

# Study on Reverse Mortgage Loan

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**Abstract - After a lifetime of Working and raising families, you deserve a good retirement period. SBI reverse mortgage loan provides an additional source of income for senior citizens of India, who have a self-acquire or self-occupied home in India. This product is beneficial for senior citizens who do not have adequate income to support themselves. The bank makes payments to borrower/borrowers (in case of living spouse), against mortgage of his/their residential house property. The borrower is not expected to service the loan during his lifetime.**

## INTRODUCTION

A reverse mortgage loan is a loan usually secured by a residential property that enables the borrower to access the unencumbered value of the property. SBI reverse mortgage loan was established in July 1995 and headquarters in Mumbai, is one of the established and most trusted banks in India. It is an Indian multinational public sector for banking and financial services. In terms of assets, deposits, profits, branches, customers and employees, SBI is the largest bank in India and it was ranked 60th in list of top 1000 banks in the world by banker in July 2012. Reverse mortgage loans 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. Because there are no required mortgage, the interest is added to the loan balance each month. The raising loan balance can eventually grow to exceed the value of the home, particularly in times of declining home values or if the borrower continues to live in the home for many years. Generally not required to repay any additional loan balance in excess of the value of the more .

## WHAT IS REVERSE MORTGAGE?

A reverse mortgage is a loan Available to seniors and is used to release the home equity in the property as one lump sum or multiple payments. The homeowner's obligation to repay the loan is deferred

until the owner dies. The home is sold, or the owner leaves.

## REVERSE MORTGAGE WORK

Cash in equity

It can provide much needed cash For seniors whose net worth is mostly tied up in the value of their home on the other hand, these loans can costly and complex, as well as subject to scams. This article will teach you how reverse mortgages work and how to protect yourself from this pitfalls, so you can make an informed decision about whether such loan might be right for you as your parents.

## KEY TAKE AWAYS



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- A reverse mortgage is a type of loan for senior ages 62 and older.
- Reverse mortgage loans allow home owner to convert their home equity into cash income with no monthly mortgage payments.

## OBJECTIVES

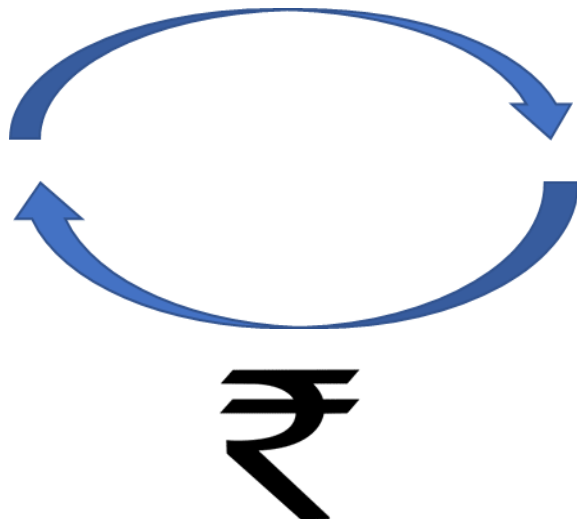
- To study the organization structure
- To study the theoretical aspects of reverse mortgage
- Reverse mortgage practices in SBI
- Feasibility study

## FEATURES

- Low interest rates
- Low processing
- No hidden charges
- No pre-payment penalty

### ELIGIBILITY

- Resident type: Resident Indian
- Minimum age: 60 years when single borrower. In case of joint borrowers spouse's age should be more than 58years.
- Loan tenure: 10-15 years, depends on age of borrowers Loan amount : minimum Rs 3 LAKH and maximum RS I CRORE



### REVERSE MORTGAGE

#### REVIEW OF LITERATURE

Mr. Ashok Bantwa, Mr. Sumit kumar Acharya (2012) Studied the feasibility of reverse mortgage loans as a retirement planning tool among Indian senior citizens using market survey method. The paper included SWOT, PESTEL and five force analyses by using secondary data. The study concluded that the retirement planning done by the majority of retired people is not adequate to satisfy their current needs and majority of them are dependent on transfer from their children as their current source of income. So there lies huge growth potential for reverse mortgage loan in India.

