CHAPTER IV
Review of Literature

4.1. Introduction

The review of literature helps in understanding the concepts, background, and present situation related to the subject chosen for the research work. It also helps to develop much needed foundation for the research work. Review of literature also helps to understand the relevant work done on the subject matter, focus areas, issues and scope for the research work. Therefore it is important for the researcher as it is a guide along the path and shows the right direction.

This research work involves two subjects i.e. reverse mortgage and financial planning. Reverse Mortgage is comparatively new concept in India, thus literature reviewed is mostly books from USA, research papers, magazines, websites and newspapers. Financial planning is a broad subject and literature in the form of books, magazines and websites is available. This process has guided researcher on many aspects of the subject and helped him to in the research work.

4.2. Books on Reverse Mortgage and Financial Planning

1. Sarah Glendon Lyons and John E. Lucas (2005) in their book titled- “Reverse Mortgages for Dummies” have guided to discover how to use the home equity for supplementing retirement income. Authors started the book with the basics of the reverse mortgages. They first addressed the common misconceptions in the minds of senior citizens, like-

   a. The lender takes your (borrowers) house.
   b. You will be left with no estate.
   c. You won't qualify because of poor credit.
   d. You have to be debt free.
   e. Only desperate people get reverse mortgage loan.
Authors also discussed few personal financial disciplines an elderly person should follow to cut down monthly budget. In the process author has helped senior citizens to plan out their monthly budgets and guided on whether they should opt for reverse mortgage loans, depending upon personal finances and monthly budget.

Authors elaborated reverse mortgage products available in USA. They have further explained in which situation a senior citizen should choose which product. Authors analyzed following three issues with top 10 points for each of them-

i. What ifs while considering a reverse mortgage loan.
ii. Resources for securing RML.
iii. Common mistakes borrowers make.

These points will help senior citizens to figure out how they should go about borrowing RML and the important factors they should focus upon.

Process of taking a loan is always tedious as it involves lots of documentation and procedures. Authors articulated entire process of securing reverse mortgages in USA, in four simple steps, as follows:

i. Seeing a counselor.
ii. Your originator.
iii. Getting appraised
iv. Closing

Glossary at the end of the book has explained all the important and related terms in layman's language. This helps in clarifying doubts and questions in the minds of potential RML borrowers.

This book has helped the research work in many ways apart from providing basic knowledge on the subject matter. It has dealt with misconceptions and perceptions of potential RM borrowers. It also guides with all the basic points that a potential RML borrower should consider, while making decision of securing reverse mortgage loan.

Greg collected lots of information on reverse mortgages while searching for financing options for his father. None of the books on reverse mortgages were available for help and he could see how reverse mortgage helped his father get through a tough time. He wrote this fantastic book out of his own experience and research while taking reverse mortgage loan. This book is of great help to all needy senior citizens.

In the United States, someone turns 50 every 7.5 seconds and it will continue for the next 20 years. The key focus of this book is towards guiding senior citizens in making decision on reverse mortgages loans. The book starts with the number one question on the minds of retirees-"will the money lasts? “- running out of money in the old age is the biggest fear of retirees.

This book articulates concepts, purpose, and basic questions on reverse mortgages. It discusses six options available with retirees for financing retirement life –

a. Social security provided by the government.
b. Savings made during earning phase.
c. Part- time work to get monthly income.
d. Tap the kids for financial help
e. Sell the house and move out for cheaper accommodation.
f. Refinance.

Most common questions in the minds of senior citizens- like eligibility, variants of RML, interest rates, payout types, effect of RM on other social security programs, are answered with the help of realistic examples.
There are three major variants of RML in USA-

i. Home Equity Conversion Mortgage (HECM).

ii. Fannie Mae Home Keeper

iii. Financial Freedom Cash Accounts

All variants are explained in detail along with the calculations. HECM loans are most popular and accounts for about 90 percent of the RMLs in USA. Guidance on which product needs to be opted is provided along with parameters of selections like state of residence, valuations, purpose, need, and age etc. Types of payouts- lump sum, tenure, term, line of credit, combination; decides the time factor in deciding inflow of money for the senior citizens.

Greg opined that "Using a little creativity, a reverse mortgage can be used to solve number of challenges."

