STRUCTURE

- Section 1 : The Yesteryears & Golden Years
- Section 2 : Introduction to Reverse Mortgage
- Section 3 : Reverse Mortgage - Global Scenario
- Section 4 : Reverse Mortgage – Indian Offering
- Section 5 : Treating the elders fairly

Section 1 :
The Yesteryears & Golden Years

THE YESTERYEARS

- The best investments that you have made are:
  - Educating your children and settling them
  - Portfolio Investments
  - Cash and jewels
  - Family's 'Nest Egg' – your family home/residence
- When everything is gone, your Nest-Egg is your only support.
- Currently, properties have significantly appreciated. However encashing them especially for elders is a huge challenge.

RETIREMENT – GOLDEN YEARS ?

- No meaningful social security net
- Inadequate pensions/retirement benefits
- Age, generation, upbringing and life experiences, health related issues
- Loneliness and emotional stress
- Financial inadequacy
- Lack of opportunities to earn income

Any combination of the above would lead to a "stressful retirement"

Consequence : A steep deterioration in standard of living

Section 2 :

Introduction to Reverse Mortgage

WHAT IS REVERSE MORTGAGE

- Reverse Mortgage is a type of *loan* available to elders (60/62 and over), used as a way of converting their home equity (the value of the home less any existing mortgages) into one or more cash payments while retaining ownership of the property (continuing to live there) and *avoiding* monthly payments

- Repayment of loan is deferred until the borrower *(last of the spouses)* is no longer living in the home

- Reverse Mortgage is also referred to as-

  - Lifetime Mortgages

  - Equity Release Mortgages

  - Financial Gerontology

- This is not new, not just invented

TYPICAL USAGES / PURPOSES

- Daily living expenses
- Health care expenses / geriatric care
- Home improvements / home care
- Paying off existing debts (minor ones, on the Principal Residence)
- Use for recreational / religious fulfillment

FEATURES

- A non-refundable, non-recourse funding/financing

  (Lenders have no legal resource to anything other than the value of the home)

- Continue to 'live' in your home and 'retain' your legal title, pass on to your 'chosen' successor

- Yield mortgage on that specific home to Reverse Mortgage Lender

  [An independent trust company to create the "fair-playing ground" between the lenders and you ??]

- Repay or close 'only' on:

  - Selling the home
  - Permanently leaving the home to live elsewhere / No longer use the home as Principal Residence
  - Death

- Access to a wide array of geriatric services

- Biggest drawback : High Upfront Costs

ELIGIBILITY & CONDITIONS

Eligibility

- Home owners above 60/62 years of age
- No income/health conditions attached / credit history not relevant
- Clear ‘Title’ (i.e.without any charges / encumbrances) or a low outstanding loan balance on the primary residence that can be paid off with an initial draw

Conditions

- Must have a owned principal residence/primary dwelling
- Reasonably well maintained residence / dwelling place
- Free from ‘land’ related encumbrances
- No loans against ancestral properties
- Borrower to undergo counseling, regarding reverse mortgage from a panel of ‘approved counselors’
- If the Reverse Mortgage borrower dies/moves, anyone who lives cannot stay anymore or make any claims

Ongoing Obligations

- To maintain the property in good shape, through repairs and maintenance
- To keep the property related taxes up to date

COMPARISON

Forward Mortgage Home Loan	Reverse Mortgage Loan
1) Pay back the loan amount + interest through EMI's.	1) No repayment of the loan amount + interest during the borrower's lifetime.
2) Loan amount sanctioned for a specific purpose.	2) Loan amount can be used for any scheme defined purposes.
3) Earning Capacity/Repayment Capacity crucial.	3) Earning Capacity/Repay Capacity nor relevant.
4) Eviction or forceful action in the event of default in repayment.	4) No fear of eviction.The borrower and his spouse can live in the house till their death.
5) Any other security owned by the borrower can be pressed in the event of default in repayment.	5) A non-recourse loan.No assets of the borrower other than the home, can be pressed in the event of default in repayment.

Section 3 :

Reverse Mortgage – Global Scenario

GLOBALLY POPULAR CONCEPT

1) Reverse Mortgage as a concept is in existence in USA, UK, Canada, Japan and France (with minor differences) for well over 2 decades

2) Canada and Japan, follow the base US model. Japan differs in the type of products available, insurance structure, etc, whereas Canada differs in percentage of equity accessible and costs involved

3) France, for that matter has a totally different structure, known as Viager (This is a type of contract relating to purchase and sale of housing property, in which the aged seller continues to live in the property even after signing the contract and the purchaser continues to pay fixed amount to the seller until he dies)

4) However, US model (HECM Model) Home Equity Conversion Mortgage is a progressive and responsive model

