

## FINANCIAL PLANNING

### REVERSE MORTGAGE

Senior Citizens need a regular cash flow stream for supplementing pension/other income and addressing their financial needs. Secular increase in residential house prices has created considerable "home equity" wealth.

For most Senior Citizens, the house is the largest component of their wealth. Reverse Mortgage seeks to monetize the house as an asset and specifically the owner's equity in the house. The scheme involves the Senior Citizen mortgaging the house property to a lender, who then makes periodic payments to the senior citizen during the latter's lifetime. The Senior Citizen is not required to service the loan during his lifetime and therefore does not make monthly repayments of principal and interest to the lender.

On the senior citizen's death or leaving the house property permanently, the loan is repaid along with accumulated interest, through sale of the house property. The heir(s) can also repay or prepay the loan with accumulated interest and have the mortgage released without resorting to sale of the property.

#### Benefits

- It aims at partially meeting the financial needs of Senior Citizens who are, otherwise not eligible for availing any kind of financial assistance under conventional bank loan schemes.
- RML (Reverse Mortgage Loan) enables funds inflows to the Senior Citizens during their lifetime when his/her income sources are generally restricted/ limited and show a marked fall as compared to the period when they were in active occupation.
- RML obviates the need for Senior Citizens to meet emergent financial needs by selling their house and perhaps moving to a smaller house possibly located far away, to raise money.
- With a reverse mortgage, the borrower remains the owner of the property. In the absence of social security, RML serves as a partial substitute for Senior Citizens.
- No negative equity – if the sale of the residential property does not cover the outstanding loan the borrowers or the estate will not be asked to make up the shortfall, if any, subject to fulfillment of the agreed terms and conditions.
- Even if the Senior Citizen passes away, the spouse can continue to occupy the property until his/her demise. The spouse is usually made a co-borrower.
- No restrictions on the use of funds (except for speculative, trading and business purposes). Expenses like health care and other needs which are generally expected to rise with ageing can be met from the payments received under RML.
- The borrower(s) or his/her heirs have the option to prepay the loan at any time during the loan tenor or later (NHB has advised lenders not to levy any prepayment charge).

#### Eligible Borrowers

- Should be a Senior Citizen of India above 60 years of age.
- Married couples will be eligible as joint borrowers for financial assistance. In such a case, the age criteria for the couple would be at the discretion of the PLI, subject to at least one of them being

above 60 years of age. PLIs (Primary Lending Institutions) may put in place suitable safeguards keeping into view the inherent longevity risk.

- Should be the owner of a self-acquired, self-occupied residential property (house or flat) located in India, with clear title indicating the prospective borrower's ownership of the property. The residential property should be free from any encumbrances.
- The residual life of the property should be at least 20 years.
- The prospective borrowers should use that residential property as permanent primary residence. For the purpose of determining that the residential property is the permanent primary residence of the borrower, the PLIs may rely on documentary evidence, other sources supplemented by physical inspections.

#### Salient Features

- Reverse Mortgage is a mortgage loan for Senior Citizens who are not eligible for any form of mortgage loan.
- The lender makes periodic payments (including lump sum payments) to the borrower i.e. the payment stream is "reversed", as compared to a conventional mortgage.
- Maximum period of the loan – 15 years.
- The loan is not required to be serviced i.e. payment of installment or interest, as long as the borrower is alive and in occupation of the property.
- On the borrower's death or on the borrower leaving the house property permanently, the loan is repaid along with accumulated interest, through sale of the house property. The borrower(s)/heir(s) can also repay the loan with accumulated interest and have the mortgage released without resorting to sale of the property.
- After adjusting the principal amount of the loan and accumulated interest, surplus, if any, will go to the estate of the deceased.
- The borrower(s) or his/her heirs also have the option of prepaying the loan at any time during the loan tenor or later (NHB has advised lenders not to levy any prepayment charge).
- Periodicity: The loan will be extended as regular monthly, quarterly, half-yearly, annual periodic cash advances or as a line of credit to be drawn in time of need or in lump sum.