Pahuja, Dr. Anurag (2016)

Tried to explore various factors affecting the choice of potential buyers of reverse mortgage loan in India. The study established the linkage between demographic variables and their effect on attitude towards reverse mortgage by applying factor analysis technique. The study concluded that financial independence, reverse returns, risk involvement, complex structure and

ownership are the major factors affecting the choice of potential buyers of reverse mortgage loan in India.

Nandinee k. kutty (1998)

Inspected the scope for eliminating poverty through reverse mortgages. This study applied the data from the national file of the American housing survey of 1991 and studied the elderly homeowners in the US. The poverty rate for all elderly persons in US in 1991 was 12.4 percent. The study concluded that there is immense scope for reverse mortgages. The poverty percentage would have gone down by 2.4 percent if homeowners in poverty had obtained reverse mortgages in 1991.

Singhal Saket and Jain Amit (2008)

In their research paper concluded that, reverse mortgage products have the potential of increasing the liquidity in the economy as well as diversifying varied risks. Besides insurance and pension products, actuaries should play a leading role in designing products like reverse mortgage. Inputs from both actuarial and finance/ investment brokers are needed to plan reverse mortgage schemes.

Christopher J. Mayer, katerina v. Simons (1994)

Analyzed the potential of reverse mortgages to increase the income and liquid wealth of the elderly. Survey of income and program participation and census population (1990) has showed that over six million homeowners in the United States could increase their effective monthly income by at least 20% by using a reverse mortgage. Of these, more than 1.3 million have no children. Furthermore, a reverse mortgage would allow over 1.4 million poor elderly persons to raise their incomes above the poverty line.

#### TWO WAYS TO APPLY FOR REVERSE MORTGAGE LOAN

OFFLINE METHOD: - In this you have to visit the nearest branch of bank and apply for the loan

ONLINE METHOD:-You can simply sit home and fill the loan application for SBI reverse mortgage loan online.

#### RESEARCH METHODOLOGY

Tools used: A structured questionnaire was designed and distributed among senior citizens owning a home.

Data collection: This study is mainly based on primary data collected through a brief yet well designed and structured questionnaire. The secondary data was

collected mainly with the help of online surfing of various research papers, news articles and publications.

Method of primary data collection: The questionnaire was distributed among the respondents firstly through personal contacts. Then after snowball technique of data collection was used by the researcher to get the further references through existing respondents. The researcher was required to explain the purpose of the research to the respondents as it involved inquiry into personal information, income, saving etc. The respondents found the topic and the questionnaire interesting. It was a real eye opener for many senior citizens who were ignorant of reverse mortgage loan.

### DATA ANALYSIS

Senior citizens who have a comfortable house to live in, but are finding it hard to sustain themselves on their limited finances, have the option of boosting their monthly Income. They can look at the reverse mortgage scheme, which the government of India had launched in 2007, Although the scheme has been around for many years, It has not been a popular one, banks seldom talk about it or even advertise it. But with home loan rates not at a low, this is a good time to consider reverse mortgage if you are over 60, have a house in your name and could do with extra money. At the outset, the senior citizens must own a house. If you live in a rented accommodation, then you are not eligible for reverse mortgage. Based on the value of your house and its location, the bank will decide how much loan to give you.

