses dropped from 54% in 1961 to 28% in 2017-18. Assuming the age at taking up employment to be 25 /30, repayment of the loans could be achieved till one's retirement age. This, along with consumer loans, compromised the liquidity aspect.
- Thus the scenario for those nearing 50 years of age and still have 10-15 years to go for retirement would be most likely to face the dilemma described below after their retirement:
    - A major portion of the assets created from the savings would be in form of illiquid investments made with a view of tax avoidance, and house property without any encumbrances by the time they attain retirement age.
    - Due to the fast changing family structure, high mobility of the younger generations for jobs, the tendency to have nuclear families and the desire for independence, these individuals may not get support on both psychological and financial fronts.

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https://www.livemint.com/Politics/ixPbHQK7HGSOpUnoZnu7lO/Only-28-of-Urban-India-lives-in-rented-houses-Economic-Sur.html
https://www.business-standard.com/article/finance/sbi-hikes-home-loan-tenure-to-30-years-111102100058_1.html

The psychological support in the form of a neighborhood would also be almost extinct in the metropolitan cities and urban areas and they would lead a secluded life where dialogue with anyone else would almost be ruled out. This would cause a feeling of being 'unwanted' or 'being neglected' to creep in and send them in a psychological trauma. This also may result in depression and other health related issues causing an increase in medical expenses. The situation would worsen if they do not have health insurance.

- Near absence of social security measures and spiralling costs for good health care, would add to the financial burden. These factors would make them vulnerable on multiple fronts.
- They would most likely be prone to deep psychological / emotional affiliation to the owned house, where they would have spent their life time. As such they would be reluctant to shift to any other place of stay and least likely to sell the house to meet the financial needs.
- There is also a possibility of reverse mortgage being looked upon as a stigma among relatives and other community members. And there are definite instances where children do not want parents to draw down the value of an asset which they hope to inherit, even though they need the cash.
- The property related expenses such as taxes, insurance and maintenance would add to their monthly expenses.

- Some of the following could be true also in case of those currently in the age group 60+.
  - They are the most likely candidates to face cash flow problems, which would only aggravate with growing age and the need for medical expenses.
  - Any decision in respect of the property including availing a loan would be very hard to take and they may spend a lot of time arriving at such a decision.
  - The investment in consumer goods and housing being illiquid in nature, their savings in liquid form would dwindle and the individuals would start becoming "Asset Rich and Cash Poor". If the life style adapted during days of employment could not be compromised and the regular source of income dries

out, the need for bringing back the comparatively illiquid investment to life would be increasingly felt.

- In addition to this financial scenario, the senior citizens also need to face challenges of physical safety, psychological and emotional well-being, health hazards, acceptability by the younger generation, though the financial challenge would be of utmost importance.
- This was the beginning of the need for a finance mechanism, which will provide continuous income stream (in addition to the interest and other income). With a major portion of assets so created being in the form of house property, they would normally be free from encumbrances. This would qualify them to raise loans against these properties.

The National Bank of Housing pioneered the Reverse Mortgage Scheme 2007 to solve the cash flow problem faced by senior citizens.

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http://www.me-jaa.com/October2015/LifeTable.pdf
https://www.ceicdata.com/en/indicator/india/gross-savings-rate
http://www.ijcseonline.org/spl_pub_paper/IJCSE-NCATM-2017-45.pdf

Chapter 2

Initiative by NHB: The Housing Finance Regulator

In the Budget Speech of the financial year 2007-08, the then Union Finance Minister, Shri. P. Chidambaram made two important announcements beneficial to the senior citizens of the country. The relevant portion from the speech is quoted below:

> "***Housing Loans***
>
> *89. The National Housing Bank (NHB) will shortly introduce a novel product for senior citizens: a 'reverse mortgage' under which a senior citizen who is the owner of a house can avail of a monthly stream of income against the mortgage of his/her house, while remaining the owner and occupying the house throughout his/her lifetime, without repayment or servicing of the loan.*
>
> *90. Our people want housing loans. Banks and housing finance companies that lend against mortgages would have greater comfort if the mortgage can be guaranteed through a three way contract among borrower, lender and guarantor. Regulations will be put in place to allow the creation of mortgage guarantee companies.*
>
> ***Insurance***
>
> *91. On December 6, 2006, Rashtrapatiji launched an exclusive health insurance scheme for senior citizens offered by National Insurance Company. I have asked the other three public sector insurance companies to offer a similar product to senior citizens, and they have agreed to do so in 2007-08."*

Responding to it almost instantaneously, the then Chairman of the NHB, Shri. S. Shridhar announced the outline of the scheme.

https://www.indiabudget.gov.in/ub2007-08/bs/speecha.html

Salient features of Reverse Mortgage Loan Scheme proposed by National Housing Bank (NHB):

The banks/ financial institution would provide finance to senior citizens (above 60), by way of monthly payouts based on age and valuation of residential property for a pre-decided period of maximum 20 years as a source of regular income to supplement their other income sources. NHB was to provide refinance to the lending institutions.

Most of the banks responded to this initiative by NHB and formulated their own schemes with some variations with basic covenants as follows:

1. Loan against valuation of **only** residential property in the form of a flat/ row house/ bungalow/ landed bungalow.
2. Loans in single or joint names of living spouses.
3. Loans only to Senior citizens. At least one spouse to be 60 or above and the other not younger than 55. (when the age gap is higher, it increases risks for the Reverse Mortgage lender and is a negative factor)
4. Loan Value limited to certain prescribed percentage of valuation of the property. This would be a function of the residual age of the property, age at entry of the older borrower and interest rate.
5. The share equity of the borrower in the residential property (Equity Value Ratio - EVR) should not fall below 10% of the value of the property during the tenor of the loan.
6. The monthly payouts to cease on expiry of the tenor of the loan or death of last surviving borrower, whichever is earlier.
7. The borrower/ surviving spouse allowed to occupy the property beyond the tenor of the loan till his / her death.
8. The loan amount is not to be used for speculative, trading and business purposes.
9. The valuation of the property to be done by the lender at least once in five years.
10. The quantum of loan may undergo revisions based on such valuations of property.
11. The lender will have limited recourse i.e. only to the mortgaged property in respect of the Reverse Mortgage Loan extended to the borrower.

12. All reverse mortgage loan products are expected to 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.
13. Borrowers or their legal heirs/ relatives can repay the loan from their own sources any time during the currency of the loan.

Guidelines set by NHB:

Purpose(s) for Which Loan offered:

The loans are offered for following purposes:

- Supplementing the pension/ regular income,
- Medical expenses,
- Maintenance/ renovation of property,
- Payments of taxes/ insurance of the property,
- Repayment of existing home loan against same property.
- Any other genuine reasons

Exclusion: The use of the loan taken for any other purpose like speculative, trading and business activities etc. is specifically barred.

Period (tenor) of Loan:

- Minimum not specified and maximum 20 years depending on the joining age of the borrower.
- The period of loan decreases with age due to residual life expectancy.
- The loan amount and the Periodic Payouts (PP) decrease for longer tenors of Reverse Mortgage Loans.

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http://nhb.org.in/RML/guidelines.php, http://projecthelpline.in/pdf/finance_project_sample.pdf

Extent of loan:

- Loans can be granted up to 90% of the property value.
- Minimum: Not specified, Maximum Rs. 1 crore, subject to above margin requirements.
- The eligible loan amount increases as the tenor decreases with increases in age at the time of availing the loan. Margins normally decrease with rise in age or decline in tenor.

Loan Components:

- Lump sum Payment: May be allowed up to 50% of the loan amount with a cap of Rs.15 Lakhs or such other amount as notified by Government of India. This amount can be utilised **only for medical exigencies**.
- Such lump sum payment can be availed in one or more tranches.
- Periodic payouts: Monthly subject to maximum Rs. 50,000/- p.m.
- Committed line of credit, with an availability period agreed upon mutually, to be drawn down by the borrower.
- The mode of availment to be decided in advance as Reverse Mortgage Loan covenants.

Interest Rates and Basis:

- Both floating and fixed interest rate options to be made available.

Eligibility Criteria for Borrower

Age:

- Age of the older spouse should be 60 years or more (60+).
- Age of the younger spouse should be 55 years or more (55+).

Ownership of Property:

- Property to be a) self-acquired, b) owned in the single name of either of the spouses or in joint names.
- The single owner/ any one of the joint owners would be primary borrower.
- Property should be free from encumbrances and the borrower should have a clear title.
- **Property held jointly with anyone other than spouses not eligible.**

- **An unmarried / widowed senior citizen who owns a house is also eligible for Reverse Mortgage Loan**.

Residency:

- Borrower(s) should be resident Indians.
- The property must be residential and **must be currently occupied** by the borrower and /or spouse who are the primary borrower.

Other Conditions:

- Single owner of the property must also fulfil age criteria.
- It is advisable for the spouse to be a joint borrower.

Eligibility Criteria for Property:

- Residual life: Should be at least 20 years.
- Must have a clear title, must be unencumbered, with up-to-date taxes paid,
- It should comply with the local residential land-use and building bye laws stipulated by local authorities, with duly approved lay-out and building plans.

Exclusion: Commercial and not used as permanent primary residence.

Possession of Property:

- Possession of the property remains with the Borrower.
- Lender retains charge on the property by virtue of creation of Mortgage.
- In case of death of any of the joint borrowers, the other borrower retains the possession and can continue to reside in the property. However, in single borrower case, if he/she dies, the spouse, who is not a joint borrower, **will have to vacate the house.**

Security and Type of Mortgage:

- Primary security is the residential property.
- Almost all lenders opt for Equitable Mortgage of the property.
- If equitable mortgage is not allowed in a particular state, registered mortgage can be the option.
- Commercial Property not acceptable as security.

Reset Period: Interest Rate

- Fixed Rate Loans are never considered for a reset.

- NHB had not suggested any guidelines for reset of Interest rates for floating rate loans.

Reset Period (For Valuation of Security):

- Normally at least once in five years. Discretion of periodicity is left to individual lenders.

Revision of Loan Amount:

- Every three years

Right of Rescission:

- In keeping with the international practice, borrower to be given right of rescission of three working days after the execution of the documents. .
- The loan amount released in the interim, if any, has to be repaid by the borrower, though interest on such amount may be waived.

Prepayment of Loan:

- Prepayment by the borrower from own sources is allowed.
- Levy of prepayment penalty should be waived in such a case.

Foreclosure/ Recall of the Loan:

Conditions: Foreclosure/ Recall of the loan is obligatory if the borrower

- Moves out of the mortgaged house due to sale / renting another house/ shift to old age home/ residence of the children or any other reason for a continuous period of one year
- Fails to pay taxes or fails to requisitely insure the mortgaged house,
- Fails to keep the property well maintained thereby causing depreciation of realisable value,
- Declares bankruptcy,
- Involves in renting out the mortgaged house, in part or full/ adding a new owner to the title of the property/ changing zoning classification of the property/ creating further encumbrance on the property by gift/will/ fresh debt,
- Involves in fraudulent activities in respect of mortgaged house,
- Government acquisition of mortgaged property.
- Government condemns the property (For health / safety reasons)

Modes of Settlement in case of foreclosure:

- Not Stipulated.

Modes of Normal Settlement of Loan:

- It is **not mandatory** for the borrower/ spouse to repay the loan except in situations quoted under foreclosure/ recall. However, on completion of the tenor of the loan/ death of the last surviving borrower, the borrowers and/ or his legal heirs will have the **first right to repay the loan from their own sources/ sale of property**.
- The borrower/ relatives failing to repay the loan in this manner, the loan is settled by sale of the property by the lender.
- In **case the sale proceeds of the property fall short of the loan amount, the bank will have no recourse to the heirs of the borrower**
- However, the excess amount realised over and above the loan, if any, will be paid to the legal heirs equitably. For borrowers of other religions, **the settlement process may be governed by other religious laws if and as applicable**.

Documentation:

- **Loan Agreement:**
  The lender 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.
- **Will**:
  The lender may obtain the Will, if any, by the borrower. Such a will should have a mention of the availment of the Reverse Mortgage Loan to keep the interests of the lender as mortgagee intact and preclude any possible litigation by the legal heirs / relatives.
- **Undertakings**:
  - Transparency undertaking: The lenders 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 to the borrower.

- ‘**No Recourse Guarantee:** The lender also to provide ‘**No Recourse Guarantee**’ to the borrowers in writing.
- The borrower should undertake to keep the property adequately insured from fire earthquake and other calamities at his cost and that he will bear the taxes and other charges to keep the property well maintained.
- The borrower to provide an undertaking to the effect that the WILL submitted is the last will.

Taxation:

Suitable amendments were affected by the parliament to relevant sections of the Income tax Act (1961). Now, Sec 2(47) excludes Mortgage under Reverse Mortgage Loan from the definition of ‘Transfer’ and sec 47 (xvi) excludes annuity payment / lump sum amount under Reverse Mortgage Loan from the definition of ‘Income’.

Income Recognition and Asset Classification:

RBI has laid down the Asset classification norms as follows:

- The loan will be treated as ‘**Standard Asset**’ till 89 days after the due date, after which it will be classified as ‘**Sub-standard Asset**’. The due date is determined as the earliest of the following:
  - The date of demise of the last surviving spouse;
  - The date on which bank receives intimation of borrower’s intention to sell the house
  - The date of receipt of the intimation of borrower’s permanent movement out of the mortgaged house,

Counselling and information to borrowers:

The lenders should comply with the following:

- Maintain high standards of conduct in dealing with senior citizens and treat them with dignity.
- Clearly and accurately explain the terms of Reverse Mortgage Loan and methodology followed in valuation of security, decision as regards quantum of loan, frequency of revaluation, and review of terms to borrowers, without any ambiguity.

- Counsel the borrowers in respect of adverse impact of interest rate movements/ property prices.
- Not assert, insist or compel the borrowers, to avail other products/ services from them or their associates in order to avail Reverse Mortgage Loan.
- Explain the costs related to Reverse Mortgage Loan to be borne by them and the options open to the borrowers to meet them (either through personal sources or from the RML)
- Must suggest the Reverse Mortgage Loan borrower senior citizens to appoint their 'Personal Representative' to be contacted in case of any eventualities.
- Should check background and procedures of any third party, if involved in the process of lending as an associate, (like an insurance company/ a law firm), and utilise their services only if satisfied about their capabilities to deliver. The role of such third parties should be explained to the borrowers and must be incorporated in the Reverse Mortgage Loan documentation.

Other Issues:

- The lender to provide detailed schedule to the borrowers, of charges and fees to be levied and payable by the borrowers.
- Insurance of Property, Valuation Fees, Legal fees if any, Documentation charges, Processing Fees, legal charges, Mortgage charges, inspection fees, stamp duty and other charges, if any, closing costs which include charges and fees etc. will be borne by the borrower or can be paid by debiting the loan account.

Improvisations by Lenders, Regulator RBI:

- Line of Credit option is currently not offered by any bank except the Central Bank of India.
- **A concept of Marginal Cost based Lending Rates (MCLR) was introduced by the RBI w.e.f. 1 April 2016. The MCLR for various maturities of loans are to be declared by individual lenders with monthly periodicity.**
- **As per RBI's revised guidelines, the lenders must revise floating Interest rates at least once in a year. However RBI working group report on MCLR has prescribed reset every quarter, though the necessary guidelines have not been issued so far.**

- Almost all banks have the provision to revise the monthly payouts downwards in case of a drop in the valuation of property. However, hardly any bank has a provision to revise it upwards for rise in the valuation of property.
- The usage of lump sum payment was originally restricted to only medical exigencies. However later the lenders modified the usage for repayment of existing home loan on the property, if granted by the proposed or earlier lender. Almost all lenders specifically restrict the use of lump sum loan for speculative, trading, and business purpose at least on paper.
- **Unless restricted to the discounted value of the Reverse Mortgage Loan over its decided tenor, there is high risk of such lump sum loan exceeding the LTV over 100%.**
- Some lenders added the following clauses for the loan to qualify for foreclosure:
    - Remarriage of the borrower/ spouse.
    - Borrower failing to acknowledge the debt (Balance Confirmation)
- Some other parameters were also amended as follows:
    - The residual life to be at least five years more than the agreed tenor of the loan.
    - Minimum loan amount was specified.
    - Condition that there should be only one living spouse of the borrower/owner. (To prevent complications in terms of Muslim personal law)
    - Reset period for valuation of property to be at least once in three years.
- Central Bank of India, in association with Star Union Dai Ichi Insurance co, introduced a new scheme where the borrowers of the Reverse Mortgage Loans were provided with annuities by the insurance company. The purchase price for the annuities was paid to them by the Central Bank of India by releasing a lump sum loan to the borrower under the reverse Mortgage Loan scheme. Such purchase of annuities was with the return of purchase price, which was used to liquidate the Reverse Mortgage Loan principal amount by the bank. The interest amount was to be recovered by sale of the property. The scheme is described in details in chapter 3 page 53. This arrangement was identified as Reverse Mortgage Loan enabled Annuities (RMLeA) and named as 'Swabhiman Plus' by the Central

Bank of India. To distinguish between the two types of Reverse Mortgage Loans, we will refer the plain vanilla Reverse Mortgage Loans as Reverse Mortgage Loan with Periodic Payments or RMLPP.

Analytical evaluation of the Guidelines:

The response to the initiative of NHB by the lenders was lukewarm.

Probably the idea of 'No recourse to the borrower' did not go well with the banking sector which had shed the social responsibility angle to banking with the onset of globalisation. The fears of the banking sector were not grossly misplaced. The discussion below would bring more clarity to the point made.

The following table lists the amounts paid as interest over the entire tenor of the loan, both monthly and quarterly compounding basis, indicating how the loan grows over the tenure of the loan.

Table 3: Interest on Lump sum Loan Rs.10 Lakh: (Amounts in Rs. Lakhs)

Tenors 10 years to 20 years

Int. Rates → Basis for Int. Compounding ↓	Tenor (Years)	8%	8.5%	9%	9.5%	10%	10.5%	11%	11.5%
Monthly	10	12.20	13.33	14.51	15.76	17.07	18.45	19.89	21.41
	15	23.07	25.63	28.38	31.35	34.54	37.98	41.68	45.67
	20	39.27	44.41	50.09	56.36	63.28	70.92	79.35	88.66
Quarterly	10	12.08	13.19	14.35	15.57	16.85	18.19	19.60	21.07
	15	22.81	25.31	28.00	30.89	34.00	37.34	40.92	44.78
	20	38.75	43.77	49.30	55.39	62.10	69.48	77.61	86.56

The table reveals the multiplier effect of compounding on a fixed loan. If we work out interest as a multiple of the principal amount they vary from 1.22 times @ 8% to 2.14 times @ 11.5% for a 10 year loan (monthly compounding). i.e. the person availing a lump sum loan of Rs10 lakh will have the outstanding loan of Rs. 31.41 lakh @ 11.5% with interest after 10 years. Corresponding figures for 20 years (monthly compounding) are 3.93 and 8.87 i.e. total repayment of Rs. 49.27 lakh after 10 years and 98.66 lakh after 20 years. The Reverse Mortgage being a '**No Recourse**

Loan', the borrower does not have to repay the amount of loan outstanding at the end of the tenor of the loan. However, the interest certainly eats away the property value to this extent and may result into a loss for the lender in case the LTV exceeds 100%. However in case the loan qualifies for foreclosure/recall the **borrower** will have to bear **the brunt of this multiplier effect.**

Periodic payments: Based on the tenor of the loan, the rate of interest and periodicity of the payments, a fixed amount is arrived at, which is paid periodically (monthly / quarterly) to the borrower by the lender. However the payouts are capped at Rs. 50000/- pm. Table 4 below lists the amounts of payouts per Rs. 1 lakh loan amount. **The monthly payout amounts may differ from bank to bank as the interest rates charged by them differ.**

Table 4: Periodic Payouts and Resultant Interest amounts

For Loan Amount Rs1 lakh – Tenors 10 years to 20 Years, Various Interest Rates

Tenor	Interest Rates								
(Years)		8%	8.5%	9%	9.5%	10%	10.5%	11%	11.5%
10	Payout Per Month	543	528	513	498	484	470	457	443
15		287	274	262	251	239	228	218	208
20		169	158	149	139	131	122	114	107
10	Interest Over Entire Tenor	34841	36666	38451	40196	41903	43572	45202	46795
15		48327	50597	52786	54897	56930	58888	60772	62584
20		59524	61992	64333	66553	68656	70646	72527	74303

It can be seen that the monthly payout amount decreases as the interest rates increase and also decreases as the tenor increases. The amount of interest paid as percentage of the loan amount increases with increase in the tenor as well as increase in interest rates.

It can be seen that for a loan amount of Rs1 lakh @ 11% for 20 years, if the borrower is paid Rs114/- pm the total payment over the entire tenor of 20 years (240 months) the amount paid to him would be Rs27360/- whereas he would be paying the remaining

Rs72527/- by way of interest. The case for a shorter duration loan is much better where for a loan amount of Rs1 lakh @ 11% for 10 years (120 months) the amount paid to the borrower is Rs457 pm. The borrower is paid Rs54840/- over 120 months and Rs45202 as interest. Though in the shorter tenors, there is apparently some solace to the borrower on the interest front, the other worry of being out of finance at the age of 70 (assuming he avails the loan at 60) is not addressed.

