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Source of Income for Elderly: Reverse Mortgage

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***Abstract**: A country with second largest population along with the huge senior citizen base andthe systemic deterioration of the common family structure, a steep increase in health care costs and little sav ings have made retreat for most seniors very difficult. Because of these situations of India, demand for different financial product which support the life style of elderly plays an important role.*
The paper would focus on the housing wealth of India of middle-class aged people which could provide financial assistance through reverse mortgage loan.
***Key Words**: India, financial product, elderly, Reverse Mortgage loan.*

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I. INTRODUCTION AND LITERATURE REVIEW

Elderly members worldwide are expected to arrive 21,1% by 2050, compared with 11,7% in 2013 and 9,2% in 1990 (UN, DESA, 2013). World is graying with more aged people and India too being witness to this extraordinary demographic movement. In addition to the second most populous country in the world with a population of 1.21 trillion, India is also a graying land. India is 7.4% old in 2001 to 8.6% in 2011, and has projected that it will be 12.5% in 2025 (RGI, 2011).Advance urbanization, deterioration of a common family structure, meltdown of a sense of respect for the elderly forcefully made elderly people stand for themselves in Indian society as well (Vaidhnathan, 2007)

Worldwide, the primary policy issue for national authorities is the insufficient ability to finance withdra wals coupled with increased life expectancy.The biggest part of the world's wealth in housing is owned by elders. Interestingly, but sadly in the uncertified setting, home equity is also the biggest asset in the elderly wealth portfolio (Gupta & Kumar, 2016). To convert this asset into liquidity they have few options like selling of house or renting or downsizing it these options have various pros and cons. Butnowadays a financially innovative product has been introduced to the pension product portfolio allowing older homeowners to capture home equity and live in the same household.

Established in 1981, this financial innovation with roots from Western culture is known as Reverse Mortgage (RM), specially designed for cash constraint, home-rich elderly homeowners. This loan is completely different from the traditional loan and the key feature is that this loan is especially for the elderly.Loan redemption is due upon the borrower's death, or moving more than a year from home. RM is non-recourse, meaning at the time of repayment if home selling proceeds are less than the lender of borrowed funds cannot claim other assets (Costa et al., 2010).

Government of India inaugurated RM in Indian market as the fourth social security tower in 2007, by then Minister of Finance P. Chidambaram as a key for elder welfare under National Housing Bank surveillance (Brar, 2011). Despite of favourable condition in India, Reverse mortgage could not take off as expected by the authorities.

The actual growth of RM in India does not support the hypothesis of the life cycle proposed by Ando & Modigliani (Artle&Varaiya, 1978), which suggests that elderly people will eventually dissolve their assets

II. REVERSE MORTGAGE:

Reverse mortgage is a loan in which a householder aged 62 or older with considerable equity can borro w from their residence and receive funds as a lump sum, a fixed monthly payment, or a loan.

A reverse mortgage does not allow the borrower to make any loan payments, unlike a forward mortgage — the form used to purchase a home—Alternatively, if the borrower dies, passes away permanently, or sells the home, the entire debt balance is due and payable.

Laws allow borrowers to arrange the contract, so that the amount of the loan does not surpass the value of the home and the estate of the borrower or creditor will not be held liable for paying the difference if the balance of the loan is greater than the value of the home.

Yet another way this might be by a decrease in home market value; another way is by living a long tim e the borrower Reverse mortgages can offer much needed funds for the elderly whose net value is largely linked to the value of their household. On the other hand, these loans can be both expensive and complex, and subject toscams.This article will tell you how reverse mortgage works and how you are shielding yourself from falls and if such a loan is right for you or your parents.

III. REVERSE MORTGAGE LOAN- FEATURES

National housing finance has registered many scheduled banks as well as housing finance companies apart from primary lending institution who provide these loans.

- The dependency of loan is, firstlyon the value that lender has assessed for house property, secondly on the age of the borrower and finally on the prevalent interest rate.
- The loan can be given by monthly / quarterly / half-year annual or lump-sum payments, as a loan or as a three-year hybrid.
- The loan term is maximum 20 years (maximum time for payments by the borrower of the reverse mortgage
- The Senior Citizen borrower may use the loan amount for a variety of purposes including upgrading / reside ntial property renovation, medical requirements etc. However, it is not appropriate to use RML for speculati ve, trading and company purposes.
- The valuation of the residential real estate would be carried out at such frequency and intervals as the reverse mortgage lender has decided, which must therefore in any case be at least once every five years.
- At the lender's discretion, the quantum of the loan may undergo revisions based on certain reassessment of t he property.
- The borrower will continue using his / her personal residence as a primary residence until he / she / it is aliv e, or moves out of the house entirely, or stops using the house as its main permanent House.
- The lender would have minimal recourse i.e., in terms of the RML applied to the creditor only to the mortgaged property.
- All reverse mortgage credit products are expected to carry a simple, straightforward "no negative equity" or "no remedy" guarantee. In other words, the borrower will never owe more than his / her property realizable value,
- The loan shall be reimbursed with the accumulated interest by the sale of the house upon death of the borrower or upon the borrower permanently leaving the domicile terms and conditions of the loan have been fulfilled.
- The loan may also be repaid by the borrower / heir(s) and may reimburses the mortgage without recourse to the sale of the property.
- The borrower or his / her heirs shall also be entitled, without pre-paid levy, to pay the loan at any time during the tenor of the loan or subsequently.(nhb.org.in)

