

An Empirical Study on Customers Perception and Preference of Reverse Mortgage Loans with Special Reference to Palakkad District

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Abstract- Now a day, banks are providing a number of innovative financial instruments to the customers for generating income. One of the innovative financial products introduced by the bank is Reverse Mortgage Loans. Reverse Mortgage Loans are those which benefit the senior citizens of the nation. It facilitates income generation for the old age citizens. Through Reverse Mortgage Loans, they can mortgage their house property with the banker and convert this equity into income which is free from taxation. There is no requirement to sell the house. There are no satisfaction results about Reverse Mortgage Loans, even though there is growth in the market. This article tries to find out the various reasons for opting the loans. Also it tries to know the level of awareness of customers about the Reverse Mortgage Loans. The present study also focuses on exploring and highlighting the various types of loans available to the senior citizens.

Indexed Terms- Reverse Mortgage, Different Schemes, Reasons for the popularity, Awareness level

I. INTRODUCTION

One of the important human needs, next to food, clothing and shelter is home. Home is a place where one can relax after the days tiring work. It is a key to happiness and peace. A housing loan is a type of debt between the lender and the borrower. Housing finance plays an important role in the economic growth by reducing the escalation of slums in economy. A person's regular income begins to dry up during his/her old age period. At that time the dependence by

the old agers also increase. The main challenge for senior citizens is heavy medical expenses and lack of social security. In order to tackle these problems, they must have a regular income to meet these financial requirements. By having regular income during old age, they were able to maintain a good standard of living. For most of the senior citizens, the major asset is their residential property.

The concept of Reverse Mortgage Loan was introduced in the union budget 2007-2008. The process of Reverse Mortgage Loans is that the senior citizens mortgage their house property in return for loan with the lender. The loan amount was utilized by the senior citizen to finance the property. The lender charges a certain percentage of interest on loan amount. The borrowers can repay the amount of loan along with interest charged. There is an option for the borrower to pay the amount of loan through EMI's. The main advantage for the borrower is that they are not required to stay away from their house. They can continue in their house during his/her life time. They also receive the regular inflows from their house by lending the property.

II. OBJECTIVES OF THE STUDY

- To identify the level of awareness of customers about the Reverse mortgage loan.
- To identify the reasons for opting Reverse mortgage loan.
- To know the reasons for the popularity of Reverse mortgage loan among the customers.

III. RESEARCH METHODOLOGY

- Research Design

The methods and techniques used for collecting and analyzing the different variables used in the research study are known as Research Design. It is a blue print for conducting the research. The research design used for the study is Empirical in nature. Empirical design is a type of research in which the conclusions were drawn from empirical evidence and the evidence is verifiable.

- Sources of Data

In this Article Primary data is collected through structured Questionnaire. Primary data is known as the first hand data.

- Population/Sample unit

The population or sample unit of the study is Palakkad District.

- Sample size

The sample size taken for the study is 135 respondents of Palakkad district

- Tools for analysis

- i. Percentage analysis
- ii. Weighted average method
- iii. Rank correlation

- Scope of the study

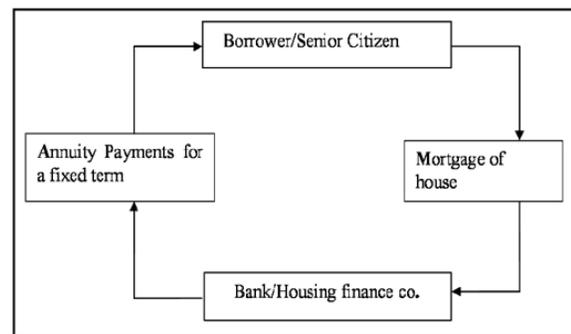
The scope of the study is limited to understand the welfare gain to senior citizen from reverse mortgage loan schemes. The variables used for the study was the various factors influencing the level of awareness of customers. It also considers the risk associated with the mortgage schemes.

- Limitations of the study

- i. The result cannot be generalized, as the study was confined only to Palakkad District.
- ii. Only 100 customers were taken as samples under the study. It is impossible to take the whole population due to time constraints.
- iii. There may be possibility of errors in data collection because many of the respondents were not given the correct answers to the questions.

