

A Study On Reverse Mortgage Of SBI

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INTRODUCTION

The concept of Reverse Mortgage (RM) 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. This had led several banks to announce their intentions to launch the scheme. Taking the lead, Dewan Housing Finance Limited (DFHL) followed by Punjab National Bank (PNB) and Bank of Baroda (BOB), States Bank of India (SBI), etc. 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 Equated Monthly Installments (EMIs), which comprise of both principal and interest amounts. The property is utilized as a security to cover the risk of default on the borrower's part.

In the RM, 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.

OBJECTIVES OF THIS PAPER

- ✿ To bring out the concept of Reverse Mortgage.
- ✿ To perform the SWOT Analysis of Reverse Mortgage.
- ✿ To study SBI-Reverse Mortgage.

METHODOLOGY

The basic features of RM, and its process was studied based on secondary data collected from the NHB and data regarding SBI-RM was gathered from the higher officials of SBI through structured interviews.

PERIOD OF THE STUDY

As Reverse Mortgage Loan had been introduced in India for the first time during the year 2006, therefore, the period of the study is from the year 2006 to February 2009.

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, sanctioned and rejected pertain to SBI-Secunderabad branch only.

REVERSE MORTGAGE (RM)-MEANING

Reverse Mortgage (RM) is an agreement by which a home owner borrows against the home and receives regular tax free payments from the lender. It is a way to borrow against one's house to create a regular stream of income while continuing to live in that house. With this scheme, all that is required is to pay property tax and insurance and maintain the house so that the value is retained. No repayment is required till the owner continues to live in the house and the full amount becomes due only on the death of the last surviving spouse, or when the house is sold, whichever is earlier.

RM is so called because instead of paying the monthly housing loan installments, the borrower actually receives money from the lender.

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Thus, RM is a way to borrow against one's house to create a regular stream of 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.

RM - SWOT ANALYSIS

STRENGTHS

- ✿ The loan is given without any income criteria at an age where normal loans are not available.
 - ✿ No loan servicing or repayment required during the lifetime of borrower and spouse.
 - ✿ If the borrower dies during the period, the spouse will continue to get the loan amount for 15 years.
 - ✿ Tax treatment of a RML will be as loan, not income, so no tax will be payable on the regular cash flows.
 - ✿ The borrower and their spouse can continue to stay in the house till both die.
 - ✿ Heirs of the borrower will be entitled to get the surplus of sale value of the property.
- Borrower/heir can get the mortgage released by paying loan with interest without having to sell property at any time. Prepayment of loan is allowed.

WEAKNESSES

- ✿ This loan product has a maximum tenure of only 15 years. If the borrower outlives this period, the regular cash flows will stop.
- ✿ Basis of property valuation is not clear.
- ✿ Requirement of clear title to property in the name of the borrower to get the loan.
- ✿ Various fees to be added to the borrower's liability, which can be quite substantial.

OPPORTUNITIES

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

THREATS

- ✿ Property valuations are ambiguous.
- ✿ There is a non-recourse guarantee, which means that loan plus interest should never exceed realisable value of property. In case of fall in property value or loan with interest exceeding assessed property value, banks may resort to strong-arm tactics to force the borrowers to move out, if they live too long after the loan period is over.
- ✿ Rate of interest is at the discretion of the lender. Any increase in the rate, if floating, will increase the burden of the borrower.
- ✿ Lender has the right to foreclose loan by forcing sale of property if the borrower doesn't pay for insurance, property taxes or maintain and repair the house. It can lead to further harassment.
- ✿ This product seems very good in theory and can be of great help to senior citizens who can live in their own houses and yet avail of a loan against it. However, 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 capitalization and profits. The bank is entering into many new businesses with strategic tie ups - Pension Funds, General Insurance, Custodial Services, Private Equity, Mobile Banking, Point of Sale Merchant Acquisition, Advisory Services, Structured Products etc., each one of these initiatives having a huge potential for growth. The SBI has been instrumental in carrying out innovations in personal banking to make the transactions easy for its customers. One of its newly introduced products is RM (Reverse Mortgage), and was announced on 12th October 2007.

REVERSE MORTGAGE (RM) PROCEDURE AT SBI

(a) Application: Homeowner fills the loan application and selects payment option i.e. fixed monthly payments, lump sum payment, line of credit, or a combination of these. Lender discloses to homeowner the estimated total cost of the loan. Lender collects money for home appraisal. Homeowner provides lender with required information, including photo ID, copy of deed to home, information on any existing mortgage(s) on property etc.

(b) Processing: Lender orders appraisal, title work, lien payoffs, etc. The appraiser assigns a value to the home and determines the physical condition of the property.

(c) 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 package to the underwriting department for final approval.

(d) Documentation: The homeowner would have three business days after signing papers in which to cancel the loan. 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. It must be hand delivered, mailed, faxed, or filed with a telegraph company before the end of business of the third working day.

(e) Disbursement: The loan funds would be disbursed. The Homeowner can access the funds in the form of the payment option selected. Any existing debt on the home would be paid off. A new lien would be placed on the house.

(f) Repayment: The Homeowner will not make any monthly mortgage payments to the lender during the life of the loan. The loan would be repaid when the homeowner ceases to occupy the home as a principal residence. The loan may be repaid by the homeowner or the heirs, with or without a sale of the home. The repayment obligation cannot exceed the home's value or sales price.

The procedure of obtaining RM from SBI is shown in the Table: 1.

Table-1: Shows 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 & above 58 years of spouse.
	- Self acquired & self owned property as permanent primary residence.
	- Clear title over the property.
	- Residual life of property - above 20 years.
LOAN AMOUNT	- 90% of value of property.
	And min Rs.3 Lakh & 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 & Max Rs.10,000.
	- No prepayment charges & 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 data regarding the number of applications forwarded, sanctioned and rejected by SBI from the introduction of the
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scheme to Feb, 2009 are shown in the Table-2.

Table 2: Showing RM Application Forms-Forwarded, Sanctioned, Rejected During The Period Oct, 2007 To Feb, 2009 By SBI

Particulars	No. of Application Forms	Amount Rs.
Forwarded	29	4,40,00,000
Sanctioned	11	2,00,00,000
Rejected	18	2,40,00,000

(Source: SBI reports)

It is evident from the Table: 2, that during the period Oct, 2007 to Feb, 2009, the total number of application forms forwarded are 29, of which sanctioned are 11 and rejected are 18. In terms of amount forwarded by the Secunderabad branch, the amount is Rupees Four crores and Forty lakhs out of which Rupees Two crores is sanctioned. It was stated by SBI officials that 99% of the applications have been rejected on the grounds of not having a clear title over the property.

CONCLUSIONS & SUGGESTIONS

The senior citizens will definitely find RM a solution for their financial needs after retirement and help them in regaining their feeling of independence. However, the concept of Reverse Mortgage (RM) is still at an infancy stage in India. To make it more acceptable :

- ✿ Aggressive marketing measures have to be taken up to bring the conceptual awareness.
- ✿ There should be complete transparency and clear-cut regulatory norms for benefit of the borrowers.
- ✿ Tax authorities must issue guidelines regarding tax treatment of the income streams.
- ✿ Potential clients should be counseled about the advantages of the product through bank councilors, senior citizen associations or forums.

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