The fear of the lenders was fourfold:

1. A comparison with the EMIs paid for availing home loan and these low payouts would discourage the borrowers.
2. The psychological barriers discussed earlier in chapter 1 page 21 would need some time to change.
3. The real game changer was the rather touchy issue of the borrower and/ or spouse surviving beyond the tenor of the loan. This, in fact, was perceived as a major risk, because, though the payouts would cease, the interest on the loan would cross-over the property value.
4. The effort –reward ratio was low. Efforts involved for processing a Rs1 crore home loan and a same amount reverse mortgage loan were probably same. Whereas the home loan would create an asset of a much high amount with the '**Value at risk**' reducing with time, the scenario for Reverse Mortgage was exactly reverse. The '**Value at risk**' would increase with time and also the asset creation is at a very slow speed. Further a home loan would contribute much more in the P/L account of the lender initially by way of interest charged to the borrower, as compared to the Reverse Mortgage Loan.

Probably, these feasibility issues were correctly sensed by lenders. These issues have prompted lenders to refrain from allowing this scheme to gain any popularity. Hence the spending on marketing of the scheme was not better than meagre at any time in the past.

From the borrowers' angle, they would have seen nothing worth a look, as the idea of selling the property was a big no. The age-old mind-set that the property prices would never move southwards was another deterrent. The thinking that the banks

would lend based on property prices at the time of sanction and would sell the property in a distress sale on the expiry of the tenor, (as per their past experience with lenders), was not allowing them to fall for such a finance proposition, unless it was the last resort.

Chapter 3

Indian Canvas: 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.

Central Bank of India offers a variant of the scheme named Swabhiman Plus Reverse Mortgage Loan scheme discussed in details on **Page 53.** It acts as a **facilitator** through Star Union Dai-Ichi Insurance Co, for providing annuities to the borrower, purchased out of the Reverse Mortgage loan. The borrower has separate agreements with the insurance company and the bank.

A questionnaire (Annexure 1) was presented to each of the above mentioned banks, where their responses were obtained after personal interactions with dealing / policy department officials. A detailed study of the schemes of these lenders was undertaken based on the material about the respective schemes provided by most of them.

Variation in lending methodology for some lenders:

Within the framework of the guidelines of NHB, the banks worked their way keeping their own interests in mind. The issues bothering the lenders, like existing home loans, age of the younger spouses, number of spouses, basis for valuation of property, foreclosure norms and tenor of the loan were resolved by them, through suitable amendments. Listed below are the procedures/ details pertaining to broad parameters of the Reverse Mortgage loans as designed by the NHB and which are practised by lenders in general. Some parameters for a particular lender, which are at variance with the guidelines of NHB, are listed against the concerned lender. Those are also tabulated after chapter 5.

State Bank of India

Purpose(s) for Which Reverse Mortgage Loan offered:

The Reverse Mortgage Loan to be used only for supplementing Incomes, renovation/ repairs of house, Payment of taxes, Medical Expenses, repayment of existing home loan (only from SBI).

The use of Reverse Mortgage Loan for **speculative, trading and business purposes** is specifically barred.

Tenor of the loan:

- If Younger borrower between 58 and 68 years of age: 15 years.
- If Younger borrower 68+: 10 years
- Same age criteria for the tenor of the loan in case of single borrower.

Extent of the loan:

- 90% of the **realisable value** of the property.
- Minimum Rs. 3 Lakh and Maximum Rs. 1 Crore.

Loan Components:

- By way of Lump sum Payment of discounted value of up to 50% of the sanctioned loan amount
- Monthly payouts based on sanctioned loan amount, interest rate and tenor. Disbursal by credit to the savings account of the borrower, (Joint account E/S for joint borrowers).

Interest Rate:

1 year MCLR + 2.75%.

Basis for application of Interest rates

- Floating

Eligibility Criteria for Borrower

Age:

- Elder borrower 60+ years and younger borrower 58+ years

Ownership:

- Title verification and search report for the **last 30 years** required.
- When the property ownership is in joint names, the loan should be in joint names.

- In case of singly owned property the owner should be the borrower. Additionally non owner spouse can also be a co-borrower.

Residency:

- Proof of residence in any form or in the absence of it an affidavit made before executive magistrate to be submitted,
- Borrower required to inform the bank when he ceases to stay in the property.

Eligibility Criteria for Property:

Residual Life of Property

- It should be minimum 20 years if single borrower and 25 years if the spouse is below 60 years of age.
- Certificate required from empanelled engineer / architect certifying residual age of the building.
- Property should be free of encumbrances. If home loan (only from SBI) exists, it should first be adjusted from Reverse Mortgage Loan.

Possession of Property:

- No variation from NHB guidelines.

Security and Type of Mortgage:

- Property to be primary security covered by Equitable Mortgage.

Reset Period for Interest Rate:

- Currently 1 year.

Reset Period For Property Valuation:

- 3 years. Earlier, in case of fall in property prices.

Revision of Loan Amount:

- Downward revision can be done even earlier than 3 years if property prices fall. No specific provision for upward revision. At every revision, it must be ensured that LTV does not exceed 90%.

Right of Rescission:

- 7 working days. If loan is availed, entire loan amount to be repaid. Interest may be waived.

Prepayment of Loan:

- Prepayment is allowed without penalty.

Foreclosure/ Recall of the Loan:

Conditions:

- If bank gets intimation to the effect that the borrowers cease to stay in the property for a continuous period of more than 1 year. Any documentary evidence obtained by the bank in this regard should be acceptable to the borrower.
- If the borrower remarries and it is perceived to have an adverse impact on bank's interests.
- If the borrowers do not accept the revised terms after revaluation of property.

Modes of Settlement of Loan:

- No variation from NHB guidelines.

Modes for normal settlement:

- No variation from NHB guidelines, except that borrowers provided reasonable period (normally 6 months) for settlement of loan from own sources/ sale of property.

Costs:

- Website mentions processing fee 0.50% minimum Rs500 maximum Rs10000/-, stamp duty for creation of mortgage, insurance, CERSAI fee Rs50/- + GST upto Rs5 lakhs Rs100/- + GST beyond Rs5 lakhs

Documentation:

- **Transparency& cost declaration**: No mention in the brochure.
- No mention in the brochure about '**No Recourse Guarantee**' to the borrower' in writing.
- **Loan agreement:** Bank's standard agreement
- **Will**: A copy to be obtained
- **Undertakings/ declarations**:
    - Life certificate also indicating marital status, permanent residence to be submitted in November every year.
    - A list of legal heirs to be submitted at the time of sanction and later if there is any change.
    - Undertaking to be given by the borrower that he/she will not remarry during the currency of loan. In practice many other undertakings are obtained.

Other Issues:

- **Number of surviving spouses at the time of taking the loan should not exceed 1**.

Bank of Baroda: 'Ashray'

Purpose(s) for Which Reverse Mortgage Loan offered:

The Reverse Mortgage Loan scheme is named 'Ashray'.

The use of Reverse Mortgage Loan for **speculative, trading and business purposes** is barred.

Tenor of the loan:

- Life expectancy taken as 80 years. The tenor of the loan can be maximum 20 years.
- Loan is initially released for 15 years. Can be extended for 5 more years if either of the borrowers survives. Periodic payments continued to the surviving borrower for this extended loan period.

Extent of loan:

- Max 80% of **present** property value
- No minimum amount specified, Maximum Rs. 1 crore

Loan components:

- By way of Lump sum Payment of up to 10% of the sanctioned loan amount. Can be utilised except for purposes specifically barred.
- Periodic Payouts: Monthly/ quarterly/ half-yearly/ yearly.

Interest Rate and Basis:

Fixed or Floating

MCLR + 1.75% + strategic premium

Eligibility Criteria for Borrower

Age:

- Elder borrower 60+, younger borrower 55+.
- Life expectancy assumed to be 80 years.

Ownership:

- No variation from NHB guidelines.

Residency:

- The property must be residential and **must be currently occupied**

Other conditions:

- The **couple has to be joint** borrowers

Eligibility Criteria for Property:

Residual Life of Property

- It should be 5 years more than number of years required for the younger of the borrowers to attain age of 80 years.

Type and Nature:

- The building should not be more than 40 years old. Older buildings acceptable provided they satisfy the residual life norm.

Exclusion:

- Should not be a commercial property.

Possession of Property:

- In case of joint borrowers, the surviving borrower continues to be in possession of the house till his/ her death, even when the tenor of the loan is over.

Security and type of Mortgage:

- The residential property (with all legal compliances) is the primary security covered by Equitable Mortgage.

Reset Period for Interest Rate:

- For fixed interest basis Reverse Mortgage Loan, 5 years at the discretion of the bank.

Reset Period for property valuation:

- 5 years.

Revision of Loan Amount:

- Every 5 years

Right of Rescission:

- 7 business days after the execution of documents. Processing charges waived if rescission before release of loan.
- The loan amount released in the interim, if any, has to be repaid with interest by the borrower.

Prepayment of Loan:

- Allowed. Mode of settlement not mentioned.

Foreclosure/ Recall of the Loan:

In addition to the normal foreclosure norms the following are also included:

The borrowers add a new owner to the house's title;

The borrower changes zoning classification of the house; or creates further encumbrance on the property either by way taking out new debt against the same property or by gift/will.

Mode of Settlement of loan:

No variation over NHB guidelines.

Normal Modes of Settlement of Loan:

- Borrowers have **the first right to repay the loan from their own sources/ sale of property**. Borrowers will be provided a reasonable period of 2 months for settlement of loan from own sources/ sale of property after the death of the last surviving borrower/ expiry of tenor of loan.
- The borrower/ relatives failing to repay the loan in this manner, the loan is settled by sale of the property by the lender.
- **No Recourse** to borrowers. However, excess amount, if any, to be paid to legal heirs equitably.

Costs:

- Insurance cost to borrower. Processing fees 0.20% max. Rs. 10,000/-, upfront cost Rs. 7,500/-
- No mention of other costs in brochure/ website.

Documentation:

- **Transparency& cost declaration:** No mention about documents to be provided in the brochure.
- No mention of '**No Recourse Guarantee**' to be provided to the borrower' in writing.
- **Loan agreement:** Bank's standard agreement
- **Will**: No mention in the brochure.
- **Undertakings**: No mention in the brochure. In practice many other undertakings are obtained.

Other Issues:

- If income tax payer no tax should be in arrears at time of sanction and thereafter yearly.
- No prepayment charges if settled partially or in full.

Punjab National Bank: 'Baghban'

Purpose(s) for Which Loan offered:

No variation from NHB guidelines.

Tenor of the loan:

- For borrowers between 60 and 70 years of age and spouse between 58 and 68 years: 15 to 20 years, depending on actual age.
- For borrowers above 70 years of age and spouse above 68 years: 10 to 15 years depending on actual age.
- Extension of the tenor can be considered by HO subject to a maximum tenor of 20 years.

Extent of loan:

- 80% of the **realisable value** of the property
- Maximum Rs1 crore

Loan components:

By way of Lump sum payment of up to Rs15 lakh, lump sum payment can be utilised **only for medical exigencies after sanction from HO.**

- **Only Monthly Payouts** by credit to savings bank account (joint and E/S a/c in case loan in joint names).

Interest Rate:

Fixed interest rate basis, MCLR + 2.60%

Eligibility Criteria for Borrower

Age:

- Elder borrower to be 60+, Younger borrower to be 58+

Ownership of the property:

- In addition to standard procedure/ conditions –
  - If owned singly, the owner to submit a WILL in favour of the spouse and the spouse is made co-borrower.
  - The loan will always be in the name of the joint borrowers if both spouses are alive.

Residency:

- The property must be residential and **must be currently occupied**

Eligibility Criteria for Property:

Residual Life of Property

- It should be at least 20 years.
- For ensuring this, branches to take certificate from the architect at the time of first valuation of the property.

Type and nature

- All other conditions applicable.
- Circle heads have powers to sanction loan even against self-occupied **ancestral property** subject to fulfilment of certain declarations from the borrower.

Possession of Property:

- In case of joint borrowers, the surviving borrower continues to be in possession of the house till death, even when the tenor of the loan is over.

Security and type of mortgage:

- The residential property is the primary security covered by Equitable Mortgage.
- Also where creation of mortgage by submission of title deeds is not possible, registered mortgage should be created.

Reset Period for Interest Rate:

- Currently 5 years.

Reset Period Property Valuation:

- Normally 5 years.

Revision of Loan Amount:

- Every 5 years – Both **upward and downward revision** possible depending on the realisable value of the property.
- **Revision of the loan should be keeping in view the taxability of capital gains at the time of settlement at the hands of the Borrower.**

Right of Rescission:

- 10 working days after the execution of documents.
- The loan amount not to be released till expiry of 10 days from the execution of the documents.
- The fees charged to be refunded to borrower in case of **rescission.**

Prepayment of Loan:

- Prepayment is allowed without penalty, if such prepayment is from borrower's own sources.
- Penalty of 2% of the outstanding loan amount, in case of takeover of the loan by other financial institution.
- Prepayment to be from borrower's own resources/ sale of property by borrower.

Foreclosure/ Recall of the Loan:

Normal foreclosure norms, No variation from NHB guidelines.

Normal settlement of Loan:

- The loan becomes due and payable in the following cases:
  - The single borrower dies before expiry of the tenor. If the spouse is alive but not the borrower, the loan becomes due and payable and the surviving spouse losses the shelter.
  - If both spouses are joint borrowers, the loan becomes due and payable upon death of the surviving borrower.
  - In case of death of borrower(s) before expiry of the tenor of the loan, the loan becomes due and payable upon the death of the surviving borrower.
- Borrowers have the first right to repay the loan from their own sources/ sale of property within 6 months from the expiry of the tenor or the death of the last surviving spouse whichever is earlier.
- The borrower/ relatives failing to repay the loan in this manner, the loan is settled by sale of the property by the lender.
- **No Recourse to the borrowers/ legal heirs.**
- However, the excess amount, if any, will be paid to the legal heirs equitably.

Costs:

- No mention of recovery of costs in the brochure / website

Documentation:

- **Transparency**:

  Branch head to explain to the borrower the terms and conditions, methodology in valuation, determination of extent of loan, revaluation of property and all other aspects.

- No mention of '**No Recourse Guarantee** to the borrower' in writing in the brochure.
- Loan agreement: Bank's standard loan application for the scheme.
- **Will**:
    - The borrower to submit the WILL which has to be a registered WILL.
- **Undertakings**:
    - Undertaking that loan amount will not be utilised for speculative/ business purpose
    - Letter of authority for crediting loan amount to savings bank account every month.
    - An undertaking that the borrower will not make any fresh WILL during the currency of the Loan.
    - Should submit undertaking to the effect that it is last WILL.
    - Declaration giving list of all legal heirs with addresses.
    - Life certificate at the time of sanction and by November every year.

Other Issues:

- The number of surviving spouses should not be more than 1.
- Bank reserves the right of inspection of the property any time during the currency of the loan.
- Notice of sale of property (in case loan settlement is by sale of property) to be sent to individual legal heirs.
- Also an advertisement to be published in local newspapers as regards the intended sale.
- If borrowers disagree with revised terms after valuation of property after 5 years, further loan payments should be stopped. However there is no mention about Foreclosure of the loan in such an eventuality.

Canara Bank: 'Canara Jeevan'

Purpose(s) for Which Loan offered:

The Reverse Mortgage Loan is to be used only for supplementing Incomes, renovation/ repairs of house, payment of taxes, medical Expenses.

The use of Reverse Mortgage Loan for **speculative, trading and business purposes** is specifically barred.

Tenor of the loan:

- Maximum 15 years

Extent of Loan:

- The bank differentiates between properties as flats and houses due to the fact that a house is priced with the land on which it is built and depreciation is not applicable to value of the land as in case of a flat.

Table 5: Margin requirements: Canara Jeevan Reverse Mortgage Loan

Age Group	Loan as % of Property Value			
	Loan against House	Loan Against Flat		
		Less than 2 Years	2 to 5 years	5 to 10 years
60 to 65	70%	60%	55%	45%
65 to 70	75%	65%	60%	50%
70 to 75	80%	70%	65%	55%
Above 75	85%	75%	70%	60%

- For Flats Maximum loan amount is Rs25 lakh
- For houses the loan amounts are minimum Rs5 lakh and maximum Rs50 lakh

Loan Components:

- By way of Lump sum Payment of up to 20% of the sanctioned loan amount only once at the beginning of the loan.
- Lump sum loan can be utilised for renovation/ repairs/ up-gradation of property, repayment of existing home loan, home improvement, maintenance, insurance and Medical expenditure.
- Monthly/ quarterly Payouts

Interest Rate and basis:

- Fixed 10.5%

Eligibility Criteria for Borrower

Age:

- Elder borrower 60+ and younger borrower 55+

Ownership:

- The ownership may be single or joint by both the spouses.
- **Both the spouses to be joint borrowers.**

Residency:

- The property must be residential and **must be currently occupied** by borrowers.

Eligibility Criteria for Property:

Residual Life of Property

Minimum 20 years

Type and Nature

- Singly owned properties acceptable, spouse to be a joint borrower.
- The loan should be in joint names. Elder borrower should be **Primary borrower**.

Exclusion

- Should not be a commercial property.

Possession of Property:

- Surviving borrower permitted to stay in the property as **repayment is only after death of surviving borrower.**

Security and type of mortgage:

- The residential property is the primary security covered by Equitable Mortgage.

Reset Period for Interest Rate:

- Currently 3 years.

Reset Period (For Valuation of Security):

- Normally 3 years.

Revision of loan amount:

- Review of amount of payouts to be done at least once in 3 years.
- **However no upward revision is permissible despite the upward revaluation of the property.**

Right of Rescission:

- 3 working days

- The loan amount released in the interim, if any, has to be repaid by the borrower, though interest on such amount is waived.

Prepayment of Loan:

- Prepayment is allowed without penalty if such prepayment is from borrower's own sources. (2% of the outstanding loan amount in case of takeover of the loan by other financial institution)
- If prepayment by either borrower's own resources or takeover by other institution, all concessions permitted would be withdrawn.

Foreclosure/ Recall of the Loan:

In addition to the normal foreclosure norms, the loan can be eligible for foreclosure if the borrower:

- Fails to execute further documents in respect of loan, if and when required,
- Donates or abandons the property.

Costs:

- No mention in the bank's brochure.

Documentation:

- **Transparency & cost declaration:** No mention about documents to be provided in the brochure.
- Loan Agreement:
- **WILL through bank's approved executors to be obtained and should be got registered**:
- Legal opinion in respect of title and marketability, search certificate

Undertakings and other docs:

- Life certificate every 3 years
- KYC docs,
- Succession certificate of deceased spouse, if any.
- In practice many other undertakings are obtained.

Other Issues:

- Explaining prospective buyers the terms and conditions, methodology in sanction, valuation, decision as regards loan quantum and decision of revaluation intervals.

- Counselling to the borrower and explaining to him possible impact of adverse movements of interest rates and property prices.
- Identify senior citizens associations and enlighten them.
- If borrower is a pensioner, pension account should be got transferred from the other bank.

Central Bank of India: Swabhiman & Swabhiman Plus schemes for Reverse Mortgage Loans.

Swabhiman scheme Central Bank of India is plain vanilla Reverse Mortgage Loan as suggested by NHB, whereas 'Swabhiman Plus' is an Reverse Mortgage Loan enabled RMLeA scheme

Purpose(s) for Which Loan offered:

The loans are offered for all the purposes mentioned in NHB guidelines.

The use of the loan taken for any other purpose like speculative, trading and business activities etc. is specifically barred.

Period (Tenor) of Loan:

- Swabhiman scheme Maximum 15 years or till the death of last surviving spouse.
- Swabhiman Plus: Till death of last surviving borrower without any limit.

Extent of loan:

- Swabhiman Scheme: Loans can be granted from 75% of the **realisable** property value.
- Swabhiman Plus scheme: Age dependent (60-70 years 60%, 70-80 years 70%, above 80 years 75%)
- Minimum Rs1 lakh and maximum Rs1 crore, subject to above margin requirements.

Loan Components:

- Under both schemes: Lumpsum upto 25% of sanctioned loan amount maximum Rs15 lakh in one or more tranches (for medical treatment only). **Lump sum loan may also be used for repayment of earlier loan, if any, at the discretion of the bank**.
- Swabhiman Scheme: Monthly/ Quarterly/ half-yearly/yearly payouts maximum Rs50000- pm irrespective of property value.
- Swabhiman Plus scheme: Monthly Annuities from Star Union Dai Ichi Insurance Co (SUD), till death of the last surviving borrower. Annuities are without upper cap but limited by the purchase price of the annuity.
- Under Both schemes: Committed line of Credit as the third option.

Interest Rates and basis:

- Currently 10.5 to 12.5% (the floating rates are related to MCLR Swabhiman scheme Min: 1 year MCLR + 2%. Swabhiman Plus scheme: 1 year MCLR + 0.50%.
- Floating interest rate basis.

