Indian Mortgage Industry with Reference to Reverse Mortgage Scheme

M.Pavan Kumar Reddy

MBA student, Malla reddy university, Hyderabad, Telangana.

Mr.M. Saida Rao

Asst.Professor, Malla Reddy University, Hyderabad, Telangana.

ABSTRACT

In the current global economy, the mortgage sector is regarded as being quite essential. In recent years, this sector's importance has grown. Many nations throughout the world view the mortgage industry as one of the key indicators of their economic success. Although the mortgage is a debt, it gives the buyer a sense of ownership. A financial institution may provide finance (a loan) to a home buyer or builder either to purchase or secure against the property, either directly or indirectly through intermediaries. Mortgage loan features or qualities can differ greatly depending on the financial organisation.

In the beginning, people in India borrowed money from tiny dealers and had to pay higher interest rates. Basic drawbacks for house buyers included higher rates, an absence of effective norms and regulations, and a lack of security. Over the past two decades, government has stepped in and implemented new regulations that increase transparency in business operations for all parties involved.

This sector is valued by the government, who include it in their annual union budget. People prefer to take out a mortgage loan for investment purposes and to receive tax benefits since they can. On the other hand, very few borrowers believe that buying a home is necessary, and very few think that expanding their money or assets is a good idea.

Another sort of loan is a reverse mortgage loan. This idea was first presented in India's union budgets for 2007–2008. The proportion of senior citizens in Indian society is rising, and the prevalence of old age dependency is rising as well. An elderly person receiving a reverse mortgage receives a lifetime loan for their principal residence. They can use this loan to release the home equity in the asset as a single payment or a series of installments.

In particular, the situation of reverse mortgages is examined in this paper's examination of the Indian mortgage market.

KEYWORDS:- Home loans, reverse mortgages, and the mortgage business.

INTRODUCTION

Human beings have three essential needs: food, clothing, and shelter. Human survival depends heavily on shelter, which we refer to as a house. In his or her own secure space, where they spend precious time together, flourish, take care of their family, and get ready every day for the challenges of life. Mortgages are a major driver of economic growth in India and other emerging nations since they create jobs for both the lower and upper classes and are a major driver of the connected industries of steel, cement, and other building materials. Even in many so-called industrialised nations, access to mortgage financing remains a major issue.

This issue has been addressed by governments all across the world for many years. Mortgage markets in developed and developing countries share similar characteristics. Because of the persistent problems they face and the limited fiscal resources available to them, governments in both markets continue to face difficulties in creating efficient and sustainable mortgage systems that will improve housing access for low- and moderate-income households.

The structure of the mortgage sector has undergone a substantial transformation in recent years. In the direct housing finance area, banks are currently expanding their market share. However, getting a mortgage in India is still a hassle, and the mountains of paperwork will test the patience of the borrower. Despite the fact that the housing finance industry in India has been expanding over the past few years, financing through the organised sector still only accounts for 25% of all housing investments in India. There are specific standards that all Indian banks must follow, notwithstanding the fact that application requirements vary between banks. In India, the borrower will often need to create an account with the lending bank in order to get a mortgage. In addition to a house's mortgage property, banks often demand deposit payments.

The FICCI study indicates that family earnings are increasing and that both purchase power and loan repayment power are increasing. In the past, a significant portion of borrowers were in their late 30s and early 40s. However, the majority of borrowers today are in their mid-30s.

Housing Finance penetration rates in developing nations are much lower than those in industrialised nations, and as a result, it would seem that there is significant room for future expansion. Nevertheless, relatively high property prices, diminishing affordability (since property prices have increased at a faster rate than income levels have increased), and a challenging operating environment are obstacles to the sector's growth.

MORTGAGE SECTOR IN INDIA :

For many years, India's housing industry struggled with obstacles such an unorganised market, unequal development, a compartmentalised approach to growth, and a discouraging rent control regime. Not even a concerted effort was made to market or even comprehend the housing situation.

Over the last five years, the mortgage business in India has expanded at a 16% CAGR. According to our data, India's mortgage sector is 9–11 years behind other regional EMs like China and Thailand in terms of economic penetration. We anticipate the growth rates in this sector should stay solid over the longer term due to a number of structural drivers, including a young population, declining family size, urbanisation, and growing income levels (Credit Issue, Equity Research, 2013).