Greg has also discussed important aspect of dealing with issues related to adult children of senior citizens. He is confident that adult children will play important role in choosing RML, even it will have direct impact on their inheritance.

Greg’s treasure map i.e. step by step guidance towards RML is comprehensive process along with role of counselor, loan originator and appraiser. He has also highlighted of importance each of the intermediaries and the points which a senior citizen should remember while dealing with each of the intermediaries.

Greg has also suggested few measures so that senior citizens will not get ripped off in the process of borrowing reverse mortgage loan:

a. Deal with reputed originator- someone who has done many reverse mortgages, and is a member of the National Reverse Mortgage Lenders Association (NRMLA).

b. There should be no out-of-pocket money needed prior to the loan closing (other than the appraisal). Sometimes, repairs require out-of-pocket money prior to the closing, but these can be paid or reimbursed at the closing.

c. Counseling is free.
d. The maximum service fee is $35 per month.
e. Three day right of rescission after closing.
f. There should be no equity sharing.
g. Repairs, if required, should seem reasonable. You should be allowed to pick the contractor—no pressured into using a specific company.

As this book is outcome of Greg's personal experience, he has provided certain recommendations, tips and alerts for potential buyers, at appropriate step.

Towards the end, alternatives to RML are discussed like

1. Deferred Payment Loans.
2. Property Tax Deferral Loans.
3. Circuit Breaker Programs.
5. Roommates.
6. Spare bedroom/second unit
7. Active adult communities’
8. Congregate living facilities
9. Move to cheaper state.

This last chapter makes the book a complete guide in making well informed and right decision. It helps in making need based decision in RML buying, in the light of multiple options available with senior citizens.

This book is wrapped by providing most important information sources like websites of all stakeholders like government, RML counselors, and providers. It also provides resources like calculators, social security programs, elder law attorneys etc.

Although, this book focuses on USA and describes the situations which are more relevant to USA, it acts as strong foundation for the research work. It helped in understanding RML concepts, products, processes, regulatory framework and related issues. It is a pathway to understand perspectives of senior citizens and their families. It has illustrated RML options in the light of available social security programs.
This underlines the importance of reverse mortgages for countries like India which lags in providing social security net to its senior citizens. Various guiding and precautionary points highlighted by the author are worth implementing in India. This will also help in speedy development of reverse mortgage as good option for senior citizens in India.


This book is wonderful guide which explains all the aspects of financial planning in the context of Indian financial system. Book has elaborated ABCs of the Indian Financial and Investment industry, at the beginning. It explains basic concepts like money, financial assets, securities, debt, equity and risk etc. The impact of globalization on Indian financial markets explained with the concept of flow of funds i.e. intermediation, disintermediation.

Chapters on – Participants in The Indian financial system, Indian economic environment, Indian social environment & financial planning, Effective communication in financial planning, introduction to investments, meeting client’s need through financial planning, recommending financial planning strategies to investors; explains basic elements if financial planning; it sets important foundation for the very broad and complex function i.e. financial planning. Regulation of the financial planning system is the most important topic as it provides protection to investors and provides guidelines for all the stakeholders. Regulatory structure in India acts as backbone for development of financial market and products. Necessity of regulation in Indian financial system along with drivers of regulatory change in India provides details of regulatory authorities and their roles. Roles of RBI, SEBI, IRDA, PFRDA, Stock exchanges are interwoven and supporting the development of Indian financial system. It has also touched very important and broad topic of ethics in the securities industry.

Basics of financial planning described important concepts of risk profiling, Pre & post retirement planning, role of financial planner, regulatory concepts and practices, and remuneration. Author has highlighted job and expectations from a financial planner.
Fundamental investment concepts prompt a person to take rational decision in choosing investment option, from available options. Important concepts like simple interest, time value of money, principle of compounding, risk-reward trade off, diversification, investment timing, direct investments, rational choices helps investors and financial planners, to make a choice among the available options and review the progress against the goals set at the beginning of financial planning.

Risk management by insurance is an important area in the process of financial planning. General insurance, life insurance, professional indemnity insurance, commercial insurance, personal risk insurance are the options to get protection against the unforeseen events against various risks such as property risk, income risk, self-insurance and liability.