Eligibility Criteria for Borrower

Age:

- Age of the older spouse should 60 years or more.
- Age of the younger spouse should be 55 years or more.

Ownership of the property:

- The property may be owned singly or jointly by both the spouses. However both the spouses to be joint borrowers.
- **In case one of the joint owners is already dead, the surviving spouse can get Reverse Mortgage Loan.**

Residency:

- The property must be residential and **must be currently occupied** by borrowers.
- The property where the borrowers are residing, if rented in part, is not eligible for Reverse Mortgage Loan.

Eligibility Criteria for Property:

- Property to be self-acquired (not inherited / ancestral / gifted) and self-occupied as permanent primary residence. It should be free of encumbrances.
- It should not be commercial property.

Possession of the property:

- The last surviving borrower can reside in the property even after the expiry of the tenor (in Swabhiman Scheme). The tenor of Swabhiman plus is till the death of last surviving borrower.

Security and Type of Mortgage:

- Property is the primary security secured by equitable Mortgage.

Reset Period for Interest Rate:

- Currently 1 year.

Reset Period (For Valuation of Security):

- At least once in 3 years. Earlier depending on location of property.

Revision of Loan Amount:

- No mention in the brochure.

Right of Rescission:

- 3 working days after execution of documents.
- The loan amount released in the interim, if any, has to be repaid by the borrower, though interest on such amount may be waived at the discretion of the bank.

Prepayment of Loan:

- Prepayment is allowed anytime during currency of the Reverse Mortgage Loan / Reverse Mortgage Loan enabled Annuities.
- No mention of waiver of penalty or other charges in the brochure.

Foreclosure/ Recall of the Loan:

All normal foreclosure norms as per NHB guidelines applicable.

Mode of Settlement:

From own resources or sale of property.

Modes of Settlement of Loan:

- It being no recourse loan, it is **not mandatory** for the borrower / spouse to repay the loan except in situations quoted under foreclosure / recall.
- In both schemes: On completion of the tenor of the loan / death of the last surviving borrower, the borrowers and/or his legal heirs will have **the first right to repay the loan from their own sources / sale of property**.
- The borrower/ relatives failing to repay the loan in this manner, the loan is settled by sale of the property by the lender.
- In Swabhiman Plus Scheme: Refund of purchase price by Star Union Dai Ichi Insurance Co (SUD) and Reverse Mortgage Redemption Reserve (RMRR) to be applied to the outstanding loan amount. For the balance amount the sale proceeds of the property should be applied.
- Balance left, if any, to be paid to the legal heirs of the borrowers.
- Shortfall, if any, is to be borne by the lenders.

Costs:

- Valuation fee, advocate's fee, processing charges (0.15% minimum Rs500/- maximum Rs10000/-)

Documentation:

- The lenders 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 to the borrower.
- The lender will also provide a '**No Recourse Guarantee**' to the borrower' in writing.
- Loan Agreement: Standard loan agreement of the bank.

Undertakings and other docs:

- No mention of specific undertakings in the brochure. In practice many other undertakings are obtained.

Other Issues:

- Borrower under Swabhiman scheme can switch to Swabhiman Plus Scheme.

Details of Cent Swabhiman Plus scheme of Central Bank of India (RMLeA):

Central Bank of India offers a variant of the Reverse Mortgage Loan under the brand name "Swabhiman Plus" in association with **S**tar **U**nion **D**ai Ichi Insurance (SUD)

In this arrangement the borrower enters into an agreement with SUD for payment of monthly annuities which are facilitated by the lump sum Reverse Mortgage loan granted by Central Bank of India. .

The total loan amount is 60% to 75% of the realizable value of the property as per the age of the borrower at the time of sanction of the loan (60% for age between 60 and 70 and 75% for age 80+).

Loan can be released as a combination of two modes: 1) lump sum and 2) monthly annuities in arrangement with SUD.

a) **Lump sum loan**:

Up to 25% of the sanctioned loan amount can be released as lump sum loan subject to maximum of Rs15 lakh. The option for lump sum loan can be exercised in tranches but within the overall upper limit for the lump sum loan.

Such payment is for purpose like repayment of existing home loan on the property, or emergency medical expenses etc.

b) **Annuities**:

The modalities for payment of annuities are as follows:

- An amount to the extent of 10% of the valuation of property (realizable value of the property) is to be kept in the form of a FD with the bank for the tenor of the loan which will earn interest at prevalent deposit rates. This amount is treated as RMRR (**R**everse **M**ortgage **R**edemption **R**eserve). This amount is utilized for repayment of loan when due.
- The amount arrived after deducting the Lump sum loan and the Reverse Mortgage Redemption Reserve amount from the sanctioned loan amount is paid to SUD as purchase price of the annuities.
- Annuities options are monthly/ quarterly/ half yearly/ yearly.
- Annuities are paid as per the terms and conditions for purchase of annuities as laid down by SUD and incorporated in the loan agreement with CBI by credit to borrower's account.
- Currently annuity values translate into a yield of 7 to 7.2%.
- The annuities are paid till the death of last surviving spouse as against the periodic payments ceasing at the end of the tenor period.
- An interest @ MCLR (1 year) +0.50% is charged by Central bank on the entire amount of loan.

Repayment of loan under RMLeA:

The mode and manner of repayment is different under RMLeA. The annuities provided by SUD are with return of purchase price. The purchase price returned by SUD and the maturity value of the FD kept with the bank as Reverse Mortgage Redemption Reserve are adjusted towards the principal amount of the loan. Balance, if any, and the interest payable over the entire tenor of the loan, is to be settled by either the legal heirs or by sale of property. However due to the very nature of RMLeA, it is clear from Table 5 below, that the interest itself could possibly amount to some multiples of the principal amount of loan, the loan being in the nature of a lump sum loan to start with.

Advantages of RMLeA over RMLPP

1. The annuity payments continue perpetually till the death of the last surviving spouse.

2. Annuity provider is able to bring the actuarial principals giving a new dimension to the Reverse Mortgage loan.

Disadvantages of RMLeA over RMLPP

1. The borrowers have to deal with the lender and the annuity provider who may not work in tandem.
2. The purchase price for the annuities being paid from the Reverse Mortgage Loan, the outstanding loan amount comprising of principal amount loan and interest would grow much faster due to high initial outlay. The probability of the LTV ending up in excess of 100% much before the loan becoming due and payable i.e. the death of last surviving borrower is high unless the possibility is well taken care of. The following table shows the growth of a lump sum loan at various interest rates and tenors of loan which is indicative of the extent of risk to the lenders.
   It can be seen from the table 6 below that a fixed amount loan of Rs1 lakh with 10 years tenor, grows 2.22 times to Rs2.22 lakh @ 8% and to Rs2.99 lakh@ 11%. The corresponding numbers for a 20 year loan are even more alarming as it grows to Rs4.93 lakh @ 8% and to Rs8.94 lakh @ 11%.

Table 6: Growth of a loan (As Multiples of Loan Amount)

Int. Rates → Tenors ↓	**8.00%**	**8.50%**	**9.00%**	**9.50%**	**10.00%**	**10.50%**	**11.00%**	**11.50%**
10	2.22	2.33	2.45	2.58	2.71	2.85	2.99	3.14
15	3.31	3.56	3.84	4.13	4.45	4.80	5.17	5.57
20	4.93	5.44	6.01	6.64	7.33	8.09	8.94	9.87

3. A comparison between RMLeA and conventional Monthly Payments Schemes is possible if we consider the '**Present Value**' of the loan amount as purchase price of the annuity. Let us assume the loan value to be Rs. 1,00,000/-.
4. The Table 6 below gives a comparison between the two schemes which clearly shows that the RMLeA is much to the disadvantage of the borrowers. Let us consider the Reverse Mortgage Loan for Rs. 1,00,000/- @ 11% for 10 years. The purchase price of the annuities under RMLeA would be the '**Present Value**' of Rs. 1,00,000/- @ 11% over 10 year period which is 33,454/- (refer value corresponding to

10 years and 11% in Section A of Table 6). The yield at current rate on the annuities is in the range of 7% to 7.2%. **The table assumes it at higher end i.e. 7.2%**. Thus annuities purchased with Rs33454/- would yield a monthly payment of Rs201/- @ 7.2% (corresponding values from Section B of Table 7). Now under RMLPP for the same loan amount of Rs1,00,000/- @ 11% for 10 year tenor, the monthly payout given by the banks is Rs457 (Refer table 6 page 58).

Table 7: Comparison between RMLeA and Conventional Monthly Payouts (RM Loan amount Rs1,00,000/-)

Section A	Discounted Purchase prices of Annuities (for a loan amount Rs. 1,00,000/-)							
Tenors ↓	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%	11.50%
10	45052	42870	40794	38819	36941	35154	33454	31838
15	30240	28069	26055	24186	22452	20843	19350	17964
20	20297	18378	16641	15069	13646	12358	11192	10136
Section B	Monthly Annuity Amounts under RMLeA (Swabhiman Plus)							
10	270	257	245	233	222	211	201	191
15	181	168	156	145	135	125	116	108
20	122	110	100	90	82	74	67	61
Section C	Monthly Payouts under Conventional Reverse Mortgage Loan scheme							
10	543	528	513	498	484	470	457	443
15	287	274	262	251	239	228	218	208
20	169	158	149	139	131	122	114	107

5. **Taxability of Annuities received under RMLeA**: The annuities received from SUD/ any other insurance company are treated under the head 'salary' for tax purpose. They are taxable u/s 17 of Income Tax Act (1961). As against this, the periodic payouts are not.

Chapter 4

Global Scenario:

In the US, Australia and Canada where the Reverse Mortgage loan schemes are popular, the respective governments have played a key role in the success of the loans. Even countries like China, UK, Hong Kong and Poland, where the schemes are comparatively new, have the legislative and regulatory mechanism well in place. In most countries, the scheme started as a Social Security initiative aimed at financial protection of the Senior Citizens of country.

Thus one major factor that plays an important role in the success/ failure of such schemes is the participation of the government by way of formulating the law and getting a strong regulatory mechanism in place. This would curb the misuse by either of the participants in the scheme.

The legal and regulatory systems are there to ensure close and effective monitoring of the schemes with the intent of protecting the interests of borrowers, who could be exposed to fierce marketing by lending institutions and in some cases may even be robbed of their property, as has been experienced in the US and China. On the other hand such a mechanism seeks to curtail the financial risks to the lenders by providing adequate insurance facilities for loans released.

The participants are the Government agencies as well as Private Lending Institutions in most of the countries.

The government initiatives available for Reverse Mortgage were in the form of

1) Legislations to prevent borrowers from being cheated or looted by unscrupulous lenders,

2) Formation of strong regulatory bodies to oversee operations

3) Supportive mechanism whereby the borrowers could get grievances redressed

4) Making the loans **'No Recourse to the borrower'** type loans.

5) Providing Insurance cover to the lenders in the event of cross-over of loan amount (Loan amount exceeding the realisable value of the property.

The problems of the senior citizens in these countries were no different than those in India. Reverse Mortgage Loans assume the same meaning and importance even in these countries. They are the means of providing financial security to a section of society that has assets in the form of a property but are stressed for cash due to various reasons, **including servicing the debt on the same property**. The only parameters differentiating them from the similar loans in India are the population of eligible senior citizens and interest rate structure. The percentage of senior citizens owning house property is more than that in India, even among the low income groups. However the interest rates are less than half in almost all the countries discussed above, making the periodic payouts more lucrative for the senior citizens to get attracted to the scheme.

Thanks to the legal reforms initiated by the US government in the housing sector to protect the interests of the homeowners, particularly after the financial crisis of 2007-08 and initiated by the fall in housing prices, the Reverse Mortgage Reverse Mortgage markets have become healthier and stronger. In fact it has become the most viable retirement support vehicle. Its popularity is also on the rise in many other countries. The countries, which were studied under this research, are The United States of America, Australia, Canada, China, Hong Kong and Poland.

https://files.consumerfinance.gov/a/assets/documents/201206_cfpb_Reverse_Mortgage_Report.pdf

The report presented to the US congress by the Consumer Financial Protection board (CFPB) in 2012 stated the following facts:

"The Reverse Mortgage Loans are easier to acquire than the traditional home equity loans as they do not have stringent income and credit ratings and monthly repayment stipulations. However, they come with comparatively higher cost. 73% Reverse Mortgage loans were fixed rate lump sum loans, availed to repay the existing home equity loans or for making investments. This resulted in higher costs due to higher interest rates and other related costs. Further they were availed at younger age, which resulted in inability to pay taxes in later years and consequently loss of shelter due to foreclosure."

The report also discussed mis-selling and misleading advertising leading to consumer mis-perceptions and poor decision making.

The broad structure of the schemes in various countries is generally the same with modalities differing in response to the country specific situations and parameters.

The scenario in various countries on the basis of selected parameters is as follows: A Detailed comparative table of the highlights of the Reverse Mortgage Schemes in the US and Australia is given as Annexure 2.

Australia

Legal and Regulatory Structure:

Regulatory powers are centralised in the Commonwealth Government.

National Consumer Credit Protection act 2009 (Cth) regulates Reverse Mortgage Loans, the other regulatory measures being National Credit Code (The Code) and NCCP regulations.

The act and the Code defines the scheme, the scope, the players allowed to function as lenders, the risk protection to the borrowers and lenders, various parameters for the scheme, methods of payout, method for liquidation of loan, provisions of pre-closure (prepayment) of the loan (if desired by the borrowers) etc.

Players in the Market:

Commonwealth Government's Department of Human Services as well as Private lenders like banks. Currently there are only four commercial providers- Commonwealth Bank, its subsidiary BankWest, Heartland and P&N Bank - offering reverse mortgages, according to Canstar.

Eligibility for Loan:

Loans should be within the legal definition of the Reverse Mortgage. The eligibility of the borrowers is decided on many criteria such as:

Age: No specific age restrictions. However in practice the Government Loans get restricted by Government Pension age eligibility of 65 years and 6 months. Private lenders have minimum 65 years age restrictions.

Residency: Loans are **not** restricted only to Australian Nationals. Any person resident in Australia for 10 years or more (not necessarily Australian Citizen) is eligible.

Ownership: Property to be mortgaged should be partially or fully owned. Property of Private trust controlled by prospective borrower is acceptable.

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https://www.smh.com.au/money/borrowing/government-reverse-mortgage-expanded-20180509-p4ze6z.html

Income: Borrowers of government loans should be recipients of government pension less than the maximum government pension. Private lenders do not have income criteria.

Quantum of Loan:

For government loans, loan amount is capped at prescribed proportion of the Property Value. (Normally the maximum loan amount is the difference between the pension received by the borrower and the maximum amount of pension given by the govt.) Private lenders offer minimum Aus$20,000/- maximum as per age bracket of the borrowers (**65-69**: 20% of security value max Aus$275,000/- **70-74**: 25% max Aus$325,000/-). The loan quantum is generally a function of the age of the borrower, the interest rate, property value and location,

Application of Funds:

The loan amounts can be utilised as an additional income to meet living costs, consolidate and pay other debts including outstanding home loan, buy a new car, fund aged care-in home or in a residential aged-care facility (nursing home), repair or renovate the home, help the family or grandchildren or pay for a vacation.

This has to be done carefully or Centrelink pensions may be affected under the "gifting" provisions of Centrelink;

Costs:

The costs are in respect of legal compliances like stamp duty, mortgage registration fees, and other government charges, which vary with location, application fee (say $0 - $950) etc. They are charged upfront and also a monthly fees (say $ 12/-) is charged. All the costs can be part of the Reverse Mortgage loan.

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https://www.canstar.com.au/home-loans/reverse-mortgages

Interest rates:

The banks and financial institutions offer both fixed interest as well as adjustable interest (floating interest) loans. The interest rates are normally higher than the conventional home loan rates and currently range between 5.25% to 6.37%

Payout Plans:

Mode and pattern of payout not regulated. Private lenders offer periodic, lump sum payment plans. Some also offer a Line of Credit which is like an Overdraft in India). Some offer a combination of these.

Cooling Off Procedures:

Government loans have cooling off period extending to any time during currency of loan. Private lenders do not offer any cooling off period.

Risks to the borrower:

Interest rates are generally higher than average home loans

The compounding of Interest results in debt rising quickly.

The loan may affect pension eligibility of the borrower.

The persons other than borrower, occupying the house would face loss of shelter after death of borrower/ tenor of loan getting over.

Costs of moving out of loan may be high.

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https://www.moneysmart.gov.au/superannuation-and-retirement/income-sources-in-retirement/home-equity-release/reverse-mortgages

Risk Protection to Borrowers:

Regulations set strict disclosure standards for lenders.

Negative Equity Protection (available from Sept 2012): The loans are 'No Recourse Loans' i.e. the borrowers have no liability to the lenders over and above the property value. The lenders are to provide mandatory guarantee limiting the liability of the borrower to the value of their mortgaged home (except in case of a fraud).

Borrowers are protected by remedial options, dispute resolution pathways (outside Courts) and obligations of lenders prior to enforcement of security.

Liquidation:

Govt. loans can be repaid by the borrowers anytime during the currency of the loan. In normal course, the loans are adjusted by sale of property on expiry of the loan period or on death of the borrower, by the estate of the borrower/ surviving partner.

Obligations under the loan:

The upkeep of the property is responsibility of the borrower. It should be repaired when necessary.

All taxes are to be paid whenever due and property to be kept insured for full amount of valuation.

Other Options for Finance:

The Pension Loan Scheme: Though it is in existence for 30 years, it is less known and less used. It works like Reverse Mortgage scheme i.e. supplements pension income. In 2010 it had only 710 accounts. **Though it offers many advantages over private lenders, but is limited in scope**.

Precautions to be taken by borrower:

The income by way of cash-flows may be much lower in comparison with the capital appreciation of the home.

The Reverse Mortgage from private institutions may not be covered by credit or financial services laws and access to important consumer protections such as free external dispute resolution can be lost.

In Nutshell:

The 2014 yearly report of Australian Financial Services Organisation gives an encouraging picture for the scheme. According to the report, the Australian population of 65 years held home equity in excess of $500 billion. The nation's total Reverse Mortgage book was worth $ 3.66 billion. The use of home equity as resource for retirement living was growing and the interest of wealth managers, banks and non-banking lenders and insurance companies translated into increasing popularity of the Reverse Mortgage Scheme.

The number of Reverse mortgages were 40000 with average loan size $ 92,000. The top 3 purposes for which the Reverse Mortgage loans were accessed were a) home improvements, b) Supporting an income stream, c) debt consolidation. Reverse mortgages are also regulated by the Australian Securities and Investments Commission (ASIC) requiring high compliance and disclosure from lenders and advisers to all borrowers.

Currently the scheme is limited to borrowing an amount to top up the part pension to the equivalent of a full pension.

From 1 July 2019, the scheme will be broadened to allow people to borrow to create an income stream that is 50% higher than the full pension (including supplements).

A one line evaluation of the Reverse Mortgage scheme in the words of Paul Versteege, the policy co-ordinator at the Combined Pensioners & Superannuants Association (CPSA), "Reverse mortgages, including the government's scheme, are really a "last resort" for older people to raise money.

He says, over time, the interest mounts and eats into the home-owners' remaining equity and limits the ability to downsize or move.

The inheritance issue may not be too much of a problem, with seniors' attitudes changing from previous generations. Fewer than half of over 50-year-olds say they are just as likely to provide an inheritance as their parents, while more than one in three says they're less likely.

Acknowledgements: A research paper by White &Case LLP, New York (Annexures)

The USA:

Legal and Regulatory Structure:

The Reverse Mortgage framework is based on US Federal laws and the regulation of US Department of Housing and Urban Development (HUD) there under. The scheme exists in the US from as long back as 1987. The Housing and Community Development Act of 1987 (Public Law 100-242), authorised HUD to provide insurance to Reverse Mortgage loans under Home equity Conversion Mortgage (HECM). HUD acting through the Federal Housing Administration (FHA) approves the lenders who provide the (HECM) which are Reverse Mortgage Loans. FHA also provides mortgage insurance for HECM loans as well as some other residential loans.

The Federal Trade Commission Act:

This act prohibits lenders of Reverse Mortgage from employing unfair and deceptive practices. It also protects the borrowers against material misrepresentations and omissions and deceptive acts and abusive practices that are likely to cause injury to the borrowers.

The Truth in Lending Act ("TILA"):

TILA regulates disclosures by lenders to borrowers. The lenders must provide loan-related marketing material, financial documents and mortgage applications, as well as the timing for when borrowers must receive such disclosures. Also all key terms for the mortgage loan should be provided in clear terms along with a copy of the loan document. It empowers the borrower to rescind the loan document within 3 clear working days without reasoning and penalty.

The CFPB's Mortgage Acts and Practices (MAPs) Rule:

This regulates advertising practices for mortgage products including Reverse Mortgage. It guards borrowers against misrepresentations as to required payments, borrowers' rights or lenders affiliation to US federal government.