There is still a demand for housing. This is due to a lack of funding, inadequate financial institutions, rising building material, labour, and land expenses, as well as a combination of these factors. A social good in developing nations is housing finance because of its connections to other economic sectors both backward and ahead. The time when obtaining a mortgage was challenging is long past. Thanks to low interest rates, income tax advantages, and competition among Housing Finance Companies (HFCs), getting a home loan is now a piece of cake. HFCs are widely available and are vying for consumers by making a variety of offers. The majority of customers are unfamiliar with the fundamentals of house loans and are unsure of their best options.

In recent years, there has been fierce rivalry on the Indian mortgage market. However, a control mechanism is necessary for the mortgage industry to continue expanding sustainably and to perform and deliver consistently in order to meet future Indian needs for housing, commercial property, project funding, equity funding, etc., as well as to meet international standards. For the rapidly expanding Indian mortgage market, the government has approved ideas for updating the country's land laws, rental regulations, registration procedures, credit rating organisations, and modern mortgage insurance products (Rao, 2013).

In India, housing is a fundamental human need that supports economic activity. In terms of creating jobs, it is only surpassed by agriculture. In addition, the GDP is projected to increase by 75–80 paisas for every rupee invested on construction.

In contrast to wholesale banking, which concentrates on business and institutional clients, retail banking focuses on providing banking services to individuals and joint people. The banks are not unfamiliar with the idea of retail banking. Nowadays, the retail banking industry is seen as a lucrative market niche with potential for expansion. It has only recently drawn the Banks' attention in particular as a remedy for some of their pressing problems. Individual customers are the heart of retail banking.

A. INDIA'S MORTGAGE SECTOR'S HISTORY:

India, the second-largest democracy, was arguably the first to develop a positive response to the growing global concern over housing development by organising housing markets and developing a shelter strategy (United Nations Human Settlements Programme (Habitat), 1988; Harvey, 2000). In the late 1990s, it developed sector policies and made an effort to set up a funding framework. These initiatives established objectives for themselves to fulfil in collaboration with various levels of government. Fiscal incentives in the form of exemptions for both individuals and corporations were extensively adopted in the 1990s, specifically to increase the housing activities in the market.

People in India used to borrow money from tiny traders, zamindars, or tehsildars, who charged higher interest rates on the total amount borrowed. This was a major issue in rural areas. Rural residents are now also becoming aware of the various home financing programmes. This sector is valued by the government, who include it in their annual union budget. People prefer to take out a mortgage loan for investment purposes and to receive tax benefits since they can. On the other hand, very few borrowers believe that buying a home is necessary, and very few think that expanding their money or assets is a good idea.

The first audacious step in tackling the nation's many housing issues is the Shelter Policy. The National Housing and Habitat Policy (1998; NHHP), as adopted by the Indian Parliament, differs from the National Housing Policy of 1987 in a number of ways. It is asserted that the NHHP started the "Housing Revolution," putting all objections to population growth to one side. Instead of the government taking on the task of building, it placed an emphasis on creating an environment that encourages the rise of housing activity. It did this by laying the groundwork for the creation of public-private partnerships to address the issues with housing and facilities.

For those who desire to purchase their own home, the Indian government has implemented various rules throughout the past 20 years. By introducing the Pradhan Mantri Awas Yojna, or "Housing for All Scheme," in 2015, the Indian government made a huge step in that direction. This programme is designed specifically for those who, due to their financial situation, cannot buy a home. This scheme primarily targets the urban poor, or the Lower Income Groups (LIG) and Economically Weaker Section (EWS) of our society.

To ensure that everyone gets their own home by 2022, the government assists them financially.

B. KEY ACTORS IN INDIA'S MORTGAGE SECTOR:

India was only slightly impacted by the financial turmoil when the world economy was rattled by the crisis. This is attributable to the effective Credit Sense practises used by Indian lending institutions. The Reserve Bank of India (RBI), the nation's Central Bank, has imposed strict regulations that have led to the lending institutions' adherence to sound standards. The establishment of numerous agencies has been part of ongoing efforts on the part of the authorities to enhance the financial and lending system. Housing financing businesses, commercial (local and foreign) banks, cooperative banks, and other nonbanking financial companies are the leading players in this sector in India.

The National Housing Bank (NHB), which is fully owned by RBI, is a key organisation founded in 1988 to oversee and supervise the housing finance firms, organise financial aid, and give refinancing help.

With the establishment of CIBIL - Credit Information Bureau (India) Limited in 2000, the Credit Bureau Report was introduced to the Indian lending market. This has made it easier to get information on a customer's borrowing and payment patterns.

The industry has benefited from this.

