



# INTERNATIONAL RESEARCH JOURNAL OF HUMANITIES AND INTERDISCIPLINARY STUDIES

( Peer-reviewed, Refereed, Indexed & Open Access Journal )

DOI : 03.2021-11278686

ISSN : 2582-8568

IMPACT FACTOR : 6.865 (SJIF 2023)

## Reverse Mortgage - An Alternative Pension Plan for Senior Citizens

**Mrs. T. SOWJANYA**

Degree Lecturer,  
Department of Commerce,  
Telangana Social Welfare Residential Degree College (Women),  
Mahabubnagar (Telangana, India)

E-mail: [sowjanya.t60@gmail.com](mailto:sowjanya.t60@gmail.com)

DOI No. **03.2021-11278686**

DOI Link :: <https://doi-ds.org/doilink/03.2023-42821968/IRJHIS2303001>

### **ABSTRACT**

*Owing a house is a big society norm in these recent days and due to this norm most of the people spending their lifetime earned money to construct a big house without doing any retirement reserves, owing a house might be a basic essentiality, but because of poor financial planning after retirement senior citizen face troubles to meet their living expenses and medical expenses or they may have to depend on their children. People who don't want to depend on their children for their financial needs, though they are poor in cash reserves but if rich in house they can lead an independent life. Common asset among the senior citizens is their house; mostly people don't want to enjoy life by selling their house. In that case Reverse mortgage is a wonderful solution to stay in their own house and can have a dignified life being independent. Reverse mortgage is working as a retirement planning tool by providing a regular source of income after retirement.*

**Keywords:** Reverse mortgage, Senior citizen, own house, Retirement planning, Dependency.

### **Introduction:**

In 2007 – 2008 budgets the Union government of India introduced reverse mortgage scheme for the people aged 62 years and above. Senior citizens who owe a house property and suffering to meet their day to day living expenses or medical expenses can approach the bank to borrow the amount without transferring the ownership of their house. A Senior citizen whose age is 62 years and above and the long term interest rate are considered for the loan amount to be sanctioned, mostly it will be 50% to 60% of the house property value. Reverse mortgage is having most flexible features like the borrower can be chosen the options whether to repay the loan amount or not.

When the borrower is willing to pay regular mortgage installments gradually reducing his outstanding loan amount and increasing the portion of the equity of the house the borrower will get back the ownership of the house. If the borrowers chosen not to pay option the borrowed amount including interest year over year added to the loan amount. The bank will sell the house after the death of the borrower and spouse.

#### **Reverse Mortgage – Eligibility:**

- The owner of a house should be aged 62 years or above, if spouse is co-applicant should be aged 55 years or above.
- House property documents should be under the name of borrower
- House should not be gifted property
- House should have a life of minimum 20 years
- House should be self occupied

#### **Reverse Mortgage – Functions:**

- Reverse mortgage loan amount is based on house value maximum 50% to 60% of house value can be availed as loan, it can be changes based on long term interest rates.
- Maximum amount is different from bank to bank between 15 lakhs to 2 crore.
- Maximum duration of these loans is 15 years and the minimum duration is 10 years.
- Interest rates can be charged under Floated or Fixed method and the rates are varied from bank to bank.
- The periodical instalment payments can be availed Monthly, Quarterly, Half yearly, annually or lump sum amount at a time.
- The total sanctioned amount can be used as instalment receivables or can also be able to clear any existing liabilities and remaining portion can be received as instalments.
- House property revaluation will be done after every five years.

#### **Reverse Mortgage – Opportunities:**

- Regular periodical instalments
- The instalment amounts received is 100% tax free
- No repayment is required during the lifetime of the borrower and spouse.
- Borrower has an option to make the payment or not to repay the loan.
- Bank allows the borrower and spouse to stay in the house though the tenure of loan period is completed.
- Heirs of the borrowers are entitled to get the surplus of the sale value.
- The sale of house will takes place when borrower and spouse both die

#### **Reverse Mortgage – Challenges:**

- The regular cash flows will stop after the maximum tenure of 15 years.

- After the tenure of loan period if not repay, Month after month, year over year interest portion will be added to the loan amount.
- Borrower does not get loan amount according to the proper value of house property.