The Real Estate Settlement Procedures Act:

This governs closing costs and settlement procedures to ensure that borrowers receive disclosure of loan costs at key steps in lending process.

Equal Opportunity Act:

This prohibits discrimination between borrowers on the basis of race, religion, national origin, sex, marital status and age in any aspect of credit transaction.

The laws and regulations in any of the states of the US do not override the regulations of HECM under HUD.

The United States Consumer Financial Protection Bureau is the authority which makes and enforces the laws in regard to financial products in the US.

There is no single definition of the term 'Reverse Mortgage' for the purposes of US federal and state laws relevant to residential mortgage lending. The term is used to refer to a loan secured by a first mortgage on the residence of a borrower who is a senior citizen, with no payments of interest or principal on the loan or any payment of fees required until the borrower dies, sells the home or no longer occupies the home as his or her primary residence.

Three different variants of Reverse Mortgage Loans are legally prevalent in the US.

1. **Single Purpose Reverse Mortgages**:
   - Offered by some state and local govt. agencies and non-profit organisations to Senior Citizens with low or moderate incomes.
   - The terms are governed by local laws.
   - The loans are not federally insured.
   - They have low principals and normally for payment of taxes, repairs and modifications to the houses and not for any purpose like other Reverse Mortgage loans.
2. **Home Equity Conversion Mortgages (HECM)**:

- These loans are regulated by HUD through FHA who approves the lenders and insures the Reverse Mortgage loans. They cover 90% of the Reverse Mortgage loan market.
- The loans are on 'No Recourse' basis, where the borrower neither pays interest nor the principal.
- They have to ensure payment of taxes and upkeep of the property.
- The interest accrues till the end of the loan period. It is adjusted by sale proceeds.
- The loan being insured, FHA reimburses the lenders the amount of cross-over, if any (amount outstanding under loan in excess of the property value)

3. **Proprietary Reverse Mortgages:**
    - These are not covered by FHA insurance.
    - They are underwritten by private lenders subject to consumer protection requirements and other requirement and limitations under the concerned state laws.
    - The interest rates on these are high in absence of insurance cover. There is no upper limit to the amount of loan as applicable to HECM loans.
    - The loan amount can be used for any purpose. Thus Reverse Mortgages are best suited for high value property owners requiring higher amount loans.

The Reverse Mortgage Loan market in the US reflects that the Federal and State governments have different and overlapping authorities. No single agency controls the regulatory powers. The state laws in this regard differ significantly.

The laws of all or most U.S. states, impose licensing or registration regimes and related regulatory regimes for lenders, brokers, originators and servicers within the state The system of state regulation of licensed or registered mortgage lenders would generally provide protection for reverse mortgage loan borrowers from the risks of potential fraud or abusive practices that could be presented by lenders that operate outside of any formal system of licensing and regulation.

Players in the Market:

Lenders approved by FHA

Eligibility for Loan:

Loans should be within the legal definition of the Reverse Mortgage. The eligibility of the borrowers is decided on many criteria such as:

Age: There are no specific age restrictions. However in practice, government loans get restricted by government pension age eligibility 65 years 6 months. Private lenders have a minimum 65 year age restriction.

Ownership: Property to be mortgaged should be partially or fully owned. Property of Private trust controlled by prospective borrower is acceptable.

Income: Borrowers income or ability to repay the loan is not a decisive factor in determining his eligibility for the loan. However history of the prospective borrower in respect of payment of taxes, property dues and home insurance matters.

Quantum of Loan:

It is a function of 3 factors: Value of home, Interest rate and age of youngest borrower.

It is subject to the upper limit of maximum claim amount declared by the HUD. As on Jan 2018 it was $679650/-

The maximum loan amount is arrived at as a certain percentage of the value of mortgaged property and a certain percentage of the maximum claim amount (currently $ 679650/-), whichever is lower.

Older borrowers qualify for higher loan amounts.

The interest rate applicable may be fixed or adjustable (floating). Lower the interest rate, higher the maximum loan amount.

Application of Funds:

The 3 schemes discussed above cater to roughly 3 income sections of the society. As such the application of funds is according to the needs of these sections of the society.

Though legally there is no restriction on usage of funds, the design of the 3 schemes actually decides the application of funds. For instance:

Single purpose Reverse mortgage scheme expects the borrowers to use the limited funds it makes available to the borrowers, for the upkeep of the property, making all payments related to the property like taxes, maintenance charges, repairs, insurance etc.

HECM scheme makes periodic payments in addition to up front lump sum payments for meeting expenses, supplementing income streams and lump sum payment to meet exigencies. It is more liberal as far as the loan amount is concerned though it is restricted by property value.

Proprietary Reverse Mortgage scheme does not have a cap for maximum loan amount as it is availed of mainly by the elite class whose needs for finance are more and diverse. However even this Scheme has to be within the norms of the insurers FHA.

Costs:

The costs connected to Reverse Mortgage loans are

a) Insurance cost charged by the FHA: Currently this is 1.25% of the outstanding loan amount annually. Normally it is paid from the loan, though the borrower can optionally pay from his own sources.
b) Though service charges are less common these days, some borrowers do recover them from the loan amount. Normally it is around $30 a month.
c) Interest: HECM offers fixed as well as adjustable Interest rates to the borrowers.

https://reversemortgagealert.org/reverse-mortgage-rates/

Interest rates:

The interest rates on HECM loans in the US between Jan 2018 and June 2018 were as follows:

Fixed Interest in the range 4.65% to 4.90%;

Adjustable interest rates were 4.65% to 4.83%

Historically between Jan 2016 and Dec 2017 they were as follows:

Fixed interest rates in the range 4.901% to 4.98%

Adjustable Interest rates were in the range 3.54% to 4.72%

90% Reverse mortgage loans in the USA are on adjustable rate basis. They are adjustable on monthly, semi-annual or annual basis. The adjustable rate is composed of an Index + the margin. The margin practically should never change during currency of the loan. The index like London interbank offered rate (LIBOR) is used in such rate mechanism.

Payout Plans:

The loans are disbursed in the following ways:

1. **Tenure**: Borrower receives monthly payments till death.
2. **Term**: Monthly payments for fixed period selected.
3. **Line of Credit**: Borrower makes withdrawals within maximum loan amount at time and amount of his choice.
4. **Modified Tenure**: Part amount under line of credit and part as monthly payments till death.
5. **Modified Term**: Part amount under line of credit and part as monthly payments for fixed term monthly payouts.

Cooling Off Procedures:

The loan can be cancelled by the borrower within 3 days of closing without penalty. But the borrower must notify the lender immediately.

Risks to the borrower:

Interest rates are generally higher than average home loans.

The compounding of Interest results in debt rising quickly.

Potential frauds or abusive practices by lenders operating outside formal system of licensing and regulation.

Persons other than the borrower (normally the non-borrower spouse), occupying the house would face loss of shelter after death of borrower/ tenor of loan getting over.

Costs of moving out of the loan may be high.

Risk Protection to Borrowers:

HECM loans are insured by FHA and give protection to borrowers in the event of default and to lenders if the **principal amount of the loan exceeds the value of the property**.

US laws set strict standards that lenders must comply with before, during and after contracting the borrower, including safeguards against discrimination, deceptive acts, and misrepresentations in marketing and advertising materials.

Borrowers are to be given mandatory counselling sessions from approved counsellor as to the risks of and **alternatives to** HECM loans.

HUD introduced criteria for eligibility for non-borrower spouses who may lose the shelter on death of borrower spouse. The eligibility criteria is that the property should be kept insured, taxes should be regularly paid and unused loan amount should not be drawn or no other benefits of Reverse Mortgage loan to be availed by the non-borrower survivor spouse. In eligible cases the loan repayment may be delayed till the non-borrower spouse no longer resides in the home.

Obligations under the loan:

- The upkeep of the property is the responsibility of the borrower. It should be repaired when necessary.
- All taxes to be paid whenever due and property to be insured for full amount of valuation.

Life expectancy set aside (LESA)

- If a reverse mortgage applicant fails to meet the satisfactory credit or residual income standards required under the new financial assessment guidelines implemented by FHA on March 2, 2015, the lender may require a **Life Expectancy Set Aside, or LESA**. A LESA carves out a portion of the reverse mortgage benefit amount for the payment of property taxes and insurance for the borrower's expected remaining life span. FHA implemented the LESA to reduce defaults based on the non-payment of property taxes and insurance.

Liquidation:

- The HECM reverse mortgage is not due and payable until the last borrower (or non-borrowing spouse) dies, sells the house, or fails to live in the home for a period greater than 12 months.
- A foreclosure is inevitable if the borrower fails to pay property taxes, homeowners insurance, fails in upkeep of the property, or transfers the title of the property to a non-borrower
- The HECM reverse mortgage being a non-recourse loan the liability of the borrower is only to the extent of the value the home fetches, unless the loan amount is lesser than the value of the home. If there's not enough value in the home to settle up the loan balance, the FHA mortgage insurance fund covers the difference.

https://www.investopedia.com/mortgage/reverse-mortgage/
https://reversemortgageguides.org/
https://en.wikipedia.org/wiki/Reverse_mortgage#usa
A research paper by White & Case LLP New York (Annexures)

Canada:

At present, Reverse Mortgages Loans are available in all the Canadian Provinces and territories with the exception of Yukon. They are available mainly through Home Equity Bank. However none of the programs are insured by the government.

- The borrower (in case of married persons, both the spouses) must be 55+ of age.
- The borrower must own the property ***"entirely or nearly"***.
- All previous loans outstanding on the property **must be settled with the proceeds of the reverse mortgage**.
- There is no qualification requirement for minimum income level.

Extent of the Reverse Mortgage Loan:

- Reverse mortgages in Canada are up to a maximum of 55% of the value of the property.
- The exact amount of money available (loan size) is determined by following factors:
  1. Age of the borrower: Loan amount directly proportional to the age of the borrower,
  2. Interest Rates applied to the loan,
  3. **The value of the property, its location, and factor of future appreciation**.
  4. The scheme limits on Minimum and Maximum Loan amount. (Currently Canadian $20,000 and $750,000 respectively.

Tenor of the loan:

Some lenders offer tenors which are not fixed whereas some offer fixed terms ranging from 6 months to 5 years.

Interest rates:

The interest rate applicable to the loan depends on the tenor of the loan.

Costs:

The cost of getting a reverse mortgage from a private sector lender may exceed the costs of other types of mortgage or equity conversion loans. Exact costs depend on the particular reverse mortgage program the borrower acquires. Depending on the program, there may be the following types of costs:

- CAD 50–$400 for property appraisal (to be paid upfront by borrower from own sources)
- CAD450–$700 for legal advice
- CAD 1,750 Other legal, closing and administrative costs.

The remaining costs are met out of loan amount.

Payout Plans (Mode of Disbursal):

The money from a reverse mortgage can be distributed in several different ways:

- Released as a lump sum
- Paid as monthly payouts,
- Paid by a Line of credit, similar to a home equity line of credit
- as a combination, with a smaller lump sum and then a smaller annuity

Usage of loan amount:

There are no restrictions on purposes for which loan is used.

The loan can be used for repair of the home, medical expenses, for in-home care, day-to-day expenses or to meet any emergent expenses.

The borrower retains title to the property, including unused equity.

The borrower retains the possession of the premises with assurance that he will never be forced to vacate the house.

Taxes and insurance

As the owner, it is the responsibility of the borrower to carry out repairs of the property and keep the property in good condition.

The borrower should pay all the taxes, renew insurance of the property from time to time, the condominium or maintenance fees should be paid by the borrower.

The loan amount is not treated as income and hence not taxable.

It does not affect government benefits from Old Age Security (OAS) or Guaranteed Income Supplement (GIS).

In addition, if reverse mortgage advances are used to purchase non-registered investments—such as Guaranteed Investment Certificates (GICs) and mutual funds, the borrower can claim deduction for the interest charged on the Reverse Mortgage Loan.

Repayment of the Loan:

The Reverse Mortgage Loan is due for repayment (with interest) in the following situations:

- On the death of the borrower.
- In the eventuality of borrower selling the property or moving out of the property.
- Depending on the program, the reverse mortgage may be transferable to a different property, if the owner moves.

Prepayment of the loan

The borrower may repay the loan anytime during the currency of the loan.
This may attract penalty for early payment depending on the program.

Other terms and conditions:

In case of decrease in the interest rates from the levels at the time of disbursal of loan, the mortgage terms may include an "**'interest-rate differential' penalty**."

A reverse mortgage cannot accumulate debt beyond the fair market value of the property,

Also the lender cannot recover losses from the homeowner's other assets.

If the borrower lived long enough that the principal and interest together exceed the fair market value when the mortgage is due, the borrower or heirs do not have to pay more than the house's value at the time.

Other issues:

Since January, 2018, Canadian homeowners have two competing reverse mortgage firms from which to choose, after Equitable Bank launched a competing product to a market that had long been dominated by HomeEquity Bank. In turn, HomeEquity has tweaked its advertising strategy to offer a more emotional, lighthearted pitch to Canadian seniors who might want to age in place.

https://en.wikipedia.org/wiki/Reverse_mortgage#canada

China:

Initiation of Reverse Mortgage scene in China:

- Wang Zhenyao, the director of the China Philanthropy Research Institute of Beijing Normal University, said that the "house-for-pension" scheme is targeted at seniors with particular needs and **is a supplement for the current pension system** in China
- Initially rolled out in June 2014 as pilot programs to residents of Beijing, Shanghai, and Guangzhou, the program — open to homeowners aged 60 and older — has steadily expanded into newer markets even though only 132 people have actually taken the government up on the offer.
- The scheme offers Reverse Mortgage Loans against mortgage of the residential property for a fixed term or for the rest of the life of the borrower. After the death of the borrower, the insurance company would sell the home if the borrower is not able to settle the loan from own funds.
- According to Sixth Tone, an online publication based out of China, there's only one company that offers reverse mortgages in China, which take the form of a kind of insurance policy in which the homeowners receive regular payments for the remainder of their lives — and then surrender their properties upon death. "For respondents to the survey, who reported positive relations with their children, the notion of holding onto a property as a legacy for the next generation made the reverse mortgage a hard sell," Sixth Tone noted.
- Despite the clear need for some kind of retirement relief, older Chinese homeowners tend to be wary of reverse mortgages, particularly if they have children. A 2013 survey found that the only older Shanghai residents who showed interest in a reverse mortgage were either childless or estranged from their sons and daughters.
- Reverse Mortgage Loans are offered by insurance companies. As of July 2018, there was only 1 insurance company offering Reverse Mortgage loans to only 65,000 households.

- In Wuhan, only three households took part in the scheme over the past three years. Half of these senior citizens had children.
- Li Chuanxue, Chairman of Happy Life Insurance Company, said among the households which chose to receive pensions, most received between CNY5,000 (US$752) and CNY10,000 a month, with at least one household getting the highest pension of CNY30,000 monthly.
- A survey by Central China Normal University, a little over 98% of the children of the senior citizens involved in the Reverse Mortgage scheme disapproved of their parents mortgaging their homes in return for a monthly pension.
- Dang Junwu, deputy director of China Research Centre on Aging, said that the reverse mortgage scheme has not caught on among the public for two main reasons. **One is that the financial and legal system in China is not mature enough, so many citizens fear for their financial security. The other is that the market value of residential property is hard to predict**.
- Yu Gang, a lawyer at ZhuoJian Law Firm, says there are risks in the "House-for-Pension," scheme, including property price fluctuations, terms and tenure, etc. Reverse mortgages have also **suffered from a negative reputation stemming largely from a group of scammers that set up some seniors with deliberately untenable loan structures.**
- QuXiaomin, a social demography researcher at East China University of Political Science and Law, found that although 31 percent of respondents said reverse mortgages were an acceptable way to pay for pensions, only those without children, or those who had strained relations with their children, showed any interest in them. For respondents who reported positive relations with their children, the notion of holding onto a property as a legacy for the next generation made the reverse mortgage a hard sell.

Recent Developments

- China will promote reverse mortgages, despite four years of underwhelming trials and a vague implementation plan.

- As China faces the familiar demographic math problem causing economic headaches in countries around the world, the nation's government has decided to expand its reverse mortgage program. To support its graying society, for seniors nationwide the government is ready to take a gamble on the products in response to an undeniable demographic wave sweeping the country: By 2022, the publication noted, the number of people receiving government pension funds will start growing 3% than the population of younger people paying into it, with multiple provinces predicting that they'll soon be unable to sustain the retirement programs.
- China's situation contrasts with other countries that have seen explosive growth in home equity conversion products — including the United Kingdom and Canada, where new lenders have entered the marketplace in the last two years to potentially cash in on favorable demographic trends in those countries.
- But China's lack of competition only serves to compound a difficult sell.
- As a national policy, a certain amount of each worker's salary is contributed to a pension fund, though the rules vary by region. In addition, some companies — including most state-owned enterprises — contribute an extra percentage of their earnings to pension funds. But with the ratio of workers to retirees narrowing, this system won't be sustainable for long
- By December 2017, there were 241 million people aged 60 or above, accounting for 17 percent of the country's total population.
- The China Banking Regulatory Commission recently made reverse mortgages available to all homeowners aged 60 and older.

https://reversemortgagedaily.com/2018/08/13/china-pushes-reverse-mortgages-as-demographic-peril-looms/
http://www.asiainsurancereview.com/News/View-NewsLetter-Article?id=40150&Type=eDaily
http://www.sixthtone.com/news/1002744/china-pushes-reverse-mortgages-to-pay-for-pensions

Hong Kong:

Reverse mortgage enables a customer to pledge self-occupied residential property in Hong Kong to borrow from a bank. Customer will receive monthly payouts over a chosen payment term.

The scheme offers greater financial flexibility after retirement.

The Exclusive privileges of the scheme

Flexible payment terms:

Customer can choose to receive monthly payouts for either a fixed period of 10, 15 or 20 years or entire life according to his / her own needs.

Mode of Disbursement

Lump-sum loan - In addition to monthly payouts, customer may also apply to borrow lump-sum loan(s) for specific purposes such as full repayment of an existing mortgage, payment for major repair and maintenance of property and / or medical expenses.

Retention of Ownership:

Residing in his / her own home - After taking out a reverse mortgage loan, customer still entitled to continue to stay in the property for the rest of his / her life.

No Recourse:

No repayment during lifetime - Customer does not need to repay the outstanding loan amount during his / her life, unless the reverse mortgage loan is terminated under certain specified circumstances.

Prepayment:

No penalty for early full repayment - Customer may fully repay the outstanding loan amount and redeem the property at any time, and there is no penalty for such full repayment.

Terms and Conditions:

The credit facilities and mortgage shall be subject to the terms and conditions set out in the facility letter and mortgage documents.

Fire Insurance and Home Insurance are underwritten by Bank of China Group Insurance Company Limited ("BOCG Insurance").

https://www.bochk.com/en/mortgage/featuredplan/reverse.html

United Kingdom:

- With strong demographic trends and a relatively tiny market share, equity release products could be poised for an explosion in the United Kingdom. The actuarial firm of Milliman, who took to Financial Adviser, a publication of the Financial Times, to make the case for the future of reverse mortgages across the pond.
- "Providers in the U.K. are increasingly tapping into the increased demand for new sources of income in retirement, with older homeowners releasing almost three times as much equity from their homes than they did two years ago," Colette Dunn and Beatrice Male wrote in the Reverse Mortgage Daily, an online publication based out of Chicago.
- At one time there were just two dominant firms, in the equity release market of the United Kingdom. However, currently it has expanded to include a joint venture between Santander and Legal & General, as well as the nationwide mortgage firm.
- The reasons would likely sound familiar to U.S. reverse mortgage originators: British seniors have significant home wealth and want increased comfort in retirement.
- Dunn and Male reported "Even those retirees on the lowest income (average of £7,619 a year) **have home ownership levels of 89%.** Previous barriers to equity release products taking off, and helping these retirees tap into their assets as a source of retirement income, have been largely shattered."
- Those barriers include a **desire to leave a legacy for heirs**, which research shows both retirees and their children are expecting less and less. Dunn and Male point to research showing that 89% of Britons aged 45 to 64 want their parents to spend their money in retirement, with just 45% of those aged 65 to 85 thinking they'd leave any cash for their children.
- The pair also takes a few swipes at the U.S. market, saying the British market is relatively safer for a variety of reasons — **including a sales structure based primarily on financial advisors and conservative principal limits**. In addition, they draw a stark line between the possibility in the U.K. and the state of the

Home Equity Conversion Mortgage market in the U.S. in the wake of lower principal limit factors introduced last fall.