A Mortgage Registry and a Fraud Registry have been established by the NHB and CIBIL. These repositories will each contain a database of false client information and registered mortgages. hence assisting lending institutions in making more informed choices. On the one hand, the credit lending process must be rigorous, thorough, and diligent; on the other, it must be prudent in order to expand business and enter the market. It is the obligation of the Indian mortgage lending organisations to achieve this contradiction of two goals.

Loan "recovery" is the primary goal of lending; income generation from the sale of mortgage assets is a secondary goal.

Securitization and credit default swaps are two financial products that are still in their infancy.

The mortgage market in India is becoming more competitive, and the market is consolidating in the hands of larger enterprises, according to recent trends.

Here are a few of the key players:

- State Bank of India Mortgage Loan
- HDFC Bank Mortgage Service
- LIC Housing Finance
- Mortgage Programme of the Bank of India
- State Bank of Mysore Mortgage Loan
- Bank of Baroda Mortgage Scheme
- Union Bank of India Mortgage Scheme

- ICICI Bank Mortgage Service
- Canara Bank Mortgage Service
- State Bank of Mysore Mortgage Loan

C. FINANCIAL SERVICES PROVIDED BY THE INDIA MORTGAGE SECTOR:

Despite the enormous business potential in rural areas, financial services were previously solely concentrated on urban areas. In the country's overall housing crisis, the rural sector, which accounts for 77% of the problem, could only get only 6% of the total plan expenditures for housing, compared to 94% of investment in urban areas, where there is a 23% housing shortfall. As a result, the Indian government is implementing new plans and laws that would assist homebuyers, encouraging them to construct their homes with all necessary services, even in remote areas. Financial services were historically primarily centred in urban regions, despite the huge business possibilities in rural areas. In the overall housing crisis of the nation, the rural sector, which makes up 77% of the issue, received only 6% of the total plan expenditures for housing, as opposed to 94% of investment in urban areas, where there is a 23% housing shortage. As a result, the Indian government is enacting new policies and legislation to aid homebuyers and motivate them to build their residences with all required amenities, even in outlying places. 15 years. Loan terms are being extended to 20 years or even longer to better serve consumers with greater financial needs. Few HFIs, regardless of whether they are in the private, subsidiary, or commercial segments, offer this facility.

For instance, the Corporation Bank offers five streams of housing-related financial services, with loan terms ranging from a minimum of five years to a maximum of twenty-five years. Canara Bank, IDBI Bank, and HDFC all extend credit terms up to 20 years.

Second, traditionally, housing loans had higher interest rates that were unaffordable. In the early 1990s, they ranged from a minimum of 12% to a maximum of 19%. People were actually hesitant to use housing loans during this time, especially those with limited, fixed, low, and moderate incomes. Then, in the late 1990s, there were more HFIs than ever before, and there were more loans for housing available at lower interest rates. Since interest rates affect the demand for mortgage loans, the lower interest rate regime has sparked an increase in housing activity.
The PMAY Yojna, which was just launched, provides housing for all Indians. Through States and UTs, the PMAY Housing Scheme provides central assistance to Urban Local Bodies (ULBs) and other hired agencies for:

- In developing on-site Rehabilitation of the current slum dwellers by starting private participation in utilising the resources of the impoverished land area.

- By offering credit-linked subsidies, forming affordable housing partnerships
- Giving beneficiaries subsidies for their own home improvements.

A Borrower must go through numerous steps and verifications while applying for a loan. As part of the application, the borrower must submit the following documents: proof of identity (passport, driver's licence, etc.); proof of address (utility bill, rental agreement, etc.); proof of regular income (employment contract, bank statement, balance sheet, etc.); proof of good credit standing; documents pertaining to the property (deed of sale, allotment letter); some photographs of the property; and some banks in India also demand that the borrower have a close relative.

Buying a home has been everyone's dream in recent times. modern day. People invest their entire life savings to purchase a home for themselves and their children. The Indian government strives to increase perks for homeowners and those looking to purchase a property each year in the Union Budget. This industry is a crucial factor in determining the nation's economic progress.

STATUS OF REVERSE MORTGAGE IN INDIA

The proportion of senior citizens in Indian society is expanding, and the prevalence of old-age dependency is rising as well. While there has been a noticeable rise in lifespan and low mortality, the expense of high-quality healthcare facilities is skyrocketing, and there is minimal social security on the other side. Senior citizens require a consistent cash flow stream to meet their financial demands and complement their pensions and other sources of income. Additionally, the long-term rise in residential real estate values has generated a sizable amount of "home equity" wealth. The Reverse Mortgage Scheme was launched by the Indian government in the 2007–2008 budget. Creating it has been delegated to the National Housing Board. Reverse mortgage utilisation is allowed in the nation thanks to a regulatory framework (Bantwa & Acharya, 2012).

