NOLEGEIN: Journal of Global Marketing
Vol. 1: Issue 1
www.mbajournals.in

SWOT Analysis of Reverse Mortgage in India Vis-à-Vis USA Market

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ABSTRACT

In a country like India, owning a home is one of the most cherished dreams for every individual. Being a home owner, most of the people feel pride in the young age and protected in the old age. Senior Citizens are a growing section of the Indian economy and dependency in old age is increasing day by day. There is significant increase in longevity and low mortality, on the other hand cost of good health care facilities is growing and there is little social security. Senior Citizens need a regular cash flow stream for supplementing pension or other income and addressing their financial needs. Increase in residential house prices has created considerable scope for the reverse mortgage. Government of India introduced the Reverse Mortgage Scheme in its budget 2007–2008.

Keywords: *borrower, debt, financial agreement, reverse mortgage*

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INTRODUCTION

Reverse mortgage is a financial agreement in which, a homeowner can borrow money against the value of the home, receiving funds in the form of a fixed monthly payment or a line of credit. Repayment of the mortgage is not required until the borrower moves away permanently or sells the home. The transaction is structured in such a way that the loan amount will not exceed the value of the home over the life of the loan. Reverse mortgage is the opposite of a normal forward mortgage. In a forward mortgage loan, the borrower uses his house as security and receives a one-time lump sum payment; he utilizes the loan amount to purchase the house. Subsequently, the borrower pays his regular mortgage installments, slowly reducing his outstanding loan amount and increasing his proportion of the equity of the house.

On the other hand, the reverse mortgage instrument enables a borrower who owns a house without burden to sell his house to a lender and avail of a steady cash stream based on the valuation of the house. One of the positive features of reverse mortgage is that it is a nonrecourse credit and therefore defends assets other than the firm of the borrower from being used as security.

In India, most of the home landlord's lifetime investments are used to buy or build a house. It has become a leaning to build comfortable house, even though they do not have cash. Making reverse debt is a welcome tool that helps them to convert some or all of their rising but protected home equity into a cash stream that can securely sustain them in their ancient age.

HISTORY OF REVERSE MORTGAGE

The concept of Reverse Mortgage has a history of 54 years. The first Reverse Mortgage was written in the year 1961 to a woman in Portland, by a local Bank. The Bank owner wanted to help the wife of his football coach, after her husband passed away. In 1969, the Reverse Mortgage concept was brought to the Senate

Committee on Aging. It was approved by the Senate in the year 1983. The pilot program was completed in the year 1987. Following the pilot program, President Ronald Reagan signed the Reverse Mortgage bill into law in 1988. The first set of rules are come in 1994. The Home Equity Conversion Mortgage is officially deemed permanent in 1998. Between 2010 and today, there were a number of changes made to improve the product. A formal financial assessment was implemented in 2015. The reverse mortgage product has changed significantly since it was first signed into law and we can expect to see it continue to evolve as the retirement picture changes.

LITERATURE REVIEW

"With the changing social environment in India and the end of the joint family system, the introduction of reverse mortgage products can be a very good experiment. Instead of being dependent on their children for financial support, this would be a good option for the old age people to continue with a charming lifestyle. Retirement planning done by majority of retired people is not adequate to satisfy their current needs and majority of them are dependent on their children as their source of income. So, there is a huge growth potential for reverse mortgage loan, to fill up this income gap of retired people during their post retirement period. But on other hand the level of awareness about reverse mortgage loan is very low. The current market penetration of reverse mortgage loan is also very low with senior citizens saving schemes and post office monthly deposit schemes being the most preferred retirement planning tool. When it comes to operational issues, the limited annuity period, desire to gift home and high interest rate are some of the major factors creating hurdle for reverse mortgage loan" [1].

"Having limited liquid assets and the majority of household wealth in home equity usually indicates a household that may benefit from a reverse mortgage. All retirees should evaluate their financial options to determine if obtaining a reverse mortgage is optimal for their specific situation. While it is required by law to consult with a reverse mortgage counselor before purchasing the product, it is still important for households to actively evaluate which option is best with regard to costs, funds received, and risks" [2].

"The study probed into various issues that affect its usage between the possible users. In total, five issues that affect the attitude of possible buyers towards reverse mortgage have been identified i.e. Financial Independence, Revenue Returns, Risk Involvement, Complex Structure and Proprietorship. While the banks should endorse this product by highlighting on the factors like2 financial independence, revenue returns and ability to maintain the proprietorship, they should work upon the factor like complex structure and risk involvement. The advertisements and awareness campaigns should focus on these areas for increasing the popularity of the product" [3].

"The study shows, households with individuals younger than 66 were less likely to take out reverse mortgage loans. It is possible that at a later stage in their retirement many households understand the potential inadequacy in their retirement savings and thus explore options, including reverse mortgages, to supplement their income. Previous studies suggest that reverse mortgages could be useful financial products for people with modest savings, people with poor health, and unmarried people. However, the results of this study indicate that households with a greater stock of human capital, higher net worth, better educational attainment, and higher income were more likely to have reverse mortgages. Programs to educate lower income, low net worth, and less informed home owners about the possibility of accessing a reverse mortgage loan could be very beneficial to qualified retirees" [4]. "Reverse Mortgage can serve as a boon to retirees, as it does not conflict with the psychology of elderly Indian population. It can serve as a major as well as supplementary source of income for retirees at the crucial phase of their life. But much though is to be bestowed on the designing of this product, for better appeal among senior citizens" [5].