- "With Trump's reforms and some media commentary that the high costs associated with reverse mortgages in the U.S. are 'not worth it for most people,' it is not surprising that the reverse mortgage market in the U.S. is falling at an annual rate of around 12%," they conclude. "The U.K. market is a different story, and is going from strength to strength."

https://reversemortgagedaily.com/2018/05/24/equity-in-the-uk-reverse-mortgage-demand-surging-across-the-pond/

Poland:

- The Ministry of Finance adopted a subsequent version of the draft assumptions for the Reverse Mortgage Loan Act on 26th April 2011.
- It enabled individuals holding a house property to obtain additional funds without any minimum age requirements for borrowers. However, it was aimed mainly at elderly people, by offering them a possibility of obtaining funds supplementing, among other things, their pensions.
- Reverse mortgage loans are offered in 10 European Union states and are regulated on a national basis only, since **the Community law does not address these issues**.
- The draft restricts the class of lenders of reverse mortgage loans to institutions that are authorized to provide loans under statutory laws, whose activities are supervised by the Financial Supervision Authority/ competent supervision authorities of another member state).
- A lending institution can grant a Reverse Mortgage facility by a signing a loan agreement with an individual who holds the ownership title to a real property, a share in the ownership title to a real property, a perpetual usufruct right to land or a co-operative ownership right to premises. The lending institution does not assess the borrower's debt bearing capacity before entering into a loan agreement, but only his or her creditworthiness, which is his or her credit history.
- The loan may be availed in installments, for a period specified in the agreement, or as a single payment, and may use the funds obtained for any purpose he or she finds suitable.
- **Reverse mortgage loans are to be provided in the Polish currency (Poland has not adapted Euro as yet).**
- The loan amount is determined by the market value of the real property,
- The assessment is done by a certified property appraiser.
- The borrower is permitted to live in the property till death. The loan becomes due for payment 12 months after the borrower's death. The loan is then settled by sale of the property. In case the heirs wish to retain the ownership of the property, they have to repay the loan.

- The lender cannot use the borrower's other assets to settle shortfall, if any.
- The cooling off period is very long, 30 days. The senior need not state any reason. Additionally, an agreement may be terminated subject to observing a three month notice period.
- Prepayment of the loan allowed, without any penalty/ charges.
- The borrower to maintain the property in good repair, to timely pay taxes and charges relating to the property, keep it insured during the term of the agreement, The lender has right of foreclosure if notice of 30 days for setting the things right is not responded by the borrower.
- The foreclosure can also be possible if the beneficiary has disposed of the title to the property securing the loan without the lending institution's consent, despite committing himself or herself to dispose of, or confer rights in respect of the property, to a limited extent; and also where execution proceedings have been instituted against the property by another creditor.

http://www.mondaq.com/x/132244/Loans+Mortgages+Leasing/Reverse+Mortgage+Loan

Chapter 5

Evaluation of the Reverse Mortgage Scheme:

Summary of Findings

- It is difficult to evaluate the reliability and effectiveness of all the schemes by various lenders as these have been in existence for only 10 years or so.
- None of the loans under the schemes have come to a stage of ensuring security as yet.
- Also, the response and behaviour of the legal heirs is not tested to get an idea of the extent to which repayment in this manner would be acceptable to them.
- In most cases, however, where the LTV is less than 100%, it can be safely assumed that the heirs would be more than glad to settle the loan if they are financially sound.
- Whereas the risk to the borrowers of Loan exceeding the value of Security (LTV in excess of 100%) reduces with drop in interest rates, borrowers benefit with higher annuity payments.
- Whether it is China, UK or India, the psychology of the seniors remains the same: "**Leaving a legacy for the next generation**'. This thinking is preventing a section of society, susceptible to financial woes, from exploring the power of their hard earned asset, their HOME, from supplementing their income in case of need.

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**.

https://www.personalfinanceplan.in/all-you-need-to-know-about-reverse-mortgage-loan-scheme/

This may result in the loan amount crossing over the realisable value of the property i.e. LTV exceeding 100%.

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 realisable 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 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 realisable 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).

Misconceptions about the Reverse Mortgage Scheme:

The scheme is riddled with many misconceptions, much in excess of those prevalent in case of many other financial products. They are listed below along with the related factual position:

1. **The Ownership of the property, on which Reverse Mortgage Loan is availed, passes on to the lender:**

   Mortgage of the property does not amount to transfer of ownership. Mortgage only creates a charge in favour of the lender, which can be invoked only in case of non-payment of the dues to the lender. Sec 2(47) of the IT act (1961) has been suitably amended to this effect.

2. **Reverse Mortgage Loan is required to be repaid like a conventional home loan:** The very name Reverse Mortgage Loan suggests that the working of the loan is in contrast to the conventional mortgage loans. In Reverse Mortgage Loan, the loan amount keeps increasing with time due to periodic/ lump sum release of funds by the lender and levy of interest at decided intervals. This is so because no periodic repayments are required to be made by the borrower. In the normal course the Reverse Mortgage Loan is expected to be adjusted on the death of the borrower(s) by sale of the property.
3. **Eligibility for the Reverse Mortgage Loan is decided by credit scores and Income criteria:**

   Since repayments from the borrower are not expected, the income and credit worthiness of the borrower are none of the concerns of the lenders. Age of the borrower, his residency status and the property valuation are the only parameters relevant for the lender.
4. **The entire entitlement under the Reverse Mortgage Loan is to be availed upfront:**

   The original design of the Reverse Mortgage Loan as suggested by NHB includes periodic (monthly/quarterly/ yearly) payments to the senior citizen borrower for supplementing the cash flows. Keeping in view the exigencies and specific requirement of the borrowers in mind, the Reverse Mortgage Loan can also be availed as a lump sum loan up to a certain percentage of the permissible loan amount or even a line of credit where the borrower has the freedom to draw the funds as and when required to check excessive outlay on interest.
5. **Reverse Mortgage Loan will render the borrower ineligible for certain Government benefits:**

   It is a scheme run and managed by banks and financial institutions to ensure the financial well-being of the senior citizens. The other benefits under social security measures like concessional travel, additional interest on investment, preferential treatment in places of public interaction like bill/tax payment counters, hospitals etc. are in no way jeopardised by this scheme.

6. **The surplus left, if any, on adjustment of the Reverse Mortgage Loan is retained by the lender.**

   The design of the scheme is entirely senior citizen centric and ensures that this class of citizens get the financial support they deserve. **The mortgage document makes the borrowers liable only to the extent of the loan amount or property value whichever is less**. Thus in case when loan amount exceeds the property value the lenders are entitled to **only** the Property value. Conversely if the property value exceeds the loan amount, the lenders are obliged to recover only the loan amount and pay excess amount to borrowers/ their legal heirs.

7. **In case the property depreciates and the Reverse Mortgage Loan is '*underwater*' the borrower should own up the shortfall:**

   This eventuality is discussed in 6 above.

8. **Reverse Mortgage Loan is a government scheme:**

   The scheme has been devised by the regulator of housing financial matters namely National Housing Bank. The government ought to be actively involved in this and needs to do a lot in this regard from the social security angle. However, unfortunately, except for a couple of amendments in the Income tax law, the government seriously lacks on legislative front. The government has to initiate action on the front of passing laws from protection of the borrowers from unscrupulous lenders particularly because the scheme deals with property matters. It also has to put a strong regulatory mechanism in place. **The other countries where the scheme is in vogue are well equipped with the much required legal and regulatory mechanism.**

9. **Payments in respect of taxes, maintenance, upkeep, and insurance of the mortgaged property is the lenders' responsibility:**

   Since the ownership remains with the borrower, the responsibility of payment of all dues in respect of the property and the upkeep of the property is the responsibility of the borrower.

10. **The usage of funds released as monthly payouts is restricted.**

    The scheme only prohibits usage of the loan amount released as lump sum payment. The use of such lump sum amount of loan funds for trading, speculative and business purposes is rightly prohibited. There are no restrictions on the periodic payouts except that they should be used for spending for genuine causes related to well-being of the senior citizens.

Factors in Favour of the Reverse Mortgage Scheme:

1. It is a maiden scheme specifically aimed at providing financial assistance to the most vulnerable section of the society. The lenders can fulfil social security obligation, though as a commercial organisation it is not entirely their outlook.
2. Reverse Mortgage fills the void in the product suite of the Lenders (Banks)
3. The lenders have the right of foreclosure (necessarily by Sale of the property) in some eventualities already described.
4. It addresses the need for different types of financiall requirements of senior citizens.
5. The borrowers retain ownership of the property as well as the right to reside in the property till the death of the last surviving borrower spouse.
6. They can generate additional income streams without selling the property.
7. The borrower continues to occupy the property till the death of the last surviving spouse, even beyond the expiry of the tenor of the loan though the periodic payouts would have stopped.
8. The borrowers need not repay the loan, unless they relocate or rent out part of the property or discontinue occupation of the property for some reason or the other or some other conditions mentioned for foreclosure/ recall of the loan.
9. In this sense, the loan is a 'No Recourse to Borrowers' loan i.e. the loan would essentially be liquidated by sale of the property by the bank, in case of financial inability of the legal heirs.
10. In case the LTV exceeds 100% the shortfall will be borne by the lenders.
11. The borrowers/ surviving spouse/ relative(s) of the borrower has/ have the option to repay the loan through own resources on expiry of the tenor/ the loan becoming due and payable.
12. As per the recent data on the RBI website, home loans form approximately 18% of the total advances of the banking sector. Property markets have not seen

much of litigation from the lenders so far. On a welcome note, the introduction of Real Estate Regulatory Authority (RERA) in the recent past has somewhat formalized and controlled the real estate market.

13. A central registry for mortgages has since been started. India has thus covered quite a distance in the matters relating to regulation and providing legal infrastructure and providing a well- organized and formalised home loan sector.

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. The periodic payouts under Reverse Mortgage Loan may not entirely be resulting in '**Income replacement**'. This may keep the prospective borrower(s) away.

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 unfavourable. 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. As compared to this, the monthly payouts in a 20 year Reverse Mortgage are in the range of Rs100- 150 per lakh – see table 4 page 34 above for interest rates at 9%+).

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.

Reasons for higher interest rates for Reverse Mortgage as compared to conventional home loans:

The interest rates applicable to Reverse Mortgage are higher due to following reasons:

- Its peculiar nature,
- Higher risk weight for this class of asset,
- It is an increasing LTV loan,
- It is also a no recourse loan,
- Lenders' right to recall is very limited.

Comparative Table showing Reverse Mortgage Loan
Parameters of lenders under study

	NHB-Model	BOB	CAN	CBI - Sw	CBI-Sw+	PNB	SBI
Purpose of Loan							
Supplementing Income	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Repairs/ Renovation	Yes	Yes	Yes	Yes	Yes	No Ref	Yes
Property Expenses-Taxes, Insurance	Yes	Yes	Yes	No Ref	No Ref	No Ref	No Ref
Medical Expenses	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Personal Expenses	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Settlement of existing Home Loan	Yes	Yes	Yes	No Ref	No Ref	No Ref	Yes-If SBI
Speculative, Trading, Business	No	No	No	No	No	No	No
Ownership and Borrowership							
Ownership: Single (S), Joint (J), Either (E)	E	J	E	E	E	J	E
Single Owner (SO)- Single Borrower (SB)	Yes	Yes	No	No Ref	No Ref	Yes	Yes
Single Owner (SO)- Joint Borrower(JB)/ Co Borrower(CB)	SO-JB	SO-JB	SO-JB	SO-JB	SO-JB	SO-CB	SO-JB/CB
Joint Owner (JO) - Single Borrower (SB)	No	No	No	No	No	No	No
Joint Owner (JO)- Joint Borrower(JB) / Co- Borrower (CB)	JO-JB	JO-JB	JO-JB	JO-JB	JO-JB	JO-JB	JO-JB
Eligibility-Age of borrower/spouse							
Elder Borrower Spouse	60+	60+	60+	60+	60+ upto99	60+	60+
Younger Spouse (If Joint Borrower)	55+	55+	No Ref	55+	55+	58+	58+
If Spouse not Borrower-No Restriction	No Ref	NA	NA	NA	NA	NA	Yes

Eligibility: Ownership, Property type							
Residential - In use as permanent primary residence	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Self-acquired, occupied, owned	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Unencumbered if no Home Loan	No Ref	Yes	Yes	Yes	Yes	Yes	Yes
Title Status: Clear/Transferable (C/T)	Yes	C & T	C & T	C	C	C	C&T
Commercial Property	No	No	No	No Ref	No Ref	No	No
Ancestral (subject to Approval)	No Ref	No Ref	No Ref	No Ref	No Ref	Yes	No
If Flat-age at the time of sanction ('n' years / No Restriction NR)	No Ref	No Ref	10	No Ref	No Ref	No Ref	No Ref
If house-age at time of Sanction ('n' years/ No restriction NR)	No Ref	40	No ref	No ref	No ref	No ref	No ref
Eligibility- Income / Credit Score							
Income / Credit Score	No Ref	No Ref	No Ref	No Ref	No Ref	No	No Ref
Property Parameters							
Residual Life (Years): At least 'n' years (n+),	20+	No Ref	20+	No Ref	No Ref	20+	20+
Residual Life: If spouse below 60Years ('n' Years)	No Ref	No Ref	No Ref	No Ref	No Ref	No Ref	25+
Life of building at least (n Years)	No Ref	40	No Ref	No Ref	No Ref	No Ref	No Ref
Separate criteria for Lease hold Property	No Ref	Yes	No Ref	No Ref	No Ref	No Ref	No Ref
Security for the Loan							
Mortgage : - Equitable (E) / Registered (R)/ Simple (S)	No Ref	S/E	S/E	No Ref	No Ref	E	E
Registered Mortgage where Equitable Mortgage not possible	No Ref	No Ref	No Ref	No Ref	No Ref	Yes	No Ref

Tenor of Loan							
Differs for Single/ Joint Borrowers	No Ref	No Ref	No	No	No	NA	Yes
Depends on age of younger/ Older/ Either borrower (Y/O/E)	No Ref	No Ref	Yes	No	No	E	Y
Age group (for younger borrower) and Tenor 'n' years for that Group	No Ref	No Ref	No	No	No	58-68 (15-20)	58-68 (15)
Age Group (for younger Borrower) and Tenor 'n' years for that Group	No Ref	No Ref	No	No	No	68+ (10-15)	68+ (10)
Fixed Tenor (F) or Max (M)	No Ref	M	F	F	F	M	F
Tenor extendable at discretion of bank	No Ref	Yes	No Ref	No Ref	No	Yes	No Ref
Maximum Tenor 'n' Years	20	15+5	15	20	No Limit	20	15
Tenor fixation at the discretion of the Lender	Yes	----	----	----	----	----	---
Extent of Loan							
% of Property Value (PV), Realisable Value (RV): For Flats (F)/ For House (H) For Both (B)	10%	80%PV	H-60-90, F-45-70 RV	75% RV for both	60%-80% RV for both	80% RV for both	90% RV for both
Varies with age of borrower	No Ref	No	Yes	No Ref	Yes	No	No
Varies with age of Flat	No Ref	No	Yes	No Ref	No	No	No
Minimum Loan Amount - 'n' Lakhs	No Ref	No Ref	5	No Ref	No Ref	No Ref	3
Maximum Loan Amount - 'n' Lakhs For Flat (F), For House (H)	No Ref	100 - FH	50 H, 25 F	100 - FH	100 - FH	100- FH	100 - FH
Modes of Disbursement							
Lumpsum-'n'% of Sanctioned Loan (n%SL)	50%	10% SL	20%SL	25%SL	25%SL	No Ref	50%SL

Discounted over Tenor (DOT)/ Reverse Annuity Mortgage (RAM)	No Ref	DOT	DOT	No Ref	No Ref	RAM	DOT
Maximum amount as Lumpsum (Lakhs)	15	10	19.25	15	15	15	No Ref
Periodic payouts: Monthly(M) Quarterly(Q), Half Yearly (H), Yearly(Y)	M/Q/H/Y	M	M/Q	M/Q/H/Y	M	M	M/Q
Maximum amount as periodic payout per month	No Ref	No Ref	No Ref	50000	No Limit	50000	50000
Annuities From Annuity Provider Monthly (M) Quarterly (Q)	No Ref	NA	NA	NA	M	NA	NA
Line of Credit	Yes	No Ref	No Ref	Yes	Yes	No Ref	Yes
Provision for Capital Gains tax payable on alienation by bank.	No Ref	No Ref	No Ref	No Ref	No Ref	Yes	No Ref
Payment Mode							
Credit to Single / Joint (S/J)	No Ref	No Ref	No Ref	No Ref	No Ref	S/J	J
Borrower to be pensioner	No Ref	No Ref	No Ref	No Ref	No Ref	No Ref	No
Overdraft A/C (If Line of Credit)	No Ref	No Ref	No Ref	No Ref	No Ref	No Ref	Yes
Interest Rates							
Basis :Fixed (F), Floating (T), Either (E) Discretion of Lender (DL)	DL	E (F@11%)	F	T	T	T	T
Benchmark: 1Year MCLR (1MR) & Spread (MR+n%)	DL	BPLR-2.25%	No Ref	1MR+2.00	1MR+0.50	1MR+2.60	1MR+2.75
Duration of Payouts/ Annuities							
Annuities: Till death of last surviving borrower	No	No	No	No	Yes	No	No
Payouts: Joint Borrower: Till death of last surviving borrower	No	No	No	No	Yes	No	Yes
Payouts : Joint Borrower: Till death of last surviving borrower/expiry of tenor	Yes	Yes	Yes	Yes	No	Yes	

whichever is earlier							
Payouts: Single Borrower: Till death of Borrower	No	No	No	No	Yes	No	Yes
Payouts: Single Borrower: Till death of Borrower/ expiry of tenor whichever is earlier	Yes	Yes	Yes	Yes	No	Yes	
Possession of Property							
Single Borrower: Till death of Borrower irrespective of Tenor	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Joint Borrowers: Till death of Both (Irrespective of tenor)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Reset Period:							
For Interest Rate - 'n' Years	DL	5 if F	No Reset	1	1	5	1
For Valuation of Property - 'n' Years	5	5	3	3	3	5	3
For Review of Payouts - 'n' Years	5	5	3	3	3	5	3
Right of Recession							
Working Days Post execution of Docs	Min 3	7	3	3	3	10	7
Loan not disbursed till expiry of rescission period	DL	No	Yes	No	No	Yes	No
Loan availed in the interim to be repaid but Interest may be waived?	DL	No	Yes	Yes	Yes	NA	Yes
Charges taken to be refunded	No Ref	Yes	Yes	No Ref	No Ref	Yes	No
Prepayment of Loan							
Permitted	Yes	No Ref	Yes	Yes	Yes	Yes	Yes
By Borrower/ Relative: Own Sources (O)/ Sale (S) / Any other (A)	Yes	No Ref	No Ref	No Ref	No Ref	No Ref	No Ref

No Penalty (NP) / 'n' % if take over by other bank (T-n)	Yes	NP	T-2%	No Ref	No Ref	T-2%	NP
Foreclosure/ Recall							
Declaration of Bankruptcy	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
Fraudulent activities by borrower	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
Government action (Condemnation due to health/security reasons)	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
Government requisition	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
Inability to accept revised terms/ Docs	Yes	Yes	Yes	No Ref	No Ref	No Ref	No
No repairs/ upkeep	Yes	Yes	Yes	No Ref	No Ref	No Ref	Yes
No stay more than 1 year	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
Nonpayment of taxes/ insurance	Yes	Yes	Yes	No Ref	No Ref	No Ref	Yes
Violation of terms of the RML	No Ref	No Ref	Yes	No Ref	No Ref	No Ref	Yes
Remarriage	No Ref	No Ref	Yes	No Ref	No Ref	Yes	Yes
Donating/ Gifting/ Abandoning the property	Yes	Yes	Yes	No Ref	No Ref	Yes	No Ref
Renting/ sale of mortgaged property	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
Settlement on Foreclosure/Recall							
By Borrowers: Own Sources/ Property Sale/ Any other mode	No Ref	No Ref	No Ref	No Ref	No Ref	No Ref	--
By Lenders: By Property sale If borrower Fails	No Ref	No Ref	No Ref	No Ref	No Ref	No Ref	--
No mention of specific Mode in the scheme	No Ref	No Ref	No Ref	No Ref	No Ref	No Ref	Yes
Settlement of Loan							

Due and Payable on Death of last surviving borrower (DLSB) / Expiry of Tenor (EOT) except in case of Foreclosure/ Recall	DLSB	DLSB	DLSB	DLSB	DLSB	DLSB	DLSB
By lender by Sale of Property	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
First option to Borrower by own source	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
No Recourse (Except in case of Foreclosure/Recall)	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
Other Conditions:							
No of surviving spouses while joining	No Ref	No Ref	No Ref	No Ref	No Ref	1	1
Banks' right for inspection of property	No Ref	Yes	Yes	No Ref	No Ref	Yes	Yes
Reverse Mortgage Redemption Reserve (as FD for Loan Tenor)	No Ref	No	No	No	10%RV	No	No
Further payouts to stop if borrower does not agree to revision of loan terms like interest rate, payout size etc.	No Ref	Yes	Yes	No Ref	No Ref	Yes	Yes
Insurance - Risks to be Covered							
Fire	No Ref	No Ref	No Ref	No Ref	No Ref	Yes	Yes
Earthquake	No Ref	No Ref	No Ref	No Ref	No Ref	Yes	Yes
Other natural calamities	No Ref	No Ref	No Ref	No Ref	No Ref	Yes	Yes
Costs:							
Processing Cost	DL	Max 10000	Max 5000	No Ref	No Ref	Yes	Yes
Property Survey/Valuation Cost	DL	No Ref	No Ref	No Ref	No Ref	No Ref	Yes
Title Search/ Verification	DL	No Ref	No Ref	No Ref	No Ref	No Ref	Yes
Stamp Duty-Creation of Mortgage	DL	No Ref	No Ref	No Ref	No Ref	No Ref	Yes