NRMLA National Reverse Mortgage Lenders Association

- Established in December 1997, NRMLA, headquartered in Washington, DC
  - serves as an educational resource, policy advocate, and public affair center for Reverse Mortgage lenders and related professionals
  - strives to enhance the professionalism of the Reverse Mortgage business;
  - educates customers, trains lenders to be sensitive to the needs of older Americans
  - enforces code of conduct and best practices and promotes reverse mortgages in the media
- Its members make and service more than 90 percent of all reverse mortgages in the U.S.
- As the official voice of the reverse mortgage industry in Washington, D.C.
  - represents the interests of the members before Congress and the key government officials
  - is responsible for shaping federal reverse mortgage policies
  - promotes the reverse mortgage product and member lenders to the public and press

NRMLA ROLE

- A fulcrum around which the Reverse Mortgage world in the US revolves.
- Assuming the role of a Self Regulating Organisation (SRO).
  - Every lender or other service providers need to be accredited/registered with them
  - Has issued a Code of Conduct and a Best Practices manual insisting on transparency & fair processes
  - Continuously builds safeguards around the Reverse Mortgage product, keeping in mind the vulnerability of “Elders”
  - Carrying out-Boogie traps, prowling for defects on service providers
  - Providing collateral support(facilities) to the elders (ensuring the highest level of quality assurance)
  - Continuous Advisory Services and others

NRMLA – RM – HECM SAFEGUARDS
(not exhaustive)

1) Counseling
2) Capped interest rates, lenders' margin and other costs
3) Three-day right of recession
4) Total annual loan cost disclosures
5) Robust 'No eviction' terms
6) Robust Non-recourse terms
7) Payment guarantee
8) Grievance Redressal for elders

KEY HECM REVERSE MORTGAGE LOAN BUILDING BLOCKS

(not exhaustive)

- Significant HUD Support:
  - Area wise maximum loan qualification in all parts of USA
  - Capping on costs – especially interests, lenders margin
  - Federal Insurance Cover (even though Government of USA offers Home Equity Line of Credit facilities and Fannie Mae offers Money Keepers)
  - Counseling, a Condition Precedent for Insurance Cover
- Pioneering RMLA Role & Safeguards:
  - Code of Conduct and Best Practices
  - Screening and filtering of all proposal of all service providers
  - Continuous monitoring of all service providers
  - Capping on costs through consensus building

HECM LOAN STRUCTURE

Monthly Loan

Current Interest Rate		5.03%	(1year Treasury Bond Rate Index/Benchmark Rate)
Lenders Margin		1.50%	(Capped by HUD)
Current Loan Interest		6.53%	
HUD Mortgage Insurance		0.50%	
Effective Loan Rate		7.03%	
Value of home	US$	2,00,000	
Lending Limit		3,62,790	(Based on the location – Set by HUD)
Lending Value	US$	2,00,000	(Lower of the two)
Loan Principal		1,38,200	69.1%
Less: Loan Fees to lender		4,000	
Less: Mortgage Insurance		4,000	
Less: Closing Costs		2,074	
Less: Service Fee set aside		4,219	
Cash Available		1,23,907	
Less: Other Items		-	
Left for monthly advance		1,23,907	61.9%
Monthly	US$	887	(Till death/move out)

Section 4 :
Reverse Mortgage Indian Offering

1st PRODUCT OFFERING

- Congratulations to Dewan Housing for being the first to bring in the concept and the product in India – called ‘Sakshan’

- Being the first days, it is essential that all inputs are provided to DHFL to rejig their offering to suit the Indian market

- Our appeal to DHFL : Need to orient towards human side of the product rather than financial side

PERSONAL - Windows Picture and Fax Viewer

IL&FS

How does a reverse mortgage work?

Individuals over the age of 60 are eligible for this product

Vivek Kaul
Mumbai

Some things never change, like his habit of listening to Vividh Bharti early in the morning.

The song "Dekh tere sansaar ki halat kya ho gayi bhagwan, kitna badal gaya insaan" written and sung by Kavi Pradeep, was playing.

This made him nostalgic. Five decades since he had first heard the song and as time had passed, he felt that the song had become more relevant than it was when it had been originally composed. Things had gone from bad to worse.

At a personal level he had done well. He had retired from a government job, two years back and was receiving a steady pension every month. Both his daughters were working in the United States, something which his relatives never stopped reminding him of. But as life had turned out he and his wife were an extremely lonely and bored couple. Nobody had time for them these days. But now they had a new mission in life. They wanted to travel and see India. But there was a slight problem. The amount of pension he got, would be insufficient to fulfil this dream. And there was no way he was going to ask his daughters for money.

The only asset they had was the house they were living in. Most of what he had been able to save after educating his daughters had gone into the house. This left him wondering, was there someway he could get a regular income from the house without selling or renting it out. So he spoke to his younger daughter, who told him "Dad, you need to take out a reverse mortgage on the house."

