

A study on reverse mortgage of SBI in Madhya Pradesh and Chattisgarh

■ S.K. KHATIK AND MANISHA SINGH

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ABSTRACT

Senior citizens are a sizeable part of the society and they are in search of security, to live peacefully. While love and care are contingent to the behavior of near and dear ones, any available finance could meet the basic needs and for this purpose banks have developed a scheme styled as 'REVERSE MORTGAGE' a ward off their indigence. Reverse Mortgage is also known as 'Lifetime Mortgage'. However it has been quite popular in foreign countries from a long time. This scheme was initiated by the Finance Ministry; India introduced the scheme in the Budget 2007-08. the Finance Minister P Chidambaram, in his budget speech on February 28, 2007 announced: '*The National Housing Bank (NHB) will shortly introduce a novel product for senior citizens, a reverse mortgage under which a senior citizen, who is the owner of a house can avail of a monthly stream of income against the mortgage of his/her house, while remaining the owner and occupying the house throughout his/her lifetime, without repayment or servicing oh the loan*' (Para 89). In November 01, 2007 - Leading bank, SBI has launched a reverse mortgage loan product designed for the benefit of senior citizens, above the age of 60 years. The loan will be given jointly if the spouse is alive, provided he/she is above 58 years of age. They can avail loans, released in monthly or quarterly installments or as a lump sum payment at the beginning, against the security of their self-acquired, self-occupied houses, for a regular cash flow to fulfill their needs.

Key words : Senior citizen, SOWT analysis, RM analysis, Property, HECM

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Old age comes with its own share of problems. As a person grows older, and his regular source of income dries up, his dependency on others can increase significantly. With health care expenses on the rise and little social security, living the golden years respectfully can be quite a challenge for senior citizens. In such a scenario, a regular income stream that can help them meet their financial needs and maintain their current living standards becomes important. A constant inflow of income, without any work would be an ideal solution, which can put an end to all such sufferings. It is possible with the reverse mortgage.

The concept of reverse mortgage is gaining momentum in India with the Finance Minister P Chidambaram giving his nod in the Union Budget for 2007-08. Subsequently, the National Housing Bank (NHB), a subsidiary of the Reserve Bank of India (RBI), released the guidelines of reverse mortgage. This had led several banks to announce their intentions to launch the scheme. Taking the lead, Dewan Housing Finance Limited (DHFL) followed by Punjab National Bank (PNB) and Bank of Baroda (BOB), all three having announced reverse mortgage schemes aimed at senior citizens. Other banks like Allahabad Bank, Oriental Bank of Commerce and Corporation Bank have expressed their intention to follow the lead, announced the scheme aimed at senior citizens.

In a regular mortgage, a borrower mortgages his new/existing house with the lender in return for the loan amount; the same is charged at a particular interest rate and runs over a predetermined tenure. The borrower then has to repay the loan amount in the form of EMIs (equated monthly installments), which comprise of both principal and interest

MEMBERS OF THE RESEARCH FORUM

Correspondence to:

S.K. SHATIK, Department of Commerce, Barkatullah University, BHOPAL (M.P.) INDIA

Email : shankhla2003@yahoo.com

Authors' affiliations:

MANISHA SINGH, Technocrafts Institute of Technology, BHOPAL (M.P.) INDIA

amounts. The property is utilized as a security to cover the risk of default on the borrower's part.

In the reverse mortgage, senior citizens (borrowers), who own a house property, but do not have regular income, can mortgage the same with the lender (a scheduled bank or a housing finance company-HDFC). In return, the lender makes periodic payment to the borrowers during their lifetime. In spite of mortgaging the house property, the borrower can continue to stay in it during his entire life span and continue to receive regular flows of income from the lender as well. Also, since the borrower doesn't have to service the loan, he need not bother about repaying the 'borrowed amount' to the lender.

Review of literature:

A literature search for works related to reverse mortgages turns up a number of trade and practitioner articles that mostly relate to current trends and practices in the mortgage industry. Morse (2009) is a typical example. Analytical or empirical works were almost all doctoral dissertations. McConaghy (2004) and Cramer (1994) are good examples of recent dissertations that deal with issues related to reverse mortgages. Tate (1987) looked at the impact of reverse mortgages on reducing the poverty of the homeowner. He developed cash flow models to evaluate the benefits from the reverse mortgage with life tenure compared to a reverse mortgage without life tenure. The benefits are modeled as investment returns and the model applied to data from Orlando Standard Metropolitan Statistical Area. Tate found that reverse mortgage with life tenure premium provided a higher return than the one without life tenure. In HECM (home equity conversion mortgage) dissertation using simulation, Gasper (1984) found reverse mortgages would enable a significant reduction in poverty for the borrowers. Cramer (1994) used simulation to evaluate sale and leaseback and sale of a remainder as alternatives to FHA insured reverse mortgages. Reverse mortgages were found to be better products for the borrower. Cramer did not consider HELOCs or a forward mortgage as possible alternatives to reverse mortgages.

