REVERSE MORTGAGE LOAN (RML): OPERATIONAL GUIDELINES

Introduction

Senior Citizens are an increasing component of the Indian society and dependency in old age is increasing in the country. While on the one hand, there is significant increase in longevity and low mortality, on the other hand cost of good health care facilities is spiraling and there is little social security. Senior Citizens need a regular cashflow stream for supplementing pension/other income and addressing their financial needs. Secular increase in residential house prices has created considerable "home equity "wealth. For most Senior Citizens, the house is the largest component of their wealth.

Conceptually, Reverse Mortgage seeks to monetize the house as an asset and specifically the owner's equity in the house. The scheme involves the Senior Citizen borrower(s) mortgaging the house property to a lender, who then makes periodic payments to the borrower(s) during the latter's lifetime. The Senior Citizen borrower is not required to service the loan during his lifetime and therefore does not make monthly repayments of principal and interest to the lender. On the borrower's death or on the borrower leaving the house property permanently, the loan is repaid along with accumulated interest, through sale of the house property. The borrower(s)/heir(s) can also repay or prepay the loan with accumulated interest and have the mortgage released without resorting to sale of the property. Reverse mortgages are one product within the "Equity Release" category.

1. **Reverse Mortgage Loans (RMLs)** are to be extended by Primary Lending Institutions (PLIs) viz. Scheduled Banks and Housing Finance Companies (HFCs) registered with NHB. The PLIs reserve their discretion to offer Reverse Mortgage Loans. Prospective borrowers are advised to consult PLIs regarding the detailed terms of RML as may be applicable to them.

2. **Eligible Borrowers:**
   - Should be Senior Citizen of India above 60 years of age.
   - Married couples will be eligible as joint borrowers for financial assistance. In such a case, the age criteria for the couple would be at the discretion of the PLI, subject to at least one of them being above 60 years of age. PLIs may put in place suitable safeguards keeping into view the inherent longevity risk.
   - 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.
   - The residential property should be free from any encumbrances.
   - The residual life of the property should be at least 20 years.
   - 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, the PLIs may rely on documentary evidence, other sources supplemented by physical inspections.

3. Determination of Eligible Amount of Loan:

- The amount of loan will depend on market value of residential property, as assessed by the PLI, age of borrower(s), and prevalent interest rate.
- The table given hereunder may serve as an indicative guide for determining loan eligibility:

Age	Loan as proportion of Assessed Value of Property
60 – 65	40%
66 – 70	50%
71 – 75	55%
Above 75	60%

The above table is indicative and the PLIs will have the discretion to determine the eligible quantum of loan reckoning the 'no negative equity guarantee' being provided by the PLI. The methodology adopted for determining the quantum of loan including the detailed tables of calculations, the rate of interest and assumptions (if any), shall be clearly disclosed to the borrower.

- The PLI may consider ensuring that the equity of the borrower in the residential property (Equity to Value Ratio - EVR) does not at any time during the tenor of the loan fall below 10%.
- The PLIs will need to re-value the property mortgaged to them at intervals that may be fixed by the PLI depending upon the location of the property, its physical state etc. Such revaluation may be done **at least once every five years,** the quantum of loan may undergo revisions based on such re-valuation of property at the discretion of the lender.

4. Nature of Payment:

Any or a combination of the following:

- Periodic payments (monthly, quarterly, half-yearly, annual) to be decided mutually between the PLI and the borrower upfront
- Lump-sum payments in one or more tranches
- Committed Line of Credit, with an availability period agreed upon mutually, to be drawn down by the borrower

Lump-sum payments may be made conditional and limited to special requirements such as medical exigencies, home improvement, maintenance, up-gradation, renovation, extension of residential property etc. ***The PLIs may be selective in considering lump-sum payments option and may frame their internal policy guidelines, particularly the eligibility and end-use criteria. However, these conditions shall be fully disclosed to potential borrowers upfront***.

It is important that nature of payments be decided in advance as part of the RML covenants. PLI at their discretion may consider providing for options to the borrower to change.

5. **Eligible End use of funds**

The loan amount can be used for the following purposes:

- Up gradation, renovation and extension of residential property.
- For uses associated with home improvement, maintenance/insurance of residential property
- Medical, emergency expenditure for maintenance of family
- For supplementing pension/other income
- Repayment of an existing loan taken for the residential property to be mortgaged
- Meeting any other genuine need

Use of RML for speculative, trading and business purposes shall not be permitted

6. **Period of Loan:** Maximum 15 years.

7. **Interest Rate:** The interest rate (including the periodic rest) to be charged on the RML to be extended to the borrower(s) may be fixed by PLI in the usual manner based on risk perception, the loan pricing policy etc. and specified to the prospective borrowers. Fixed and floating rate of interest may be offered by the PLIs subject to disclosure of the terms and conditions in a transparent manner, upfront to the borrower.