That left him wondering, "What is a reverse mortgage?" With a little research, he found out that it is exactly what the name suggested, an opposite of a mortgage. In a mortgage or a home loan, as it is commonly referred to in India, an individual takes a loan to buy a house. And to repay the principal and the interest on the loan, the individual needs to pay an equated monthly installment (EMI) for the tenure of the loan. In a reverse mortgage it is exactly the opposite. Instead of the individual paying an EMI to the housing finance company (HFC), the HFC pays an EMI to the individual. Now this was interesting. A little more digging told him that Dewan Housing Finance Corporation Ltd (DHFL) has just come out with India's first reverse mortgage product called "Saksham".

Individuals over the age of 60 are eligible for this product. Depending on the value of the house an individual will be paid an EMI every month or quarter.

The value of his house is around Rs 20 lakh. On this he would be eligible for a payment of Rs 4100 every month, for a period of 10 years, at floating interest rate of 12%.

This payment of Rs 4,100 per month is a loan against the value of his house. The loan to value ratio in case of Saksham is 50%. Now let's see what this means. The company is charging an interest of 12% per year, which effectively means an interest of 1% per month. So in the first month the Rs 4,100, an interest of 1% would Rs 41, taking the loan amount to a total of Rs 4,141.

In the second month there would again be a payment of Rs 4,100, taking the loan amount to Rs 8,241. On this the interest of 1% would amount to Rs 82.41, taking the loan amount to Rs 8,323.41. In the third month there would again be a payment of Rs 4,100, taking the loan amount to Rs 12,423.41. An interest of 1% on this would amount to Rs 124.23, taking the loan amount to Rs 12,547.64. Repeating the same process for the remaining period till the end of 10 years the total loan amount would be around Rs 10 lakh or 50% of the value of his property i.e., Rs 20 lakh.

At the end of ten years, they could continue to live in the house. Though the monthly payment would stop. At that point of time, the couple have the option of renewing the mortgage for an amount the value of the property would have gone up by.

Loan for home

Depending on the value of the house an individual will be paid an EMI every month or quarter

Dewan Housing is charging an interest of 12% per year, which effectively means an interest of 1% per month

The loan to value ratio in the case of the Dewan scheme is 50%

In fact, if one of them expired the other one could continue to live as long as he or she was alive. But once both them expired the housing finance company would sell the house. The amount that is left after DHFL has recovered the total loan amount of around Rs 10 lakh that it gave out, will go to the legal heirs of the couple.

Also, if both of them expired during the period of ten years, then the housing finance company would sell the house and the amount left after the HFC has recovered the total loan amount would go to the legal heirs. The legal heirs have the option of settling the loan amount directly with the housing finance company. In this situation, the housing finance company will not sell the house and hand it over to the legal heirs.

Now, this was a product that would allow him to earn some income from his house. Though the amount was not much, but it was good enough to help him see the country.

(The example is hypothetical)

start PERSONAL - Window... Microsoft PowerPoint ... 3:39 PM

IMPORTANT

- The proposed product is a fixed term loan; you may have to sell the home and repay the ‘Loan’ – Think now!!

- The property would be revalued every three years and instalments adjusted accordingly – Is it both ways

- Would the proposed product provide for “No negative equity guarantee” from the lenders? [you may have to meet the shortfall if your debt (principal + interest) amounts to more than the value of your property

- As you grow older, how would you maintain the asset? – Help from where??

REVERSE MORTGAGE CALCULATIONS

Reverse Mortgage Calculator - 1		
Loan Calculations	**Monthly Adjusting**	**%**
Current interest rate index		
Lender's margin		
Current loan interest rate		
Mortgage Insurance		
Current effective loan rate	**12.00%**	
Cap on effective loan rate		
Value of your Property	2,000,000	
Lending limit		
Lesser of limit or home value	**2,000,000**	
Loan principal limit	632,000	31.6%
Less loan fees to lender	40,000	
Less Mortgage Insurance	40,000	7.00%
Less other closing costs	20,000	
Less service fee set-aside	40,000	
Cash available to you	**492,000**	24.60%
Less liens on your home	-	
Less necessary repairs	-	
Less other upfront cash	-	
Less Desired Creditline	**-**	
Left for monthly advance	492,000	
Monthly advance: Tenure (10 yrs)	4,100	

Reverse Mortgage Calculator - 2				
Particulars	**Principal (Rs,)**	**Interest (Rs.)**	**Total (Rs.)**	
At the end of 120 months	492,000	460,590	952,590	
% of Property Value	25	23	48	
Add: Initial set up costs	-	-	140,000	app.
% of Property Value	-	-	7	
Total Costs			600,590	
% of Property Value			30	

Section 5 :
Treating The Elders Fairly

TREATING THE 'ELDERS' FAIRLY

- Customers for Reverse Mortgage are elders – who are fragile and vulnerable.
- