CHAPTER- IV
REGULATORY FRAMEWORK

4.1 Introduction

In India, due to the huge population base, senior citizen population is significant and is growing at a rate faster than the general population. At present, India is the second largest global hub of senior citizens. Due to high economic growth rates in last two decades and better health care facilities, life expectancy has gone up significantly. With increase in life expectancy, most future retirees will need a big corpus that could sustain them for a long period of retired life. This long retired lives, when seen in the context of lack of social security measures, high inflation rate, steep rise in medical costs, gradual collapse of joint family system and low savings could mean a very challenging retirement phase for most retirees. These concerns have created demand for new financial products and arrangements that could help stretch out the available savings and provide liquidity to illiquid assets of the retirees.

In our country, one potential bright spot is large and growing housing wealth, which is lying idle. The government has been giving significant concessions for house building in the last few years in the form of tax rebates on interest and principal repayments. This along with a long period of low interest rates on home loans has led to significant investments by individuals in the housing sector. There is a large section of senior citizen retirees who have come to acquire a residential house property through their life time savings. They are now also benefited from substantial increase in their property value. But, most of them lack regular monthly income for a comfortable retired life. They are ‘house rich but cash poor’.

In times to come, with so much of the life savings being blocked in residential house property, most senior citizen retirees would be forced to draw liquidity from this asset. The reverse mortgage loan facility is one such good option that makes it possible. Reverse mortgage loan facility was introduced in the Union Budget 2007-08. This loan enables senior citizens to avail themselves periodical payments or lump
sum from a lender against the mortgage of his/her house. Reverse mortgage has the potential to become a powerful device to improve retirement security. The government also wants to promote it as it can significantly ease the fiscal burden which rapid demographic ageing imposes on state-funded old age social security measures. The National Housing Bank, a subsidiary of RBI, came out with operational guidelines on reverse mortgage in 2007. Since then, most of the public sector banks started offering this product to senior citizens.

The target market for reverse mortgage is made up of senior citizens who are generally considered more vulnerable due to old age, health or loneliness. The reverse mortgage loans are unconventional, complex and risky for such target audience. In this context, it is important that regulatory framework has to be strong, to ensure a fair deal for consumers interested in the reverse mortgage.

The present chapter discusses the regulatory framework of reverse mortgage in India and abroad. This chapter is organised into nine sections. Section I provides brief introduction of the context in which the option of reverse mortgage loan got created. Section II describes the regulatory framework of reverse mortgage in India in terms of its operational guidelines. Section III discusses the current status of Reverse Mortgage scheme in India and changes made in it since launch. Section IV deals with regulatory framework of reverse mortgage loan in some other countries, where the product is in use for a considerable period of time. Finally section V provides the summary of the present Chapter.

### 4.2 Regulatory Framework in India

The Finance Minister, while presenting the Union Budget, 2007-08, had announced that the National Housing Bank (NHB) will introduce a reverse mortgage scheme for senior citizens. NHB is the principal financial institution for housing, established under an Act of the Parliament, as a wholly owned subsidiary of Reserve Bank of India. NHB is also the regulator of housing finance companies. Pursuant to the Government’s Budget announcement for 2007-08, NHB empowered with the responsibility of regulating the Reverse Mortgage Loan (RML), announced the draft
guidelines. After receiving public comments and incorporating the same, came up with final “Reverse Mortgage Loan (RML): Operational Guidelines” at the end of May 2007 and subsequently revised and notified them in May 2008. The scheme is presently implemented by 24 Banks and 2 HFCs. Operational guidelines on reverse mortgage as announced by NHB and appearing at its official website (http://www.nhb.org.in/) are as under:

1. **Reverse Mortgage Loans (RMLs):**

Reverse mortgage loans are to be extended by Primary Lending Institutions (PLIs) viz. Scheduled Banks and Housing Finance Companies (HFCs) registered with NHB. The PLIs reserve their discretion to offer Reverse Mortgage Loans. Prospective borrowers are advised to consult PLIs regarding the detailed terms of RML as may be applicable to them.

2. **Eligible Borrowers**

- Should be 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 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.
3. **Determination of Eligible Amount of Loan**

- The amount of loan will depend on market value of residential property, as assessed by the PLI, age of borrower(s), and prevalent interest rate.

- The (Table 4.1) given hereunder may serve as an indicative guide for determining loan eligibility:

  **Table 4.1: Indicative Loan Eligibility based on Age**

<table>
<thead>
<tr>
<th>Age</th>
<th>Loan as proportion of Assessed Value of Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 – 65</td>
<td>40%</td>
</tr>
<tr>
<td>66 - 70</td>
<td>50%</td>
</tr>
<tr>
<td>71 - 75</td>
<td>55%</td>
</tr>
<tr>
<td>76 - 80</td>
<td>60%</td>
</tr>
</tbody>
</table>


- The (Table 4.1) is indicative and the PLIs will have the discretion to determine the eligible quantum of loan reckoning the ‘no negative equity guarantee' being provided by the PLI. The methodology adopted for determining the quantum of loan including the detailed tables of calculations, the rate of interest and assumptions (if any), shall be clearly disclosed to the borrower. The PLI may consider ensuring that the equity of the borrower in the residential property (Equity to Value Ratio - EVR) does not at any time during the tenor of the loan fall below 10%.

- The PLIs will need to re-value the property mortgaged to them at intervals that may be fixed by the PLI depending upon the location of the property, its physical state etc. Such revaluation may be done at least once every five years, the quantum of loan may undergo revisions based on such re-valuation of property at the discretion of the lender.

4. **Nature of Payment**

Any or a combination of the following:

- Periodic payments (monthly, quarterly, half-yearly, annual) to be decided mutually between the PLI and the borrower upfront.
• Lump-sum payments in one or more tranches.

• Committed Line of Credit, with an availability period agreed upon mutually, to be drawn down by the borrower.

• Lump-sum payments may be made conditional and limited to special requirements such as medical exigencies, home improvement, maintenance, upgradation, renovation, extension of residential property etc. The PLIs may be selective in considering lump-sum payments option and may frame their internal policy guidelines, particularly the eligibility and end-use criteria. However, these conditions shall be fully disclosed to potential borrowers upfront.

• It is important that nature of payments be decided in advance as part of the RML covenants. PLI at their discretion may consider providing for options to the borrower to change.

5. Eligible End use of funds

The loan amount can be used for the following purposes:

• Up gradation, renovation and extension of residential property.

• For uses associated with home improvement, maintenance/insurance of residential property.

• Medical, emergency expenditure for maintenance of family.

• For supplementing pension/other income.

• Repayment of an existing loan taken for the residential property to be mortgaged.

• Meeting any other genuine need.

Use of RML for speculative, trading and business purposes shall not be permitted.

6. Period of Loan: Maximum 15 years.

7. Interest Rate

The interest rate (including the periodic rest) to be charged on the RML to be extended to the borrower(s) may be fixed by PLI in the usual manner based on risk
perception, the loan pricing policy etc. and specified to the prospective borrowers. Fixed and floating rate of interest may be offered by the PLIs subject to disclosure of the terms and conditions in a transparent manner, upfront to the borrower.

8. Security

- The RML shall be secured by way of mortgage of residential property, in a suitable form, in favour of PLI.
- Commercial property will not be eligible for RML.

9. Valuation of Residential Property

- The residential property should comply with the local residential land-use and building bye laws stipulated by local authorities, with duly approved lay-out and building plans.
- The PLI shall determine the Market Value of the residential property through their external approved valuer(s). In-house professional valuers may also be used subject to adequate disclosure of the methodology.
- The valuation of the residential property is required to be done at such frequency and intervals as decided by the PLI, which in any case shall be at least once every five years. The methodology of the revaluation process and the frequency/schedule of such revaluations shall be clearly specified to the borrowers upfront.
- PLIs are advised not to reckon expected future increase in property value in determining the amount of RML. Should the PLIs do so in their best commercial judgement, they may do so under a well defined Policy approved by their Board and based on professional advice regarding property prices.

10. Provision for Right to Rescission

As a customer-friendly gesture and in keeping with international best practices, after the documents have been executed and loan transaction finalized, Senior Citizen borrowers may be given up to three business days to cancel the transaction, the “right
of rescission,”. If the loan amount has been disbursed, the entire loan amount will need to be repaid by the Senior Citizen borrower within this three day period. However, interest for the period may be waived at the discretion of the PLI.

11. **Loan Disbursement by Lender to Borrower**

- The PLI will pay all loan proceeds directly to the borrower, except in cases pertaining to retirement of existing debt, payments to contractor(s) for the repairs of borrower's property, or payment of property taxes or hazard insurance premiums from the borrower's account set aside for the purpose.

- In case the residential property is already mortgaged to any other institution, the PLI may, at its discretion, consider permitting use of part proceeds of RML to prepay/repay the existing housing loan. The loan amount will be paid directly to that institution to the extent of the loan outstanding with that institution with a view to release the mortgage.

- **Periodicity:** The loan will be extended as regular monthly, quarterly, half-yearly or annual periodic cash advances or as a line of credit to be drawn down in time of need or in lump sum.

- The PLI will have the discretion to decide the mode of payment of the loan including fixation of loan tenor, depending on the state and market value of the property, age of the borrower and other factors. The rationale behind the decision of mode of payment and fixation of the loan tenor shall be clearly disclosed to the borrowers.