IV. THEORETICAL FRAMEWORK

Reverse Mortgage Loan is one of the innovative tool which gives financial arrangement for the senior citizens. Through this arrangement, a senior citizen can liquidate his/her wealth which helps in generating the cash inflows at the needy times. A Reverse Mortgage Loan helps the borrowers to mortgage their house property. These loan facilities are available only to the older house owners. The borrower is not able to be free from the payment of property taxes and insurance, even though the property is mortgaged. The senior citizens can defer payments of the loan until they die, sell or move out of the house. The house owners are required to pay the interest along with the principle amount and not required to pay any mortgage payments on Reverse mortgage. The main advantage to the house owners is that they are not required to repay any additional amount of loan in excess of value of home in times of declining home values.



Types of reverse mortgage

- The three types of reverse mortgages are
 - i. Single-Purpose Reverse Mortgage
 - ii. Home Equity Conversion Mortgage
 - iii. Proprietary Reverse Mortgage

- Eligible Borrowers

- i. The borrower should be a Senior Citizen of India
- ii. Should be at the Age of above 60 years
- iii. The borrower should be the owner of a self-acquired, self-occupied residential property (house or flat) located in India with clear title indicating the prospective borrower's ownership of the property.
- iv. The residential property should be free from any encumbrances.

- v. The residual life of the property should be at least 20 years
- vi. The prospective borrowers should use that residential property as permanent primary residence. For the purpose of determining that the residential property is the permanent primary residence of the borrower.
 - Basic risks
 - i. Mortality Risks
 - ii. Interest Rate Risks
 - iii. Moral hazard risks
 - iv. Crossover risk
 - Pros
 - i. Does not require monthly payments from the borrower.
 - ii. Proceeds can be used to pay off debts or settle unexpected expenses.
 - iii. The money can pay off the existing mortgages.
 - iv. Funds can improve monthly cash flows.
 - Cons
 - i. Fees and other closing costs can be high.
 - ii. Borrower must maintain the house and pay property taxes and home owners insurance.
 - iii. A reverse mortgage can complicate ones wish to keep the house in the family.

V. DATA ANALYSIS AND INTERPRETATION

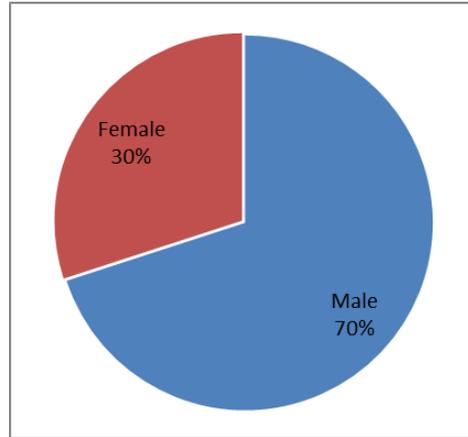
- i. Table No 1 & Chart No 1 shows the Gender of Respondents

Table No 1 Gender of the Respondents

Gender	Frequency	Percent
Male	95	70
Female	40	30
Total	135	100

Source: Primary data

Chart No 1 Gender of the Respondents



Interpretation: It is interpreted from the table that majority 70% of the respondents are Male and only 30% of them are female.

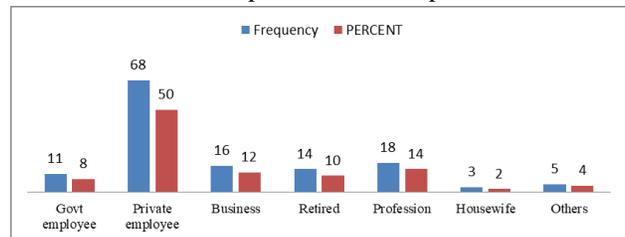
- ii. Table No 2 & Chart No 2 shows the Occupation of Respondents

Table No 2 Occupation of the Respondents

Occupation	Frequency	Percent
Govt employee	11	8
Private employee	68	50
Business	16	12
Retired	14	10
Profession	18	14
Housewife	3	2
Others	5	4
Total	135	100

Source: primary data

Chart No 2 Occupation of the Respondents



Interpretation: From the table, it is observed that 50% of respondents belong to the category of private job, 14% belongs to profession and 12% belongs to business. Only 2% of the respondents are housewives.