To know more: <http://nhb.org.in/RML/guidelines.php>

#### SOME REVERSE MORTGAGE SCHEMES THAT ARE CURRENTLY AVAILABLE

##### BANK OF BARODA

##### Eligibility:

- Should be a Senior Citizen of India, above 60 years of age.
- Married couples will be eligible as joint borrowers provided one of them is above 60 years of age and age of spouse is not below 55 years at the time of application.
- Should be the owner of a residential property (house or flat) located in India in his/her own name.
- Residential property should be used as permanent primary residence (fully self-occupied property).
- The Commercial property will not be taken as a security under the product.
- Maximum Amount: The maximum loan amount inclusive of interest for entire tenure of the loan shall be restricted to Rs. 1 crore subject to value of the property.
- Option to adjust payments: The Bank shall have the option to revise periodic annuity amount, if lump-sum payment is taken or at the interval of every 5 years based on valuation of the property.

- Repayment of Loan: The loan shall become due and payable when the last surviving borrower dies or would like to sell the home / permanently moves out of the home for aged care to an institution or relatives. The loan will, as such, become due for recovery and payable.
- Settlement of loan, along with accumulated interest, to be met by the proceeds received out of sale of residential property.
- The borrower(s) or his/her/their estate shall be provided with the first right to settle the loan along with accumulated interest, without sale of property. A reasonable period of 2 months may be provided when repayment is triggered, for house to be sold.

To know more: <http://www.bankofbaroda.co.in/pfs/bobashray.asp>

## IDBI BANK

Loan Amount: Upto Rs 2 Cr. (Subjected to market value of residential property as assessed by the bank, age of the applicant and prevalent Interest rate.)

### Eligibility:

- Should be a Citizen of India above 60 years of age.
- Married couples will be eligible as joint borrowers for financial assistance, provided that at least one of them is above 60 years of age and the other not below 55 years of age.
- Should be the owner of a self- acquired/ inherited, self-occupied residential property (house or flat) located in India, with clear title indicating the prospective borrower's ownership of the property and should be free from any encumbrances.
- Loan Tenure: Maximum up to 20 years
- Repayment: Outstanding loan (Principal + Interest) amount shall become due and payable six months after death of the last surviving borrower/spouse, or the borrower permanently moved out to Old age homes or to an institution or to relatives.
- Mode of disbursement: Any or a combination of following -
- Periodic Payments. (Monthly, Quarterly, Half Yearly, Annual). Maximum monthly payment is capped at Rs. 50,000.
- Payment of Lumpsum amount (restricted to 50% of the total eligible amount of loan subjected to maximum cap of Rs. 15 Lakhs).

To know more: website: <http://www.idbi.com/reverse-mortgage-loan.asp>

## UNION BANK OF INDIA

### Eligibility

- Indian citizen above 60 years.
- Owns self-acquired and self-occupied residential property in India
- Individual, either singly or jointly with spouse, in case of a living spouse older than 55 years, as co-applicant; number of surviving spouses on the date of sanction should not be more than one.
- The property against which the borrower proposes to raise the loan should be his/her permanent primary residence
- The property should be self-acquired and self-owned
- Borrower(s) will be required to inform the bank when they cease to use the residence as their permanent residence.

### Quantum of Loan:

- Minimum Rs. 1 Lakh inclusive of interest
- Maximum up to Rs. 100 Lakhs inclusive of interest subject to max 90% of the market value of the property depending on location.

Margin:

- Metro 10%, Urban 20%, Others 30%.

Tenure of Loan:

- Minimum tenure of 15 years and maximum tenure of up to 20 years, if the borrower's age is between 60 and 65.
- Minimum tenure of 10 years and maximum tenure of 20 years, if the borrower's age is above 65.

Payment Penalty:

- There is NO prepayment penalty if the loan is adjusted by the borrower from his own verifiable legitimate sources
- A penalty of 2% on the average balance of the preceding 12 months, if the loan is taken over by any other Bank /FI or adjusted by the borrower in lumpsum from any third source/party (except genuine sale).

Security:

- Equitable Mortgage (E.M.) of the residential/ commercial property, which is in the name of the borrower and/ or his family members. The co-owners of the property need to join in as co-borrowers

To know more: [http://www.unionbankofindia.co.in/peronal\\_retail\\_reverse\\_mortgage.aspx](http://www.unionbankofindia.co.in/peronal_retail_reverse_mortgage.aspx)