



REVERSE MORTGAGE LOAN OF PNB BAGHBAN

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ABSTRACT

Reverse Mortgage is a term which is becoming popular in India. It's a type of loan that is given to the old age or so-called senior citizen against their property. The loan amount is used by them for their requirement of old age.

KEYWORDS: *Reverse Mortgage, loan, property, medical expenses,*

INTRODUCTION

Reverse Mortgage is a term which is becoming popular in India. It's a type of loan that is given to the old age or so-called senior citizen against their property. The loan amount is used by them for their requirement of old age.

Is There Any Income Criteria to Qualify for Loan?

No, there is no income requirement to qualify for loan. The qualifying amount of loan depends on the realizable value self-acquired & self-occupied residential property, the maximum limit is 1 crore

How Is the Loan Disbursed?

The loan is given in instalment just like an annuity and the term may extend up to 20 years. In case of death of a survivor the term ends

Is There Any Provision for Lump Sum Payment?

Lump-sum payment of loan under the Scheme can be given to the member to meet their medical expenses. The limit is 15 lakhs

What Is The ROI?

Base Rate + 2.50% p.a. (fixed) subject to re-set clause of five years.

When Does the Loan Become Due for Repayment?

The last survivor's death makes the loan payable after six months.

Can the Loan Be Prepaid?

Yes, the borrower has the flexibility to prepay the principal amount together with accumulated interest/other charges, if any, at any point of time and repossess the property.

Further, the borrower has "Right of Rescission", as per which the customer/borrower gets 10 days' time to decide whether to avail the loan facility or cancel the transaction, after sanction of the loan, and get refund of the processing/upfront fee, already paid by him/her, from the Bank, in case he/she opts to cancel the transaction.

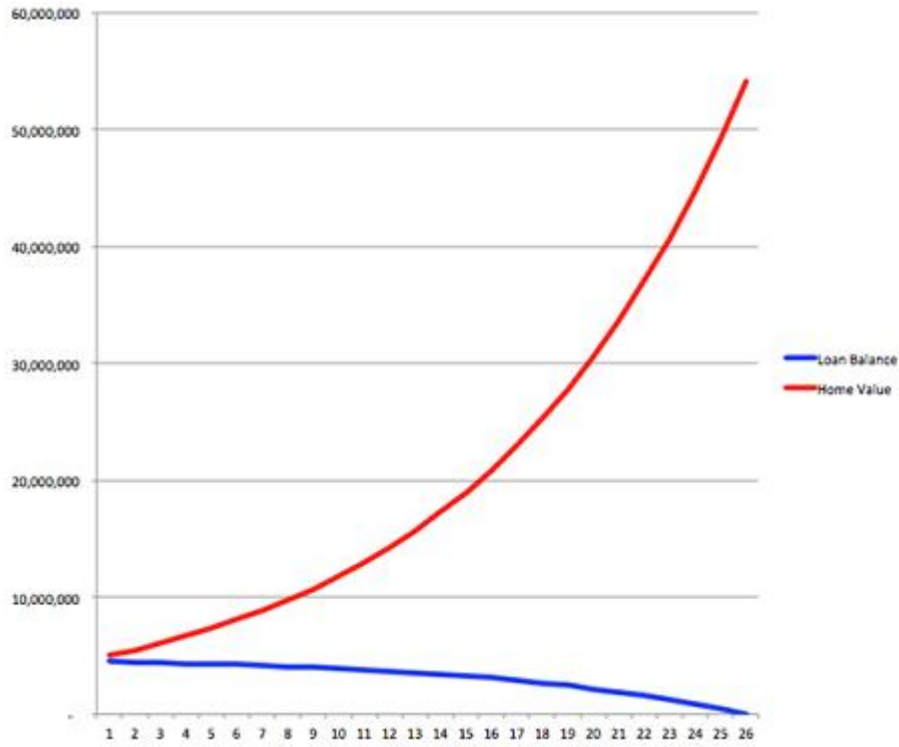


Figure 1 Home Value vs Loan Balance

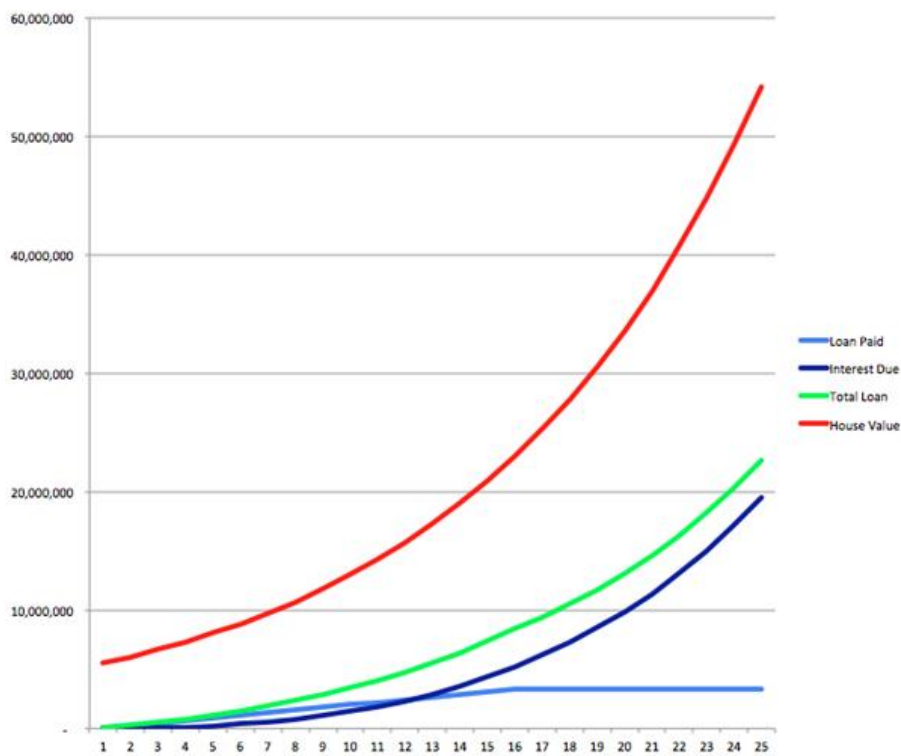


Figure 2 Even After Consuming the benefits the RM still is beneficial for legal heirs