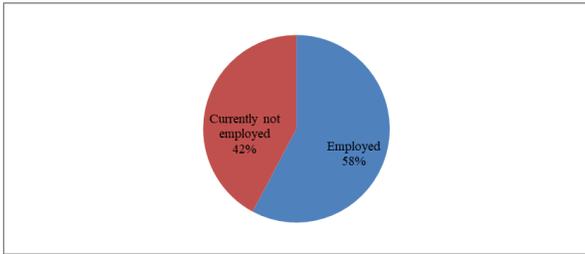
iii. Table No 3 & Chart No 3 shows the Employment Status of the Respondents

TABLE No 3 Employment Status of the Respondents

Employment status	Frequency	Percent
Employed	78	58
Currently not employed	57	42
Total	135	100

Source: primary data

Chart No 3 Employment Status of the Respondents



Interpretation: From the above table it can be interpreted that out of 135 respondents, 58% are employed and the rest 42% of the respondents are currently unemployed. Rather than stating as unemployed it can be interpreted that they are retired because they are aged above 60 years.

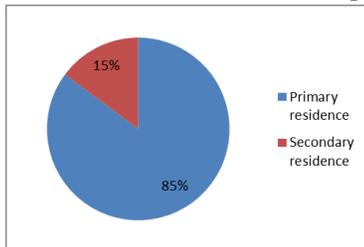
iv. Table No 4 & Chart No 4 shows the Residential status of the Respondents

TABLE No 4 Residential status of the Respondents

Residential status	Frequency	Percentage
Primary residence	115	85%
Secondary residence	20	15%
Total	135	100

Source: primary data

Chart No 4 Residential status of the Respondents



Interpretation: From the above table it can be interpreted that 85% of the respondents are residing in their own house and they are using their home as the primary residence. This is a positive indication because by looking at the above table we can make out that out of 100% of the respondents 85% of the respondents own a house and they can act as the perfect sample for our study.

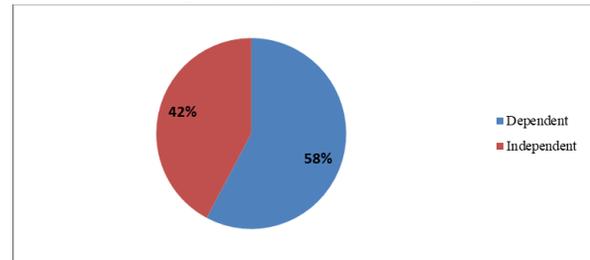
v. Table No 5 & Chart No 5 shows the Dependency status of the respondent

Table No 5 Dependency Status of the Respondents

Dependence Status	Frequency	percentage
Dependent	78	58
Independent	57	42
Total	135	100

Source: primary data

Chart No 5 Dependency Status of the Respondents



Interpretation: From the above table it can be interpreted that 58% of the total respondents are dependent on their children for their living and the rest 42% are either earning or they have a well-planned pension scheme which will give them a constant income

vi. Table No 6 & Chart No 6 shows the Source of information about the Reverse Mortgage Loans

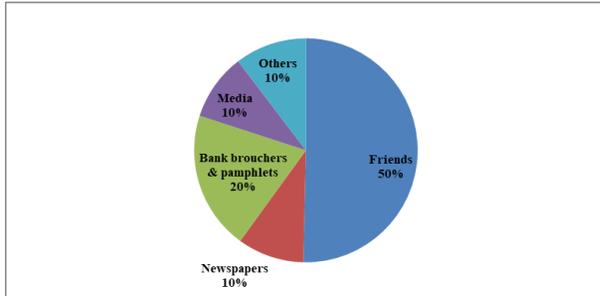
Table 6 Sources of Information about the Reverse Mortgage Loans

Source of Information	Frequency	Percentage
Friends	68	50
News Papers	13	10

Bank brochures and pamphlets	27	20
Media	13	10
Others	14	10
Total	135	100

Source: primary data

Chart No 6 Source of information about the Reverse Mortgage Loans



Interpretation: From the above table it can be interpreted that 50% of the respondents have been referred by their friends to take reverse mortgage loan. The other sources are not so significant. This clearly depicts that advertisement and sales promotion activities have very less role to play in reverse mortgage loan.