12. **Closing**

The PLIs will provide in writing, a fair and complete package of reverse mortgage loan material and specimen documents, covering inter-alia, the benefits and obligations of the product. They may also consider making available a tool kit to illustrate the potential effect of future house values, interest rates and the capitalization of interest on the loan.
The closing costs may include the customary and reasonable fees and charges that may be collected by the PLIs from the borrower. The cost for any item charged to the borrower shall not normally exceed the cost paid by the lender or charged to the lender by the provider of such service(s). Such items may include:

- Origination, Appraisal and Inspection Fees. The borrower may be charged pro-rata origination, appraisal and inspection fees by the PLI /appraiser.
- Verification Charges of external firms.
- Title Examination Fees.
- Legal Charges/ Fees.
- Stamp Duty and Registration Charges.
- Property Survey and Valuation charges.

A detailed schedule of all such costs will clearly be specified and provided to the prospective borrowers upfront by the PLIs.

13. **Settlement of Loan**

- The loan shall become due and payable only when the last surviving borrower dies or would like to sell the home, or permanently moves out of the home for aged care to an institution or to relatives. Typically, a "permanent move" may generally mean that neither the borrower nor any other co-borrower has lived in the house continuously for one year or do not intend to live continuously. PLIs may obtain such documentary evidence as may be deemed appropriate for the purpose.

- Settlement of loan along with accumulated interest is 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 amount of time, say up to 2 months may be provided when RML repayment is triggered, for house to be sold.
• The balance surplus (if any) remaining after settlement of the loan with accrued interest, shall be passed on to the estate of the borrower.

14. Prepayment of Loan by Borrower(s)

• The borrower(s) will have option to prepay the loan at any time during the loan tenor.
• There will not be any prepayment levy/penalty/charge for such prepayments.

15. Loan Covenants

• The borrower(s) will continue to use the residential property as his/her/their primary residence till he/she/they is/are alive, or permanently move out of the property, or cease to use the property as permanent primary residence.
• Non-Recourse Guarantee: The PLIs shall ensure that all reverse mortgage loan products carry a clear and transparent ‘no negative equity’ or ‘non-recourse’ guarantee. That is, the Borrower(s) will never owe more than the net realizable value of their property, provided the terms and conditions of the loan have been met.
• The PLIs shall enter into a detailed loan agreement setting out there in the salient features of the loan mortgage security and other terms and conditions, including disbursement and repayment of the loan, in addition to the usual provisions, which are ordinarily incorporated in a mortgage loan document.
• The loan agreement may also include a provision that the borrower shall not make any testamentary disposition of the property to be mortgaged and even if it does so, it would be subject to the mortgage created in favour of the lending institution. In such a case, the borrower shall make a testamentary disposition of the mortgaged property in favour of any of his/her relatives, subject to the discharge of the mortgage debt by such legatee and a statement that the heirs shall not be entitled to challenge the validity of the mortgage as also the right of the mortgagee to enforce the mortgage in the event of death of the borrower unless the legal representative is willing to undertake the responsibility for discharging in full the amount of loan and accrued interest thereof.
• In addition, the PLI may also consider obtaining a Registered Will from the borrower stating, inter-alia, that he/she has availed of RML from the PLI on security by way of mortgage of the residential property in favour of the PLI, meaning thereby that in the event of death of the borrower (and co-borrower, if any), the mortgagee is entitled to enforce the mortgage and recover the loan from the sale proceeds on enforcement of security of the mortgage. The surplus, if any, has to be returned to the heirs of the deceased borrower(s).

• The PLIs may consider taking an undertaking from the prospective borrower that the “Registered Will” given to the PLI is the last “Will”, prepared by him/her at the time of availment of RML facility as per which the property will vest in his/her spouse name after his/her demise. The borrower will also undertake not to make any other ‘Will’ during the currency of the loan which shall have any adverse impact on the rights created by the borrower in the PLI's favour by way of creation of mortgage on the immoveable property mentioned under the loan documentation for covering loan to be allowed to his/her spouse and interest thereon, even after the borrower's death.

• The PLI will ensure that the borrower(s) has insured the property against fire, earthquake, and other calamities.

• The PLI will ensure that borrower(s) pay all taxes, electricity charges, water charges and statutory payments.

• The PLIs will ensure that borrower(s) are maintaining the residential property in good and saleable condition.

• The PLI may reserve the option to pay for insurance premium, taxes or repairs by reducing the homeowner loan advances and using the difference to meet the obligations/expenditures.

• The PLI reserves the right to inspect the residential property/premises or arrange to have the residential property/premises inspected by its representatives any time before the loan is repaid and borrower(s) shall render his/her/their cooperation in respect of such inspections.
16. **Title Indemnity/Insurance**

- The PLI shall obtain legal opinion for ensuring clarity on the title of the residential property.

- The PLI shall also endeavour to obtain indemnity on title related risks, as and when such indemnity products are available in India.

17. **Foreclosure**

The loan shall be liable for foreclosure due to occurrence of the following events of default:

- If the borrower has not stayed in the property for a continuous period of one year.

- If the borrower(s) fail(s) to pay property taxes or maintain and repair the residential property or fail(s) to keep the home insured, the PLI reserves the right to insist on repayment of loan by bringing the residential property to sale and utilizing the sale proceeds to meet the outstanding balance of principal and interest.

- If borrower(s) declare himself/herself/themselves bankrupt.

- If the residential property so mortgaged to the PLI is donated or abandoned by the borrower(s).

- If the borrower(s) effect changes in the residential property that affect the security of the loan for the lender. For example: renting out part or all of the house; adding a new owner to the house's title; changing the house's zoning classification; or creating further encumbrance on the property either by way of taking out new debt against the residential property or alienating the interest by way of a gift or will.

- Due to perpetration of fraud or misrepresentation by the borrower(s).

- If the government under statutory provisions, seeks to acquiring the residential property for public use.

- If the government condemns the residential property (for example, for health or safety reasons).
18. **Option for PLI to Adjust Payments**

- The PLI shall have the option to revise the periodic/lump-sum amount at such frequency or intervals based on revaluation of property, which in any case shall be at least once every five years.

- Borrower shall be provided with an option to accept such revised terms and conditions for furtherance of the loan.

- If the Borrower does not accept the revised terms, no further payments will be effected by the Lender. Interest at the rate agreed before the review will continue to accrue on the outstanding amount of the loan. The accumulated principal and interest shall become due and payable as mentioned in clauses (13) and (17).

19. **Counseling and Information to Borrowers**

- The PLIs will observe and maintain high standards of conduct in dealing with the Senior Citizens and their families and treat them with special care.

- The PLIs shall clearly and accurately disclose the terms of the RML without any ambiguity.

- The PLIs should clearly explain to the prospective borrowers the terms and conditions of RML, the methodology followed for valuation of the residential property, the method of determination of eligible quantum of loan, the frequency of re-valuation and review of terms and all related aspects of the RML.

- The PLIs may suggest to the Senior Citizens to nominate their 'personal representatives' usually a close relative who the PLI can contact in the event of any potentialities.

- The PLIs may counsel the prospective borrowers about the possible impacts to the borrowers due to adverse movements in interest rates and property price fluctuations.
• The PLIs shall clearly specify all the costs to the Borrower(s) that are associated with the transaction.
• The PLIs shall in no way assert or imply to the borrower(s) that the borrower(s) is/are obligated to purchase any other product or service offered by the PLI or any other associated institution in order to obtain a reverse mortgage loan.
• Take reasonable steps to check out the background and procedures of third parties before accepting referrals of business from them, and refuse to accept referrals from those that are found unacceptable. Members shall disclose to clients any third party with a financial interest in the reverse mortgage transaction.
• Overall, the PLIs shall treat the Senior Citizen borrower fairly.

Counselling centres have been opened by National Housing Bank in Delhi, Hyderabad, Kolkata and Chandigarh with staff especially trained to provide details about the scheme to the financially unsophisticated user. Any dispute regarding the reverse mortgage has to be first settled at the lending bank branch level. If the complaint is not resolved at the branch level, the consumer may approach the banks regional/zonal manager for resolution of same. If the customer is not satisfied by the bank, he can approach the Banking Ombudsman appointed by Reserve Bank of India.

In the first year of launch of reverse mortgage scheme, certain tax related issues were unclear and holding back many senior citizens from using this option. It was considered necessary to resolve the tax issues arising from the use of this loan facility. In the Union Budget 2008-2009, the Finance Minister clarified the tax treatment on reverse mortgage.

The first issue was whether mortgage of property for obtaining a loan under the reverse mortgage scheme is transfer within the meaning of the Income-tax Act thereby giving rise to capital gains. Sub-section (47) of section 2 of the Income-tax Act provides an inclusive definition of ‘transfer’. Further, ‘transfer’ within the meaning of the Transfer of Properties Act includes some types of mortgage. Therefore, a mortgage of property, in certain cases, is a transfer within the meaning of
sub-section (47) of section 2 of the Income-tax Act. Consequently, any gain arising upon mortgage of a property may give rise to capital gains under section 45 of the Income-tax Act. However, in the context of a reverse mortgage, the intention is to secure a stream of cash flow against the mortgage of a residential house and not to alienate the property. Therefore a new clause (xvi) in section 47 of the Income-tax Act has been inserted to provide that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be regarded as a transfer and therefore shall not attract capital gains tax.