Understanding the various asset classes, their behavior and expected returns, and the in-depth knowledge which every financial planner must have so as to carry on advisory business of financial planning and help their clients to achieve financial goals. Asset classes like cash, money market, domestic fixed interest, domestic equities, property, international options, derivatives, gold, and infrastructure are demystified so that asset allocation can be decided so as to build a portfolio for an investor. Portfolio decision should be based on the basis of goals of an investor, risk profile and expected rate of return with the support of professional knowledge and expertise of financial planner. Review of portfolio is a regular activity for a financial planner so as to take timely corrective actions.

In India, most of the investment decisions are made on the backdrop of tax liability. Investors give higher weightage to saving tax while making choices about an investment product. Financial planner should have complete knowledge of various components of taxes. Tax liability computation, various tax rebates, principles of taxation along with taxation of direct investments (fixed interest, property, and shares) and taxation of managed investments (mutual funds) are discussed in detail by the authors. Important concepts related to taxation like capital gains tax, tax avoidance vs. tax evasion, gearing,
taxation of perquisites & fringe benefits and debt management are helpful in evaluating different products.

Estate planning is recent addition in the process of financial planning which is helpful while passing on financial assets and property, to the next generation. Will of an individual is important document in deciding inheritance of assets, in case of any disputes. Dying without a will puts legal heirs into legal hassles to distribute assets among themselves. Financial planner should guide of their clients in executing a will at an appropriate age.

The most important step in the process of financial planning is developing a financial plan for an individual. The process of preparing financial plan is a process which involves understanding financial goals, current assets, income sources, assessing risk tolerance, analysis of insurance needs, analysis of retirement savings. This follows deciding asset allocation and recommending financial plan for an individual. Implementation of financial plan and periodic review of a financial plan helps an individual to achieve financial goals.

Financial planner is in the role of advisor for a client and he should formulate a complete financial plan based on client’s goals, liabilities and risk profile. He should also take into account important needs like children’s education, children’s marriage and retirement plan. Implementing the financial plan in letter and spirit is also important factor. Time is also a vital factor in the whole process of financial planning.

Case studies and illustrations of various situations- different individuals, portfolios, present financial analysis, has made this book more interactive and helps understanding complete process of financial planning. Appendix on risk profile has described different risk profiles in detail and which asset classes are suitable for these profiles is also discussed.

This book has provided the much necessary knowledge on the subject of financial planning and its importance. Detailed information of various asset classes and products has provided how a product needs to be selected for investment depending upon financial goals of an individual, risk tolerance, suitability, personal management efforts and
liquidity. Life stage based financial planning is also important as it has accounted for risk factor in the planning process. It also helps in understanding importance of diversification in financial planning of an individual.

This book has not only provided introduction to the financial planning but also provided in depth knowledge of financial planning and process of financial planning. It also helped in understanding of perceptions and decision making processes of target audience of research work. This book also provided strong pillars to the research work by providing detailed knowledge about retirement planning and specific illustrations on retirement planning.

4.3. Research Journals and Papers on Reverse Mortgage

1. Purnanda Kumar, Rajsekhar Mallela, and Venkata Madhukar Kangala, (2007) in their research paper on ”Reverse Mortgage-Features and Risks”, focused on the role actuarial science can play in development of RML business and products in India.

This research paper is co-authored by three actuaries having rich experience in the field of life insurance and annuities, in various countries. This article provides brief introduction on the subject of reverse mortgages. Authors have discussed salient features of reverse mortgages loans along with detailed appendices. Appendices provide complete information on the reverse mortgage products in developed countries like USA, UK, and Australia. Many variants of reverse mortgages like term, split term, tenure, line of credit, hybrid term or tenure, lifetime, roll up, fixed payment loans, shared appreciation mortgages etc. are described in detail. Authors have also elaborated on what is stored in these for borrowers.

Authors have given brief comparison between forward and reverse mortgages. They have also illustrated working of reverse mortgage loan through an example. Major focus of this paper is on various risks involved in reverse mortgage loans for lenders. Cross over and longevity risks are major risks for lenders, among others. These risks are discussed in detail with the help of illustrations.
Guarantees in reverse mortgages- Tenancy, income, repayment, non-recourse, draws attention of the actuarial world. Overseeing appropriate risk management models for these 'guarantees' has become a challenge for actuaries across the world. Authors firmly opined that- "actuarial experience and judgment is greatly needed in design and pricing of reverse mortgages that have features attractive to market and viable to lenders".