Reverse mortgages are also well-known in the US. These mortgage loans are specifically designed for senior adults. People would amass residential properties throughout their lifetimes. Reverse mortgages offer a solution to this issue because seniors may not be able to exploit the benefits of such home properties after retirement owing to financial concerns. The fundamental advantage of a reverse mortgage loan is that the borrower will receive monthly payments or a lump sum payment from the mortgage bank to meet their needs until they pass away.

The reverse mortgage programme was launched by the Indian government in the Union budget for 2007–2008. The programme regulator would be the National Housing Bank. According to Rajagopalan (2006), a reverse mortgage loan is a permanent loan offered to senior citizens for their principal residence. They can produce their regular revenue thanks to this.

The reverse mortgage loan is not repaid throughout the borrower's lifetime. Ongoing periodic payments result in an increase in loan value. If the last surviving borrower passed away during the loan's specified term, the loan balance would be paid back by the borrower's heirs. If the borrower's heirs chose not to repay the loan in full or surrender the property, the mortgage bank or HFI would sell the property to recoup the full amount owed, interest included.

In order to earn a source of income, particularly after retirement, a homeowner can enter into a contract with a lender known as a "reverse mortgage."

A.FEATURES OF REVERSE MORTGAGE

1.Seniors who own a home are eligible for the loan.

2) It is a product that is specifically designed to monetize the asset's locked-up equity.

3) There is no maximum age to purchase this product.

4. There are two parties concerned. One is the lender, which is a bank or HFC, and the other is the borrower, who is a senior citizen.

5) There are no income requirements of any kind, which are typically a component of every other loan category.

6) There is no risk of losing the home's ownership. Staying at home allows for a steady supply of income.

7) Cash flows may be scheduled to occur at regular intervals. It may come in the form of a lump sum or a series of payments, such as an annuity.

8) The amount of the loan and the interest rate rely on a number of variables, including the asset's age, value, structure, and upkeep. The property must be revalued once every five years; thus, the loan amount will be changed, taking into account the aforementioned variables. Age and debt amount are inversely related.

9) The banks and HFCs will choose the product's interest rate depending on their approach to pricing loans and their sense of risk. Banks and HFCs both provide fixed or fluctuating interest rates, but only after fully disclosing all terms and circumstances to the borrower.

10) Because the money obtained through a reverse mortgage is not taxable, it is not regarded as income.

11) Loan repayment is due upon the occurrence of an event or at the conclusion of the period, in this case after 15 years, rather than on a continuous basis as is needed by other loans.

12) After the borrower's death or the conclusion of the loan's term, the lender will sell the residence in order to recoup the loan amount plus accrued interest. Any surplus funds will be returned to the borrower or the borrower's heirs.

13) The Owner or his heirs will be given preference before resorting to selling the property in order to pay back the debt with interest and have the mortgage discharged. (Brar, 2011).

B. BENEFITS OF REVERSE MORTGAGE

1) This financial solution is intended for customers who have valuable real estate but not enough cash flow to cover their expenses. They are frequently referred to as "asset rich but income poor". They will have the chance to make money off of that particular home thanks to a reverse mortgage.

2) This programme would guarantee a consistent income based on the value of their assets, enabling them to achieve higher living standards and improved access to healthcare.

3) Seniors who are not taken care of by their children can benefit from this product. By pursuing it, they will be able to mortgage their home and stop relying on others for their financial needs. It might add to retirement income. Seniors can maintain their own way of life without relying on others by using this product. They can use this financial tool to plan for pilgrimages and other events.

4) Because it is a non-recourse loan, the bank or HFCs will never pursue an individual for loan repayment. Only the value of the house can be used to pay back the loan to the lenders. 5) Because the reverse mortgage proceeds are payments on capital accounts, they are not taxable.

6) It avoids losing ownership of the home while simultaneously setting up a stream of income at regular times. The security of the home, whose value is always increasing, serves as the lender's safety net.

7) The borrower has a choice in how to access the loan. It can be given out in regular installments, as a single sum, or as a line of credit that can be used when necessary (Brar, 2011).

