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RETIREMENT PLANNING MADE EASY: A GUIDE TO REVERSE MORTGAGE LOAN IN INDIA

What is a Reverse Mortgage Loan?

A Reverse Mortgage Loan in India is a financial product **designed for senior citizens who own a home to convert a portion of their home equity into cash without selling the property**. Unlike traditional mortgages, where borrowers make monthly payments to the lender, in a Reverse Mortgage, the lender makes payments to the borrower. This loan is usually available to **individuals aged 60** and above who have a significant share in their home, and it is their primary residence.

What Are the Types of Reverse Mortgage Loan Available in India?

There are three main types of reverse mortgage loans in India:

Home Equity Conversion Mortgage (HECM)

This is the most common type of reverse mortgage in India. HECMs are federally insured mortgages that generally have higher upfront costs but offer more **flexibility** in how the funds can be used. Borrowers can choose to receive the funds as a **lump sum, fixed monthly payments, a line of credit, or a combination.** While widely available, HECMs can only be obtained through lenders approved by the Federal Housing Administration (FHA), and all borrowers must undergo HUD-approved counseling before the loan is finalized.

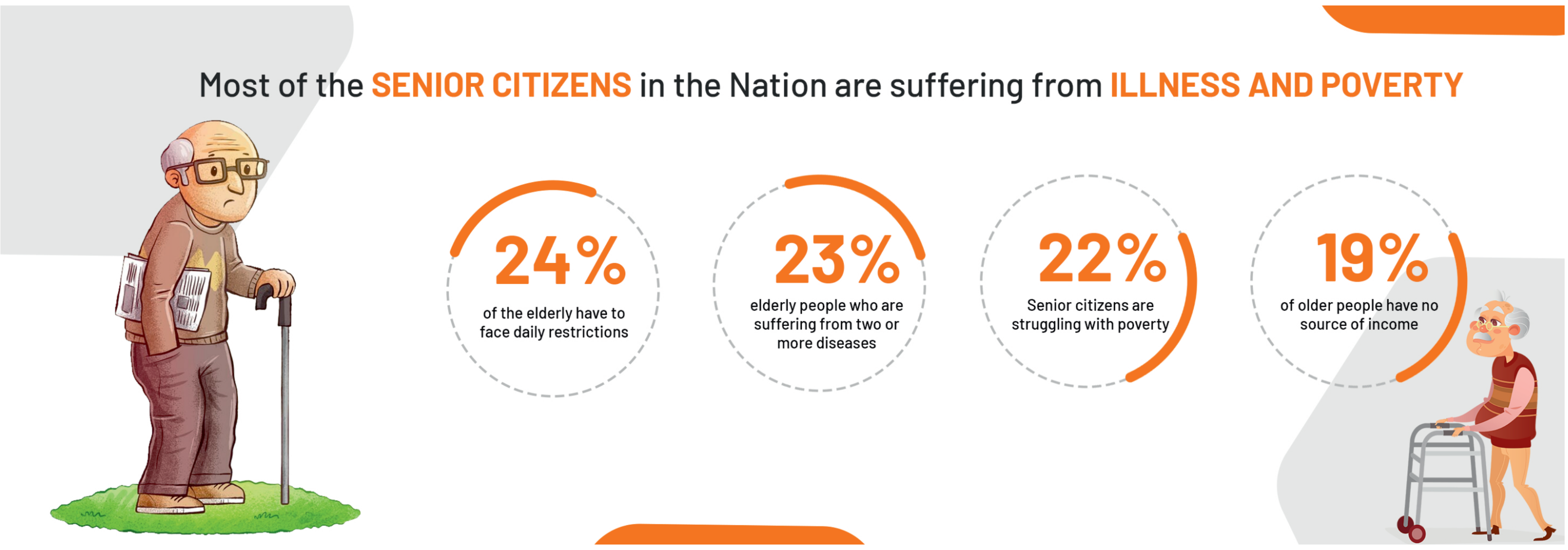
Proprietary Reverse Mortgage

This is a privately funded reverse mortgage that lacks government backing. Proprietary reverse mortgages typically **provide larger loan** amounts, especially if the home has a higher appraised value. Since they are privately funded, the terms and eligibility criteria may vary more between lenders.

Single-Purpose Reverse Mortgage

This type of reverse mortgage is less common compared to the other two options. It is usually offered by state and local government agencies, as well as non-profit organizations. Single-purpose reverse mortgages tend to be the most **cost-effective**, but borrowers are limited in how they can use the funds, which are often smaller in amount and intended for a specific purpose like home modifications for accessibility.