Reverse Mortgage Amortization Schedule / Balance by Year

Year	Advances	Interest	Balance
Start	\$100,000		\$100,000
1	\$0	\$5,000	\$105,000
2	\$0	\$5,250	\$110,250
3	\$0	\$5,513	\$115,763
4	\$0	\$5,788	\$121,551
5	\$0	\$6,078	\$127,628
6	\$0	\$6,381	\$134,010
7	\$0	\$6,700	\$140,710
8	\$0	\$7,036	\$147,746
9	\$0	\$7,387	\$155,133
10	\$0	\$7,757	\$162,889
11	\$0	\$8,144	\$171,034
12	\$0	\$8,552	\$179,586
13	\$0	\$8,979	\$188,565
14	\$0	\$9,428	\$197,993
15	\$0	\$9,900	\$207,893
16	\$0	\$10,395	\$218,287
17	\$0	\$10,914	\$229,202
18	\$0	\$11,460	\$240,662
19	\$0	\$12,033	\$252,695
20	\$0	\$12,635	\$265,330
21	\$0	\$13,266	\$278,596
22	\$0	\$13,930	\$292,526
23	\$0	\$14,626	\$307,152
24	\$0	\$15,358	\$322,510
25	\$0	\$16,125	\$338,635

Figure 3 Reverse Mortgage Amortization Schedule

Source <http://www.reversemortgage.net/reverse-mortgage-amortization-schedule/>

Regulatory Initiatives in India By National Housing Bank the National Housing Bank (NHB) took the initiative to formulate the guidelines 1 for reverse mortgage lending. A snapshot of the guidelines has been given below: • The borrower should be of at least 60 years. In case of joint owners of the property, at least one of the owners should be aged 60 years whereas the other's age should not be lower than 55 years. • The property must be self-acquired and self-occupied residential property of the borrower situated in India, free from any encumbrances and should have a minimum residual life of 20 years. • The amount of loan will basically depend on the value of the property to be mortgaged and prevailing rate of interest. • Payments are to be made in instalment basis or by way of one or more lump sum payments, however the maximum payment per month shall not exceed Rs. 50,000 or such other amount as may be prescribed by the Central Government the cap is 15 lakhs and only one payment of be made up to the 50 percent value of the property or any such amount as notified by the Central Government. • The guideline specifies the end use of the funds raised under reverse mortgage loan. • The loan disbursement period should not exceed 20 years. However, the CBDT has amended its scheme to increase the tenure, which has been discussed below. • The loan becomes due for settlement only when the borrowers die or the property be sold as decided by the borrower. or when the borrower(s) wants to leave the property permanently. The recovery of the principal and interest will be done through

sale of the property. However, at first, option must be given to the borrower or its heirs to settle the loan with the interest. By Central Board of Direct Taxes Reverse Mortgage Scheme, 2008 The Central Board of Direct Taxes came out with the Reverse Mortgage Scheme in 2008. The snapshot of the scheme has been laid down below: • Only NHB, along with scheduled commercial banks and housing finance corporations are recognized and can do the lending in case of a reverse mortgage loan. • The reverse mortgagor should be 60 years of age, in case of a married couple at least one the borrower should be of at least 60 years of age. • The borrower must be the owner of the property and should be free from any encumbrances. • The disbursement of the loans can be made through either by way of periodical payments by the lender or by way of one or more lump sum payments. In case the payments are made in lump sum, the aggregate amount of total payments should not exceed half of the loan amount. • The tenure of such loans shall not exceed a period of 20 years. This has now been extended, which has been discussed below. • The borrower or its heirs shall be liable to repay the principal amount along with accumulated interest at the time of foreclosure of the loan. Reverse Mortgage (Amendment) Scheme, 2013 The Central Board of Direct Taxes vide notification 70/20133 issued a circular amending the Reverse Mortgage Scheme, 2008, which will be henceforth known as Reverse Mortgage (Amendment) Scheme, 2013.

Through this amendment, the government introduced the concept of “annuity sourcing institutions”. These institutions would receive the loan amount from the primary lending institutions and provide it in annuity mode to the reverse mortgagor. The notification states that LIC and other insurers registered under IRDA can act as annuity sourcing institutions. While the most of the changes in the scheme have been made keeping in mind the recognition of the annuity sourcing institution, the department has also come out with changes in the mortgage term. The department says that the term of mortgage cannot exceed the residual life time of the mortgagee if the disbursement takes place through annuity

sourcing institutions as under Paragraph 5(b). However, if it is disbursed by any other way as prescribed in Paragraph 5(a) of the scheme, the term should not exceed (from the date of agreement) 20 years. Effect of the amended scheme This amendment is likely to facilitate the senior citizens. Since previously there was an upper limit for the mortgage term, the right of the mortgagee in the property stayed till the end of the mortgage term, but now as the option to proceed through the annuity source institutions has been provided, this would ensure life interest of the mortgagee to stay in the property. To facilitate the senior citizens further, the government also announced that the payments received in installments by the borrower shall not be deemed to be taxable.