Reverse Mortgages in Indian scenario is been discussed in detail. Evolution of reverse mortgages is very important for country like India, in the light of current social security scenarios. The paper concludes with suggestions underlining importance of insurance and actuaries in penetrating RML in India. They have also recommended the government to initiate insurance scheme to share crossover risks of the lenders. This will help lenders to promote RML products aggressively in Indian market.

This research paper is helpful in understanding various risks involved in reverse mortgages. Actuarial science can play vital role in understanding these risks and developing innovative products through collaboration of banks and insurance companies. This collaboration can go a long way in marketing reverse mortgage products on the similar lines of bancassurance channel in India.

2. **Benjamin A. Neil, Brian A. Neil (2009)** in their research paper titled “**Is Reverse Mortgage A Viable Option for Baby Boomers?**” mentioned According to the American Housing Survey (AHS), nearly 25 million American homeowners have no mortgage debt, and more than 12.5 million of them are elderly (age 65 or older).

Authors has touched very important question at the start of the research paper- "whether reverse mortgage loans are viable for senior citizens?” As senior citizens will be mortgaging their most valuable asset; it must be a lifelong solution. They explained products available in USA along with their advantages and benefits, for the senior citizens. Facts and figures shows that reverse mortgage loans have shown growth over the years but still it is relatively little used option.

Authors has also picked up the downside to reverse mortgages- it will encourage senior citizens to continue staying in the same old house which may be unsafe because of physical deficiencies. Many senior citizens occupy houses which are at least 40 years old.
This article has highlighted the issue of low usage of reverse mortgages in USA and mainly because many elderly people do not understand reverse mortgage loans. After spending many years paying for their homes, elderly home owners do not wish to mortgage the property again. They have also pointed out an important point that many financial advisors in USA have started suggesting reverse mortgage loans as an important option towards retirement planning.

3. **Sathiyanarayanan, Varun Bajla and Yukti Bhanuka (2010)**, in their research paper “**Reverse Mortgage- Opportunities in India, Social Awareness Program**” has discussed opportunities available in India for RML business. The paper has introduced various features of reverse mortgage loans along with various risks. Different options for risk mitigation are also discussed in detail.

Authors has picked up the burning issue- "why reverse mortgage loans are not clicking in India?" Major reasons cited for this are-

a. Emotional attachment of senior citizens with their homes. and

b. Lack of interest on part of banks and NBFCs.

Authors have also articulated relevance of reverse mortgages from the perspective of Indian market and its SWOT analysis. Analysis of various facts like social demographics, sources of income for elderly people. They have estimated market size of reverse mortgages in India at Rs. 20-25 trillion, by year 2030. This will be huge market for lenders and this will act as good social security option for borrowers. According to their study 20 percent of the eligible elderly population will take advantage of reverse mortgages, by the year 2030.

This research paper has equipped the researcher with vital information like market segments and estimates related to market potential of reverse mortgages in India. This paper has also brought forward realistic facts and figures.
4. R. Rajagopalan (2012) in his research paper "Reverse Mortgage Products for the Indian Market: An exploration of Issues" discussed possible products which can be launched in Indian context.

Complexity of reverse mortgages exposes a lender to several risks: mortality, interest rates and real estate markets. It is an unusual product for a typical elderly borrower, creating fears of debt burden, eviction and inability to bequeath property. Legal, taxation and other regulatory uncertainties still persist.

The actual volume of reverse mortgage loans in U.S is only moderate. Reverse mortgage products have been recently introduced in Europe and Singapore. The actual U.S experience so far, under both federally insured and proprietary reverse mortgages has been reasonably good.

This paper focuses on product development which will be attractive to both- borrower and lender. It further elaborates perspectives of borrowers and lenders keeping in view experience in the developed markets.

This paper has complete focus on Indian market, its potential and customers. Author has concluded that reverse mortgage loans have huge potential in India, but lenders should proceed with caution.