The key differences between these three reverse mortgage types are the funding source, loan limits, flexibility in use of funds, and associated costs. Borrowers should carefully compare the options to determine which best fits their financial needs and situation. Consulting with multiple lenders is recommended before selecting a reverse mortgage.



What are the Eligibility Criteria for Availment?

In India, a reverse mortgage loan allows senior citizens to access a portion of their home equity without having to sell the property or make monthly repayments. However, there are specific eligibility criteria that need to be met regarding the borrower's age and the type of property. ***Here are the details:***

Age Eligibility

o The minimum age for a borrower to be eligible for a reverse mortgage loan in India is on **average 60 years.**

o In the case of a joint loan involving a spouse or co-borrower, the age criteria apply to the **younger borrower.**

o Some banks or housing finance companies may have a higher age limit, such as **65 years or 70 years.**

Property Eligibility

The Property -

o Must be self-acquired and self-occupied residential property.

o Should be owned by the applicant and carry a residual life of **not less than 20 years.**

o Should be **free from any encumbrances or legal disputes**. If there is an **existing mortgage**, it **should be cleared** before the reverse mortgage loan is sanctioned.

o Must be located within the **municipal corporation limits** of certain specified **urban or semi-urban areas** where property values are stable or appreciating.

o Should meet certain **minimum valuation requirements** set by the lender.

o Must regularly **pay property taxes** and insurance.

o Must be **re-valued periodically** by the lender, and the quantum of the loan may undergo revision based on such re-valuations.

It is noteworthy that the specific eligibility criteria, including the age limits, property valuation requirements, and eligible locations, may **vary among different banks and housing finance companies** offering reverse mortgage loans in India. It's advisable to check with multiple lenders or refer to the guidelines issued by the National Housing Bank (NHB) or the Reserve Bank of India (RBI) for the most up-to-date and accurate information.

What Credit Score Is Needed for A Reverse Mortgage?

Credit score is not required for being eligible for the Reverse Mortgage. Only age eligibility, required Property documents and Property Valuation is only necessary in the case of the same.

What Are the Documents Required for Reverse Mortgage Loan in India?

Provide the following documents to the lenders:

- Passport-size photograph
- PAN Card copy
- List of legal heirs
- Sale Deed
- Approved Building Plan
- Title Deed Documents for 30 years
- Legal Opinion from an Advocate and property valuation from an Engineer (at applicant's cost)
- Proof of title in the Revenue Records
- Proof of residence (telephone bill, electricity bill, property tax receipt, passport, or voter's ID)

These documents ensure the bank can assess your eligibility.

What is the Rate of Interest in Reverse Mortgage Loan in India?

The average reverse mortgage Interest Rate in India in 2024 is around **9.5% per annum**, with rates ranging from around **9% to 12% across** different banks. The interest rates are generally higher than home loan rates due to the perceived higher risk for lenders, as the borrower is not required to make any monthly payments, and are reset periodically, typically every 5 years.

Interest Rates Offered by Banks

Reverse mortgage interest rates offered by various banks in India:

o **Union Bank of India: 11.30% (fixed), reset every 5 years**	o **IDBI Bank: 10.85% per annum**
o **Bank of India: 10.85% per annum, 2% above 1-year MCLR, reset every 5 years**	o **Bank of Baroda: 11.75% per annum**
o **SBI: 9.15% per annum**	o **Axis Bank: 11.00% per annum**
o **Indian Bank: Rate not explicitly mentioned, but reset every 5 years**	o **Indian Overseas Bank: MCLR + 1.00% (fixed rate)**

What Is the Tenure of Reverse Mortgage Loan?

Minimum Tenure

The minimum tenure for a Reverse Mortgage Loan in India is typically 10 years, as per the regulations.

Maximum Tenure

The maximum tenure for a Reverse Mortgage Loan in India is 20 years, but it can be up to 180 months (15 years) depending on the lender and the borrower's age.

Age-Based Tenure

The tenure of payment can vary based on the borrower's age. If the borrower is between 60 and 65 years old, the maximum tenure can be up to 20 years. If the borrower is above 65 years old, the maximum tenure can be up to 15 years.

The tenures offered for reverse mortgage loans in India vary across different banks and lenders. ***Here are some examples:***

o **Union Bank of India: Up to 20 years.**	o **Bank of Baroda: up to 15 years**	o **IDBI Bank: Up to 20 years.**
o **SBI: 10-15 years.**	o **Indian Bank: Up to 15 years.**	o **Bank of India: Up to 15 years.**
		o **Indian Overseas Bank: Up to 15 years**

What Is Loan to Value Ratio?