The second issue is whether the loan, either in lump sum or in instalment, received under a reverse mortgage scheme amounts to income. Receipt of such loan is in the nature of a capital receipt. Section 10 of the Income tax Act, 1961 has been amended to provide that any amount received by an individual as a loan, either in lump-sum or in instalment, in a transaction of reverse mortgage referred to in clause (xvi) of Section 47 of the Income-tax act shall not be included in total income.

Consequent to these amendments, a borrower, under a reverse mortgage scheme, will be liable to income tax (in the nature of tax on capital gains) only at the point of alienation of the mortgaged property by the mortgagee for the purposes of recovering the loan. These amendments have been made applicable with effect from the 1st day of April, 2008 and will accordingly apply in relation to assessment year 2008-09 and subsequent assessment years. It is expected that after this senior citizen friendly measure of the Govt. of India, the Reverse Mortgage Scheme will be taken advantage by senior citizens in the country.

At the time of settlement of loan if the property is sold for more than the loan amount (which will likely be the case), then the surplus amount over and above the loan amount, is paid to borrower/ legal heirs. When this surplus amount is received by borrower, he/she will be liable to pay capital gains tax. If the surplus amount is received by legal heirs, they will be liable to pay the capital gains tax. If the sale amount of the home is lower than the accumulated loan amount then whatever loss is there, is borne by the bank.
4.3 Current Status of the Scheme

The initial Reverse mortgage scheme (2008) based on above guidelines was facing some problems from both borrower and lender point of view. The payment tenure was restricted to maximum 20 years but the borrower wished to receive the payment for lifetime. The quantum of periodic payments to borrower was too low and was mainly dependent on interest rate. Also, there was uncertainty over continuance of periodic payments to borrower if property value declined. The banks (lender) also felt that this is a long term product involving a number of risks like longevity, interest rate and property valuation. The banks due to short term nature of their operations were not too keen to assume all these risks.

The National Housing Bank (NHB) took note of this and came up with a revised version of reverse mortgage loan facility in 2009. The new improved version is known as “Reverse Mortgage Loan enabled Annuity” (RMLeA). This new product is based on tie-up between banking and life insurance sector. This new product will provide assured life time annuity to house owning senior citizens against mortgage of their residential property. It also ensures a higher annuity amount to borrower. Two banks (Central Bank of India and Union Bank of India) are providing the new product in tie up with Star Union Dai-ichi Life insurance Company Limited (SUD Life). The terms of (RMLeA) are similar to the earlier reverse mortgage scheme (NHB website: http://www.nhb.org.in/).

In the new version (Figure 4.1), the bank mortgages the property and after assessing the value of property passes on eligible loan amount in lump sum to a life insurance company. The insurer, in turn, works out an EMI based on actuarial calculation and makes regular payments to the borrower for lifetime through the bank. Unlike regular reverse mortgage, where the banks make the payment, here the bank merely acts as an interface between the insurer and the customer. Borrower will have dealing only with bank. The new model also makes the product viable for banks. Earlier, banks had to bear 100% of the risks involved in the product. But with the new product, the risks are divided between the insurance company and the bank. Typically, the bank bears the ‘property mortgage related risk’, while the insurance company bears the ‘longevity risk’.
Figure 4.1: How the Reverse Mortgage Loan Enabled Annuity Scheme works

The new version gives borrower the option of taking 25% of the amount as lump sum and the remaining is compulsorily to be taken in the form of life time annuity. The borrower can choose between two annuity options (http://www.nhb.org.in):

i. **Life time annuity ‘without return of purchase price’**: This gives annuity to the borrower till his death. Under this, the bank sells the house and offsets the loan with accumulated interest after the death of the borrower. In case husband and wife are joint borrowers they can obtain separate life time annuities within the loan
amount. After the borrower’s death, heirs can repay the entire amount (lump sum and interest) to get back the house.

ii. **Life time annuity ‘with return of purchase price’**: Under this, after the death of the borrower and the spouse, the insurer will return the lump sum the bank paid to it at the time the loan started. The bank will use the money to offset the loan and will, subsequently, sell the house to recover the balance, if any. If the heirs want to get back the property, they will have to repay only the interest. In this option, annuity is low but heirs need to pay less to recover the house.

There is one problem with the new version. The annuity that a customer get through RMLeA is taxable as against the tax-free annuity in earlier version.

**Illustration based on Reverse Mortgage Scheme (2008) offering by State Bank of India.** Assumptions:

i. Age of borrower : 60 years  
ii. Tenure of loan : 15 years  
iii. Interest rate : 10.75%

**Table 4.2: How much your house can pay you?**

<table>
<thead>
<tr>
<th>Property Value (Rs.)</th>
<th>Loan to Value Ratio</th>
<th>Monthly Payments for 15 Years (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 lakhs</td>
<td>90%</td>
<td>4050</td>
</tr>
<tr>
<td>40 lakhs</td>
<td>90%</td>
<td>8100</td>
</tr>
<tr>
<td>60 lakhs</td>
<td>90%</td>
<td>12150</td>
</tr>
<tr>
<td>One Crore</td>
<td>90%</td>
<td>20250</td>
</tr>
</tbody>
</table>

Source: Compiled from the information available at SBI website.

Reverse mortgage seem to provide a very low annuity amount (Table 4.2 and Table 4.3) but we must also remember that both borrower and his/her spouse have the house for lifetime. If the retiree sells the house he could earn more, but would be forced to look around for accommodation and keep worrying about rising rents.
Table 4.3: Indicative Monthly Annuity under Both Versions of Reverse Mortgage

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Life Time Monthly Payments</td>
<td>Monthly Payments (20 year Term)</td>
</tr>
<tr>
<td>Age</td>
<td>Property Value(Rs.)</td>
<td>Loan To Value %</td>
</tr>
<tr>
<td>60</td>
<td>50,00,000</td>
<td>60%</td>
</tr>
<tr>
<td>65</td>
<td>50,00,000</td>
<td>60%</td>
</tr>
<tr>
<td>70</td>
<td>50,00,000</td>
<td>60%</td>
</tr>
<tr>
<td>75</td>
<td>50,00,000</td>
<td>70%</td>
</tr>
<tr>
<td>80</td>
<td>50,00,000</td>
<td>75%</td>
</tr>
</tbody>
</table>

Source: NHB Website: (http://www.nhb.org.in/).

Some of Indian Banks Product Offerings: There appears to not be much clarity on this product. The National Housing Bank (the RBI owned agency promoting and supporting all housing finance institutions in India) has issued a set of guidelines, which are not being uniformly followed by the institutions offering reverse mortgage loans. A brief comparison of salient features of reverse mortgage loans offered by public sector banks yielded the following details (Table 4.4):

Table 4.4: Comparison of features of reverse mortgage loan offered by different banks

<table>
<thead>
<tr>
<th>Features</th>
<th>PNB</th>
<th>BOB</th>
<th>SBI</th>
<th>CENTRAL BANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Loan Amount</td>
<td>₹1 crore</td>
<td>₹1 crore</td>
<td>₹1 crore</td>
<td>₹1 crore</td>
</tr>
<tr>
<td>Maximum Loan Tenure</td>
<td>20 years</td>
<td>15 years (subject to extension)</td>
<td>15 years (if you are between 58 and 68 years) and 10 years (if you are above 68 years of age)</td>
<td>20 years, extendable up to lifetime of the homeowner</td>
</tr>
<tr>
<td>LUMP SUM PAYMENT OPTION</td>
<td>Selectively available</td>
<td>Available</td>
<td>Available</td>
<td>Available</td>
</tr>
<tr>
<td>MAXIMUM LUMP SUM AMOUNT</td>
<td>₹15 lakhs</td>
<td>No cap specified</td>
<td>50% of the loan, maximum ₹15 lakhs</td>
<td>25% of Loan, maximum ₹15 lakhs</td>
</tr>
</tbody>
</table>

Source: Compiled on the basis of information available at different banks websites.
The reverse mortgage product has been in India for more than five years now, but it is still in its early stages of development. As can be observed in Table 4.5, except for State Bank of India, its subsidiaries and Central Bank of India, most of the banks have hardly done any business in reverse mortgage. Even the new version of the product known as RMLeA, which provides a life time annuity and a higher annuity amount has failed to motivate retirees to go in for this loan. As per the information provided by National Housing Bank, only 60 loans amounting to rupees 20 crores have been sanctioned till March 31, 2011 under the new RMLeA scheme. There is no reason to be disheartened by the low numbers of reverse mortgages done till date. Most of the countries, where the product is very popular today have gone through similar experiences in beginning.