Leviton (1998) used interviews with elderly, low income homeowners to analyze their process of decision making related to housing, financial options, and reverse mortgages. She studied homeowners that were counseled by a Massachusetts' non-profit agency and found that a reverse mortgage was seen as a last resort, and most homeowners desired to leave a financial inheritance to their family. Knapp (2001) found family ties and migration patterns in the community affected the demand for HECMs.

McConaghy (2004) provides a very good overview of the HECM program since its inception as a pilot program in 1989. He used the HECM data from 1989 to 1999 for a detailed empirical analysis to identify borrower characteristics

associated with repayment patterns. McConaghy also compared HECM repayment rates with repayment rates among non-HECM elderly borrowers and analyzed whether refinancing with a HECM made sense. While refinancing would have increased borrowing amounts for more than half of the borrowers, it also entailed significant transaction costs and led to loss of equity. McConaghy found that over 60 per cent of HECMs were rapid, in less than 10 years, and the repayment for the HECM population was faster than the non-HECM sample studied. This is a surprising finding and has implications to the analysis done in this paper.

Justification of study:

Globalization, privatization, liberalization is hampering our culture, value, ethics, religion of our society, because it has the impact of western culture of having self independence and having less responsibilities towards the elderly group. There is no comparison between developed and developing country. India is a developing country and it cannot compete with the developed countries due to economy, social cultural and natural resources disparity. Although after few years India may compete with the developed countries.

Globalization is promoting western culture, but we cannot ignore our social values, culture, and ethics because we are traditional by nature. India is a democratic country and govt. is also accountable to the public. Govt. take some necessary measures towards the social value, culture, ethics because they have adverse impact among the society. Now a days, the children are not accountable towards their parents due to western culture and their self centeredness. Therefore they have started to ignore their liabilities, social value and responsibilities towards their parents and society. Although parents are worried about their children because "children are apple of their eyes". Even when children grow up, they still remain children in the eyes of parents. They are worried about their marriage, job and their health.

Keeping all these above views in mind, after the retirement, the parents become jobless, tired and need some help. Who will fulfill these needs? There are some options. Children, Govt. /self help groups. In India there is number of incidents happening with the old age citizens. But their children leave them due to which they face the horrible situation of crimes, serious illness, hunger etc. Hence govt. of India has to take care of this situation. The RBI has given instructions to nationalized bank to introduce such a scheme which will be beneficial for senior citizens or those who are left by their children. On the basis of the instructions of RBI, some of the banks have introduced a RM (reverse mortgage) scheme. This scheme is introduced by SBI, PNB, HDFC, NHB, DHFL, BOB etc. Some other banks are also in the process of introducing this scheme. In this regard we have taken the geographical area of Madhya Pradesh and Chhattisgarh state

for the sample of the study

This study has the following objectives to analyze the concept of Reverse Mortgage of State Bank of India, to examine the SWOT analysis of Reverse Mortgage of State Bank of India and to study of Reverse Mortgage Scheme of State Bank of India in Madhya Pradesh and Chattisgarh State.

METHODOLOGY

This research study is based on secondary data. Although in some extent we have used primary data also. The major sources of secondary data are published reports, statistical report, annual report and budget etc.

In this study the major source of data are to be collected from above sources, and sources of primary data are observation, interview and personal discussion. In this study we have analysed features of RM and its process are based on secondary data regarding SBI-RM was gathered on the higher official through discussion. Data's and Information which are collected from State Bank of India relates to RM Scheme have been analyzed and covers, how this scheme will be worthwhile for senior citizens.

Scope of the study:

The present study brings the concept and process of RM. The scope of the study also covers the SBI-RM. The data regarding application forms, forwarded sanctions and rejected pattern to SBI-Bhopal branch only.