C. REASON FOR FEWER ACCEPTANCES:

Although the Indian government announced this programme in the 2007–2008 Union Budget, it has not been well received in India for a variety of reasons. Real estate investing is a very emotional choice in India. It is challenging to imagine a family giving up ownership of their home after 20–25 years to any financial organisation. When the asset was acquired through borrowing, making the choice was more challenging. Thus, the home a person purchases during his or her lifetime is truly seen as an asset for the following generation. No parent wants to take on any liability for the house and pass it on to the children since children still take care of their parents in their old age in this country. The slow adoption of reverse mortgages in India can be attributed to a number of factors, including the presence of numerous pension plans offered by the Indian government, the fact that people typically receive their pension on a regular basis, the fact that property values are rising annually along with market prices due to real estate, the fact that many people are unaware of the programme, etc.

INTERNATIONAL MORTGAGE SECTOR:

Retail lending has been the most stunning innovation in the commercial banking industry in recent years, on a global scale. Retail loans include consumer credit for general use as well as financing for specific purposes. Due to commercial banks' transition from traditional banking activities to a broad-based lending portfolio, credit to the retail segment has soared in both developing and developed nations. The rapid advancements in information technology, the changing macroeconomic climate brought on by financial market reform, and various micro-level demand and supplyside factors are all responsible for the growth of retail lending, particularly in emerging nations. Innovative financial products driven by technology have made it easier for banks to bolster their balance sheets and income structures. Borrowers' external financing costs have significantly decreased thanks to technology, while banks have profited from product improvements and lower transaction costs related to the gathering, processing, and use of information. As a result, banks now have access to improved risk management and product pricing strategies. However, the increase in retail lending has some restrictions. Retail lending may increase household debt, which could have an impact on the long-term sustainability of private spending and saving. Rapid growth in retail loans could have an impact on bank lending for investment activities, which would have consequences for economic expansion. However, according to a number of cross-sectional studies, retail lending may carry a number of risks that have an impact on banks' asset quality (Gaur, 2009).

The US mortgage market is enormous and well-developed, offering a wide variety of mortgage programmes with several choices for repayment. The most active mortgage market in the world is found in the United States of America, where both individual and corporate mortgage providers offer their services. Other varieties of mortgage brokers operate in both individual and corporate settings. With all the participants and fierce rivalry there are many different types of mortgage products accessible in the US (such as Reverse mortgages, forward mortgages, etc.), encouraging ongoing innovation.

According to the Annual Reverse Mortgage Report from Deloitte, there is a growing interest in using home equity as a resource to be considered alongside other retirement sources among Australian financial services organisations, including retail wealth managers, banks, non-bank lenders, and insurance companies. This growing interest has resulted in the rising popularity of reverse mortgages in retirement. In Australia, there are currently close to 40,000 reverse mortgages, with an average loan size of $92,000, up from $86,000 in 2013 (Oliva, 2015).

An excellent opportunity for retirees and a reliable source of income after retirement is a reverse mortgage. This plan is well known in many industrialised nations, including the USA, Canada, and Australia, because of the income advantage after retirement.

CONCLUSION

Like India, many nations throughout the world offer mortgage loans to make the lives of their citizens easier and more pleasant, so that they can live in their ideal homes and receive other benefits. The mortgage industry helps many unemployed people find work in every nation. There are numerous HFCs that have opened, and they mostly offer mortgage loans. Borrowers who work with these HFCs can obtain loans more quickly since they provide assistance with the necessary paperwork, various verifications, tax advantages, interest rate information, and EMI details. These procedures will make it simpler for the borrower to move forward by assisting them in comprehending the actual mortgage loan's existence. Sometimes the borrower must additionally obtain confirmation from other sources (such as those who have already obtained a loan, other HFCs for the purpose of comparing interest rates and other costs, etc.). As a conclusion, we can conclude that this sector aids any nation in boosting its economic development while also benefiting the local populace.

Reverse mortgages are a great choice for senior adults who want to live independently in their later years but do not have a pension or other source of income after retirement. If we take into account the tax-free lifetime annuity, a reverse mortgage is a solid plan to fall back on when financial pressure is too great and there are no other options. Additionally, a person can take out a reverse mortgage loan against one home and keep the other property safe for their heirs if they own multiple properties but do not have an adequate source of income after retiring.
The danger of living longer is also covered by this option, and the payments are better. The debt taken out can always be repaid to regain home ownership. If the institution sells the home, any remaining funds will be given to the rightful heirs. In summary, the scheme does offer pensioners a viable alternative for planning their post-retirement income in its current form.

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