8. **Security:**

- The RML shall be secured by way of mortgage of residential property, in a suitable form, in favour of PLI.
- **Commercial property will not be eligible for RML.**

9. **Valuation of Residential Property:**

- The residential property should comply with the local residential land-use and building bye laws stipulated by local authorities, with duly approved lay-out and building plans.
- The PLI shall determine the Market Value of the residential property through their external approved valuer(s). In-house professional valuers may also be used subject to adequate disclosure of the methodology.
- The valuation of the residential property is required to be done at such frequency and intervals as decided by the PLI, which in any case shall be **at least** once every five years. The methodology of the revaluation process and the frequency/schedule of such revaluations shall be clearly specified to the borrowers upfront.
- PLIs are advised not to reckon expected future increase in property value in determining the amount of RML. Should the PLIs do so in their best commercial judgement, they may do so under a well defined Policy approved by their Board and based on professional advice regarding property prices.

10. Provision for Right to Rescission:

As a customer-friendly gesture and in keeping with international best practices, after the documents have been executed and loan transaction finalized, Senior Citizen borrowers may be given up to three business days to cancel the transaction, the "right of rescission,". If the loan amount has been disbursed, the entire loan amount will need to be repaid by the Senior Citizen borrower within this three day period. However, interest for the period may be waived at the discretion of the PLI.

11. Loan Disbursement by Lender to Borrower:

- The PLI will pay all loan proceeds directly to the borrower, except in cases pertaining to retirement of existing debt, payments to contractor(s) for the repairs of borrower's property, or payment of property taxes or hazard insurance premiums from the borrower's account set aside for the purpose.
- In case the residential property is already mortgaged to any other institution, the PLI may, at its discretion, consider permitting use of part proceeds of RML to prepay/repay the existing housing loan. The loan amount will be paid directly to that institution to the extent of the loan outstanding with that institution with a view to release the mortgage.
- *Periodicity:* The loan will be extended as regular monthly, quarterly, half-yearly or annual periodic cash advances or as a line of credit to be drawn down in time of need or in lumpsum.
- The PLI will have the discretion to decide the mode of payment of the loan including fixation of loan tenor, depending on the state and market value of the property, age of the borrower and other factors. The rationale behind the decision of mode of payment and fixation of the loan tenor shall be clearly disclosed to the borrowers.

12. Closing:

The PLIs will provide in writing, a fair and complete package of reverse mortgage loan material and specimen documents, covering inter-alia, the benefits and obligations of the product. They may also consider making available a tool kit to illustrate the potential effect of future house values, interest rates and the capitalization of interest on the loan.

The closing costs may include the customary and reasonable fees and charges that may be collected by the PLIs from the borrower. The cost for any item charged to the borrower shall not normally exceed the cost paid by the lender or charged to the lender by the provider of such service(s). Such items may include:

- Origination, Appraisal and Inspection Fees. The borrower may be charged pro-rata origination, appraisal and inspection fees by the PLI /appraiser.
- Verification Charges of external firms
- Title Examination Fees
- Legal Charges/ Fees
- Stamp Duty and Registration Charges
- Property Survey and Valuation charges

A detailed schedule of all such costs will clearly be specified and provided to the prospective borrowers upfront by the PLIs.

13. Settlement of Loan

- The loan shall become due and payable only when the last surviving borrower dies or would like to sell the home, or permanently moves out of the home for aged care to an institution or to relatives. Typically, a "permanent move" may generally mean that neither the borrower nor any other co-borrower has lived in the house continuously for one year or do not intend to live continuously. PLIs may obtain such documentary evidence as may be deemed appropriate for the purpose.
- Settlement of loan along with accumulated interest is to be met by the proceeds received out of Sale of Residential Property.
- The borrower(s) or his/her/their estate shall be provided with the first right to settle the loan along with accumulated interest, without sale of property.
- A reasonable amount of time, say up to 2 months may be provided when RML repayment is triggered, for house to be sold.
- The balance surplus (if any) remaining after settlement of the loan with accrued interest, shall be passed on to the estate of the borrower.

14. Prepayment of Loan by Borrower(s)

- The borrower(s) will have option to prepay the loan at any time during the loan tenor.
- There will not be any prepayment levy/penalty/charge for such prepayments.

15. Loan Covenants:

- The borrower(s) will continue to use the residential property as his/her/their primary residence till he/she/they is/are alive, or permanently move out of the property, or cease to use the property as permanent primary residence.
- *Non-Recourse Guarantee:* The PLIs shall ensure that all reverse mortgage loan products carry a clear and transparent 'no negative equity' or 'non-recourse' guarantee. That is, the Borrower(s) will never owe more than the net realizable value of their property, provided the terms and conditions of the loan have been met.
- *Loan Agreement*: The PLIs shall enter into a detailed loan agreement setting out therein the salient features of the loan mortgage security and other terms and conditions, including disbursement and repayment of the loan, in addition to the usual provisions, which are ordinarily incorporated in a mortgage loan document.
- The loan agreement may also include a provision that the borrower shall not make any testamentary disposition of the property to be mortgaged and even if it does so, it would be subject to the mortgage created in favour of the lending institution. In such a case, the borrower shall make a testamentary disposition of the mortgaged property in favour of any of his/her relatives, subject to the discharge of the mortgage debt by such legatee and a statement that the heirs shall not be entitled to challenge the validity of the mortgage as also the right of

the mortgagee to enforce the mortgage in the event of death of the borrower unless the legal representative is willing to undertake the responsibility for discharging in full the amount of loan and accrued interest thereof.