This study is not only worthwhile only PNB, it also worthwhile for other banks. On the basis of the study other banks can also launch and examine their respective bank position. This study has a vital scope due to this concept, hence this study is not worthy for public sector bank, semi public sector or private sector bank. It is useful for all nationalized and non-nationalized banks.

Limitations of the study:

- This study has the following limitations
 - Non-availability of sufficient literature and data.
 - This study is basically based on secondary data.
- The procedure of scheme on respective banks.
 - This study has covered limited time period *i.e.*
 - The data are in grouped and sub-grouped accordingly requirement of the study.

Reverse mortgage (RM) - Meaning:

The concept of Reverse Mortgage (RM) says that, if senior citizens have a house or property they can mortgage their property near on banks or Housing Finance Company. This plan is only made for senior citizens who don't have a regular cash flow they can mortgage there house or property near on banks or HFC and in reverse the lender will pay a regular payment to borrower. The good thing in this concept

is that, the person who 'reverse mortgage' his property can stay in the house for his life and continue they can receive a regular cash flow and these payments are tax free payments, but the borrower had required to pay all the taxes regarding his property like property tax, insurance of the house and borrowers have to maintained house also, it is because the value of house is retained.

Thus, RM is a way to borrow against one's house to create a regular stream of regular income while continuing to live in that house. The difference between a reverse mortgage and a conventional loan, where the house is offered as a collateral security, is that one would still have to make monthly repayments towards a loan.

SWOT analysis:

SWOT analysis is a method for analyzing a business, its resources, and its environment. SWOT analysis is a structured approach to evaluating the strategic position of a business by identifying its strengths, weaknesses, opportunities and threats. It groups some of the key pieces of information into two main categories (internal factor and external factor) and then sort by their dual positive and negative factors.

The result of the analysis is a matrix of positive and negative factors for management:

	Positive factors	Negative factors
Internal factors	Strengths	Weaknesses
External factors	Opportunities	Threats

Internal factors:

Strengths and weaknesses internal to the organization, its strategies, and its position in relation to its competitors.

External factors:

Opportunities and threats presented by external environment and the competition.

SWOT analysis is a systematic identification of these factors and the strategy that reflects the best match between them. SWOT analysis is based on the logic that an effective strategy maximizes a business's strengths and opportunities but at the same time minimizes its weaknesses and threats. The central purpose of SWOT analysis is to identify the strategies that will create a company-specific business model that will show the correct relative positions, fit or match a company's resources and capabilities to the demands of the environment in which it operates.

Need of SWOT analysis:

SWOT analysis is an analytical technique to support strategic decisions. SWOT analysis helps managers to craft a business models that will allow a company to gain a competitive advantages in its industries. SWOT analysis helps

resolve one fundamental concern in selecting a strategy. SWOT analysis promotes critical and specific thinking to enhance strategic plans and objectives. The SWOT analysis is a key component in strategic planning. The analysis subjectively evaluates the impact of internal and external factors for a business objective. Internal processes and resources are considered strengths and weaknesses. External factors affecting the business and industry are considered opportunities and threats. An evaluation of these factors develops a strategic perspective that includes the competitive landscape and current market conditions. SWOT analysis may be used in any decision-making situation when a desired objective has been defined. SWOT analysis may also be used in pre-crisis planning and preventive crisis management. SWOT analysis may also be used in creating a recommendation during a viability study/survey.

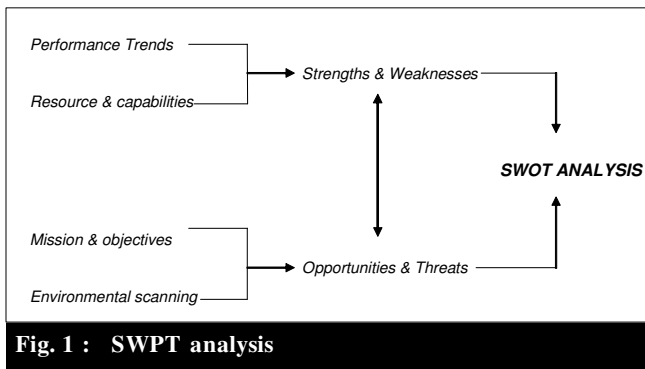


Fig. 1 : SWPT analysis

RM-SWOT analysis :

Strengths:

- Senior citizens can get a regular income at their choice –monthly, quarterly, half yearly and annually or lump-sum.
- There are no criteria of taking loan according to their age. This loan is provided on that stage where conventional loans are not available.
- No need for repayment of loan during the lifetime of borrower and spouse.
- In RM if any borrower dies during the period, the spouse can live up to 15 years.
- Regular cash flow is fully tax free.
- The borrowers and their spouses can continue to stay in the house till both die.
- No repayment of loan to be done by borrower.
- Value of property will be reassessed periodically or at least once every 5years.
- Heirs of the borrower will be entitled to get the surplus of sale value of the property.
- Borrowers can cancel the mortgage within 3 days of approval / disbursement, subject to return of loan amount.