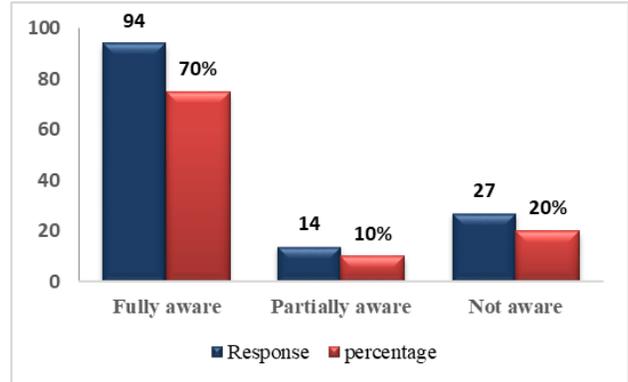
vii. Table No 7 & Chart No 7 shows the Level of Awareness regarding Reverse Mortgage Loans

Table 7 Level of Awareness regarding Reverse Mortgage Loans

Awareness level	Frequency	Percentage
Fully aware	94	70
Partially aware	14	10
Not aware	27	20
Total	135	100

Source: primary data

Chart No 7 Level of Awareness regarding Reverse Mortgage Loans



Interpretation: From the above table it can be interpreted that 70% of the respondents are aware of the reverse mortgage loan product. Only 20% are not aware of this loan product.

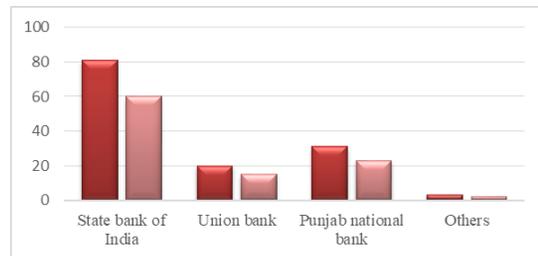
viii. Table No 8 & Chart No 8 shows the Bank from which the Reverse Mortgage loan is availed

Table 8 Bank from which the Reverse Mortgage loan is availed

Bank	Frequency	Percentage
State bank of India	81	60
Union bank	20	15
Punjab national bank	31	23
Others	3	2
Total	135	100

Source: primary data

Chart No 8 Bank from which the Reverse Mortgage loan is availed



Interpretation: From the above table it can be interpreted that 60% of the respondents have availed Reverse Mortgage loan from State Bank of India which is a public sector bank. The rest are from union bank and Punjab national bank and the specified rest are from corporation bank.

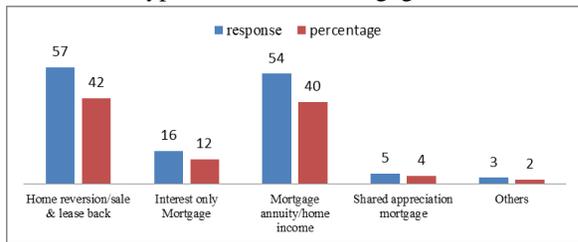
ix. Table No 9 & Chart No 9 shows the Types of Reverse Mortgage Loan Availed

Table 9 Types of Reverse Mortgage Loan Availed

Types of RM loan availed	Frequency	Percentage
Home Reversion/Sale and Lease Back	57	42
Interest-only Mortgage	16	12
Mortgage Annuity/Home Income	54	40
Shared Appreciation Mortgage	5	4
Others	3	2
Total	135	100

Source: primary data

Chart No 9 Types of Reverse Mortgage Loan Availed



Interpretation: From the above table it is clear that 42% of the respondents have availed Home reversion or sale and lease back scheme and another 40% of the respondents have availed mortgage annuity or home income scheme and the others availed single purpose reverse mortgage loan.