Documentation Charges	DL	No Ref	No Ref	No Ref	No Ref	No	Yes
Inspection Charges/Fees	DL	No Ref	No Ref	No Ref	No Ref	No	Yes
Documentation							
Valuation Certificate of Property	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
Mortgage Deed	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
Loan Agreement	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
Documents Specifically By Borrower							
Loan Application	Yes	Yes	Yes	No Ref	No Ref	Yes	Yes
Will of Borrower- With Mention of Loan	OPT	No Ref	Yes	No Ref	No Ref	Yes	Yes
Proof of Residence/ Affidavit	Yes	Yes	No Ref	No Ref	No Ref	Yes	Yes
Certificate from architect-Residual Life	Yes	No Ref	No Ref	No Ref	No Ref	Yes	Yes
Title Search Certificate (for n Years)	Yes	Yes	Yes	No Ref	No Ref	Yes	Y-30
Life Certificate Every Year	Yes	No Ref	Yes	No Ref	No Ref	Yes	Yes
List of Legal heirs alive	Yes	No Ref	Yes	No Ref	No Ref	Yes	Yes
Balance Confirmation	Yes	No Ref	Yes	No Ref	No Ref	Yes	Yes
Docs, Undertakings (by Lenders):							
No Recourse Guarantee	Yes	No Ref	No Ref	No Ref	No Ref	No Ref	No Ref
Cost Schedule	Yes	No Ref	No Ref	No Ref	No Ref	No Ref	No Ref

Undertakings (By Borrowers):							
Declaration to keep Insurance alive	DL	No Ref	No Ref	No Ref	No Ref	No Ref	No Ref
Allow inspection by lenders	DL	No Ref	No Ref	No Ref	No Ref	Yes	No Ref
To submit WILL when made	DL	No Ref	No Ref	No Ref	No Ref	Yes	No Ref
To have mention of loan in WILL	DL	No Ref	No Ref	No Ref	No Ref	Yes	No Ref
Inform on change in residence	DL	No Ref	No Ref	No Ref	No Ref	Yes	Yes
Obligations of Lenders:							
To explain loan methodology/ terms	Yes	No Ref	Yes	No Ref	No Ref	Yes	No Ref
Maintain high professional standards	Yes	No Ref	Yes	No Ref	No Ref	Yes	No Ref
Treat Senior citizens with care	Yes	No Ref	Yes	No Ref	No Ref	Yes	No Ref
To provide counselling on risks, interest rate / property price movements	Yes	No Ref	Yes	No Ref	No Ref	Yes	No Ref
Specify all costs	Yes	No Ref	Yes	No Ref	No Ref	Yes	No Ref
No sale of allied products i.e. insurance, legal consultants, tax consultants etc	Yes	No Ref	Yes	No Ref	No Ref	No Ref	No Ref
Check antecedents of third parties involved	Yes	No Ref	Yes	No Ref	No Ref	No Ref	No Ref
Convince borrower to appoint representative to be contacted in need	Yes	No Ref	Yes	No Ref	No Ref	No Ref	No Ref

Legend

Innovative
Conditions Apply

NHB : National Housing Bank Reverse Mortgage Loan Scheme

BOB : Bank of Baroda Ashray Reverse Mortgage Loan Scheme

CAN: Canara Bank Jeevan Reverse Mortgage Loan Scheme

CBI-Sw : Central Bank of India Swabhiman Reverse Mortgage Loan Scheme

CBI-Sw+: Central Bank of India Swabhiman Plus RMLeA Scheme

PNB: Punjab National Bank Baghban Reverse Mortgage Loan Scheme

SBI : State Bank of India Reverse Mortgage Loan scheme

RML : Reverse Mortgage Loans

No Ref: Not Mentioned in Scheme Document

NA : Not Applicable

RV: Realisable Value

PV: Property Value

Chapter 6

The Other Options:

The countries, which have experienced Reverse Mortgage for many years and are well established in this business, have conducted surveys and research studies which show this scheme as the '**Option as the Last Resort'**. This probably is due to the fact that in most of the countries except may be the USA, the seniors would have acquired the property they reside in, with their lifetime savings and/or loans which they are busy repaying over most of their active working life. At such a stage of life, they would love to sit back and relax. A glance through their past would make them emotionally attached to the home and make them averse to the idea of selling the property. In a country like India, where family structure is even better-knit, selling the home instead of leaving a legacy for the next generation is very difficult for them. However, the family structure in the USA is a little more liberal and the seniors there would face lesser emotional problems. If one does set aside emotional issues and adapt a more practical approach, 3 out of the 4 options stated below can be considered:

1. **Sell the property and rent a house:**

   The analysis of the data on property prices and rents in various parts of the country suggests that on an average the property prices are equivalent to 19 to 32 years of rent. (**Source: 99 acres.com: Data of July 2018).** See table 8. The table lists representative data for two major metropolises in India. (Data averaged over various areas in the locality as also over minimum and maximum prices quoted for those areas).

   This would normally justify selling the property and renting an accommodation. Currently the senior citizens are offered interest rates 0.50% above the rates applicable to others. The minimum interest rate presently available to senior citizens is 7%p.a. **The interest earned on the sale proceeds, assuming all the money so received, (net of the taxes-Capital Gains tax 20% on entire sale proceeds) is invested in bank deposits for longer maturities for 10 years or above wherever possible @ 7% and not in the high yield high risk equity investments,**

which may earn 10%+, the interest earned would still leave a surplus. Also the savings made on payment of taxes and expenses related to the property are not considered. This surplus, in most cases, may match the anticipated periodic payouts under conventional Reverse Mortgage Loan scheme. Also the property value will still remain intact with the seller.

Table 8: Benefits of Sale of Owned Property and renting an accommodation:

	Avg. Price 2BHK 600Sq. Ft. Flat	**Average Yearly Rent**	**Price as no of years' Rent**	**Interest on sale price net of CG @ 7%**	**Surplus pa. (after rent payment)**	**Surplus per Month**
	(1)	(2)	(3) = (1)÷(2)	(4)= (1)@7%	(5)= (4)-(2)	(6)= (5)÷12
Delhi West	5179688	164326	31.52	297766	133440	11120
Delhi Central	4376033	160931	27.19	251566	90635	7553
Delhi Dwarka	4518174	202537	22.31	259737	57201	4767
Delhi South	6275084	273646	22.93	360737	87091	7258
Delhi North	6622320	208622	31.74	380699	172077	14340
Mumbai South	23292411	1079647	21.57	1339016	259369	21614
Mumbai Harbour	11925873	547925	21.77	685585	137660	11472
Central Mumbai suburbs	9374345	496670	18.87	538905	42235	3520

The arguments against the sale, however, could be classified more on psychological and emotional lines rather than financial. They are:

1. The periodic shift of location can be costly.
2. It could be physically taxing to find a new residence at such an age.
3. There is risk of being cheated in the transaction.
4. The relationships built with the neighbors after long stay in the owned house would have to be sacrificed.
5. It will take time to get accustomed to the new surroundings.

6. The safety at the unknown new location can be a hazard.

2. Keep a Paying Guest for additional income as well as for company:

- This can also be helpful for the young generation who moves places for taking up employments and do not have enough finances to rent a full house.
- Such an arrangement would provide cheaper accommodation for single individuals, particularly females, who would feel at home and would find it more comfortable to stay with a family.
- The youngsters could also be of help for carrying out small odd jobs which may be physically taxing for the senior citizens. In the process the old couples would get additional income as well as company.
- The seniors not having anyone to stay with them, can have the satisfaction of having persons of the age of their children staying with them and taking good care of them.
- The recent instances where the seniors are abused and assaulted for the sake of money by the servants / acquaintances give a little darker side to these arguments.
- In such circumstances the risk perception of the seniors is high.

3. Tie up with some relative for a monthly payouts (like in Reverse Mortgage) with ownership bequeathed to him/her

- The MWPSCA of 2007 confers a legal obligation on the children/ grandchildren, relatives (who could be beneficiaries of the WILL of the seniors) to provide financial assistance to the tune of Rs10000/- to parents/ senior relatives.
- Such a relative, to whom the senior has bequeathed/ wishes to bequeath the property, can be a good substitution for a financial institution if he is financially capable and willing to support the seniors.
- In all probability, every senior citizen can find such a person in the family or in the friends' circle but it would require careful documentation and safeguards.

- Though not for any emotional reason, but for inheriting the property, someone in the family can always opt for such an arrangement.
- A distress sale of the property would also be a distant possibility.

4. Designing of new suitable schemes by Government for senior Citizens under Social Security measures (though due to rising population of senior citizens it may not be possible)

Chapter 7

Would it succeed or be illusory:

Barely a year from the time the scheme was introduced; it found a mention in the RBI publication dated 17 Dec 2008 as follows:

> It is believed that the lack of product awareness and Indian societal norms work against the scheme. India still has a strong joint family culture with the younger generation supporting the elderly, which to an extent, obviates the need for the elderly to opt for such schemes. Further, in India, borrowing, till some time ago, was generally not considered a very desirable option, more so for people in the older age bracket. Another reason for the slow offtake of the scheme in India has been the relatively low monthly payments due to the prevailing high interest rate scenario as also because banks keep higher margins (as reflected in the LTV ratio). However, with gradual changes in the social fabric, this product could see greater acceptance. Banks would also need to create necessary safeguards to ensure that there is no mis-selling of the product to senior citizens. Besides, **the norms pertaining to property valuation, maintenance and repossession need to be well-established.”**

Even though it has been 10 years since this evaluation by the RBI, the ground situation has not changed much. **In fact, it might take about two decades more for the acceptance of this scheme**. The demographic and policy factors as well as the economic factors that may have considerable impact on the progress of the Reverse Mortgage scheme are listed below:

Policy and demographic Factors:

1. **Discontinuation of Government Pension:**

   The stoppage of government pension to the new recruits w.e.f. 2005 may render those who were in the age band of 22-30 at that time to be without regular income on retirement unless they subscribe to the New Pension Scheme on a voluntary basis.

https://rbi.org.in/scripts/PublicationsView.aspx?Id=10925

2. **Government policy of Housing for all:**

   The government initiative of '**Housing for All**' may start taking shape in the next 5/10 years and people will be encouraged to acquire dwelling units. Thus, a large section of population will possess homes as an important but illiquid asset. The repayment obligation towards the home acquisition may leave lesser cash in their hands for retirement provision

3. **Absence of social security net**

   The government's action in the field of social security is almost absent, particularly in the field of passing suitable legislations and enacting effective regulatory mechanism. Considering the pace of action in this direction, it may take a longer time to have the necessary infrastructure in place.

4. **Higher life expectancy:**

   The life expectancy at birth for males has improved from 65.8 to 67.6 from 2010-11 to 2016-17. The corresponding figures for females are 68.73 and 70.1. In India, life expectancy at retirement (at age 60), is currently 77.2 in males and 78.8 in females. (Refer table 1 page 18) The higher life expectancy coupled with falling or constant retirement age would put considerable strain on the lifelong savings of the persons. A drop in inflation may reduce the severity of the situation. However if a high percentage of savings are locked in real estate, the liquid assets would be consumed much earlier leaving the individual without sufficient finance, may be for the last few years of his/ her life.

Economic factors:

5. **Behavior of property prices:**

   The movement in property prices cannot be easily predicted. However a downward movement or even a situation where the property prices are stagnant could have an effect on the demand for Reverse Mortgage.

6. **The destination of lending rates is 6%,**

   The interest rates worldwide are much lower as compared with the present level of interest rates in India. The RBI has assured to maintain the real interest rates in 1% to 1.5% band. Thus a drop in inflation would result in lowering of the deposit and lending rates. The mandate to the present MPC (Monetary Policy Committee) is to keep the CPI (Consumer Price Index) in a band of 4% + or – 2%. Keeping this in mind the destination of interest rates can be projected to be 6% in the medium to long term. The resultant situation of cheaper credit could lift the demand for the product.

7. **Shift in housing preference from Rental to Ownership:**

   A definite downtrend is observed over last 50 years in rented houses to ownership houses. Whereas 54% of the population lived in rented houses in 1961, the number has reduced to 28% in 2017-18. (Livemint report of 31 Jan 2018 based on the Economic Survey of India 2017-18) This trend continuing, the number of home equity owners would rise considerably. This may have a favourable impact on the demand for Reverse Mortgage. (However an analysis of Rental vs. ownership, based on live prices from 99acres.com, shows that property prices are equivalent to 18 to 35 years of rent- Refer Table 8 on page 111.)

Psychological factors:

8. **Change in mind-set of senior citizens:**

   A progressive shift to nuclear families for whatever reasons would tend to reduce the urge for bequeathing the property and leaving a legacy for the next generation. The younger generation also may change the mind-set and prefer to stay in the self-acquired property.

   The psychological block about selling the property or acquiring finance by mortgaging the property would most likely undergo changes with time. The thinking would come from the head rather than from the heart and financial factors would take precedence over the emotional issues. Traces of such a shift are visible to some extent. However this is a time consuming process and might take around two decades.

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https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=44636
https://www.livemint.com/Politics/ixPbHQK7HGSOpUnoZnu7lO/Only-28-of-Urban-India-lives-in-rented-houses-Economic-Sur.html

Chapter 8

Suggested makeover:

It is an established fact that the scheme has not attracted as much attention of the borrowers as it was expected to. The lenders have also given a cold shoulder to the scheme due to the factors discussed above. Under the circumstances, some introspection is much needed both by borrowers and lenders if this scheme is to be taken further. The emotional behavior of the borrowers is not India centric. Anywhere in the world, where this scheme has not gathered momentum, this phenomenon is widely seen to be responsible for the failure of the scheme. The supply side i.e. the lenders also need to shed the overcautious approach and need a shift in their strategies to make the scheme work. Some points to consider are as follows:

Points to ponder:

By borrowers:

1. All the costs related to Reverse Mortgage Loan should be ascertained from the lender.
2. The interest burden increases with time. Thus, resorting to Reverse Mortgage should be postponed till such time as it becomes absolutely essential.
3. In case the settlement of the loan is by sale of property, impress upon the lender the need for the **borrower's active participation** for betterment of prospects of securing the right valuation of the property.
4. It is advisable for those prospective borrowers under Reverse Mortgage Loan to have a term life insurance cover taken before attaining the age limit for getting such insurance cover, preferably while still in service/ prior to the retirement, for a handsome amount to take care of the legacy they would wish to leave for their children. The property can then be used to raise finances through Reverse Mortgage Loan as supplementary income. (Ideally a Rs1 crore policy at age of 55-60 would be available for yearly premium of Rs.30-70 thousand). Though such insurance cover is normally available till the age of 75, HDFC Life covers upto the age of 85 years).

5. The borrowers can also tie up with some relative, ready to look after them till the death of both spouses, and provide the required finance to them every month, in return for bequeathing the property to him in his WILL.
6. Those who own the property singly should make the spouse as the joint borrower so that he/she gets to retain the possession of the property in the event of the death of the owner. The non-borrower spouse has no right to occupy the property after the death of the borrower spouse.

By Lenders

1. The conditions for foreclosure of the Reverse Mortgage Loan include foreclosure if a) if the borrower remarries or b) if the borrower moves out of the property for a continuous period of 1 year. Such conditions need to be re-examined and practised with moderation in favour of the borrower.
2. Till such time as legislation regarding insurance in the event of cross-over comes into force (LTV in excess of 100%), tie up with some insurance company for covering a group insurance of such eventuality at the cost of the borrowers.
3. Ensure the participation of the borrower's legal heir in the process of sale of the property, in case it is imperative for recovery of the dues, with a view to secure better valuation thereby reducing the probability or severity of the LTV exceeding 100% property value.
4. The acceptability to newer ideas being a little low particularly among the senior citizens, at least some awareness can be created in respect of the facilities and financial assistance available to them like this Reverse Mortgage scheme.
5. As the property market and valuations get standardized, there will be benefits to the users of Reverse Mortgage. It may be examined as to why the concept of Reverse Mortgage should not be extended to cover land in case of the rural population. Land which is not agricultural can be an eligible security as it is not subject to depreciation. Currently the scope of Reverse Mortgage is restricted to only self- occupied residential property.

By Government

1. Awareness about financial products among the general public is poor probably due to the fear that they involve a lot of mathematics. Though to a large extent it is true, an introduction to ways and avenues to save money can be included in the syllabi of all streams of university education and not only for commerce stream.

2. In US and Australia, it is imperative upon the lenders to a) explain the scheme of Reverse mortgage b) Refrain from hard selling the product, to the prospective borrowers. Punitive legal actions for violation of these guidelines are provided for. A proper legal infrastructure should be created to ensure that the interests of senior citizens are safeguarded. This should be within the ambit of the legal infrastructure to be designed for the entire finance sector.
3. How to reduce the cost of intermediation is a subject by itself. One can only say that as the cost of intermediation goes down, the rate of interest charged to the ultimate borrowers would tend to reduce.
4. There is need to have stringent guidelines in the working of the MCLR and the banks should be permitted to levy margins (with strict cap and floor) to decide the final lending rates. It is obvious that there is immense scope to reduce the interest burden to the borrowers.
5. It will also be quite in order if the Reverse Mortgage Loan is taken as a Welfare measure under the purview of the Ministry of Social Justice and Welfare, in lieu of being listed as a product in 'commercial' banks which are governed by the Ministry of Finance. This will not only enable designing suitable subventions and subsidy, but also dedicated monitoring of the programme. Such subvention and subsidies can be routed through the implementing banks. The justification for such subvention and subsidies stem from the fact that the Seniors, who have rendered their contribution to the national development in some form or other, for over sixty years, become sensitive and vulnerable in their sun-set phase. And it becomes the responsibility of the State to ensure protection of their interest.

6. Suitable amendments were made to the Income tax Act (1961) to exempt Reverse Mortgage Loan from taxation. However, Sec 47 (xvi) excludes annuity payment /

lump sum amount under Reverse Mortgage Loan from the definition of 'Income'. This anomaly needs to be rectified in respect of Reverse Mortgage Loan enabled Annuity (RMLeA). Since the Annuity Payment / Lumpsum Payment are sourced from Reverse Mortgage 'Loan' and hence should be defined as 'Loan' and not 'Income', and therefore be exempt from taxation. (Refer annexure 6, note by P R Jaishankar)

A little more acceptability of the Reverse Mortgage Loan schemes can be brought about with implementation of these suggested modified schemes.

1. **Discounted Monthly Payments rising yearly or with other suitable periodicity.**

   This will ensure

   a) The probability of the LTV exceeding 100% is reduced to almost zero.
   b) The borrower will have the satisfaction that the payouts are in line with rising costs.
   c) Though initially the payouts would be lesser, they would gradually rise and would be much in excess of the payouts in the existing scheme. This would take care of the growing spending on medical care with rising age
   d) The median payouts would be in line with those under the existing scheme.
   e) Revaluation of the property at periodic intervals would result in revision of such payouts.

2. **Reverse Mortgage with reduced payout to the surviving borrower till death:**

   This is on the lines of the current concept of family pension.

   - With the death of one of the spouses, the financial requirements of the family reduce.
   - This justifies the reduced payouts to the surviving spouse.
   - Such a payout should preferably be more than proportionate i.e. in excess of 50% of the original payout.
   - This would also enable the lenders to continue the payouts even beyond the decided tenor, which can be well accepted by the borrowers.
   - The decision as regards the extent of reduction in the payout in such an eventuality can be left to individual lenders.

3. **Line of Credit :**
   - Though this option was a part of the original scheme proposed by the NHB, no bank, except Central Bank of India, has offered it. It has many advantages:
     - The loan account will be available to the borrower in the form of an overdraft account where the lenders would make periodic revisions in the 'Drawing Power' of the borrower.
     - The borrower can withdraw the amount as and when required.
     - From the knowledge of the psychology of this section of the society, they would like to receive only as much finance as is needed to save the interest.
     - It would result in more finance being available when needed.
     - It would also reduce the interest component of the loan.
     - The probability of the LTV exceeding 100% is reduced, unless the borrowers always draw to the extent of 100% of the available funds.
4. **Reverse Mortgage with share in Future gains in Property value:**

   This scheme was prevalent in the U.S.
   - Under this scheme, the lender can offer higher payouts if the borrower agrees to share future gains in the property value.
   - This scheme may suit the Indian scene looking at the history of the property markets which have shown upward trends except for some patches over a long period of time.
   - However working of this scheme would be based on lopsided assumptions and could be detrimental to the lenders in the reverse scenario, i.e. in case of fall in property price when the enforcement of security is on the agenda.
5. **Reverse Mortgage in tranches:**

   This is an attempt to introduce an actuarial element in the scheme without involving an insurance company. The working is expected on the following lines.
   - The lenders decide the tranche size say 5, 7 or 10 years.
   - Considering an estimated average tenor size based on the entry age of the borrower, they will allocate a certain percentage of property value (preferably more than the one proportionate to the tranche period) to the initial tranche and decide the loan amount and payouts. This would ensure

allocation of the loan amount much in excess of the proportionate loan amount for the period of tranche

- The borrower has the option whether or not to opt for the next tranche(s).
- At the end of every tranche the revision of the property will be done and determination of the payouts can be reworked based on the market scenario and valuation of the property.
- The death of the borrower any time during the tranche period would **still make him liable for the entire loan amount**,
- This would ensure a compulsive valuation of the property after the tranche period and consequent upward/ downward evaluation of the loan amount and payouts.
- The option of repayment of the outstanding loan amount at the end of the last opted tranche or even any time before its expiry can be the option offered to the borrower.