The Loan-to-Value (LTV) ratio is a critical metric in the context of reverse mortgage loans in India. It determines the maximum loan amount that a borrower can receive against the appraised value of their property. Understanding the LTV ratio is essential for both borrowers and lenders as it impacts the financial dynamics of the reverse mortgage agreement.

Purpose of LTV Ratio

o The LTV ratio is the percentage of the property's appraised market value that a lender is willing to offer as a loan.

o It provides a measure of the risk associated with the loan: higher LTV ratios represent higher risk for the lender, while lower ratios indicate a safer loan from the lender's perspective.

Calculation of LTV Ratio

The LTV ratio is calculated using the following formula:

LTV Ratio= (Loan Amount/Appraised Property Value) * 100

For instance, if the appraised value of a property is INR 1 crore and the bank offers a reverse mortgage loan of INR 80 lakhs, the LTV ratio would be:

LTV Ratio= (80,00,000/100,000,00) * 100
LTV Ratio= 80%

Impact on Borrowers

• Higher LTV Ratio: Allows borrowers to access more funds, which can be beneficial for meeting larger financial needs. However, it also means a higher amount of interest accumulation over time.

• Lower LTV Ratio: Results in a lower loan amount, which might be more manageable in terms of interest but may not suffice for the borrower's financial needs.

Periodic Revaluation

Properties under reverse mortgage agreements are periodically revalued, generally every 5 years. This revaluation ensures that any changes in the property's market value are accounted for, potentially adjusting the loan amount available to the borrower.

How Is The Loan Amount Determined In A Reverse Mortgage Loan In India?

- **Loan Sanction Amount**

The loan sanction amount for a Reverse Mortgage Loan in India is primarily based on the value of the residential property being mortgaged. The maximum loan amount varies from bank to bank, but generally, it ranges from INR 1 lakh to INR 100 lakhs inclusive of interest. The loan amount is calculated as a percentage of the market value of the property, which can be up to 90% depending on the location. The margin for loan varies by location:

o **Metro: 10%** o **Urban: 20%** o **Other areas: 30%**

For instance, if the market value of the property is INR 1 crore, the maximum loan amount would be:

o The maximum loan you can receive in a metro area would be INR 90 lakh (90% of INR 1 crore).
o You would yield a maximum loan of INR 80 lakh (80% of INR 1 crore) in an urban area
o The maximum loan for properties located in areas other than metro or urban regions would be INR 70 lakh (70% of INR 1 crore).

What is difference between Loan to Value and Final Loan Amount?

The LTV ratio is a percentage that reflects the relationship between the loan amount and the property's value, whereas the loan amount is the specific sum of money given to the borrower.

- The LTV ratio is a measure used by the lender to assess risk and determine the maximum loan amount, while the loan amount is the actual funds received by the borrower.

- The LTV ratio influences the loan amount but is not the same as the loan amount itself. For instance, a higher LTV ratio could lead to a higher loan amount, provided other conditions are met.

What Are The Disbursement Options Available To Senior Citizens?

The disbursement options for a Reverse Mortgage Loan in India are designed to provide flexibility to the borrower. The loan can be disbursed in various ways:

Periodic Payments
The borrower can receive regular payments, which can be monthly, quarterly, half-yearly, or yearly. The maximum monthly payment is capped at INR 50,000.

Lump Sum Payments
The borrower can opt for lump sum payments, which can be disbursed in one or more installments. The aggregate amount disbursed as lump sum cannot exceed 50% of the total loan amount sanctioned.

Who Own the property in the case of Reverse Mortgage Loan?

The **borrower owns the house** in a Reverse Mortgage loan. The **borrower retains the ownership** of the property and can continue to live in it during their lifetime. The loan is repaid when the borrower passes away or vacates the property.

How Is Rate of Interest Calculated?

The calculation of the rate of interest for reverse mortgage loans in India involves several factors, including the loan amount, tenure, and prevailing interest rates.

