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AWARENESS OF REVERSE MORTGAGE AMONG THE SENIOR CITIZENS: A CASE STUDY OF SBI, KADAPA

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ABSTRACT

The present study finds that reverse mortgage is a fantastic product and this would be the best pension plan. Many senior citizens could be attracted and also show the interest towards it if it is properly take to the needy people. Banks have failure in marketing the product in India effectively. Dewan Housing, a largest housing finance company in India could sell only 4-5 reverse mortgage loan during last two years. This reveals that the efforts of the banks are poor in marketing the product.

KEYWORDS

reverse mortgage, sbi, senior citizens.

INTRODUCTION

Reverse mortgage scheme has been launched in India in the year 2007 by the then finance minister Shri. Chidambaram. It may be said that the scheme is still at infant stage and India is now getting ready for the reverse mortgage market. Based on the population's age profile, family system and geographic dispersal of the target group, it could be early days in India for the reverse mortgage market. According to a report from *Celent*, a boston-based financial research and consulting firm, the current market size for reverse mortgage is 3 million house holds and will grow to 6 million by 2015, but, only less than 500 applicants have availed the reverse mortgage loan since its inception. It is very less percentage when compared to market size for reverse mortgage. So, there is a need to study for finding out the probable reasons for this slow pickup in the growing market for reverse mortgage.

STATEMENT OF THE PROBLEM

Retirement makes the people financially lean. They might be rich in fixed assets but poor in earning. If anyone take a look at individual's balance sheet, they will find that the house is the largest asset as most of the people spend their entire earnings towards acquiring of own house. Many senior citizens, either by inheritance or by virtue of building assets, with the intention of passing them to their successors, have fixed properties in names, but they were not able to convert it into constant regular incomes as those properties are illiquid in nature. The sons and daughters also leaving them alone without taking proper care in that old age. Their expectations that their sons would take care of them in the old age wouldn't become true. Leading life after getting in to the old age, only with illiquid assets without proper financial support or any regular income and any support from the successors, can be a very bad experience. The rising cost of living, health care and other amenities compound the problem significantly. Weakened capacity of earning at this age makes the life miserable. To overcome this problem and to create liquidity for the fixed assets without losing the title of the property, Government of India in its 2007-08 budget proposed a scheme *Reverse Mortgage* in some of the banks in India. But the response from the customers seems to be very less. Why there is no expected response from the customers? Do the senior citizens aware of this scheme? The media through which the banks tried to propagate this scheme? Are the banks getting failure in attracting the customers? Isn't the Reverse Mortgage beneficial one? These are the questions to be answered.

THE CONCEPT OF REVERSE MORTGAGE

A Reverse Mortgage is a mortgage just opposite to normal mortgage. In a reverse mortgage, senior citizens who hold a house or property, but lack a regular source of income can pledge their property with a bank or housing finance company and get a loan. The bank or housing finance company will pay that loan amount in regular instalments. It is an arrangement whereby a home owner borrows against his or her home equity and receives regular payments from the bank until the total payments reach a predetermined limit. The good thing is that the person who mortgage the property can stay in the house for his life and continue to receive the much needed regular payments. So, the owner can stay in his house and also get paid for it. The concept of reverse mortgage seeks to enable the senior citizens owning the houses to meet their expenses without selling their house. The bank will have the right to sell off the property after the incumbent passes away or leaves the place, and to recover the loan. It passes on any extra amount to the legal heirs. A reverse mortgage simply opposite to conventional mortgage in the sense that in a conventional mortgage, the home owner makes monthly amortized payment to the bank or housing finance company from where he or she got the house loan and after each payment, his or equity increases within the property and after the end of the term, the loan amount is fully paid and the property is released from the lender. In the reverse mortgage, bank or housing finance company will pay the house owner in a regular monthly instalments by mortgaging his or her property. To sanction the loan, the bank or the housing finance company makes an evaluation of the current value of the home and decides the likely life of the applicant, the percentage of value of the property that they are willing to sanction as loan and the rate of interest. In normal conditions, the loan amount should be lower than 60-70 percent of the market value of the property. Here, there is an option to applicants either to take the loan amount in a single lump-sum or in fixed monthly instalments. The value of the property will be revised from time to time by both the parties. If there is a rise in the value of the property, applicants will have the option of increasing the quantum of loan, and they do so, are given the incremental amount in lump-sum. If they opted for the monthly payment scheme, this amount is appropriately increased. The principal plus interest accrue at the bank while the applicants live on in the home for the lengths of their lives or until they decide to sell the property, whichever is earlier. If they decide to sell the property, they have to clear all the loan. On the death of the owner of the property, the heirs to the property decide either to redeem the loan or sell it and take the residual amount that accrue from the sale after clearing the bank loan.

