Article

Reverse Mortgages in India

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Reverse mortgage, the concept introduced to benefit the elderly people of the society wherein they can use the equity held in their residential property to ensure a secured source of regular pension, has turned out to be a very useful concept in India since its implication in 2008. The concept was introduced by P. Chindambaram in the Finance Bill 2007 as a security measure for the senior citizens. With a view to make the schemes more and more beneficial for the senior citizens, the Government of India has taken various initiatives from time to time. As per the reports of NHB, reverse mortgage loans worth Rs. 1,800 crores have been sanctioned and loans worth Rs. 800 crores have been already been disbursed after this scheme got introduced. In this write up we have tried to portray all those initiatives that the regulators have taken to make the schemes more simple and beneficial for the borrowers.

Concept of Reverse Mortgage

The concept is known as reverse mortgage because unlike a normal mortgage loan, where the money moves on an installment basis from the borrower to the lender, here the money moves from the lender to the borrower on periodical basis. Under a reverse mortgage scheme, a senior citizen can use the value of his/her residential property to raise funds by mortgaging the same, but the best thing is that he/she has the security to use the property till he/she or his/her spouse dies. The borrower receives the amount by way of periodical payments. Under these schemes the recovery of principal and interest takes place when the mortgagee or his/her spouse dies or the mortgagee leaves the property permanently by way of selling the property however the borrower or the heirs can stop the property from being sold by repaying the principal along with the accumulated interest at the end of the mortgage term.

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

[1] http://nhb.org.in/RML/guidelines.php

and a single lump sum payment shall not exceed 50% of the loan amount subject to a cap of Rs. 15 Lakhs 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 last surviving borrower dies or would like to sell the property 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 along with the accumulated 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[2]. The snapshot of the scheme has been laid down below:

- Only NHB, scheduled commercial banks and housing finance companies are recognized and can do the lending incase of a reverse mortgage loan.
- The reverse mortgagor should be 60 years of age, incase 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 lump sum payments should not exceed 50% 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 70/2013[3] issued a circular amending the Reverse Mortgage Scheme, 2008, which will be henceforth known as Reverse Mortgage (Amendment) Scheme, 2013.

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[2] http://nhb.org.in/RML/notifications.php

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 20 years from the date of signing of the agreement.

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 under Section 10(43) of the Income Tax Act.

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[3] http://law.incometaxindia.gov.in/DIT/File_opener.aspx?page=NOTF&schT=&csId=f1b8f6cc-3eb5-401b-b288-049aa50fdc2e&NtN=&yr=ALL&sec=&sch=&title=Taxmann%20-%20Direct%20Tax%20Laws