- **Calculation of Interest Rate**

The Formula of calculating ROI in the case of Reverse Mortgage Lona is:

Installment Amount = (PV*LTVR*I)/((1+I) ^n-1)

Where, **PV=Property Value**; **LTVR=LTV Ratio**; **n=No. Of Installment Payments**, **I=The value of 'I' will depend on Disbursement Frequency selected**. If the disbursement frequency selected is Monthly so 'I' will be **IR/12**

- **For Example,**

Property Value (PV) = 10,00,0000 LTV Ratio (LTVR)= 80% Disbursement Frequency = Monthly Loan Disbursement Period=20 Years

As No. of installment payments(n) will be calculated monthly e.g. **if 20 is selected then the n =20*12=240 Months**

Interest Rate (IR) = 12%

Monthly Installment

The monthly installment is calculated based on the loan amount, tenure, and interest rate. For example, for a 20-year loan of Rs. 80 lacs at 12.0% interest rate, the monthly installment would be **INR 8,000**.

Total Interest Paid

The total interest paid is calculated by multiplying the monthly installment by the number of months in the tenure. For a 20-year loan, the total interest paid would be INR **19.2 lacs.**

Total Amount Paid

The total amount paid includes both the loan amount and the total interest paid. For a 20-year loan of INR. 80 lacs at 12.0% interest rate, the total amount paid would be **INR 1 crore**.

Calculation of Monthly Instalments at different Rates of Interest for different Tenures:

Tenure (Years)	Monthly Installment (Rs.)	Interest Rate
10	34,777	12.0%
15	19,305	10.0%
20	8,000	12.0%

Points to Consider

- **Lower Interest Rate, Higher Monthly Payout:** A lower interest rate generally results in a higher monthly payout, but lower total interest paid over the life of the loan.
- **Lower Loan Tenure, Higher Monthly Payout:** Shorter loan tenure generally means a higher monthly payout, but higher total interest paid over the life of the loan.
- **Interest Rate Reset:** The interest rate is typically reset every 5 years, and the property is revalued every 3 years.
- **Security and Insurance:** The property is mortgaged to the bank, and the borrower is required to insure the property against various risks.

How the Reverse Mortgage Loan is Paid Back?

- The loan does **not need to be repaid** during the lifetime of the borrower or their spouse. They can continue living in the home during their lifetime.
- The loan is typically repaid when the borrower or their spouse **passes away** or decides to **move out** of the home.
- The loan is **repaid by selling** the home and using the proceeds to pay off the outstanding *loan balance, including the principal, accrued interest, and any fees*.
- If the home is **sold** for **more than the loan balance**, the remaining equity goes to the borrower or their estate. If the sale proceeds are less than the loan balance, the lender absorbs the loss.
- Heirs also have the option to **retain ownership** of the home by repaying the full loan balance.
- There is generally no prepayment penalty if the borrower or their heirs choose to pay off the loan early.
- The interest rate on the loan is **reset every 5 years,** and the property is **revalued every 3 years** to adjust the loan amount.

What is Tax Treatment of Reverse Mortgage Loan in India?

Taxation on Loan Amount:

- **Exempt from Income Tax**

The money received under a reverse mortgage scheme, whether in a lump sum or instalments, is not considered income. This is according to Section 10(43) of the Income Tax Act, 1961. This exemption is meant to encourage the adoption of reverse mortgages for senior citizens.

Capital Gains Tax Implications:

- **No Tax on Transfer**

As per Section 47(xvi) of the Income Tax Act, 1961, any transfer of a capital asset in a reverse mortgage transaction is not treated as a transfer for tax purposes. This means that you won't incur capital gains tax when the ownership of the property is transferred to the lender during the loan repayment process.

- **Tax on Sale**

It's important to note that the exemption mentioned above applies only during the transfer related to the reverse mortgage. If your heirs choose to sell the property after receiving it, any capital gains arising from the sale will be taxable in their hands.

What Are the Benefits of Reverse Mortgage Loan?

The benefits of Reverse Mortgage Loan in India include:

- **Increased Financial Flexibility:** Reverse Mortgage Loans provide financial flexibility to senior citizens by allowing them to access the equity in their property without having to sell it. This can be used to address various financial requirements, such as medical expenses, home enhancements, or unforeseen financial obligations.

- **No Monthly Mortgage Payments:** Unlike traditional mortgages, Reverse Mortgage Loans do not require monthly payments. This can significantly alleviate financial responsibilities during retirement and establish a dependable source of income.

- **Stay in Your Home:** Reverse Mortgage Loans enable homeowners to retain ownership and continue living in their home, providing stability and peace of mind throughout their retirement.

- **Tax Benefits:** The interest on Reverse Mortgage Loans is tax-free, which can help reduce the borrower's tax liability.