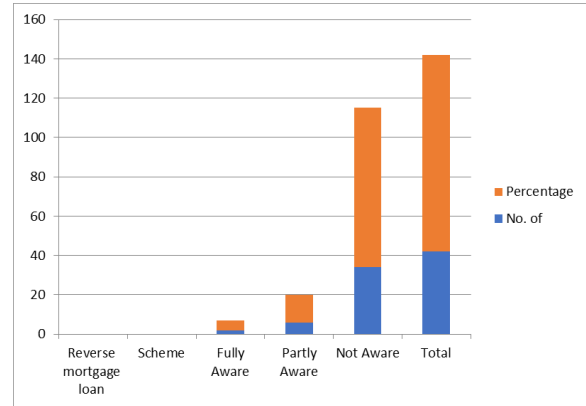
#### Awareness of reverse mortgage loan scheme

The respondents were asked to list level of awareness for reverse mortgage loan scheme. The awareness level is described by taking into consideration parameters-Fully aware, partly aware and not aware.

Table:-Awareness of reverse mortgage loan

Awareness of Reverse mortgage loan Scheme	No. of Respondents	Percentage
Fully Aware	2	5
Partly Aware	6	14
Not Aware	34	81
Total	42	100

Chart:-Awareness of reverse mortgage loan

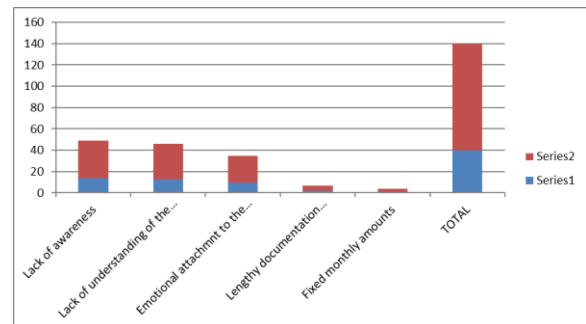


#### Primary reason behind non acceptance of reverse mortgage loan scheme

As per primary data out of 42 respondents, 36 respondents admitted they reluctance for RML while 4 respondents remained neutral. Thus, these 40 respondents were asked about the main reason behind their unwillingness.

#### Primary reason behind unwillingness to opt reverse mortgage loan scheme

Primary reason behind unwillingness to opt	No of Respondents	Percentage
Lack of awareness	14	35
Lack of understanding of the product	13	33
Emotional attachment to the property	10	25
Lengthy documentation procedure	2	5
Fixed monthly amounts	1	3
total	40	100



It is clear from the above table and chart, lack of awareness and understanding is the key reason behind unwillingness to opt reverse mortgage loan scheme. The next in the list is emotional attachment towards the property. As the respondents are ignorant of the product and the product features, the reasons- lengthy

documentation procedures and fixed monthly amounts has got the nominal responses.

#### FINDINGS

If you opt for SBI reverse mortgage loan, you will be eligible to enjoy following that which offered a low interest rate in SBI reverse mortgage loan which starts at 8.05% per annum. There is prepayment penalty in this loan. There are no hidden charges. Interest is charged on daily reducing balance. Repayment tenure goes up to 15 years. The processing fee in this loan is quite low. SBI reverse mortgage loan is available for salaried and self-employed individuals.

1. 73% senior citizens are below the age 70 years.
2. The awareness of reverse mortgage loan scheme is insufficient. Majority of senior citizens do not know about this scheme. Moreover, the senior citizens are reluctant to choose reverse mortgage loan. Lack of awareness and understanding is the key reason behind non acceptance of reverse mortgage loan scheme.

#### CONCLUSION

From the analysis part it can be concluded that the customers have a good attitude towards SBI customer services. SBI is in the 1<sup>st</sup> position having large numbers of customers and providing good services to them. The bank has a wide base so the bank should concentrate on this to retain these customers.

In the present scenario SBI is the largest advance within a very short period of time the achievement made by SBI is excellent. Reverse mortgage loan is a relatively new concept in India it would take some time for a change in mind set of individuals to accept it. As a financial tool, reverse mortgage is ideal to enhance senior citizens' income in his years as head unfortunately; the study clearly indicated that many of the senior citizens are not aware of the existence of such a product. This fact has been reflected into the non-acceptance of RML. They should certainly take some initiative to improve their financial literacy towards various retirement planning available in the market, markets, banks financial institutions, professional advisors should plan for adequate marketing of this to address this issue.

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