Table 4.5: Reverse Mortgage Loans: Status Report (as on June 30, 2011)

<table>
<thead>
<tr>
<th>Primary Lending Institution</th>
<th>Number of Accounts</th>
<th>Amount Sanctioned (Rs. In Crores)</th>
<th>Amount Disbursed (Rs. In Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India</td>
<td>7000</td>
<td>1400.00</td>
<td>500.00</td>
</tr>
<tr>
<td>State Bank of Hyderabad</td>
<td>306</td>
<td>50.00</td>
<td>43.01</td>
</tr>
<tr>
<td>State Bank of Mysore</td>
<td>142</td>
<td>43.05</td>
<td>15.12</td>
</tr>
<tr>
<td>State Bank of Travancore</td>
<td>122</td>
<td>9.83</td>
<td>9.83</td>
</tr>
<tr>
<td>Central Bank of India</td>
<td>498</td>
<td>36.60</td>
<td>41.21</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>62</td>
<td>15.44</td>
<td>5.66</td>
</tr>
<tr>
<td>Andhra Bank</td>
<td>48</td>
<td>9.94</td>
<td>6.05</td>
</tr>
<tr>
<td>Vijaya Bank</td>
<td>37</td>
<td>11.12</td>
<td>3.04</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>34</td>
<td>7.57</td>
<td>4.46</td>
</tr>
<tr>
<td>UCO Bank</td>
<td>24</td>
<td>3.50</td>
<td>2.16</td>
</tr>
<tr>
<td>Corporation Bank</td>
<td>119</td>
<td>15.76</td>
<td>13.60</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>151</td>
<td>22.12</td>
<td>6.38</td>
</tr>
<tr>
<td>All the Remaining</td>
<td>360</td>
<td>115.10</td>
<td>22.29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8903</strong></td>
<td><strong>1740.03</strong></td>
<td><strong>672.81</strong></td>
</tr>
</tbody>
</table>

Source: Compiled from information available at (http://www.nhb.org.in/).
4.4 Reverse Mortgage and its Regulatory Framework in Other Countries

The reverse mortgage market is still very marginal in India. It is well established in US, Great Britain, Canada, New Zealand and Australia. They have seen marked development of reverse mortgage market and have put in place regulations that specifically control this market.

While reverse mortgages are designed to help retirees in need of regular income but the product is complex and if used inappropriately or with poor advice, there are significant risks for consumers. In this context, it is important to know about the regulatory framework of the reverse mortgage in different countries where it was developed and where its use is widespread. These countries are US, Great Britain, Australia, Canada and New Zealand. Study of how reverse mortgages have been administered in these countries could guide us in the solution of some of the problems being faced by the product in our country.

4.4.1 United States

The reverse mortgage market has shown maximum growth in US. This has happened due to the aging population, high residential house prices and limited retirement income. But the most important factor has been the government support in the form of better regulation and insurance of reverse mortgage loans.

In America reverse mortgage loans are available to people 62 years and older and can range from 20-60% of the property’s value. The reverse mortgage can only be secured by mortgaging residential house property. There are no income or credit requirements for reverse mortgages. Borrowers do not need to make any loan payments for as long as they continue to live in the home as their main residence. When the last borrower moves out of the home or dies, the loan becomes due. The money borrowers receive is tax-free, and can be used for any purpose. Borrowers can select to receive payments as a lump sum, line of credit, fixed monthly payments or in a combination of payment options. Reverse mortgage borrowers continue to own the home and are responsible for paying property taxes, hazard insurance, and maintaining the home. These loans
are non-recourse, which means that borrowers or their heirs never owe more than the value of the house at the time of sale. Any equity left after repaying the loan belongs to the borrower or heirs (American Association of Retired Persons Website: http://www.aarp.org/revmort/).

In US, the most popular reverse mortgage programme is the **Home Equity Conversion Mortgage (HECM) Plan**. Created in 1989 by the US Department of Housing and Urban Development (HUD), it is the largest reverse mortgage programme in the US, holding 95% of market share. The American government insures all HECM loans. Home Equity Conversion Mortgage (HECM) program is administered by the Federal Housing Administration (FHA) of the Department of Housing and Urban Development (HUD). FHA insures lenders against losses on these mortgages, and charges borrowers, insurance premiums to cover anticipated insurance claims. Neither HUD nor FHA directly provides the reverse mortgage loan to the borrower. Instead, HECM loans are issued by banks, mortgage companies or other private lenders (HUD website: http://portal.hud.gov).

There is a secondary market for HECMs, as most lenders prefer not to hold the loans on their balance sheets. Fannie Mae has purchased most of the HECM loans and holds them in its portfolio. Fannie Mae is a government-sponsored entity that operates under the general oversight of the federal government. In 2007, Ginnie Mae developed and implemented a HECM Mortgage Backed Security product, in which Ginnie Mae-approved issuers pool and securitize a small proportion of HECMs. Fannie Mae and Ginnie Mae’s involvement in the HECM secondary market helps to provide liquidity so that lenders can continue offering HECM loans to seniors (Canada’s ‘Consumer Union’ research report, 2007).

The FHA sets a maximum limit that can be drawn by the borrower based on the appraised value of the home, the age of the borrower, and the current applicable interest rate. The applicable rate is based on either the London Interbank Offer Rate (LIBOR) or the 10-year U.S. treasury rate. The lender is allowed to charge a margin over the base rate.
Borrowers who select a HECM loan, pay an upfront mortgage insurance premium. This insurance premium is equal to 2 percent of the maximum claim amount. Additionally, borrowers are charged a monthly mortgage insurance premium on their loan balance at an annual rate of 0.5 percent. There are also limits on the total fees that can be charged for a reverse mortgage. Most of these costs can be financed as part of the mortgage deal. Insurance of HECM loans protect the consumers against being forced out from their homes in case accumulated loan amount exceeds the property’s value. The borrower is also insured against lender bankruptcy. The US government guarantees that HECM borrowers will get all the cash advances promised to them. The insurance fee is paid to HUD by the borrower. The Housing department authorizes the HECM lender to transfer the file to the FHA as soon as the debt reaches 98% of the maximum loan limit. The FHA buys the loan back from the lender and commits to honour the terms. The FHA makes payments due and takes on any eventual financial loss (HUD website: http://portal.hud.gov).

Since its inception, the HECM programme has required mandatory pre-loan counselling for all borrowers. The objective of counselling is to ensure that borrowers fully understand the advantages and disadvantages of reverse mortgages, alternatives available to reverse mortgages and how the reverse mortgage will affect their living situation and finances. The counsellor will explain the legal and financial obligations of a reverse mortgage. The borrower will receive a certificate of completion that is required before the loan application can be processed. Counselling is provided by HUD approved organisations. These are generally agencies on ageing that are independent of the lender to ensure that potential borrowers receive unbiased information. The counselling may take place in person or by telephone (HUD website: http://portal.hud.gov).

Under FHA’s Home Equity Conversion Mortgage (HECM) program, a borrower can choose from 5 payment plans (HUD website: http://portal.hud.gov):

i. **Line of Credit**: Borrower may make withdrawals at times and in amounts selected by him till the line of credit is exhausted.
ii. **Tenure**: This provides a fixed monthly payment as long as one of the borrower lives.

iii. **Term**: This involves a fixed monthly payment for a specified term.

iv. **Modified Tenure**: This is a combination of line of credit and tenure.

v. **Modified Term**: This involves a combination of line of credit and term.

The borrower has the option to change the payment method any time for a nominal fee.

Before the financial crises, there were other reverse mortgage programmes like HomeKeeper plan introduced by Fannie Mae and Jumbo Cash account offered by financial freedom. These programmes allowed the owners with high-value homes to borrow more money as the limits on the size of loans were not restricted by the FHA as in the case of HECM programme.

**Regulation of Reverse Mortgage Programme in US**

After the financial crises, all private reverse mortgage programmes have disappeared and only the government sponsored HECM loan programme is available. US Congress has been monitoring the reverse mortgage market closely since 1987. The Department of Housing and Urban Development is required to periodically report to Congress on the HECM programme. US Congress also provides funding for reverse mortgage pre-application counselling and consumer education.

In US, at the federal level, there are two laws applying specifically to reverse mortgages. These are the National Housing Act and the Truth in Lending Act. The National Housing Act ensures access to independent financial counsel as a condition of eligibility for government issued loans. The law also requires that the government ensure the existence of a network of counsellors. The Truth in Lending Act requires creditors to disclose projection of the total amount of loan cost to the borrower. These costs should be expressed as an average annualised rate, and it is most useful for comparing reverse mortgages offered by different lenders. While this law contains provisions applying to all mortgage loans, the National Housing Act only applies to reverse mortgages insured by the federal government. In addition, a number of
American states have enacted legislation that extends obligations similar to those found in the National Housing Act and Truth in Lending Act to uninsured reverse mortgages. National Housing Act defines the limit of a home’s value used for reverse mortgage loans under the HECM programme. The limit varies with states in the US and they are subject to change at least annually. This regulation prevents possible over-lending by aggressive reverse mortgage originators (Canada’s ‘Consumer Union’ research report, 2007).

HECM programme regulations state that (HUD website: http://portal.hud.gov):

i. Lenders may not change the interest rate more than one time per year (relative to prime interest rates dictated by the Treasury). Any change may not exceed 2 percentage points per year or 5 percentage points over the life of the loan.

ii. Borrowers must get independent advice before signing the reverse mortgage contract.

iii. Lenders may not impose penalties on prepayment or cancellation of the loan.

American reverse mortgage providers formed an association in 1997, the National Reverse Mortgage Lenders Association (NRMLA) which established a code of conduct and best practices aimed at ensuring consumers of just, ethical and respectable treatment. The NRMLA code of conduct requires its members to adhere to the following (NRMLA website: http://www.reversemortgage.org):

i. Treat clients with respect and dignity.

ii. Protect the privacy and confidentiality of client information and not share personal financial information with any third party without the client’s express permission.

iii. Encourage clients to discuss the loan with family members and/or anyone who might counsel them.

iv. Inform clients, at no charge, about all available reverse mortgage programmes and assist them in their choice that is most appropriate to their needs.
v. Clearly identify all costs associated with the product when estimating the potential benefits.

vi. Not to lead a client to believe that he must purchase another product or service offered by the lending company or any other company in order to obtain the reverse mortgage.

vii. Pay to the client all sums agreed to, with the exception of an amount retained to cover an existing debt, property tax or insurance payment.

viii. Report any violation or suspected violation of the code of conduct to the NRMLA and cooperate in any inquiry.

ix. Make all necessary efforts to assuage client anxiety about reverse mortgage transactions.