Weakness:

- There is a maximum tenure period *i.e.* 15 yrs.
- Basis of valuation of property is not clear.
- There are many hidden charges to be imposed bank on the borrower
- In SBI period of 3days is not sufficient for the borrower to cancel the plan. In PNB this period is 10 days, at least they have to retain this minimum period of 15 days.
- Various fees to be added to borrowers' liability, which can be quite substantial
- Requirement of clear title to property in the name of the borrower to get loan.

Opportunities:

- Now in these days, the tradition of nuclear families is increasing, due to this the cost of living standard, medical expenses and other expenses are increasing, so they need the additional income.
- Indians have a tendency that everybody wants to give preference of their own house in their life. So many senior citizens are eligible for this scheme.
- Through this scheme, senior citizens have no need to depend on their children on in society. Financially it is a substitute that they can independently survive.
- Quantum of loan can increase favourably for borrower or revaluation property.
- RM for senior citizens is a social assurance post-retirement.
- This fund can be used for various purposes like home improvement, medical expenses, repayment of an existing loan taken or meeting any other genuine need.

Threats:

- Property valuations are ambiguous.
- There is a non-recourse guarantee.
- Rate of interest is at the discretion of lender. Any increase in the rate, if floating, will increase the burden of the borrower.
- Lender has discretion to raise loan amount on revaluation. However, if it does not do so, borrower doesn't get loan according to proper value of property.
- Lender has right to foreclose loan by forcing sale of property if borrower doesn't pay for insurance, property taxes or maintain and repair house. Can lead to further harassment.
- The norms need to be fine-tuned and made watertight so that these borrowers are not harassed or short-changed in their old age.

SBI–RM:

The state bank of India (SBI), is the country's oldest bank and is a premier in terms of balance sheet size, number of

branches, market capitalizations and profits. The bank is entering into many new businesses with new strategies for getting the business and to fulfill the needs of their customers. With their new strategies SBI had newly introduced a product on 12th October 2007. *i.e.* RM(reverse mortgage). The innovation of this product was basically made for the senior citizens, who don't have a regular cash flow, and their children's aren't taking any interest on them, and they have started to avoid them. Senior citizens who are homeowner they can get benefit of this scheme, to mortgage their home near on SBI, and they can get a regular cash flow to fulfill their needs. SBI-RM makes the transactions easy for its customers.

Reverse mortgage (RM) procedure at SBI:

Application:

This is the first procedure of RM. In this the homeowner fills the loan application and he will select the mode of payment *i.e.* fixed monthly payments, lump-sum payment, line of credit or a combination of these. With the application form homeowner has to provide the required information to the lender. He has to attach all these documents with his application form. The documents are: photo ID, copy of deed to home, declaration of any existing mortgage(s) on property etc. Lender discloses to homeowner the estimated total cost of the loan. Lender collects money for home appraisal.

Processing:

Lender orders appraisal, title work, lien payoffs etc. The appraiser assigns a value to the home determines the physical condition of the property.

Underwriting:

After receiving all the pertinent information, the lender finalizes loan parameters with homeowner *i.e.* determining payment option, frequency of loan interest rate adjustments and submits loan packages to the underwriting department for final approval.

Documentation:

After underwriting procedure the homeowner can cancel the loan after signing papers, but he has to done all this procedure within three business days. If the homeowner decides to cancel, it must be done in writing, using the form provided by the lender, or by letter, fax or telegram. The homeowner would have to intimate to lender through mailed, faxed, or postage, that he will not continue the loan within the end of the third working day.

Disbursement:

Lender will disburse the loan fund. The homeowner can access the funds according to his mode of payment option which he have selected in application form *i.e.* periodicity,

monthly, quarterly or lump-sum. If there was any other existing debt it can be paid off. A new lien would be placed on the house.

Repayment:

The borrowers need not repay the loan during their lifetime and can also continue to stay in their houses during their lifetime. Thereafter, the legal heirs have the option to repay the bank loan and redeem the property. If not, the bank will sell the property and liquidate the loan. Any surplus amount would be passed onto the heirs.