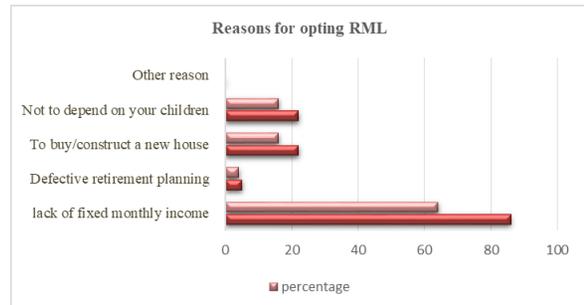
x. Table No 10 & Chart No 10 shows the Reasons for opting Reverse Mortgage Loan

Table 10 Reasons for opting Reverse Mortgage Loan

Reason for availing RM loan	Frequency	Percentage
lack of fixed monthly income	86	64
Defective retirement planning	5	4
To buy/construct a new house	22	16
Not to depend on your children	22	16
Other reason	0	0
Total	135	100

Source: primary data

Chart No 10 Reasons for opting Reverse Mortgage Loan



Interpretation: From the above table it can be interpreted that out of 100 respondents 64% of the respondents want to live independently. Lack of proper retirement planning is also a reason for opting reverse mortgage loan.

xi. Table No 11 & Chart No 11 shows the Reasons for the popularity of reverse mortgage loan

Table 11.1 Reasons for the popularity of reverse mortgage loan

Reasons	Ran k1	Ran k2	Ran k3	Ran k4	Ran k5	Tot al
Flexible payment option	54	34	14	20	13	135
Secures life till the last month	95	13	9	11	7	135
Need for the last hour	81	14	27	9	4	135
Tax consideration	41	27	20	34	13	135
Improves monthly cash flow	68	31	14	13	9	135

Source: primary data

Ranking the reasons for popularity of Reverse Mortgage Loans. (Rank points: rank1=5, rank2=4, rank3=3, rank4=4, rank5=5)

Table 11.2 Ranking the Reasons for the popularity of reverse mortgage loan

Reasons	Ra nk 1	Ra nk 2	Ra nk 3	Ra nk 4	Ra nk 5	M ea n val ue	Ra nk
Flexible payment option	270	136	42	40	13	3.7	4
Secures life till the	475	52	27	22	7	4.32	1

last month							
Need for the last hour	405	56	81	18	4	4.17	2
Tax consideration	205	108	30	68	13	3.17	5
Improves monthly cash flow	340	124	42	26	9	4.01	3

Interpretation: From the above table it is clear that the main reason for the popularity of reverse mortgage loan is the factor that it secures life till last month and these types of loans helps at their needy times. The least rank is for Tax consideration and flexible payment option because the respondents are not well aware about the flexible nature of the payment option.

VI. FINDINGS

- Majority of the respondents are Male
- Half of the respondents i.e. 50% are privately employed
- Most of the respondents are employed
- Majority of the respondents have Primary residential status.
- Half of the respondents i.e. 50% got information about Reverse Mortgage Loans through their Friends
- 70% of the respondents are fully aware of Reverse mortgage loans.
- Majority of the respondents (60%) avail reverse mortgage loans from State Bank of India.
- 42 % of the respondents prefer Home Reversion/Sale and Lease Back as Type of Reverse mortgage loans.
- Main Reason for opting Reverse Mortgage Loan was due to the lack of fixed monthly income.

Majority of the respondents rank Security of life till the last month as the popularity for Reverse mortgage loans.

VII. SUGGESTIONS

- Awareness is lacking in Reverse mortgage loans. To increase the awareness among investors, various programmes like seminars, workshops, conferences etc to be conducted on a regular basis.
- Banks should provide appropriate training programmes to their staffs. This helps the staffs to communicate the benefits as well as future scope of Reverse mortgage loans to their investors.
- Promotional activities should be adopted by the financial institutions to provide information about Reverse Mortgage Loans to the investors. Advertisements in newspapers, television, internet etc helps to increase the knowledge of investors about Reverse Mortgage Loans.
- Banks should disclose the level of risk involved in Reverse Mortgage Loans to enhance the investor's participation.
- There should be customer care service centers to provide solutions to customer's queries about various schemes.

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CONCLUSION

Every senior citizen wishes to have a regular income throughout their life even after the retirement. One of the unconventional retirement tools available to senior citizens is Reverse Mortgage Loans. Through these loan facilities an older house owner is able to maintain a good standard of living. By mortgaging their property, they can borrow the amount and required to pay the current interest rate also. From this Article, it is possible to have an understanding about the concept of Reverse Mortgage Loans, its features, and various types of loans available. It is also possible to analyze the awareness level of customers regarding the loan schemes. Thus Reverse Mortgage Loan is one of the options available to the senior citizens in their post retirement period of life.

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