The newly enacted Housing and Economic Recovery Act of 2008 includes several provisions that make it safer and less costly for seniors to take out a reverse mortgage. Under the new law (HUD website: http://portal.hud.gov):

i. The amount a senior can borrow is increased to $417,000 nationally, and could be as high as $625,500 for those living in high housing-cost areas.

ii. The origination fee is reduced to 2 percent of the first $200,000 borrowed and 1 percent for any amount after that. The minimum origination fee is $2,500 and cannot exceed $6,000.

iii. Lenders cannot require borrowers to buy other financial products (such as annuities or insurance) as a condition for a reverse mortgage.

Unlike the English association of reverse mortgage providers, the American association does not deal with complaint procedures. Complaints about reverse mortgages may be lodged with the State Prosecutor’s office of the appropriate state as well as with the Federal Trade Commission (FTC).

In the US, there are several governmental websites and providers who offer consumers FAQ (Frequently Asked Questions) on the subject of reverse mortgages. These sites offer a wide variety of information for consumers looking at this type of
loan. Relatively complete information is provided, with at minimum the fact that reverse mortgages are not for everyone and should be carefully analyzed in consideration of the consumer’s particular financial scenario before a choice is made.

**Status of Reverse Mortgage Programme in US**

HECM Reverse mortgage programme has shown significant growth in the last decade from year 2000 to year 2009 (Table 4.6). The annual number of reverse mortgage loans has risen from about 6,600 loans in year 2000 to over 114,000 loans in fiscal year 2009 (HUD website: http://portal.hud.gov).

**Table 4.6: HECM/Reverse Mortgages loans made in each federal fiscal Year since 2000**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>6640</td>
</tr>
<tr>
<td>2001</td>
<td>7781</td>
</tr>
<tr>
<td>2002</td>
<td>13049</td>
</tr>
<tr>
<td>2003</td>
<td>18097</td>
</tr>
<tr>
<td>2004</td>
<td>37829</td>
</tr>
<tr>
<td>2005</td>
<td>43131</td>
</tr>
<tr>
<td>2006</td>
<td>76351</td>
</tr>
<tr>
<td>2007</td>
<td>107558</td>
</tr>
<tr>
<td>2008</td>
<td>112154</td>
</tr>
<tr>
<td>2009</td>
<td>114692</td>
</tr>
<tr>
<td>2010</td>
<td>79106</td>
</tr>
<tr>
<td>2011</td>
<td>73131</td>
</tr>
<tr>
<td>2012</td>
<td>54822</td>
</tr>
</tbody>
</table>


The HECM program began slowly, with only 157 loans written in 1990, but by 2000, the number had grown to more than 6600. Total HECM loans done till March 31, 2013 were more than 8 lakhs. Still, this number is very small, when compared to the size of the potential market.
However, the financial crisis has taken its toll, with the number of HECMs done going down in the years after 2009. The volumes dropped to 79,000 in 2010, 73,000 in 2011 and about 55000 in 2012 (HUD website: http://portal.hud.gov). In 2008, the system of setting maximum loan amounts on HECMs for each county was replaced by a uniform national limit of $417,000. Early in 2009, the limit was raised temporarily to $625,500. This has helped fill the void left by the loss of private reverse mortgage programs. That limit was later extended into 2012.

Recently, a major problem with the HECM program has been that an increasing number of borrowers are in default. They are almost 8% of the total HECM loans. While HECM borrowers are not required to make monthly mortgage payments, they must pay property taxes, insurance premiums and maintain their property. Most of those in default have not paid their property taxes. Many lenders were forced to foreclose loan on such seniors. This started adversely affecting the goodwill of many lenders. Recently three of the main lenders (Wells Fargo, the largest provider of reverse mortgage loans, Bank of America and MetLife), stopped offering HECM loans to seniors due to this development. By foreclosing the loan on seniors, they do not want to give the message that they do not take care of them.

The main problem with the HECM loans is that most borrowers opt for standard fixed-rate option. In this option, borrowers could withdraw the maximum possible cash up-front. This option provided an incentive to exhaust all borrowing power at the beginning. Losses to FHA on fixed-rate cash-out loans are much higher than those on HECMs that fund over time. Fixed rate option depletes house equity fast in the early years, which discouraged maintenance and encouraged property tax defaults. In HECM loan, lender exposure to longevity risk is very small because of FHA insurance. The unprecedented decline in property values over the last few years have increased losses and eaten into FHA’s reserves. To tackle this problem, government recently eliminated standard fixed-rate HECM program, which resulted in the largest losses for HUD (HUD website: http://portal.hud.gov).
In October 2010 the Federal Housing Administration launched a reverse mortgage called the HECM Saver (HUD website: http://portal.hud.gov). This drastically reduced the upfront fees by virtually eliminating the upfront mortgage insurance premium charging just 0.01 percent of a home's value. But the amount that one can borrow is 10 to 20% less than the FHA’s standard reverse mortgage depending on the age of borrower. Before the debut of the HECM Saver, the FHA had just one reverse mortgage, the HECM Standard. The HECM Standard still exists, though it has been modified. The upfront mortgage insurance premium on a HECM Standard remains the same at 2 percent of a home’s value. The FHA raised the ongoing insurance premium to 1.25 percent annually, the same rate as the HECM Saver. The rate had been 0.5 percent earlier. In addition the FHA lowered the amount one can borrow with a HECM Standard by as much as 10 percent in 2009. FHA has chosen to deal with the underfunding of the insurance by increasing the costs of the standard product and by expanding the market with a lower risk alternative, the HECM Saver.

Till now, lender never looked into the paying capacity of the borrower in reverse mortgage. With defaults mounting in the payments of property taxes and insurance, HECM lenders will soon be evaluating whether borrowers have the capacity to pay their property taxes and insurance premiums, and whether their credit history indicates a willingness to do so. If the answer is “no”, the lender may either reject the application or accept it with a mandatory set-aside for payment of property charges (NRMLA website: http://www.reverse mortgage.org).

4.4.2 Reverse Mortgage In European Union

Equity release schemes (ERS) in some form or the other exist in most of the European Union (EU) member countries. The sustained rise in house prices in many EU countries over the past decade, currently readjusting sharply downwards after the subprime crises, has played a major role in encouraging the lenders to take the risk of granting ERS to a steadily growing aged people, who have benefited from an increase in their property value, without a corresponding improvement in their income position. Equity Release products have existed for about 35 years in the United Kingdom, but with the exception
of Spain, they have only had a presence in the EU Member States for ten years or less. The ERS are therefore a new development in the EU.

An equity release scheme enables a homeowner to access the wealth built up in his home while being able to continue to live in it. The purpose is to transform, an illiquid asset, that a house is considered to be into a source of liquidity for mainly consumption purposes. The substance of equity release transactions is to exchange some or all of the potential proceeds from the eventual sale of one’s home in return for cash now. The property is used as security for a loan. They have the distinctive features that homeowner will face no regular repayments of loan amount. All repayments takes place upon either death or vacation of the property. The loan is to be repaid ultimately from sales value of the house. It is primarily meant for senior citizen homeowners. These schemes take the form of either a “Loan Model” or a “Sale Model” (European Commission Study on Equity Release Schemes in the EU, 2009).

**Loan Model Equity Release Schemes:** These are known by different names in different member countries and by the name of reverse or lifetime mortgage in UK and Ireland. In this type of equity release scheme, a loan is secured by the mortgage of house property. No periodic repayment of principal is required by the customer. Customer retains the ownership and lifetime use of home. The lender decision is based more on value of collateral than personal creditworthiness of the borrower. The owner can receive the funds in lump sum or regular periodic payments. This leads to increasing debt and falling equity.

**Sale Model Equity Release Schemes:** These are popularly known by the name of Vente en viager in France, Belgium and Luxemburg and Home Reversion in UK and Ireland. In this type of transaction, there is sale of all or part of the property. The seller gets the lifelong right to stay in the property. This product is often provided by financial service professionals, who invest in residential property. Seller of house property is assured of a life annuity. It is essentially an insurance product.
Some other equity release schemes are also being used in EU member countries:

**Interest-only Mortgage:** The homeowner gets the loan on mortgage of property in lump sum. The borrower pays interest on the loan each month at a fixed or variable rate. The amount originally borrowed is repaid when your home is sold.

**Fixed Repayment Mortgage:** In this case also the homeowner gets the loan on mortgage of his property in lump sum. Instead of being charged interest on the loan, the borrower agrees that when the home is sold, the lender will get a higher sum than the amount borrowed. This higher sum is agreed at the outset. How much higher, will depend on age and life expectancy of borrower. The lender takes this higher sum when house is sold. If the borrower dies, the lender may charge interest on this higher sum from the date of death to the date of actual repayment.