4.4. Articles on Reverse Mortgage and Financial Planning


Author has discussed socio economic issues in India. Children may not look after their elderly parents and many a times these senior citizens are left with homes which is their biggest asset. In this situation, reverse mortgage may come to the rescue of these elderly people. Author has advocated that- "for those individuals who has missed the bus of financial planning; reverse mortgage scheme offers another opportunity to leverage the house property owned by them against regular cash inflows".
This article has helped in setting up the tone for research work in Indian socio economic scenario and made researcher to undertake this research work.

2. Nitin Bansal and Ramesh Pratibanda (2010) in their article “Reverse Mortgage- Using the home equity” elaborated benefits of reverse mortgage as financial planning tool along with calculations.

They stressed upon right kind of investor education and awareness creation of reverse mortgages to increase penetration. NHB has also started promotion of the RML schemes through events for senior citizens in various cities across India. NHB also launched counseling centers in major cities for spreading awareness about RML.

Apart from discussing advantages of reverse mortgages, authors have also highlighted possible disadvantages like emotional issues, expenses, negative response from family members, and costs involved.

This article helped in understanding reverse mortgage with mathematics and possible disadvantages.

3. Pardhasaradhi Madasu (2013) in his article titled” Reverse Mortgage- Creating regular income stream in retirement”, has discussed how RML can be used to create regular income stream during old age.

Author has highlighted that Pension system in India has undergone major changes in recent years. Pension schemes had changed from "Defined Benefit (DB)" to "Defined Contribution (DC)" system. Pension receivable during old age is now dependent on contributions made by a person during his working life and is not guaranteed.

In such scenario a senior citizens needs regular stream of income.

Their home is the most valuable asset which they possess. Reverse mortgages can come into play to provide regular income stream during old age. Unlike, forward mortgages, reverse mortgage are increasing debt vs. decreasing home equity loan.
Author has discussed reverse mortgage loan enabled annuity (RMLeA), which is improved version of reverse mortgage loans. RMLeA provides higher monthly annuity and annuities are paid to the borrower for the life time. Reverse Mortgage schemes are also undergoing through lot of transitions. Reverse mortgages can be a new tool for annuitizing wealth, turning the equity of homes of senior citizens into a lifetime cash income stream.

This article has opened up much heated topic of retirement planning and financing. Senior citizens who does not have adequate retirement planning can look at unlocking value of their homes through reverse mortgage loans. Author has highlighted that reverse mortgages can take prominent place in retirement planning.

### 4.5. Newspaper Articles on Reverse Mortgage

1. **The Economic Time Bureau (2007)**, in the article “Corp Bank, LIC script new business formula” has reported tie up between LIC and Corporation bank for launching reverse mortgage plan. They are in process to finalize RML product which will provide lifelong annuities to the borrowers.

Corporation bank will provide reverse mortgage to its customers while LIC will provide actuarial support in calculating annuities. LIC is the biggest life insurer in India with highest customer base. LIC holds 26 percent stake in corporation bank and has actuarial expertise over a period of many years. NHB, who is regulator for RMLs, is also playing important role in finalizing the product. NHB expects many more such tie ups will take place to launch RML products. LIC and Corporation bank has also tied up for new financial inclusion initiative apart from tie ups for bancassurance, mortgage insurance, and group insurance.
2. **Aparna Mahalingam (2013)** in her article published in Business Standard with headlines “**Reverse Mortgages gets more attractive**” has discussed the recent announcement that annuities from reverse mortgages will be tax free. This is a great move and will be helpful in popularizing reverse mortgages. This will infuse new life into the product and will make it more attractive. Industry observers feel that making annuity component tax free will be unlocking the biggest asset - real estate, in the country.

The benefits of life long annuities instead of payout for 20 years and participation of life insurance companies to provide annuities; will also make the product popular and will see more buyers for RMLs.

Author has also cited quotes from Mr. R V Verma, chairman, National Housing Bank - "This would be as superior scheme in terms of return as well as time duration. Also, **life insurance companies** are better when it comes to risk handling". Mr. Verma also estimates that market for reverse mortgages will touch Rs. 20,000 crore in next four years from the current levels of Rs. 1700 crore. He has also estimated disbursement of Rs. 1500 crore in reverse mortgage loans for the financial year 2013-14.