IV. TAXATION ISSUE

In paragraph 89 of his speech, the Finance Minister declared at the time of the presentation of the Union Budget 200708 that the National Housing Bank (NHB) would launch a reverse mortgage scheme for senior citizens. In the context of the aforementioned scheme, the tax issues arising therefrom had to be solved. The first question is whether property mortgage for securing a loan under the reverse mortgage scheme is transferred under the scope of the Income-Tax Act giving rise to capital gains as a consequence.

An inclusive definition of 'transfer' is given in Section 2(47) of the Income Tax Act. Still, certain forms of mortgage include 'sale' under the scope of the Sale of Property Act. Hence, in certain cases, a mortgage of property is a transfer within the meaning of section 2(47) of the Income-tax Act.

Accordingly, any gain arising from a property's mortgage may result in capital gains under section 45 of the Income Tax Act. However, in the context of a reverse mortgage the intention is to secure a cash flow stream against a residential house's mortgage and not alienate the property.

A new clause (xvi) has been inserted in section 47 of the Income Tax Act, 1961, to provide that any transfer of a capital asset in a reverse mortgage transaction under a scheme made and notified by the Central Government is not to be considered a transfer.

The second issue is whether the loan received under a reverse mortgage scheme amounts to revenue, either in lump sum or in instalment. Receipt of such loan is in the nature of a receipt of capital. Section 10 of the Income Tax Act, 1961 was amended to provide that any amount that an person receives as a loan, either in lump sum

RESEARCH OBJECTIVE

This paper is based on a small writing table research and contains the following:

- A Survey of Literature on Reverse mortgage in India,
- To study and understand the policy of reverse mortgage loan in India.

HYPOTHETICAL CASE

With the help of an example lets explain how to better understand the Reverse mortgage loans, how to work and how to calculate it?

Mr.Rajan spent some 40 years of his life working in a textile industry. he does not have any child. At the time of his retirement he had a total of INR 20,00,000 from the Gratuity benefits, Provident fund, and other savings Mr. Rajan bought an insurance company 's immediate annuity plan, but Its monthly return is very less below INR 10,000 a month.In order to live a tension-free life with his wife and to makeboth ends meet, Rajan decides to take a loan under the reverse mortgage scheme.

Age of borrower (60 year)	Value of property(1cr.)	Rate of interest (12%)
Tenure of loan 20 years	Loan to value Ratio 80%	Payment frequency monthly
Total instalments 240	Amount of loan 80 lakh	Monthly payment INR. 8087

Formula to calculate the results for reverse mortgage calculator is as given below:
Installment Amount = (PV*LTVR*I)/((1+I)n-1)
Where, PV=Property Value; LTVR=LTV Ratio; n=No. Of Installment Payments; I=The value of 'I' will depend on Disbursement Frequency selected.
Let's say that the value of the property turns out to be 1crore and the amount of loan a borrower may take comes out to be 80lakh, assuming a loan to value ratio to be 80 per cent. The prevailing fixed interest rate is 12per cent p.a. And the length of the loan is 20 years. Payments are received every month, which means that the number of instalments is 20years*12months=240.Where n is the number of instalments, and frequency is the number of times in a year the payment is charged. Monthly payment comes out to be INR 8087 after putting values in their respective places.
Mr. Rajan will live a pain free life after retirement with this additional and supplementary volume of INR 8087.At recovery period, the amount of repayment shall be equal to INR 8000000
This is the key characteristic of the scheme that the amount of recovery shall not surpass the value of the property.

V. CONCLUSION

Reverse mortgage schemes give senior citizens an option, by mortgaging their homes to banks, to earn daily incomes. This option won't be many's top choice but your hand is often pushed.

The returns are small and the payment is minimal. You can't blame the bank, however. There is a huge risk to the bank. When you're 60, you borrow from the bank. You are compensated by the bank for 80 years. You can consider reverse mortgage loans when you face cash flow pressure during retirement and don't want to leave your house for life.

However, if you can decide to sell the old house and move to the new one emotionally difficult, you also have other alternatives. You live until you are 100 years old. For 40 years, the bank hasn't seen you with a single cent. Your house's all it got. The bank therefore takes a considerable risk for longevity.

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