The overall volume of loan model ERS in the EU is about EUR 3.3 billion, with an estimated number of close to 50 000 contracts in 2007. The estimated volume of sale model ERS is EUR 1.4 billion, with just under 20 000 contracts. The only general statistics specific to ERS are available in the United Kingdom. According to SHIP (Safe Home Income Plans), the trade association for equity release providers in the UK, overall size of the ERS market is EUR 1 560 million in 2007. This is made up of EUR 1 454 million loan model ERS and EUR 106 million sale model ERS .Thirteen member states had some form of ERS, compared to 14 with none. Amongst the member states with an existing market for ERS, those who provided for a loan model scheme generally offered a sale model scheme as well. However, some countries have started by exclusively providing a sale model ERS. UK, Ireland and Spain, have significant ERS markets. In Germany, Italy, France, Belgium and Sweden, ERS are not well developed (European Commission Study on Equity Release Schemes in the EU, 2009).

Based on the experiences of more developed markets such as the UK, it can be said that such schemes started with traditional private home reversion. These were partially replaced gradually by sale model ERS in the first instance and then by loan model ERS.
ERS are primarily issued by banks (40%), real estate investors (19%), specialist lenders (12%), insurance companies (12%), the remainder being marketed by intermediaries (15%) operating on behalf of these providers (European Commission Study on Equity Release Schemes in the EU, 2009).

ERS are taking the same growth path as historically taken by consumer credit in general. Consumer credit first started with borrowing from family and neighbours, and then developed into instalment purchases which were then gradually professionalised into bank loans. The development of equity release products in UK show a clear trend from sale model towards loan model products over time. What has happened in the UK will probably also be the future for ERS in the EU. As a whole, loan model ERS are likely to grow while sale model ERS may stagnate.

The users of ERS were 50% males and 50% females. As women have longer life expectancy, many member countries have a high proportion of women users. It is expected that in times to come, there will be more female ERS users than male. Most borrowers use the product to maintain their standard of living. In Spain, married users dominate home equity release market, in Hungary only one third of users are married. In Italy, widows account for about 40%. In the UK, most seniors wish to remain living in their property for life and are keen to leave some inheritance for children (European Commission Study on Equity Release Schemes in the EU, 2009).

In both types of Equity Release products, different forms of payments are common. Although it is believed that monthly payments would be the most suitable for ERS, a lump sum payment was cited by most providers as the most common payment method, followed by monthly payments for life. Lump sums are important for obtaining an insurance product, which then can guarantee a lifelong pension which is paid in instalments.

Some lenders use a loan-to-value ratio (LTV) and define a maximum size of the loan available in relation to the LTV. Typically, these LTV limits are variable, the key determinant being the borrower’s age. Older customers are able to borrow more, with higher LTV limits. In the UK, many lenders will offer 15-25% LTVs to the youngest
equity release borrowers, aged between 55 and 65, but maximum LTV limits can rise to over 50% for elderly borrowers.

Products specifically designed for ERS were found in half of EU Member States. Based on the available information, it is estimated that at least 44 equity release products are in use within the EU, 14 of them in the UK alone. All member states can be grouped into four categories with respect to ERS offerings (European Commission Study on Equity Release Schemes in the EU, 2009):

i. Countries with significant ERS market: It includes the United Kingdom, Ireland and Spain.

ii. Countries with less developed loan model market: It includes Austria, Finland, France, Hungary, Italy and Sweden.

iii. Countries with less developed sale model market: This includes Bulgaria, Germany and Romania.

iv. Countries with no ERS: This includes Belgium, Cyprus, Czech Republic, Denmark, Estonia, Greece, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia and Slovenia.

In UK, both types of equity release scheme are available. First, the reverse or lifetime mortgages, which involve the homeowner borrowing money against their property in lump sum or regular payments. Second, the Home reversions, where the consumer sells a part or full home to give them a regular income or lump sum, or both.

In the United Kingdom, the reverse mortgage is known as a lifetime mortgage. Two lenders control 90% of market share. These are Norwich Union and Northern Rock. English experience with the reverse mortgage goes back 30 years. The authorities have faced different problems over this time, and tried to solve them. In the initial versions of the loan, introduced in the UK during the 1980s, repayment was required, in cases where debt grew to more than the property value. This resulted in some painful situations when some homeowners were evicted. This is why, most such loans now carry a non-recourse condition. This means, borrower or his heirs can never owe
more than the property value on loan termination (Canada’s ‘Consumer Union’ research report, 2007).

Since 2004, the Financial Services Authority (FSA) of the United Kingdom regulates mortgages, including reverse mortgages. In the new regime put into place by the British Government with the Financial Services and Markets Act of 2000, reverse mortgages have been designated a high-risk product and are closely watched by the FSA in order to protect aging consumers who are most vulnerable.

In 1991, the leading English reverse mortgage lenders formed a self-governing body called Safe Home Income Plans (SHIP). SHIP works closely with the FSA to ensure that the industry is safe for consumers. SHIP created a voluntary code of good conduct requiring lenders to provide following guarantees to customers (SHIP, 2012):

i. To allow customers to remain in their property for life provided the property remains their main residence.

ii. To provide customers with fair, simple and complete presentations of their plans. This means that the benefits and limitations of the product together with any obligations on the part of the customer are clearly set out in their literature.

iii. The right for the customer to choose an independent solicitor of their own choice to conduct their legal work.

iv. The SHIP certificate signed by the solicitor to ensure clients are aware of the terms and implications of the plan.

v. All SHIP plans carry a no negative equity guarantee. This means customers will never owe more than the value of their home.

Since SHIP was formed in December 1991, its members have provided almost 270,000 plans which have helped UK seniors release £12.12 billion pounds from their homes. Of this, £10.5 billion was released via mortgage products and nearly £1.6 billion via home reversions. In 2007, SHIP members helped 29,293 people release £1.2 billion pounds from their homes. Unfortunately, the global financial crisis (from 2007) hit the equity release market and the lending decreased as some providers left
the sector. However, relative to mainstream mortgages, lending in the equity release sector has continued to perform well. In 2011, SHIP members have provided 11,696 plans worth £572.6 million. Lifetime mortgages (£560 million) make up the bulk of sales followed by reversions (£12 million). And with the UK’s over-55s currently sitting on £1.9 trillion worth of housing equity, the market is sure to grow in the future (SHIP, 2012).

SHIP has a process for dealing with borrowers complaints. In case of a misunderstanding between a borrower and SHIP member, the borrower must directly contact the member and attempt to solve the problem. The member would apply the procedures set out by SHIP, or the FSA, if the member lender fell under its jurisdiction. If the firm was not FSA-regulated, the complaint would come before the president of SHIP, who would work with both parties to arrive at an acceptable solution. If a case should prove impossible to resolve, it would be referred to the Reversions Complaints Board (RCB). This independent bureau was specifically created by SHIP to deal with situations not covered by the FSA. The Reversions Complaints Board is a specific body, established by SHIP but independently run, specifically to resolve complaints in respect of Home Reversion Plans provided by SHIP members who are not regulated by the FSA.

International research shows that advice on equity release products is often inadequate. A research by the Financial Services Authority (FSA) in the United Kingdom shows that more than 70% of product providers, independent financial advisers and mortgage brokers do not gather enough relevant information about their customers to assess their suitability for the product, and more than 60% of advisers do not advise consumers about the downsides of equity release scheme (FSA Media release, 24 May 2005).

4.4.3 Australia

Reverse mortgage is rapidly growing in Australia in response to economic and social changes like an aging population, high property prices and inadequate income in retirement. The Australian Bureau of Statistics estimated that by 2031 approximately 21% of Australia’s population will be aged 65 years or older (a dramatic increase
from 8.5% in 1961) and there is growing concern that these aged people will not have enough funds to meet their needs in retirement (ASIC Report, 2005).

Three types of equity release products are available:

i. Reverse mortgages: In reverse mortgage the consumer borrows money against the equity in his or her home and the principal and interest is not repaid until the home is sold (usually when the consumer dies or voluntarily vacates the home). The loan can be taken as a lump sum, a regular income stream, a line of credit or a combination of these options. The interest compounds over time and is added to loan balance. Borrower remains the owner of his house and can stay in it for as long as he wants. The older the homeowner, the more he can borrow.

ii. Home reversion schemes: In this scheme, the consumer sells part or all of his or her home to a reversion company. The home is sold for less than its market price (typically between 35% and 60%), but the consumer can remain in the property until he dies or voluntarily vacate the property. The owner doesn't have to make repayments on the money received while he continues to live in his home. There is currently only one home reversion scheme provider in Australia.

iii) Shared appreciation mortgages: In this type, consumer gives up the right to some of the future capital gain on the property at the time of sale in return for paying reduced or no interest on that part of his or her borrowings (ASIC Report, 2005).

In Australia, reverse mortgages are offered to people over 55 years of age who own their home or have a negligible balance remaining on their home loan. Loan amounts generally vary from 20-40% of the property’s value. Older people can borrow the larger percentage (ASIC Report, 2005). The majority of contracts require that the borrower maintain property, pay insurance, pay taxes and do not leave the property vacant for long periods. Borrowers taking a reverse mortgage loan can choose between a fixed and variable interest rate. The reverse mortgage market in Australia is supported by major banks, building societies, credit unions and non-bank lenders.
Product regulation in Australia

The current regulations in place in Australia were not created to respond to the specific needs of the reverse mortgage market. Two laws that affect this market are the Uniform Consumer Credit Code (UCCC) and the 2001 Corporations Act. The UCCC was adopted in the mid-1990s to respond to difficulties arising with traditional credit products requiring regular payments and to standardize credit practices in Australia. Administered by the state and territorial governments, the UCCC regulates advertising and stipulates that credit contracts must inform:

i. The details of the proposed credit.

ii. The way in which interest is calculated and when it is charged.

iii. Fees and charges that must be paid.

iv. Interest charged for default of payment and how it is calculated.

v. Details about commissions that might be charged.

vi. The provisions for renegotiating payment terms if the client is faced with financial hardship.