"Their main details for looking for a reverse mortgage were to pay off a current mortgage, increase income, and pay off consumer debt. Only about half of the sample who received the mandatory pre-purchase analysis decided to obtain the reverse mortgage. Implications for practitioners, with the high cost, reducing median age of a mortgagor, and the growing demand of this lending creation are presented along with updates on major changes in reverse mortgage regulations" [6].

"Reverse Mortgage 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 enlarge a senior citizens income in his years ahead. Despite all its limitations in India, it could make good the shortfall in one's pension or revenue to live a quality life ahead" [7].

STATEMENT OF RESEARCH PROBLEM

Life is unpredictable at every stage and this is why in order to face the future emergency we generally save money, especially for those days when due to the age people are not able to work. Financing a comfortable retirement is a growing concern for many people. Parents who are in their old age they normally do not have someone who can take care of them. Now there is one new plan available for senior citizen which is known as Reverse Mortgage Scheme. In order to help these people in generating a regular income and for providing financial securities to them the plan of Reverse Mortgage is introduced. This concept is very popular in USA. This unique plan is designed in such a way so that it gives the maximum benefit to the senior citizens at the time of their financial need. Reverse mortgage provides income that people can tap into for their retirement.

At present this facility is available in India for senior citizens but still it has not got that popularity as it is in the other countries. Only rich class of people are availing the facility of reverse mortgage.

Need for the Study

- This study will help to understand the concept of reverse mortgage, which is not familiar in India.
- It will help the students to know about the reverse mortgage.
- This study provides brief knowledge about the reverse mortgage scheme.

OBJECTIVES OF THE STUDY

The objective of this paper is to provide an overview of the reverse mortgage in India with some reference to international market USA. However, the main objectives of the study are:

- To bring out the concept of Reverse mortgage.
- To bring awareness in society by providing brief information about advantages and eligibility criteria of reverse mortgage.
- To analyze the forces affecting reverse mortgage in India.
- To perform SWOT analysis.

METHODOLOGY

Research methodology in a way is a written game plan for conducting research. Research methodology has its own scope. The information for our data is collected through secondary data so the information was gathered from various websites, newspapers, magazines, journals and research papers.

Limitations of the Study

- The research paper is mainly based on secondary data. It is the main drawback of study. Because the data collected may be outdated or it may not represent the whole population.
- Due to the limited time the results may not be accurate.
- We did our study of reverse mortgage in India but not included other countries of the world.

Eligibility to Get Reverse Mortgage

- House owners above the age of 60 years. If spouse is a co-applicant, then she should be above 58 years.
- Owners of a self-acquired, self-occupied residential house or flat, located in India.
- Property should be free from any obstacles.
- The life of the property should be of minimum 20 years.
- Property should be the permanent primary residence of the individuals.

Rules of RBI for Reverse Mortgage

Any house proprietor more than 60 years old is qualified for a graduated house buyback.

- The most extreme credit is up to 60 for every penny of the estimation of the private property.
- The most extreme time of property contract is 15 years with a bank or lodging account organization.
- The borrower can pick a month to month, quarterly, yearly or singular amount installment anytime, according to his tact.
- The revaluation of the property must be embraced by the bank or HFC once at regular intervals.
- The sum got through house buyback is considered as credit and not salary; consequently, a similar would not pull in any assessment obligation.
- The advance can be settled or gliding and consequently will change as per economic situations relying upon the financing cost administration picked by the borrower.

How RML Is Different From Traditional Method Loan?

- Age gathering: – People from any age aggregate are qualified for TML however RML can be connected just by individuals of age assemble 60 and the sky is the limit from there.
- Purpose of credit: – The advance measure of TML can be utilized for procurement, repairs, support of home. If there should arise an occurrence of RML credit sum is to create consistent wage with the goal that the borrower can satisfy their customary needs.
- Effect on value amid advance: – In TML as the borrower makes the regularly scheduled installments the measure of advance abatements yet the value increments. While in RML as the borrower gets the installments from bank advance increments however value diminishes.
- Effect on value toward the finish of advance: – In TML toward the finish of advance borrower owes only full value on the property. In RML borrower owes the advance sum yet value will be nil.
- Type of the exchange: – TML is an exchange of falling obligation and rising value. Whereas RML is an exchange of rising obligation and falling value.

Powers Affecting Reverse Mortgage

- High exchange cost: – The borrowers need to shoulder a high exchange cost. However, as contrast with the good 'ol days now it is having a declining pattern in view of the expanding mindfulness.