### **Mortgage V/s Reverse Mortgage:**

- Mortgage is a Loan which is taken to purchase a property like home, car etc., Where as Reverse mortgage is completely different comparing to it.
- In case of Home loan, people collect a lumpsum of amount from bank to buy a house, where a bank completely owes the ownership of the house and provides you amount. By paying EMI's which is known as Principal amount including applicable interest, as the time passes by, the borrowed amount paying back to bank the ownership of the house transferred from bank to the person.
- In case of Reverse mortgage a senior citizen couple can collect amount from bank to meet their living expenses also maintain the ownership of the house in the beginning of the tenure of the loan. As the days passes by, the bank gives you periodical instalments through which the percentage of stake of the Bank keep increases, and senior citizen couple's keep decreasing, at the end of the period bank completely owes the ownership of the house.

### **Conclusion:**

Reverse mortgage loan is one of the popular retirement planning tools for the senior citizens providing regular stream of income. Most of the common people prefer to have their own home after retirement therefore demand for new houses has increases tremendously during the last few years. Still majority of the senior citizens are not making adequate retirement planning, hence the demand for reverse mortgage loans will increase in future.

### **References:**

1. Coda Moscarola, F., D'Addio, A. C., Fornero, E., & Rossi, M. (2015). Reverse mortgage: a tool to reduce old age poverty without sacrificing social inclusion. In *Ageing in Europe - Supporting Policies for an Inclusive Society* (pp. 235–244). De Gruyter. <https://doi.org/10.1515/9783110444414-023>
2. Redfoot, D. L., Scholen, K., & Brown, S. K. (2007). Reverse mortgages: Niche product or mainstream solution? Report on the 2006 AARP national survey of reverse mortgage shoppers. Washington, DC
3. Simón-Moreno H. The regulation of reverse mortgages as a source of income in retirement: Policy options and legal drivers. *Journal of Housing and the Built Environment*. 2019; 34:1005–1022. doi: 10.1007/s10901-019-09653- [CrossRef] [Google Scholar]
4. Michelangeli, V. (2010). *Does it pay to get a reverse mortgage?* [https://people.bu.edu/rking/GLMMsept/michelangeli\\_sep15.pdf](https://people.bu.edu/rking/GLMMsept/michelangeli_sep15.pdf).

5. Rosenbaum David, Thomas Goren, and Laurence Jacobs, 1995, "Risk and Benefit: Structural Efficiency in Senior Home-Equity Conversion", Walnut Creek, California, Lifetime Security Plan.
6. Scholen, Kenneth, 1996, Your New Retirement Nest Egg: A Consumer Guide to the New Reverse Mortgages, Apple Valley, Minn., NCHEC Press.
7. Sheiner, Louise and David Weil, "The Housing Wealth of the Aged," NBER Working Paper 4115, NBER 1992.
8. Hammond, Cecilia, 1997, "Reverse Mortgages: A Financial Planning Device for the Elderly", chapter 10 in Reverse Mortgages: A Lawyer's Guide to Housing and Income Alternatives, Eds. D. Bridewell and C. Nauts, 1997, American Bar Association.
9. Rasmussen, Dennis, Isaac Megbolugbe, and Barbara Morgan, 1995, "Using the 1990 Public Use Microdata Sample to Estimate Potential Demand for Reverse Mortgage Products," Journal of Housing Research, 6(1), 1-23.
10. Caplin, Andrew, "Turning Assets into Cash: Problems and Prospects in the Reverse Mortgage Industry," in Olivia S. Mitchell, Zvi Bodie, P. Brett Hammond, and Stephen Zeldes, eds., Innovations in Retirement Financing, Philadelphia: University of Pennsylvania Press, 2002.
11. Kutty, Nadinee, "The scope for poverty alleviation among elderly homeowners in the US through reverse mortgages," Urban Studies, 1998, 35 (1), 113–130.
12. Merrill, Sally R., Meryl Finkel, and Nandinee Kutty, 1994, "Potential Beneficiaries From Reverse Mortgage Products for Elderly Homeowners: An Analysis of American Housing Survey Data," Journal of the American Real Estate and Urban Economics Association, vol. 22, 257-299.