The UCCC was not conceived with products like the reverse mortgage in mind, which does not require regular payment from the borrower. This regulation does not contain protection against risks specific to the reverse mortgage (ASIC Report, 2005).

Reverse mortgage providers are members of an association called, “Senior Australians Equity Release Association of Lenders” (SEQUAL). It was launched in January 2005 as a non-profit organisation. It is supported by Australia’s leading providers of equity release products. It is the peak industry body which governs reverse mortgage providers and provides consumer safeguards. SEQUAL established a code of conduct that requires its members to join an external conflict resolution group approved by the Australian Securities & Investments Commission (ASIC). The code of conduct demands that members:

i. Ensure that all products carry a clearly defined and transparent non-recourse guarantee.
ii. Clearly point out to consumers all of the costs associated with the transaction.

iii. Fully disclose the integral costs, including illustration of the loan’s effect on the property’s future value, the interest rates, and the capitalization of loan interests.

iv. Ensure that all clients receive independent legal advice.

All SEQUAL members must employ conflict resolution procedures approved by the ASIC and must respond to consumer demands in a timely fashion. If the consumer feels that the problem has not been satisfactorily resolved, industry organizations like the Banking and Financial Ombudsman and the Credit Ombudsman Service may offer their support to resolve the problem.

Presently, the Australian Securities & Investments Commission recommends that consumers are provided with as much information as possible before entering into a reverse mortgage contract. In Australia, organizations like the ASIC and SEQUAL are energetic supporters of greater accessibility to independent legal and financial counselling for consumers prior to the signing of the loan contract. ASIC work with industry to promote best practices and reduce the risks for consumers while also monitoring the marketplace closely to identify misleading or deceptive conduct in the sales of these products.

Every year, SEQUAL commissions studies on the Australian reverse mortgage sector by Deloitte Actuaries and Consultants. SEQUAL, keeps a detailed record of the activity levels of its members. Deloitte Actuaries and Consultants is a specialist firm advising the financial services industry across Australia and New Zealand.

In its seventh comprehensive study of the Australian reverse mortgage sector in 2009, the report showed that the reverse mortgage market as at 30 June 2009 consisted of more than 38,000 reverse mortgage facilities with total outstanding funding of $2.6 billion. The market grew from around $1b in June 2006 to more than $2.6b in June 2009. The Deloitte study showed that accessing a regular income stream in retirement is the number one reason for taking out a reverse
mortgage today. This is closely followed by debt repayment and home improvement. The study also showed that Senior Australians are continuing to show restraint when releasing equity through reverse mortgages. This is shown by borrowers on average only choosing to access around 70% of the actual funding available to them. A key finding in relation to the behaviour of borrowers with a reverse mortgage is the rate at which borrowers choose to voluntarily repay their loans. Contrary to belief that these products are only held until the ultimate death of the borrower, the Deloitte study showed that one in ten borrowers voluntarily repay their reverse mortgage, that is discharge their loan, in full, each year. The study also showed that variable rate loans are more common (SEQUAL Deloitte Research Report 2009).

In 2012, the Government introduced statutory 'negative equity protection' on all new reverse mortgage contracts. This means a borrower cannot end up owing the lender more than home value at the time of loan settlement. Even though the negative equity protection only commenced in law in September 2012, if lender is a member of the Senior Australians Equity Release Association of Lenders (SEQUAL) they also will only offer reverse mortgages that protect borrower from negative equity.

Currently there are reverse mortgage products in the Australian market that offer borrowers the option of protecting a percentage of their property’s equity so that a certain amount can be passed on to children and other beneficiaries. While most lenders enable borrowers to protect 10%-25% of the net sale proceeds from the future sale of their home, one lender offers the option of protecting up to 50% of the property’s equity. These results certainly indicate that many senior citizens wish to bequest their assets to their heirs. From this trend, it seems that there is a space in the market for a product that is tailored to meet borrower needs.
Table 4.7: Reverse Mortgages in Australia (Year 2005 to 2011)

<table>
<thead>
<tr>
<th>Year</th>
<th>Outstanding market size</th>
<th>Number of loans</th>
<th>Average loan size</th>
<th>Discharges</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$.9b</td>
<td>16584</td>
<td>$51148</td>
<td>N/A</td>
</tr>
<tr>
<td>2006</td>
<td>$1.51b</td>
<td>27898</td>
<td>$54233</td>
<td>N/A</td>
</tr>
<tr>
<td>2007</td>
<td>$2.02b</td>
<td>33741</td>
<td>$60000</td>
<td>$203m</td>
</tr>
<tr>
<td>2008</td>
<td>$2.48b</td>
<td>37530</td>
<td>$66150</td>
<td>$253m</td>
</tr>
<tr>
<td>2009</td>
<td>$2.7b</td>
<td>38788</td>
<td>$69896</td>
<td>$309m</td>
</tr>
<tr>
<td>2010</td>
<td>$3.0b</td>
<td>41600</td>
<td>$72474</td>
<td>$354m</td>
</tr>
<tr>
<td>2011</td>
<td>$3.32b</td>
<td>42410</td>
<td>$78249</td>
<td>$338m</td>
</tr>
</tbody>
</table>

Source: SEQUAL/Deloitte Reverse Mortgage Study (December 2012).

Deloitte released its 10th study of the Australian reverse mortgage sector in June 2012. The results of the Deloitte studies show that reverse mortgage is the key retirement funding option in Australia. This is exhibited through its sustained growth over the last few years (Table 4.7). The study shows that in December 2011, the reverse mortgage market in Australia consisted of more than 42,000 reverse mortgage facilities with total outstanding funding of $3.3 billion. There were 5,000 new borrowers accessing the equity in their homes in 2011. Variable rate loans were the most popular. Lump sum is the most popular type of taking reverse mortgage loan. Direct sales were the largest channel in 2011 at 74% followed by Brokers & Planners 26% (SEQUAL Deloitte Research Report 2012).

### 4.4.4 New Zealand

Reverse mortgages are steadily growing as a retirement financial planning tool as increasing numbers of New Zealand retirees consider equity release products when planning for their retirement. There is a considerable pool of housing wealth in New Zealand that can be utilised to support post retirement lifestyle planning. The reverse mortgage option is becoming increasingly popular in New Zealand, and is based on similar concepts that have been available in the UK, USA, Canada and Australia. Reverse mortgage lending is mostly facilitated by a mortgage broker or financial planner. This shows that New Zealanders are using intermediaries to assist in the borrowing and advice process when it comes to reverse mortgages (SHERPA website: [http://www.sherpa.org.nz/](http://www.sherpa.org.nz/)).
To regulate the product, important role is played by ‘The Safe Home Equity Release Plans Association’ (SHERPA). It is a not for profit association supported by New Zealand’s leading providers and distributors of Home Equity Release Plans. Membership of SHERPA is open to all providers of Home Equity Release products in New Zealand. SHERPA is dedicated entirely to the protection of plan-holders and the promotion of safe home equity release plans. Current members of SHERPA are Bluestone Equity Release New Zealand Ltd, Dorchester Life and Sentinel Ltd. SHERPA has pledged to work with the Government on any future regulation of the industry. Each member of SHERPA agrees, that it’s Home Equity Release Plan(s) will adhere to the following Code of Practice in dealing with New Zealand seniors (SHERPA website: http://www.sherpa.org.nz/):

i. Treat all borrowers with respect and dignity.

ii. Participate in an approved External Dispute Resolution Scheme.

iii. Ensure that all plans carry a clear and transparent "non-recourse" guarantee. That is, the borrower(s) will never owe more than the net realisable value of their property, provided the terms and conditions of the loan have been met.

iv. Strongly encourage borrower(s) to discuss the transaction with family members and to seek independent financial advice from a qualified financial adviser.

v. Ensure that the borrower(s) obtains independent legal advice performed by the solicitor of their choice. The solicitor must not act for the lender.

vi. Clearly and accurately identify all costs to the Borrower(s) associated with the transaction.

vii. Not assert or imply to a borrower(s) that they are obligated to purchase any other product or service offered by the member in order to enter into a Home Equity Release Plan.

viii. Provide in writing a fair and complete package of home equity release documents, covering the benefits and obligations of the plan. This will include, making available to borrower(s) and their advisers a tool illustrating
the potential effect of future house values, interest rates and the capitalisation of interest on the loan.

Supported by (SHERPA), Deloitte Australia’s Actuaries & Consultants conducts studies of the New Zealand reverse mortgage sector. These studies show that most borrowers prefer lump sum payments, with negligible take up so far of income stream reverse mortgages. The money is used primarily for home improvements and debt repayment. Almost all reverse mortgage loans attract variable interest. The reverse mortgage market is growing with lenders offering a larger range of products. Couples are the largest borrowing segment followed by single females and single males. The average age of borrowers is 72 years.

The market has shown a good growth (Table 4.8). The rate of growth has slowed down after 2008, reflecting difficult credit market conditions due to global financial crisis (SHERPA/Deloitte New Zealand Reverse Mortgage study 2007, 2010).