- In addition, the PLI may also consider obtaining a Registered Will from the borrower stating, inter-alia, that he/she has availed of RML from the PLI on security by way of mortgage of the residential property in favour of the PLI, meaning thereby that in the event of death of the borrower (and co-borrower, if any), the mortgagee is entitled to enforce the mortgage and recover the loan from the sale proceeds on enforcement of security of the mortgage. The surplus, if any, has to be returned to the heirs of the deceased borrower(s).
- The PLIs may consider taking an undertaking from the prospective borrower that the "Registered Will" given to the PLI is the last "Will", prepared by him/her at the time of availment of RML facility as per which the property will vest in his/her spouse name after his/her demise. The borrower will also undertake not to make any other 'Will' during the currency of the loan which shall have any adverse impact on the rights created by the borrower in the PLI's favour by way of creation of mortgage on the immoveable property mentioned under the loan documentation for covering loan to be allowed to his/her spouse and interest thereon, even after the borrower's death.
- The PLI will ensure that the borrower(s) has insured the property against fire, earthquake, and other calamities.
- The PLI will ensure that borrower(s) pay all taxes, electricity charges, water charges and statutory payments.
- The PLIs will ensure that borrower(s) are maintaining the residential property in good and saleable condition.
- The PLI may reserve the option to pay for insurance premium, taxes or repairs by reducing the homeowner loan advances and using the difference to meet the obligations/expenditures.
- The PLI reserves the right to inspect the residential property/premises or arrange to have the residential property/premises inspected by its representatives any time before the loan is repaid and borrower(s) shall render his/her/their cooperation in respect of such inspections.

16. Title Indemnity/Insurance

- The PLI shall obtain legal opinion for ensuring clarity on the title of the residential property.
- The PLI shall also endeavour to obtain indemnity on title related risks, as and when such indemnity products are available in India.

17. FORECLOSURE:

- The loan shall be liable for foreclosure due to occurrence of the following events of default.
  - If the borrower has not stayed in the property for a continuous period of one year
  - If the borrower(s) fail(s) to pay property taxes or maintain and repair the residential property or fail(s) to keep the home insured, the PLI reserves the

right to insist on repayment of loan by bringing the residential property to sale and utilizing the sale proceeds to meet the outstanding balance of principal and interest.
- If borrower(s) declare himself/herself/themselves bankrupt.
- If the residential property so mortgaged to the PLI is donated or abandoned by the borrower(s).
- If the borrower(s) effect changes in the residential property that affect the security of the loan for the lender. For example: renting out part or all of the house; adding a new owner to the house's title; changing the house's zoning classification; or creating further encumbrance on the property either by way taking out new debt against the residential property or alienating the interest by way of a gift or will.
- Due to perpetration of fraud or misrepresentation by the borrower(s).
- If the government under statutory provisions, seeks to acquiring the residential property for public use.
- If the government condemns the residential property (for example, for health or safety reasons).

18. Option for PLI to Adjust Payments:

- The PLI shall have the option to revise the periodic/lump-sum amount at such frequency or intervals based on revaluation of property, which in any case shall be at least once every five years.
- Borrower shall be provided with an option to accept such revised terms and conditions for furtherance of the loan.
- If the Borrower does not accept the revised terms, no further payments will be effected by the Lender. Interest at the rate agreed before the review will continue to accrue on the outstanding amount of the loan. The accumulated principal and interest shall become due and payable as mentioned in clauses (13) and (17).

19. Counseling and Information to Borrowers:

- The PLIs will observe and maintain high standards of conduct in dealing with the Senior Citizens and their families and treat them with special care.
- The PLIs shall clearly and accurately disclose the terms of the RML without any ambiguity.
- The PLIs should clearly explain to the prospective borrowers the terms and conditions of RML, the methodology followed for valuation of the residential property, the method of determination of eligible quantum of loan, the frequency of re-valuation and review of terms and all related aspects of the RML.
- The PLIs may suggest to the Senior Citizens to nominate their ‘personal representatives’ usually a close relative who the PLI can contact in the event of any potentialities.
- The PLIs may counsel the prospective borrowers about the possible impacts to the borrowers due to adverse movements in interest rates and property price fluctuations.
- The PLIs shall clearly specify all the costs to the Borrower(s) that are associated with the transaction.

- The PLIs shall in no way assert or imply to the borrower(s) that the borrower(s) is/are obligated to purchase any other product or service offered by the PLI or any other associated institution in order to obtain a reverse mortgage loan.
- Take reasonable steps to check out the background and procedures of third parties before accepting referrals of business from them, and refuse to accept referrals from those that are found unacceptable. Members shall disclose to clients any third party with a financial interest in the reverse mortgage transaction.
- Overall, the PLIs shall treat the Senior Citizen borrower fairly.

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