- **Flexibility in Loan Disbursement:** Reverse Mortgage Loans can be disbursed in various forms, such as monthly payments, lump sums, or lines of credit, allowing borrowers to choose the best option for their financial needs.

- **No Prepayment Penalty:** Reverse Mortgage Loans do not have prepayment penalties, which means borrowers can repay the loan at any time without incurring additional charges.

- **Enhanced Retirement Income:** Reverse Mortgage Loans can provide a steady income stream to senior citizens, helping them maintain their standard of living during retirement.

- **No Hidden Charges:** Bank of India's Star Reverse Mortgage Loan does not have any hidden charges, making it a transparent and cost-effective option for borrowers.

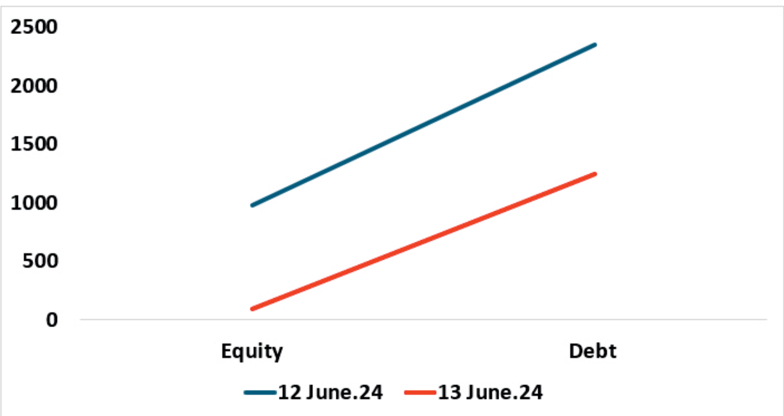
- **No Prepayment Penalty:** Bank of India's Star Reverse Mortgage Loan does not have any prepayment penalty, allowing borrowers to repay the loan at any time without incurring additional charges.

- **Special Product for Senior Citizens:** Bank of India's Star Reverse Mortgage Loan is a special product designed specifically for senior citizens, offering a competitive interest rate and flexible repayment terms.

To wrap up, reverse mortgages are an innovative solution for retirees seeking financial security in India. By leveraging home equity, they can overcome traditional retirement challenges and maintain their quality of life. It is essential for retirees to consult with experienced mortgage advisors and financial planners to tailor a strategy that aligns with their retirement goals and addresses any concerns.

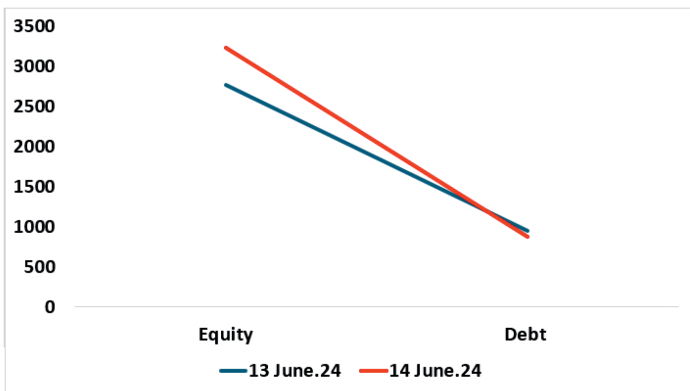
Mutual Fund Activity
MF SEBI

	Value In Cr.	
Date	**Equity**	**Debt**
12 June.24	981.97	2353.15
13 June.24	97.58	1249.99



Foreign Institutional Investors
FII SEBI

	Value In Cr.	
Date	**Equity**	**Debt**
13 June.24	2770.42	958.83
14 June.24	3234.51	880.49



Economic Calendar

Friday June 21 2024			Actual	Previous	Consensus	Forecast
10:30 AM	IN	HSBC Composite PMI Flash JUN		60.5		60.3
10:30 AM	IN	HSBC Manufacturing PMI Flash JUN		57.5		57
10:30 AM	IN	HSBC Services PMI Flash JUN		60.2	60	56
5:00 PM	IN	Monetary Policy Meeting Minutes				
5:00 PM	IN	Bank Loan Growth YoY JUN/07		19.50%		19.40%
5:00 PM	IN	Deposit Growth YoY JUN/07		13.30%		13.40%
5:00 PM	IN	Foreign Exchange Reserves JUN/14		$655.82B		
Wednesday June 26 2024			**Actual**	**Previous**	**Consensus**	**Forecast**
5:00 PM	IN	M3 Money Supply YoY JUN/14		10.90%		10.90%