To become eligible for reverse mortgage, the applicant must be at least 62 years old and own his residence. They must also submit an application to the lender and have the property inspected. Here, the lender may ask to repair the house if it needs. The size of the reverse mortgage depends on many factors such as the age of the borrower, the type of the mortgage sought, the value and location of the property, the equity of the borrower and the current rate of interest. The borrower may receive the loan amount in one of the following three ways:

- a) Through lump sum payment
- b) A series of fixed payments
- c) A line of credit to be drawn upon when the borrower needs money.

There are three types of reverse mortgages:

FHA insured reverse mortgage—in this type, the borrower receives a guarantee that payments will continue to be made even if the lender defaults.

Lender insured reverse mortgage—under this, the lender provide periodic payments and a line of credit for as long as the borrower lives in the home.

Uninsured reverse mortgage—these offer a fixed number of payments, and the loan balance then becomes due at the end of that period.

OBJECTIVE OF THE PAPER

The objective of this paper is to analyse the awareness of reverse mortgage among the people especially in the senior citizens and the reasons for slowdown in the adoption of reverse mortgage scheme by the senior citizens in India.

RESEARCH METHODOLOGY

For the purpose of analysis to know the awareness of reverse mortgage among senior citizens/retired employees, the researcher has adopted simple random sampling by selecting 200 retired employees who have taken house loan from three branches of State Bank of India, Kadapa such as Bazar branch located at YV street, Yerramukkapalli branch and Main branch located at seven roads Kadapa. Data have been collected by administering the questionnaires among the house loan beneficiaries. Among these three banks, only three people have taken the loan under Reverse mortgage scheme.

REVERSE MORTGAGE IN SBI

In state bank of India, reverse mortgage loan was launched on 12th October 2007 to provide a source of additional income for senior citizens with self acquired and self occupied house property in India. Reverse mortgage loan can be availed in single or joint names with or without spouse as co-borrower depending upon the ownership of property and option availed by the borrower. Residual life of the property should be at least 20 years in case of single borrower and 25 years in case of spouse below 60 years of age if spouse is joint borrower. 90 per cent of the value of the property will be sanctioned as loan subject to a ceiling of Rs. 1 crore and a minimum of Rs. 3 lacs. Loan amount includes interest till maturity. A fixed rate of interest 10.75 per cent per annum is charged subject to reset at the end of five years along with revaluation of security and readjustment of loan instalments if necessary.

Creation of awareness on any newly launched programme is the primary responsibility of the bank. Otherwise people cannot come to know any type of loan or advance. To create such awareness, bank may conduct borrowers meeting, print the brochures and pamphlets, undertake canvass etc.,

TABLE 1: AWARENESS OF REVERSE MORTGAGE AMONG RETIRED EMPLOYEES

Name of the Branch	No. of Sample Beneficiaries			
	Awared	Un-awared	Semi awared	Total
Main Branch	10 (10)	75 (75)	15 (15)	100
Yerramukkapalli	4 (6.67)	44 (73.33)	12 (20.0)	60
Bazar Branch	3 (7.5)	30 (75)	7 (17.5)	40
Total	17 (8.5)	149 (74.5)	34 (17.0)	200

Note: Figures on the parentheses represent percentage to total

Awareness of reverse mortgage among retired employees is shown in Table 1. Among the sample house loan holders, very meagre percentage (8.5) of respondents have the awareness of this scheme and they know the loan procedure under reverse mortgage scheme. And 17.5 per cent of respondents have a minimum knowledge on reverse mortgage. Total 25.5 percent of sample respondents know something about reverse mortgage. But, large portion i.e 74.5 percent of sample respondents do not have any awareness of the scheme. The percentage of un-awared borrowers is more or less equal in all the three sample bank branches. More number of respondents are not known the reverse mortgage. Some of the bank employees even don't have the sufficient knowledge of the scheme. The reason might be of not conducting the orientation programmes on reverse mortgage for the bank employees.

Out of 200 sample respondents, only 51 aware of something on reverse mortgage. There are three main sources, such as bank officials, advertisements by banks, special programmes undertaken by banks and the borrowers of the bank, through which the respondents might have got the information and knowledge about the reverse mortgage.