6. **Reverse Mortgage with periodical review of payouts concurrently with Property valuation.**
    - In fact, this is no improvisation.
    - The existing model has a provision for this option. However the scheme documents of many lenders do not provide for upward revision of the payouts though there is a provision for lowering of the payouts in case of downward movement of the property prices.
7. **Insurance for shortfall in property value to cover Reverse Mortgage loan.**

   Position in other countries
    - In most of the countries where Reverse Mortgage is running smoothly, the scheme is a part of social security measures. In view of this, all the efforts are directed to ensure the well-being of the senior citizens. In providing them finance under the scheme, it is ensured that their liability is restricted to the property value or the outstanding loan amount, whichever is lower. Whereas any excess amount recovered by sale of the property is returned to the borrower, the shortfall, if any, over **the principal loan amount** is neither charged to the borrower nor is it borne by the lender. Instead, it is

insured by the state insurance agency. However the interest amount should be borne by the lender. The insurance premium is borne by the borrower.

- In India the risk is still borne by the lenders, which mostly are public sector banks. The aversion of these lenders to the scheme comes out of this fear of shortfall in the banks' books. If the banks are provided insurance for such a short fall, the banks would be more proactive in lending under the scheme.

8. **Interest subvention by government:**
    - Living under social security measures can be categorised as priority sector lending.
    - Reverse Mortgage Loan can be classified as lending under social security measures under priority sector lending.
    - This would reduce the risk weights for this type of advance.
    - It should also get entitled for interest subvention.
    - The extent of such subvention can be decided by passing a suitable legislation/ regulation. (in current scenario 2.5% to 5% would be comfortable)

9. **Reverse Mortgage with payouts or Part of the loan funded by Government.**
    - The level of idle funds lying with the RBI or IRDAI is high and rising. The funds under the 'unclaimed deposits' lying with the RBI are to the tune of Rs8864 crore as on March 2016, whereas those lying with IRDAI as unclaimed survival benefits on expiry of the life and other policies are to the tune of Rs15167 crore as on 31 March 2018. Interest amount on a sizable portion of this money, which belongs to the general public, can be utilized for the purpose of social security. A portion of it can be assigned to the scheme for reimbursing a certain percentage of the figures declared in last year's balance sheet of RBI as loans under Reverse Mortgage scheme. Alternatively it can be utilized towards payment of premium for the insurance as discussed in 8 above.

10. Raising the eligibility criteria for Age of the borrower:

- Though the retirement age is 60 in India for persons in government service and many private corporates, the need for additional financial streams is normally not felt till at least 5 years after retirement. The age eligibility of the borrowers can be raised to 65 for the elder borrower and 60 for the younger borrower. This will have a threefold effect.
  a) The borrowers would opt for lesser tenor.
  b) As a result the periodic payouts would be more.
  c) The probability of the LTV exceeding 100% would be reduced.
- This coupled with discounted payouts OR Reverse Mortgage in tranches can boost the availment

https://economictimes.indiatimes.com/industry/banking/finance/banking/unclaimed-bank-deposit-pile-crosses-rs-8000-crore/articleshow/62482405.cms
https://timesofindia.indiatimes.com/business/india-business/rs-15167-crore-unclaimed-money-of-policyholders-lying-with-insurers/articleshow/65185306.cms

Annexure 1: Questionnaire for the lender Banks

Eligibility	
1	What are the eligibility criteria? (Age, Ownership, Purpose)
2	Ownership: Commercial? Ancestral? Joint with heirs? Joint with Spouse?
3	Residual Life of Property?
4	Any Financial Eligibility Requirements? ITR required?
Risks Perceived	
5	What are the risks perceived?
6	Was any study of real estate prices, study of demographic transition, Interest rates curve analysis longevity patterns undertaken while quantifying risk perceptions?
7	How is the risk perception as compared to Home Loans? Less or More?
8	Which is a preferred risk? Mortgagor surviving the loan period or his death during the loan period.
Loan Amount, Margin etc.	
9	Any restrictions on quantum of annuity?
10	What is the income replacement ratio (% of the quantum of annuity to subsistence requirements + alternate income from property) ?
11	Are there variable margins (age dependant)?
12	Does quantum of annuity increase with joining age of mortgagor?
Security	
13	What is the basis for valuation of the property?
14	Does the scheme provide for return of property to mortgagor/ legal heir?
15	Currently what is the percentage of cases of enforcing the security in Home loans?
16	What is the probability perceived of bank entering into property sale matters (comparison with home loans expected)
Interest Rates	
17	What is the basis for selection of the interest rates applicable to the scheme?
18	Can the scheme be based on floating interest rates? (If on Fixed Interest Rate Basis)
19	Can the Interest rate be lowered to just above rate of return on Vayavandana (8%) or say up to 100 bps above Vayvanadana from the current MCLR + 2 to 2.5%
20	Is there any subsidy available from the Government?
21	Is there any refinance available from the NHB?
Insurance	
22	Can taking term Insurance of mortgagor for property value preclude repayment by surviving heirs if the option is return of the property?
23	Will the bank assuming actuary's role make the scheme attractive?
Assessment of Scheme	
24	Would you term the scheme a success or a failure or a candidate for revival?
25	Is the bank keen on reviving the scheme?
26	Was emotional attachment to property a reason for lesser acceptance?
Actions required for revival	
27	Reducing Interest rates?
28	Effective Marketing by creating awareness?

Annexure 2: Table of comparative study of Reverse Mortgages in USA and Australia

The United States	Australia
Legislation and Regulatory Practices	
US Dept. of Housing and Urban Development (HUD) acts through Federal Housing Administration regulate the Financial sector. It approves lenders and provides federal insurance for the loans. The federal laws are: **The Federal Trade Commission Act**: Prohibits lenders of Reverse Mortgage from employing unfair and deceptive practices. **The Truth in Lending Act ("TILA")**: Regulates disclosures by lenders to borrowers like marketing material, financial documents, and mortgage applications. **The CFPB's Mortgage Acts and Practices (MAPs):** It guards borrowers against misrepresentations as to required payments, borrowers rights. **The Real Estate Settlement Procedures Act:** This governs closing costs and settlement procedures **Equal Opportunity Act:** This prohibits discrimination between borrowers on the basis of race, religion, national origin, sex, marital status and age	National Consumer Credit Protection act 2009 (Cth) regulates Reverse Mortgage Loans, the other regulatory measures being National Credit Code (The Code) and NCCP regulations.
Regulatory powers with HUD for HECM loans. No single agency acting as regulator. States are free to have their own regulatory mechanism.	Regulatory powers centralised at The Commonwealth Government.
No single definition. The term is used to refer to a loan secured by a first mortgage on the residence of a borrower who is a senior citizen, with no payments of interest or principal on the loan or any payment of fees required until the borrower dies, sells the home or no longer occupies the home as his or her primary residence.	**RM Definition**: **The code** defines Reverse Mortgage loan as an arrangement where the borrower's obligation is to the extent decided by the value of security provided, though the liability may exceed such value (may be due to interest/ charges)
Credit institutions are the banks and private lenders approved as Reverse Mortgage lenders by HUD through FHA.	**Credit Institutions:** Lenders should have Australian Credit License.
Under Single purpose RM: Loans only for renovations, repairs, payment of taxes.	Specific Reverse Mortgage Loans regulations are Sec 5 and 13A: 1. Borrower to be natural person or strata corporation 2. Loan for Personal, domestic or household purpose 3. To purchase, renovate or improve residential property for investment purpose. 4. To refinance existing loan taken for 2 above.
No Residency regulations	**Residency**: NCCP act Sec 6 permits Reverse Mortgage Loans to 1. Natural Persons regardless of Australian residency. 2. Corporations and unincorporated bodies whether or not formed or carrying business in Australia.
Ownership: Owned Property to be a) single unit family home, or 2-4 unit home with at least 1 unit occupied by borrower, b) HUD approved condominiums, c) town houses. Units held by borrower in apartments owned by housing cooperatives, bed and breakfast establishments not eligible. Eligible properties must comply with property safety and quality standards.	**Ownership**: If borrower not owner of the property, the owner must act as guarantor. Third party mortgages are prohibited (Code sec 48)
Income: No income stipulations as income or ability to repay are not the criteria.	**Income**: No eligibility thresholds. Lending can be after due diligence. (NCCP sec 117,130)
Quantum of the loan: It is function 3 factors: Value of home, Interest rate and age of youngest borrower. It is	**Quantum of Loan:** The Reverse Mortgage Loan should adhere to NCCP regulation 28LC which

subject to the upper limit of maximum claim amount declared by the HUD. As on Jan 2018 it was $679650/- The maximum loan amount is prescribed % of home value or maximum claim amount whichever is less. Older borrowers qualify for higher loan amounts. The interest rate applicable may be fixed or adjustable (floating). Lower the interest rate higher the maximum loan amount.	restricts the quantum of loan at the time the contract entered into to: **a)** Upto 15% of Loan to Value Ratio (LVR) when the Youngest borrower is less than 55 years of age **b)** Upto 15% + 1% per year in excess of 55 years of LVR (if younger borrower older than 55 years age) **c)** Upto 20% of the LVR if younger borrower is in excess of 60 years. In all other cases the Reverse Mortgage loan is treated as '**unsuitable**'
Interest rates: As per CFPB discussion guide, normally lump sum loans are on fixed interest rate basis. Line of credit loans are adjustable rate basis.	**Interest rate**: NCCP act 32A lays down upper limit for interest rate to be charged as 48% (in case of Lenders other than Authorised deposit taking institutions, private banks, building societies and credit unions)
Loan Components: cost of property insurance, fees for effecting conveyance/mortgages, interests, Charges, etc. are added to loan amount, if paid by lender.	**Loan components**: cost of property insurance, fees for effecting conveyance/mortgages, interests, Charges, etc. are added to loan amount, if paid by lender.
Cooling Off Period: TILA empowers the borrower to rescind the loan transaction within 3 working days without assigning reasons and without penalties	**Cooling Off Period**: The Code sec 21(1) provides for cancellation of Reverse Mortgage contract till the credit is not availed. However general statutory cooling off periods, which apply to unsolicited contracts do not apply to Reverse Mortgage loans due to disclosure obligations.
Risk Protection: FHA covers cross over risk to the borrowers; It also covers risk of lender facing financial difficulty. It guarantees on-going payments to borrowers in the event of failure on part of lenders.	**Risk Protection to Borrowers**: Amendment to NCCP act in Sept 2012 addresses specific issues of borrower protection in respect of Reverse Mortgage Loans
HUD provides for Counselling to the borrowers prior to applying for the loan. This is to guarantee delivery of unbiased information to the borrower. Non borrowing partner faces risk of moving out of the home after death of the borrower. The regulations allow the repayment to be deferred until the non-borrowing spouse provided he/she pays taxes and does the upkeep of the property and does not withdraw ant loan proceeds and does not receive any benefits from the loan. Other risk perceptions for the borrower are **Consumer risk**: Significant upfront costs may reduce the loan amount considerably.	The act identified these risks to Reverse Mortgage borrowers: 1. High compound interest rates and No recourse to Borrower nature sizably reduce home equity value. 2. Vulnerability of the aged retired borrowers to selective marketing and need to communication of key information through media accessible to them. 3. Lack of expertise and inability of borrowers to properly evaluate their home equity. 4. Inability to generate income to fund excess, if any, over and above the Home equity value. 5. Risk of losing dwelling place for non-borrower inhabitants in borrowed property, once it is sold. 6. Pension eligibility may be compromised. How?
Product complexity: Borrower unable to understand complex procedures. **Foreclosure risk:** Due to non-payment of taxes, insurance, not carrying out upkeep of the property, failure to retain property as primary residence (moving out to old-age shelter or any other reason), transfer of title/ sale of property, death of the borrower and the surviving spouse does not qualify as eligible non borrowing spouse.	1. The provisions of the Act (sec 117 & 130) to overcome these risks are: 2. Lenders have following pre-contractual obligations: 3. Lender to make reasonable enquiries about requirements and financial objectives, future needs for aged care accommodation, intentions to leave the home/land equity to his estate (Regulations 28HA) 4. Sec 133DB makes it obligatory for lender to give in writing the information about liability of the borrower under Reverse Mortgage at various stages of the loan and resolve queries/ concerns, if any, of the borrowers to their satisfaction. 5. Lenders to provide Official Reverse Mortgage information Sheet. 6. If Reverse Mortgage contract restricts borrower to nominate / revoke nomination of person(s) to live in the house, another Disclosure sheet to be provided. 7. Lenders prohibited from misrepresenting facts/ using emotional or high impact language thereby inducing to enter into contract.

	8. The regulatory regime imports a 'No negative Equity' guarantee (Code sec 86A(1) into the Reverse Mortgage contract if 9. Borrowers accrued liability, though not due and payable, exceeds the adjusted market value of property, 10. Lender receives an amount at least equal to the adjusted market value of property either from borrower/ from sale proceeds of property. 11. Code Sec 86B prohibits lenders from demanding any further payments from the borrowers if a) , b) in 2 above holds, except in case of frauds (Code sec 86C, D)
	The regulatory provisions will apply (for lenders as well as borrowers) to all Reverse Mortgage Loans fulfilling eligibility criteria above and falling within the ambit of the definition of Reverse Mortgage above,
	The regulatory provisions do not apply to: 1. Bridge Loans (for purchase of new Property) 2. Loans not limiting the obligation of borrowers to maximum limit set by the value of security.
Players in the Reverse Mortgage Market	
Lenders to be approved by FHA.	Reverse Mortgages offered by Commonwealth Government's Department of Human Services and Private lenders such as banks.
Eligibility for borrowers	
No single definition.	**RM Definition**: Loan to be within legal definition of Reverse Mortgage
Age: No Specific age for retirement in the US. Eligibility for partial social security benefits is 62 years and for full benefits it is 66, which will be raised to 67 in few years. US census data shows average retirement age as 63. . Senior citizens 62+ are eligible for the loans.	**Age:** Regulations do not lay down specific age restrictions. However in practice it gets restricted by other parameters like longevity, Tenure of loan, Retirement Income. Government Loans require one owner of property to be above 65 years 6 months and eligible for Govt. pension (age eligibility to go post 1st July 2019). Private lenders lend to borrowers above 65 but do not insist on pension eligibility.
No residency restrictions:	**Residency:** Government grants Reverse Mortgage Loans in line with social security standards subject to exceptions to: Person's residents in Australia (not nationals) for past 10 years with no break in their residence for at least 5 of these years. Private lenders give Reverse Mortgage Loans to Australian Residents.
Ownership: Property to be free of liens	**Ownership**: In Government Loans applicant should partially or wholly own the property to be mortgaged. Also property owned by private company / trust accepted if such entity is controlled by the applicant. Private lenders lend only to owner borrowers. Property of Private company/ trust unacceptable.
No Income criteria. However low income persons avail Single purpose RM, High income individuals avail Proprietary Reverse Mortgage and most of the others avail HECM.	**Income**: In government loans the borrower or the partner to be recipient of less than the maximum amount of Government Pension. Alternatively they should not be recipient of government pension due to income or assets criteria. Private lenders do not have any Income criteria.
Others:	**Others:** Private lenders require the borrower to provide receipts of payment of taxes and insurance of the property. The borrower also should undertake not to use the loan for '**excluded purposes**' which would cause Reverse Mortgage loan to fall outside **The Code**

	definition.
Quantum of Loan	
Max $ 679650/- under HECM. Private lenders can lend any amount qualifying under FHA norms for insurance for cross-over.	**For Government Loans**: Loan amount capped at the prescribed proportion of property value. Typically the difference between the Pension drawn by the borrower and the maximum rate of the Govt. Pensions. The Loans are not taxable.
	For Private lenders: Minimum loan is Aus $20,000/- Maximum loan amount as per the 5 year bands below: 65-69 years old: 20% of security Value, Max $275000/- 70-74 years old:25% of security value, Max $325000/-
Payment Plans	
There are 5 plans for availing Reverse Mortgage Loan. 1. Tenure: Borrower receives monthly payments till death. 2. Term: Monthly payments for fixed period selected. 3. Line of Credit: Borrower makes withdrawals within maximum loan amount at time and amount of his choice. 4. Modified Tenure: Part amount under line of credit and part as monthly payments till death. 5. Modified Term: Part amount under line of credit and part as monthly payments for fixed term	Mode and pattern of Payments under Reverse Mortgage are not regulated.
	Private lenders have lump sum, instalments or even credit facility plans.
	Government loans only on instalment basis.
Cooling Off Provisions	
	Govt. Loans: Borrowers can cancel Reverse Mortgage loan or opt out of it after sanction, any time.
	Private Loans: There is no cooling off period.
Risk Protection to Lenders	
FHA insurance for cross-over of Loan amount.	Insurance to lenders from commonwealth government in the event of cross-over.
Risk Protection to Borrowers	
HUD provides for Counselling to the borrowers prior to applying for the loan. This is to guarantee delivery of unbiased information to the borrower. Non borrowing partner faces risk of moving out of the home after death of the borrower. The regulations allow the repayment to be deferred until the non-borrowing spouse provided he/she pays taxes and does the upkeep of the property and does not withdraw ant loan proceeds and does not receive any benefits from the loan.	Regulations set strict standards for the disclosures that the Lenders must make to the borrowers and for the inquiries to be made from the borrowers. Lenders must provide mandatory guarantee providing limiting the liability of the borrower to the value of their mortgaged home (except in case of a fraud). The loans are no recourse loans (i.e. can be repaid only out of sale proceeds) Borrowers are protected by remedial options, dispute resolution pathways and obligations of lenders prior to enforcement of Security. The Private lenders also advise prospective borrowers to get legal advice before contracting RM.
Liquidation	
	Under Govt. Loans: they can be repaid any time by borrowers. If secured property is sold (by borrower) then loan is liquidated on the day of sale. In case of death of borrower, his estate or in some cases the estate of surviving partner can make repayment.
	In Private Loans: The borrower can repay anytime. In cases where the borrower dies / sells the secured property / leaves home for more than 12 months, the loan to be repaid immediately.

Annexure 3 - Executive Summary of the USA Framework for Reverse Mortgage Regulations Provided by White & Case

WHITE & CASE

Advice to Moneylife Foundation regarding reverse mortgage regulations in the United States

Executive Summary

The following are the basic requirements and other provisions under U.S. federal law and regulation for Home Equity Conversion Mortgage ("HECM") loans, which are offered by banks and other mortgage lenders in the United States under a program administered by the U.S. Government and backed by Government mortgage insurance. HECM loans account for more than 90 percent of the reverse mortgage market in the United States.

(a) Eligibility requirements

Requirements to become an eligible HECM borrower include the borrower's age, the borrower's equity in his or her home, and the borrower's financial resources.

A borrower must be 62 years of age or older, as well as own the property and occupy it as principal residence. A borrower must also have sufficient financial re-sources to continue to make timely payment of ongoing property charges, and must participate in a mandatory consumer information session given by an-approved counselor.

(b) Loan amounts

Lenders will calculate a borrower's loan limit based on the borrower's age, the interest rate offered, and the lesser of the appraised value of the home or the maximum claim amount. The maximum claim amount is nationwide and set annually by law. As of January 1, 2018, the maximum claim amount is $679,650.

This limitation on the maximum loan amount for an HECM loan is one of the primary differences between an HECM loan and the types of "proprietary" re-verse mortgage loans that are made by private lenders in the United States outside of the HECM program. Such private lenders may set higher maximum loan limits, or no limit at all, for their reverse mortgage loans.

(c) Payment plans

A borrower may choose to receive the loan proceeds either as a line of credit, in monthly installments, or as a lump sum. A borrower may also elect to get a combination of a line of credit and monthly installments, or a line of credit and a lump sum. A borrower may request to change a payment plan at any time during the life of the loan, subject to a small servicing fee.

(d) Cooling-off periods

A borrower may cancel a loan within three days after closing without penalty, and must notify the lender immediately of such decision.

(e) Risk protections for borrowers

HECM loans are non-recourse loans, meaning that a borrower has no personal liability for repaying the loan. HECM loans are insured by the U.S. federal Government, protecting both borrowers and lenders in an event of default or in the event that the principal amount of the loan comes to exceed the value of the real property collateral that in most cases serves as the source of repayment of the loan. U.S. consumer financial protection laws set extensive and strict standards that lenders must comply with be-fore, during, and after contracting with a borrower, including safeguards against discrimination, deceptive acts or practices, and misrepresentation in marketing and advertising material.