The procedure of obtaining RM from SBI is shown in

Table 1: The procedure of SBI-RM

Purpose	To provide a source of regular income for senior citizens of India, who own self-acquired and self – occupied house property in India
Eligibility	Single or joint with a living spouse or surviving spouse Age-above 60 years of first borrower and above 58 years of spouse Self acquired and self owned property as permanent primary residence Residual life of property –above 20 years
Loan amount	90% of value of property And min Rs. 3lakh and max Rs.100 lakhs
Tenor	10 to 15 years or till death of the borrower
Disbursal	By credit to SBI a/c Periodicity Monthly Quarterly Lump-sum
Security	Mortgage of property
Interest rate	10.75% (Fixed)
Processing charges	0.5% OF The loan amount or min Rs..500 and max Rs.1000 No prepayment charges and no penalty
Repayment	Loan becomes payable when the last surviving borrower Dies or Opts for sale of property or Permanently moves out of home Settlement of loan by sale of property or prepayment by borrower or Kin

the Table 1.

Table 2 indicates reverse mortgage application forms that forwarded, sanctioned during the period 2008-2009 to June 2011 of Madhya Pradesh and Chhattisgarh state. The position

of mortgage loan of Madhya Pradesh and Chhattisgarh were in 2008-2009 there are only 3 cases and loan amount was '731524, while it was in the year of 2009-2010 no. of cases were 266 and the loan amount was '209627501 and in the year of 2010-2011 the no. of cases were 324 and the loan amount was '249691823 and after that it was continuously increasing and the position of March 2011 to June 2011 the no. of cases the loan amount sanctioned was '4830552.

Table 2 : Reverse mortgage application forms that forwarded, sanctioned during the period of 2008-2009 to June 2011 of Madhya Pradesh and Chhattisgarh state

Years	Number of cases	Loan amount sanctioned (Rs.)
2008-2009	3	731524
2009-2010	266	209627501
2010-2011	324	249691823
March 2011 - June 2011	9	4830552

(Source: - SBI reports)

In this table it is clear that the no. of cases of reverse mortgage loan and loan sanctioned amount of Madhya Pradesh and Chhattisgarh state have been continuously increasing and got privilege of this scheme by senior citizens. It was state that by SBI officers that 99 per cent applications have been rejected on the grounds or at the initial stage because of property don't having the clear title. Those properties which were having clear titles they get benefitted of this scheme.

Conclusion and suggestion:

The reverse mortgage scheme is only available for senior citizens in Indian banks like- SBI, PNB, Oriental bank, DHFL, NHB, Bank of Baroda and HDFC banks. In RM scheme, those senior citizens (borrowers) who owned a house property but do not have a regular income can mortgage the same with the lender banks.

The study which we have conducted in state of Madhya Pradesh and Chhattisgarh reveals that this scheme is more viable and beneficial for those senior citizens those who are not having their regular income or it is difficult for them to survive. If they have their own clear title property then they can easily get the benefit of this scheme. RM scheme was brought by then the finance minister of India Shri P. Chidambaram in the union budget in the year 2007-08. The basic objective of this scheme is only to take care of those Senior citizens who do have a regular income or not taken care by their children for their survival, so that they can, easily and safely survive their remaining life till end in the same house.

Suggestion:

On the basis of this study, observations and conclusions we recommend the following suggestions.

- RM scheme is introduced not only in a public sector banks, it has also introduced in private sector banks.
- Govt. of India as well as RBI regularly advertises and guide the public. Banks should encourage and facilitate the senior citizens to get the advantage of RM schemes.
- Senior citizens (parents) should take care of their property and maintain clear title of their property.
- Senior citizens (parents) should ensure that the title of their property is not transferred to their children.
- Bank should maintain or reduce the rate of interest of RM loan.
- RBI should give instructions to their subsidiary banks for adopting easy procedure of RM loan.
- The information of RM loan should be given to more and more senior citizens, so that they can get the benefit of this scheme.
- There should be aggressive marketing measures in order to bring the conceptual awareness.
- There should be a complete transparency and clear cut norms for benefit of the senior citizens.
- The Indian tax authorities must issue guidelines regarding tax treatment of the income streams.
- The awareness of this scheme should be oriented to the potential public clients through bank counselors, senior citizens associations and forums in Madhya Pradesh and Chhattisgarh state.

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