TABLE 2: SOURCE OF AWARENESS

Name of the Branch	No. of Sample Beneficiaries			
	Bank officials	Advertisements	Borrowers	Total
Main Branch	7 (70)	0 (0)	3 (30)	10
Yerramukkapalli	3 (75)	0 (0)	1 (25)	4
Bazar Branch	1 (33.33)	0 (0)	2 (66.67)	3
Total	11 (64.71)	0 (0)	6 (35.29)	17

Source of awareness on the reverse mortgage has been shown in table 2. out of 200 sample respondents, 17 are aware and remaining are semi awared and un awared. Among the three sources, bank officials stood at first place except in Bazar branch, where propoganda from borrowers is more, followed by word of mouth by customers. About 64.71 per cent of respondents have come to know the reverse mortgage scheme through the bank officials, and the remaining are from the borrowers who have taken house loan from the bank. No body have come to know through advertisements. And as per the respondents, bank did not put any effort to create awareness by giving advertisements or conducting any special programmes.

TABLE 3: AWARENESS ON RATE OF INTEREST IN REVERSE MORTGAGE SCHEME

Name of the Branch	No. of Sample Beneficiaries		
	Having no awareness	Not affordable	Total (awared+semi awared)
Main Branch	17 (68)	8 (32)	25
Yerramukkapalli	9 (56.25)	7 (43.75)	16
Bazar Branch	6 (60)	4 (40)	10
Total	32 (62.75)	19 (37.25)	51

Awareness of the sample respondents on the rate of interest is shown in table 3. Out of 51 respondents (both awared and semi-awared), 37.25 per cent of the respondents said that the rate of interest is not affordable because the rate of interest in traditional home loans is 8 to 9 percent only. Where as it is 10 to 11 per cent for reverse mortgage scheme in most of the banks. About 62.75 per cent of respondents revealed that they don't have proper data and idea on the comparative status of interest rate. In all the three select branches, more than 50 per cent of the people opined the same.

TABLE 4: REASONS FOR NOT ADOPTING THE REVERSE MORTGAGE

Name of the Branch	No. of Sample Beneficiaries					Total
	Lack of interest	Intention of passing of the house to successors	Not Affordable rate of interest	Risk in processing	Miscellaneous	
Main Branch	7 (70)	2 (20)	1 (10)	0 (0)	0 (0)	10
Yerramukkapalli	2 (50)	1 (25)	0 (00)	1 (25)	0 (00)	4
Bazar Branch	0 (00)	1 (33.33)	1 (33.33)	0 (0)	1 (33.33)	3
Total	9 (52.94)	4 (23.54)	2 (11.76)	1 (5.88)	1 (5.88)	17

There are multiple reasons for not showing interest in reverse mortgage by the people. The major are lack of interest on this scheme, intention of passing of property to their next generation, lack of affordable rate of interest and the like. According to the sample survey conducted by the researcher, most of the people do not have interest in the scheme due to various reasons. About 23.54 per cent of senior citizens said that they have the intention of passing their property to their successors. About 11.76 respondents felt that the rate of interest is non affordable and 5.88 per cent of the persons said the process of getting the loan is risky and so on.

SUMMARY OF FINDINGS

After analysing the reverse mortgage scheme and its adaptability among the senior citizens, the researcher could find the following reasons for its slow pickup.

- In India, most of the people are traditional and are habituated to some culture and sentiment. People, having attachments with one's house, are more and they do not show interest for selling their shelter to the bank in case of default. It is a painful experience to mortgage the house that they built with their own sweat and blood.
- There is no clarity on possession of the property. If a person goes for reverse mortgage at the age of 60 for 15 years but he survives, the financial institution does not have a clear guidance on how to acquire that home. Also from the client's side, it will be difficult to payoff the loan if one wishes to live in the same house.
- Banks charges a fixed percentage of interest on reverse mortgage. In SBI it is 10.75. The rate of interest on traditional housing loan is 8 to 9 per cent. Here, the people feel uncomfortable.
- The tradition of passing down one's property over generations is still in practise in India. The son inherits the property of his father but reluctant to inherit the loan.
- Banks do not put much effort on marketing of this product. No campaigns are being conducted for propagating the scheme among the senior citizens. Even the bank officials are not properly trained and aware of this programme. So they could not make them public to know.
- The bank has the option to revise the periodic/lump-sum amount for every five years along with revaluation. At every stage of revision, the value of the house should be exactly revised. But this is not happen properly. There is no coincidence between the real market value of the property and bank estimates. There is a hope that the applicant may not be sanctioned equivalent loan amount to their property.
- Banks put very less effort and spend no amount on creation of awareness on this product. The product has been suffering due to lack of sound marketing strategy.

CONCLUSION

Reverse mortgage is a fantastic product and this would be the best pension plan. Many senior citizens could be attracted and also show the interest towards it if it is properly take to the needy people. Banks have failed in marketing the product in India effectively. Dewan Housing, a largest housing finance company in India could sell only 4 -5 reverse mortgage loan during last two years. This reveals that the efforts of the banks are poor in marketing the product.

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