Borrowers must also receive mandatory counseling sessions from an approved counselor as to the risks of, and alternatives to, HECM loans.

U.S. consumer financial protection laws set extensive and strict standards that lenders must comply with be-fore, during, and after contracting with a borrower, including safeguards against discrimination, deceptive acts or practices, and misrepresentation in marketing and advertising material.

Overview of the U.S. Reverse Mortgage Market

Reverse mortgages are a popular tool for seniors in the United States who have equity in their homes and want to supplement their income.[1] Other types of credit products, such as first- or second-lien home equity loans or lines of credit, also enable older homeowners to use the equity in their homes to obtain credit from banks and other lenders, but they require the borrower to make periodic payments on the debt and to have an income sufficient to service such debt. By contrast, reverse mortgages enable older homeowners to borrow against the equity in their homes, with the homes serving as collateral for the loan, while retaining title to the home and deferring repayment of the loan for as long as the borrower remains in the home. In effect, a reverse mortgage allows an eligible homeowner to convert a portion of the accrued equity in his or her home into a lump sum cash payment or a stream of cash payments, which can then, in most cases, be used to cover living expenses during retirement or for any other purpose.

The CFPB has noted that the original purpose envisioned for reverse mortgages was to allow borrowers to convert home equity into cash for use in helping to meet expenses in retirement.[2] As discussed below, however, a borrower's eligibility for a reverse mortgage loan is based on the borrower's age rather than retirement status. The CFPB has noted in this regard that when a borrower takes out a reverse mortgage early in retirement or even before reaching retirement, the borrower faces an increased risk that he or she will be without the financial reserves to finance a future move, whether due to health or other reasons.[3]

There is no single definition of the term "reverse mortgage" for purposes of all U.S. federal and state laws relevant to residential mortgage lending. In general, however, the term is used to refer to a loan secured by a first mortgage on the residence of a borrower who is a senior citizen, with no payments of interest or principal on the loan or any payment of fees required until the borrower dies, sells the home or no longer occupies the home as his or her primary residence. At the time any such event occurs, the home is sold and the proceeds of the sale are used for repayment of the loan, although the borrower is also permitted to use other sources of funds, including the proceeds of a "forward" mortgage or of a new reverse mortgage loan, for repayment. Interest accrues on the principal amount of the reverse mortgage loan while the loan is outstanding, with the accrued interest and the fees on the loan added to the outstanding balance of the loan. Loan proceeds are disbursed to the borrower during the term of the loan in periodic installments, in advances through a line of credit, in a lump sum payment, or through a combination of such methods. As a result of these loan features, a reverse mortgage borrower's equity in his or her home decreases and the loan balance increases over time, which is the "reverse" of the traditional home mort-gage loan that is used to finance home purchases, in which the borrower's home equity increases and the loan balance decreases over time as the borrower makes periodic payments of principal and interest to the lender. The borrower under a reverse mortgage loan retains ownership of the property and may sell the home and move at any time, keeping any sales proceeds in excess of the reverse mortgage balance. Reverse mortgage loans are typically provided on a non-recourse basis, in which the lender looks solely to the value of the home that secures the loan as the source of repayment, and the borrower is not responsible for any deficiency balances if the collateral value of the home is less than the outstanding balance of the reverse mortgage when the loan is repaid.

There are three major types of reverse mortgage programs in the U.S. market, each of which involves a particular type of lender, is tailored to particular situations and purposes, and is subject to its own regulatory regime. They are as follows:

1) *Single-purpose reverse mortgages*, which are offered by some state and local government agencies and non-profit organizations to senior citizens with low to moderate incomes. The terms and requirements for single-purpose reverse mortgages are governed by the laws and regulations of the particular state of the United States governing the transaction rather than a single federal regulatory regime. They are not federally insured, are typically in low principal amounts and may be used solely for the purpose designated by the lender pursu-ant to the governing state laws and regulations, such as home improvement and repairs or the payment of property taxes. That is in contrast to the other categories of reverse mortgages, the proceeds of which may be used for any purpose by the borrower.

[2]Consumer Financial Protection Bureau ("CFPB"), *Issue Brief: The Cost and Risks of Using a Reverse Mortgage to Delay Collecting Social Security*, at 8 (Aug. 2017), https://files.consumerfinance.gov/f/documents/201708_cfpb_costs-and-risks-of-using-reverse-mortgage-to-delay-collecting-ss.pdf.

[3]CFPB, *Report To Congress On Reverse Mortgages* (June 2012), at 6

2) *Home Equity Conversion Mortgages*, which are reverse mortgage loans that are extended by banks or other private lenders that have been approved as reverse mortgage lenders by the U.S. Department of Housing and Urban Development ("HUD") through the Federal Housing Administration ("FHA"), which is a U.S. Government agency that provides mortgage insurance for HECM loans as well as for certain other types of residential mortgage loans. HUD, acting through the FHA, administers the HECM program, and HUD regulations establish the requirements and terms for HECM loans. Given that HECM loans, like most other reverse mortgage loans, are made on a non-recourse basis and the borrower is not obligated to make payments of interest or principal on the loan while the borrower continues to occupy the home, and with interest continuing to accrue for as long as the loan remains outstanding, the FHA insurance of HECMs serves to protect lenders against what is referred to as "crossover risk" – i.e., the risk that the outstanding balance of the loan will in-crease beyond ("cross over") the value of the collateral.[4] Borrowers are required, however, to remain current on all property taxes and homeowner's insurance on the home that secures the HECM and to maintain the home in good repair, in order to protect the collateral for the loan. Loan proceeds for an HECM loan may be used for any purpose. The HECM program accounts for over 90 percent of all reverse mortgage loans offered in the United States.[5]

3) *Proprietary reverse mortgages*, which are underwritten by private lenders, subject to the consumer protection requirements and other requirements and limitations under governing state law. Due to the lack of FHA mortgage insurance or other mortgage insurance, interest rates on proprietary reverse mortgages tend to be higher, and maximum loan-to-value ratios tend to be lower, than for HECM loans, but proprietary reverse mortgages are not subject to the maximum loan limit that applies to the HECM program. As a result, proprietary reverse mortgages are generally suited for borrowers who seek to borrow a higher amount, based on a greater level of home equity, than is permitted under the HECM program. Loan proceeds may be used for any purpose.

These different types of reverse mortgage programs in the United States reflect the fact that the country has a federal system of government, in which the federal government and the various U.S. states have differing and, in many cases, overlapping authority, responsibilities and requirements for the regulation and oversight of mortgage lending and other types of financial services activities. As a result of this federal system, the United States – un-like many other countries – does not have one single regulatory regime for reverse mortgages, but rather many different regimes at the levels of the federal government and the various U.S. states. Although many U.S. states may take a generally similar approach in their regulation of reverse mortgage lending, state laws in this area, as in most other areas, differ in significant ways.

Id. at 8. We note in this regard that there is no official retirement age in the United States to which borrowers' age eligibility for a reverse mortgage is tied. Instead, the age at which individuals retire is usually a function of the individual's financial resources, cost of living and other life circumstances, as well as eligibility for benefits under Government and private employer retirement programs and related tax considerations. Traditionally, age 65 has been the retirement age in the United States for most private company retirement plans as well as the age at which individuals could begin receiving full benefits under the federal Government's Social Security retirement program and become eligible for coverage under the federal Government's Medicare health care insurance program. "Early retirement" in the United States, both for eligibility for partial Social Security benefits and under many private companies' retirement plans, has traditionally been age 62. However, the Social Security program has recently raised its retirement age for full benefits to age 66 and that age will increase over the next few years to age 67 for younger participants. Although some individuals in the United States work until age 70 or longer, data from the U.S. Census Bureau indicates that the average retirement age in the United States is approximately 63. *See* https://www.thebalance.com/average-retirement-age-in-the-united-states-2388864.

[5]*See* Federal Deposit Insurance Corporation, *Supervisory Insights – Reverse Mortgages: What Consumers and Lenders Should Know* (2008), https://www.fdic.gov/regulations/examinations/supervisory/insights/siwin08/siwinter08-article2.pdf.

[6]*See* CFPB, *Report To Congress On Reverse Mortgage*s, *supra*, at 16 ("Today, all but a handful of reverse mortgages are insured by the Federal Housing Administration (FHA) as part of its Home Equity Conversion Mortgage (HECM) program."), https://files.consumerfinance.gov/a/assets/documents/201206_cfpb_Reverse_Mortgage_Report.pdf. *See also, Ask CFPB* (Aug. 4, 2016) (stating that "[m]ost reverse mortgages today are insured by the Federal Housing Administration (FHA), as part of its Home Equity Conversion Mortgage (HECM) program") (Aug. 4, 2016), https://www.consumerfinance.gov/ask-cfpb/are-there-different-types-of-reverse-mortgages-en-226; National Reverse Mortgage Lenders Association, *Annual HECM Endorsement Chart* (2018) ("HECMs account for nearly all reverse mortgages made today in the U.S."), https://www.nrmlaonline.org/2018/04/02/annual-hecm-endorsement-chart.

Annexure 4 - Executive Summary of the Australia Framework for Reverse Mortgage Regulations Provided by White & Case

WHITE & CASE

Advice to Moneylife Foundation regarding reverse mortgage regulations in Australia

1. Executive summary

In short, Australia's regulatory approach is:

(a) Eligibility requirements

The borrower's purpose for the loan, financial situation and property ownership status are all regulated. The borrower's age is not an eligibility criteria, but the borrower's age affects how much can be borrowed.

Practically, private lenders require that all owners of the property are over 65.

Government loans currently require that one owner of the property be over 65 and eligible for the government pension, although from 1 July 2019, the requirement for the borrower to be eligible for the government pension will no longer apply.

(b) Loan amounts

Loan amounts cannot exceed a prescribed proportion of the reverse-mortgaged property's value. This proportion varies depending on the age of the borrower(s).

Private lenders generally set maximum loan amounts.

Government loans are limited to the maximum government pension amount.

(c) Payment plans

The form and regularity of payments are unregulated.

Private lenders offer lump sum, instalment, and credit facility plans.

Government loans are offered on an instalment basis only. Cooling-off periods A borrower may cancel a reverse mortgage after it has been entered if no credit has been obtained under the contract.

Only Government lenders allow borrowers to stop receiving loan payments at any time.

(e) Risk protection for borrowers

The regulations set strict standards regarding inquiries and disclosures that lenders must make before contracting with the borrower.

Lenders must provide a mandatory guarantee that limits the borrower's liability to the value of their reverse-mortgaged home (except where there is fraud). The loans are non-recourse loans.

Borrowers are also protected by a suite of pre-enforcement obligations, dispute resolution pathways and remedial options.

(f) Age of retirement

There is no official retirement age in Australia, although eligibility for the aged pension is progressively being increased from 65 years and six months to 67 years from 2023.

Annexure 5 – Note from Pranay Vakil

A. What is RM?

Reverse Mortgage Reverse Mortgage is a tool to convert Home Equity into an income stream for a old and retired person. It provides an Annuity for the balance period of life (self plus spouse), without interruption, but not indexed to inflation. Unfortunately, Reverse Mortgage as a concept is much less understood by the user, the lender, the administrator and the Government.

Most senior citizens in India work through their lives to create assets and the asset that's dearest to them is their home. In most cases, it also forms a significant part of the total asset base. Reverse Mortgage can "unlock the value" from an asset, which asset is non-productive or dormant. What Reverse Mortgage can do is, efficiently unlock the potential values of this asset, during the lifetime of the person who created the asset.

A. The quantum of RM:

RM, in effect implies, release of the asset value over a period of time, preferably in monthly installments. In most cases, the current market value of the assets acquired by the senior citizen is many times the cost of its acquisition. To demonstrate how this could work let us consider the example below:

1.	Cost of acquisition of a flat (assuming that the asset is free from encumbrances, is self occupied and mortgage, if any, created for housing loan etc. are fully liquidated/satisfied)	Rs. 10 lakhs
2.	Current market value	Rs. 100 lakhs
3.	Current monthly expenditure of the senior citizen	Rs. 40,000
4.	Life expectancy	Say 20 years
5.	Administration expenses of creating RM, other service charges etc.	Say Rs. 40,000
6.	Monthly installment that could be received	Rs. 40,000

In other words, for every Rs. 1 crore of Capital Value of the Asset, the senior citizen can expect to get Rs. 40,000 per month for life.

B. Repayment of RM:

At the end of the term or upon the death of the senior citizens, the bank will sell the asset (unless an heir comes forward to repay the loan), realise the outstanding together with interest and handover the balance to the designated nominee/heir.

C. Challenges:

As you can see from the above, it seems fairly simple and workable but in practice, this does not work, as envisaged.

The Challenges for Reverse Mortgage are:

1. Once Reverse Mortgage happens the senior citizen cannot raise more money against the asset.

2. Risk of interest fluctuation can affect the monthly payment.

3. Estimating residual life of the asset is difficult.

4. If there are medical emergencies requiring lump sum amount, Reverse Mortgage does not provide for it.

5. Some borrowers insist on NOC from heirs, which can cause emotional challenge for the seniors.

6. The borrower/senior citizen is not permitted to induct a relative or a tenant in the asset.

7. RM is not applicable to commercial property or to inherited property.

D. Recommendations:

1. Accord the Priority Sector status for Reverse Mortgage loans.

2. Allow "Nomination of Property" as legal means for transfer of the property to the legal heirs(s).

3. Grant interest subvention at least to the extent of 2-3% so that the interest rates on loans would be comparable with those of the home loans.

4. Stamp Duty and registration charges should be completely waived on such transaction.

5. Pass suitable amendments to the Income Tax Act, 1961, for providing exemption for the life insurance for parent in the manner it exists u/s 80D for the medical insurance for the parents.

6. The monthly receipt in the hands of the senior citizen should be construed as capital receipt and no tax should be levied on such receipt. Fortunately, Sec. 47(16) read with Sec. 10(43), neither capital gains tax nor revenue tax will be payable during the lifetime of the senior citizen.

7. In the unlikely event that the market value of the asset drops below the loan amount, an insurance policy should cover the differential. This will provide huge mental comfort for senior citizens. This calls for a collaboration between the lending bank, the insurance company, the Actuary and the Valuer.

8. RBI should raise the ceiling on value of the asset from Rs. 1 crore to Rs. 5crores.

Dated,

July 9th 2018.

Annexure 6 - Note by P R Jaishankar

To

Ms. Sucheta Dalal

Madam,

Firstly, let me congratulate Moneylife for the excellent Paper on Reverse Mortgage Loan Reverse Mortgage Loan . The paper is definitely a comprehensive compendium of information of Reverse Mortgage Loan. My views on the subject and the report are given herein below. Further, there are a few issues that you may like to study in detail and add value to the Report.

My views:

1. The Reverse Mortgage Loan Scheme was introduced in 2007-08. The main objective of the programme was to be an **economic enabler to the extremely sensitive senior citizen segment who own residential property**. Being a initiative which facilitates to unlock the 'equity in the home' without having to 'leave the home', this needed very careful design. It was then felt that the Scheme may be ahead of its time. But what needs emphasis was that this was an 'initiative'.

2. In other progressive economies, there are different protection mechanisms for the seniors, which are **mainly (or largely) borne by the State**. India can still be proud about its 'family oriented support' system by and large in rural areas, which can be seen to be gradually unwinding. During the introductive phase, we addressed a number of Seniors Associations across the country in different locations. In all such interactions we could not only feel the insecurity but also the simmering discontent of the Seniors with the behaviour of their immediate wards towards them.

3. On its introduction, the Scheme was viewed sceptically by many Seniors, understandably as it was not an enactment of Law and hence prone to market misuse and abuse. Further, their dependency left them vulnerable to the decision-approach of their wards. Numerous instances revealed the insecurity of losing their 'dignity' and becoming susceptible to ill-treatments on 'losing their property to bankers'. On many occasions the Senior(s) would be brought by their wards for availing the Reverse Mortgage Loan but later, the Senior would separately turn up or secretly pass the message to the banks requesting them to reject the loan with a '*please don't say that I told you to do so*'. There was this other progressive Senior segment in urban locales where their wards had 'left home' and were doing good for themselves. Therefore **the legacy reason of 'wishing to leave their property behind for their heirs' may not entirely hold good in the current context**.

4. As prevalent in USA, Canada, and European nations, this **needs to be viewed as an initiative for the welfare of Seniors and not a 'business for banks'**. As a business, the main risks involved are the Longevity risk and Property Valuation risk. In USA and Canada, the State fully covers these risks. Hence, the cash flows to the Seniors are 'defined benefits' akin to pension. In India, we had initiated the programme 'innovatively' as market oriented and hence the commercial banks have structured the programme to suit their appetite. Now

that the programme structure has been accepted by commercial banks, the additional risks involved are the interest rate risk and liquidity risks.

5. While on one hand defined benefits may strain the fiscal capacity, commercialization of the Scheme goes against the interest of the Seniors. It therefore offers a good opportunity for India to Walk in the middle path. It will be appropriate if a part of these risks are shared by the State. **I agree with the suggestions in Chapter 8** of the Report in this regard.

6. It will also be **quite in order if the Reverse Mortgage Loan is taken as a Welfare measure** under the purview of the Ministry of Social Justice and Welfare, in lieu of being listed as a product in 'commercial' banks which are governed by the Ministry of Finance. This will not only enable designing suitable subventions and subsidy, but also dedicated monitoring of the programme. Such subvention and subsidies can be routed through the implementing banks. The justification for such subvention and subsidies stem from the fact that the Seniors, who have rendered their contribution to the national development in some form or other, for over sixty years, become sensitive and vulnerable in their sun-set phase. And it becomes the responsibility of the State to ensure protection of their interest.

7. In USA, Canada and Australia, it is imperative upon the Reverse Mortgage Lenders to Counsel the Seniors and refrain from hard selling the product. The Reverse Mortgage ecosystem includes mandatory Counseling by certified Counselors. Likewise, it will be desirable for a proper legal infrastructure to be created to ensure that the interests of Senior citizens are safeguarded through a **dedicated Reverse Mortgage Law**. Such a law will enable **creation of such an ecosystem** which, *inter alia*, would lay down the structure for Legal protection of Seniors, enable appropriate Regulatory provisions suited to such a measure, recommend a Valuation system for Reverse Mortgage Loan and ensure the necessary institutional and other infrastructure for the sound development of the market. Such a comprehensive effort is the need of the hour, which will boost the confidence of the Seniors. Such an initiative is best spearheaded by the Ministry of Social Justice and Welfare.

8. At the same time, product variations can be developed. The Cent Swabhiman Scheme formulated by the Central Bank of India in partnership with Star Union Dai-i-chi Lif Insurance Company under the overall guidance of the National Housing Bank (NHB) offers a wide range of options that can, *inter alia*, service the Senior and his or her spouse with Life time payment, with a **No-recourse guarantee**.

9. Seniors are a sensitive and vulnerable segment and cannot be compared with regular mortgage borrowers, as is presently practiced by the commercial banks. Hence, the Reverse Mortgage Loan product structure based on amortization methodology of regular mortgages would not be best suited for Seniors. Even if interest rate needs to be factored for the payments made, it should be on fixed rates, with appropriate subventions from the Government. In all, the amortization structure should be worked out with strict caps on interest rate. The prevalent regulatory risk weights also add to the costs and needs review by the Reserve

   Bank of India (RBI). Such risk weights should be structured according to the valuation of the property rather than basing it on regular mortgages.

A few issues that can be studied further and added:

1. Reverse Mortgages in USA – Regulated and Implemented by the Housing and Urban Development Department (HUD), Information from Reverse Mortgage Lenders Association (RMLA) and American Association of Retired Persons (AARP).

2. The CHIP Reverse Mortgage (once called The Canadian Home Income Plan) is 100% Canadian, provided by HomeEquity Bank, a Federally regulated, Schedule 1 Canadian Bank. It was founded in 1986 and has since been serving Canadians for over 30 years. HomeEquity Bank understands the needs of Canadians age 55 and over. With a conservative approach to our lending practices, HomeEquity Bank provides Canadians with the security and high regulatory standards that come with being a Canadian bank.

3. Home Equity Release (HER) in United Kingdom and Information about HER and Reverse Mortgages from MIAC Valuation

Taxation in India:

Suitable amendments were made to the Income tax Act (1961) to exempt Reverse Mortgage Loan from taxation. However, Sec 47 (xvi) excludes annuity payment / lump sum amount under Reverse Mortgage Loan from the definition of 'Income'. This **anomaly needs to be rectified** in respect of Reverse Mortgage Loan enabled Annuity (RMLeA). Since the Annuity Payment / Lumpsum Payment are sourced from Reverse Mortgage 'Loan' and hence **should be defined as 'Loan' and not 'Income'**, and therefore be exempt from taxation.

Further if you wish to have any details or clarifications, I will be glad to provide the same.

Jaishankar PR

New Delhi

January 10, 2019