**Table 4.8: Reverse Mortgages in New Zealand (Year 2006 to 2009)**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding market size</td>
<td>$227m</td>
<td>$365m</td>
<td>$430m</td>
<td>$447m</td>
</tr>
<tr>
<td>Number of loans</td>
<td>4500</td>
<td>6549</td>
<td>6878</td>
<td>6613</td>
</tr>
<tr>
<td>Average loan size</td>
<td>$49900</td>
<td>$55745</td>
<td>$62516</td>
<td>$67667</td>
</tr>
</tbody>
</table>


### 4.4.5 Canada

When compared to UK or US markets, the Canadian reverse mortgage market is still in its infancy. But the situation is changing fast. Canada’s population is aging and residential property prices are growing over the last few decades. These factors favour the development of reverse mortgage market. About 80 per cent of Canadian homeowners over the age of 65 own their properties. But a large number of them have inadequate incomes. In Canada, reverse mortgages are gaining popularity because these offer a tax-free stream of cash inflows usually paid in the form of a monthly annuity (Canada’s ‘Consumer Union’ Research Report, 2007).
The most common reverse mortgage currently available in Canada is Reverse Annuity Mortgage. There are two parts to this plan. First the homeowner borrows a lump sum using a reverse mortgage. Compound interest is charged on the lump sum over the term of the Reverse Annuity Mortgage. That lump sum is then used to purchase an annuity. In most cases, the annuity provides the borrower with monthly payments for the rest of the borrower's life. So even when the home is sold and the reverse mortgage is paid off, the homeowner still owns the annuity and the payments will continue (Canada’s ‘Consumer Union’ Research Report, 2007).

Another type of Reverse Mortgage is the Line of Credit reverse mortgage. This plan allows the borrower to take out only the amount of money he or she requires at any given time. Interest is calculated on the total amount withdrawn. Line of credit reverse mortgages are ideal for people who only want to withdraw money when they need it. This keeps interest charges to a minimum.

Fixed Term reverse mortgages provide money for a specific duration of time, often from five to ten years. After the term is over, the entire loan plus interest must be repaid, even if it means selling the house to do so. Fixed Term reverse mortgages are appropriate for people who only need money for a short time.

Reverse mortgages are available through private corporations in Canada. None of the programs is insured by the government. These programmes include:

i. **Canadian Home Income Plan (CHIP):** This is provided by HomEquity Bank. It was started in 1986 and at present is the largest program available in Canada. The CHIP offers reverse mortgages to Canadian homeowners 55 or above (CHIP, Website: http://www.chip.ca).

ii. **Fixed Term Reverse Annuity Mortgage:** It is available through Royal Bank of Canada.

Reverse mortgages in Canada usually offer a maximum loan of 25 to 50% of the property's value. The exact loan size is determined by:
• The borrower's age, with higher payments for higher age.

• Current interest rates

• Property value, including location and a factor for future appreciation.

While the market for reverse mortgages continues to grow, it has not experienced a major leap, with the number of annual loans remaining relatively stable since 1999 with almost 1000 reverse mortgages done every year (Canada’s ‘Consumer Union’ Research Report, 2007).

Numerous financial institutions (chartered banks, credit co-ops, mortgage brokers, stockbrokers and financial planning firms) act as referrers and aid clients interested in a reverse mortgage. Certain financial institutions also offer the product in partnership with the CHIP. The CHIP guarantees that the total reimbursable debt will not exceed the property value. If, at term, the total capital and accumulated interest would exceed property value, the CHIP assumes the difference. At the borrower’s request, interest rates offered by CHIP can be fixed or variable (CHIP, Website: http://www.chip.ca).

The product, as currently marketed, is still not popular among senior citizens due to many of its perceived negative features. Since it is relatively expensive, the reverse mortgage remains for many a last resort. A good many seniors prefer to sell their home, ask family members for financial aid, rent part of their home or ask their financial institution for a credit line rather go in for reverse mortgage. The uncertainty of the real estate market in some regions has led to the lack of enthusiasm of private companies to offer this type of product (Canada’s ‘Consumer Union’ Research Report, 2007).

Contrary to reverse mortgages being offered in US, none of the reverse mortgage programmes available in Canada are insured by the government, nor are reverse mortgages regulated by specific federal legislation. The growing popularity of the product has meanwhile led some provinces to begin preparing for eventual legislative regulation of reverse mortgages aimed at better controlling this industry, not only with regard to the product itself, but with regard to how it is marketed. Some provinces
have established specific laws aimed at reverse mortgages. A consumer who wishes to lodge a complaint must address it to their local Consumer’s Bureau.

4.4.6 Reverse Mortgage in France

In France, a concept closely related to reverse mortgages is popular. It is a very old system known as viager. It is being used since middle ages but is gaining popularity in Europe recently. It is a private contractual arrangement between the buyer and the seller of a property. The buyer pays the seller a down payment and the remaining amount is payable in form of monthly payments ‘en viager’ (for life). Upon the death of seller, the buyer gets title to the property. The French government promotes the system so as to enable aged people to draw liquidity from their residential property and thereby reduce fiscal strain associated with dependence on social security programmes (European Commission Study on Equity Release Schemes in the EU, 2009).

In a system of viager, first, the fair market value (FMV) of the seller’s house is calculated on the basis of a survey of most recent sales transactions of similar properties in the same locality. Then, a viager price is established according to the age of the seller. The property of a sixty-year-old seller is priced at 50% of its FMV, a seventy-year-old seller at 60%, an eighty-year-old seller at 70%, and a ninety-year-old seller at 80%. The buyer then gives the seller a down payment, equal to 0-30% of the viager price. The remaining 70-100% of the viager price is divided into monthly instalments based on the estimated life expectancy of the seller. These monthly payments are indexed to the cost of living. The seller is thereby guaranteed an income that keeps pace with inflation (European Commission Study on Equity Release Schemes in the EU, 2009).

Upon the death of seller, the buyer gets the title to property. If the seller dies in a short period after entering into viager contract, the buyer gets a windfall gain. Conversely, if the seller lives unduly long, the buyer may end up paying much more than property value. If the buyer dies before the seller, the buyer’s family has to keep sending the monthly check. If the buyer misses a payment, the property reverts back to the seller,
who can then sell it again. The defaulting buyer loses the down payment and all of the monthly payments made to date.

The majority of sellers who make use of the viager system are elderly people with no legal heirs. In France, there is a forced (automatic) inheritance system. A number of elderly sellers use viager as a means to bypass, an otherwise automatic inheritance by children who may have neglected them. The elderly sellers are thus ensured of a steady income for life and can continue living in their property, among friends and in a familiar neighbourhood for as long as they like. The viager arrangement is done at a personal level and it is only regulated by the law of contract between two parties. However, some in-between brokers exist in the market bringing potential buyers and sellers together. The French government promotes the system as an effective way to reduce dependence on social security programmes (European Commission Study on Equity Release Schemes in the EU, 2009).

### 4.4.7 Singapore

Singapore old age population is growing rapidly. The population aged 60 and over was about 7% of the total population in 2000. It is expected to increase to 19% of total population by 2030. One of the financial implications of this ageing trend is that the government must plan to provide sufficient monetary resources for the retirement needs of the aged. Currently, most Singaporeans rely on their Central Provident Fund (CPF) savings for their retirement needs. The CPF Minimum Sum Scheme was introduced in 1987 to ensure that the retirees would have some savings set aside for their old age. However, most Singaporeans have low CPF balances. Most of the retirees are unlikely to have sufficient funds for a comfortable retired life. Reverse mortgages could be one way to help old people to cover their expenses during retirement (Chia and Tsui, 2005).

An insurance cooperative, NTUC INCOME, was the first financial institution to go into the reverse mortgage business in 1997. Initially, the response was very encouraging but the market cooled down rapidly. The NTUC reverse mortgage loan is open to permanent resident retirees who are 60 years or above. The mortgaged home
must be a private residential property located in Singapore. NTUC INCOME charges floating interest rate on the loans. There is no guarantee clause in their reverse mortgages. Homeowners fear they will be forced to sell their homes if they outlive the reverse mortgage. There are suggestions from retirees that reverse mortgage insurance should be introduced in Singapore. It will provide the non-recourse guarantee to borrowers. Also, it is expected that NTUC INCOME will expand their reverse mortgage loan offers to public flat owners. With 81% of Singapore households owning public flats, the reverse mortgage market in Singapore could have a bright future.

In Singapore, Financial Industry Disputes Resolution Centre Ltd (FIDReC), an independent institution is there to resolve any dispute between financial institutions and their customers (NTUC Income website: http://www.income.com.sg/).

4.5 Summary

This chapter has explained the regulatory framework of reverse mortgage in India in terms of its operational guidelines. The current status of the scheme was also discussed along with product offering by some of the Indian banks. Finally it discussed the product offering and regulatory framework in some of the advanced nations, which have considerable experience with this product.

India’s demographic projections favour the development of reverse mortgage market. But the target market is made up of senior citizens who are generally considered more vulnerable than average due to isolation, loneliness, poor health or simply age. The reverse mortgages are complex, costly and risky for such target audience. In this context, it is important that regulatory framework should ensure provision of complete and impartial information, independent counselling and fair grievance settlement procedure for consumers interested in the reverse mortgage.