- Risk of good danger: – There is dependably an incredible danger of good peril in borrower who is being in charge of home upkeep and at last available to be purchased of the house property.
- Unable to satisfy unforeseen necessities: – Interest in house property is an essential part of prudent reserve funds. In the event that a house proprietor has effectively taken an RML then the capacity to meet startling human services cost or move in to elective house might be troublesome. Particularly for the individuals who turn out to be truly sick yet they need to proceed with their stay in a similar house should confront numerous issues on the grounds that there the upkeep of the house will be the significant issue.
- Emotional connection: – Many elderly individuals may not will to take advance against their home since some place they feel that the property which they made in the wake of including every one of their investment funds which they earned with incredible trouble ought not go to any other person ownership.
- Uncertainty of tax collection: – this is additionally a noteworthy concern where individuals have a disarray that if the measure of credit portions which is gotten by the borrower is taken as his salary at that point will he get any special case on the intrigue sum what he is paying towards the advance sum.
- Loss on exception from capital pick up: – since the aggregate money inflow of home buyback is taken as tax exempt sum that is the reason the deal won't get advantage of capital pick up as that will be considered as advance recouped not offer of house property.
- Rules are not clear: – this arrangement is still in dynamic stage where few focuses are not obviously characterized. For instance, in the event that any individual who has taken RML is pronounced as bankrupt then how the treatment will be done that is additionally a major perplexity.

Some of the Banks Offering RML in India

- National Housing Bank (NHB)
- IDBI Bank
- Indian Bank
- UCO Bank
- United Bank of India
- Central bank of India

SWOT Analysis of Reverse Mortgage Loan

Strengths

The senior residents are qualified for general money streams at their decision like, month to month, quarterly, half yearly and every year.

- The credit is given with no salary criteria at an age where ordinary advances are not accessible.
- No credit adjusting or reimbursement required amid the lifetime of borrower and mate.
- If the borrower kicks the bucket amid the period, the life partner will keep on getting the credit sum for a long time.
- The borrower and their life partner can keep on staying in the house till the two bites the dust.
- Heirs of the borrower will be qualified for get the overflow of offer estimation of the property.
- Reassessment of property estimation will be done intermittently or if nothing else once likes clockwork.

Weaknesses

- This credit item has a most extreme residency of just 15 years. In the event that the borrower outlasts this period, the customary money streams will stop.
- Basis of property valuation isn't clear.

- Requirement of clear title to property for the sake of the borrower to get the advance makes leap.
- Three days' time frame to drop credit is too less.
- Various expenses to be added to borrower's obligation, which can be very considerable.

Opportunities

- Partial substitute for a social security scheme for senior citizens.
- Shift towards nuclear family structure is reducing social security during old age.
- Longevity is increasing with medical expenses and cost of living going up, increasing the need for additional income in old age.
- Most Indians have strong preference for own home. Therefore, many eligible citizens may opt for the scheme.

Threats

- Property valuations are uncertain.
- There is a non-plan of action ensure, which implies that advance and intrigue ought to never surpass feasible estimation of property. If there should be an occurrence of fall in property estimation or advance with enthusiasm surpassing surveyed property estimation, banks may choice to solid arm strategies to drive the borrowers to move out, on the off chance that they live too long after the credit time frame is finished.
- Rate of intrigue is at the attentiveness of bank. Any expansion in the rate, if gliding, will build the weight of the borrower.

Major Empirical Findings

- Reverse contract gives standardized savings to the seniority individuals.
- It goes about as a consistent income.
- Only the rich individuals lean towards turn around contract in India due to the ignorance about the item.
- The borrower does not need to fulfill any credit or pay prerequisites.
- The think about finds the status of graduated house buyback India and furthermore gives a review of the issues and future outline on turn around contract plot in India.

Suggestions

- Advertisement campaign must be held to create awareness among the people.
- Awareness camp about the retirement can be held to provide information about the retirement scheme. Because most of the people in India does not have any idea about the retirement.

CONCLUSION

Life is flighty at each progression and this is the reason with a specific end goal to confront the future possibility many plans are accessible that investigate the future and predict monetary security amid maturity. The idea of graduated home buyback is likewise getting prominent in India yet at the same time it lacks that fame as it is in USA and different nations. In future it is normal that number of graduated home buyback advance cases will build in light of the modernization in the Indian culture. One of the fundamental reasons is the ignorance of the arrangement; it is known just to the high-class individuals or can state theindividuals who know about back yet at the same time many are in the murkiness we have to keep them additionally educated. One way can be by arranging mindfulness week for the arrangement by different banks as they improve the situation house advance, individual advance, charge and Master card. Still there is degree for customization as indicated by Indian culture and once it is done most likely it can be an extremely prevalent wellspring of back in seniority.

At last it can be reasoned that Reverse Mortgage is a generally new idea in India. It would require some investment for an adjustment in mentality of people to acknowledge it. As a budgetary apparatus, Reverse home loan is perfect to upgrade salary of senior subjects of India.

Future Research Directions

Changing social condition of India gives more extension to turn around contract plot. Expanding average cost for basic items is likewise one of the vital variables to profit turn around contract plot. Most Indians have solid inclination for claim home. In this way numerous qualified subjects may pick the plan. Switch contract future borrower securities not found in other home advances. Switch home loan can be utilized for any reason in future. So, switch contract in India has a more extensive degree in future.

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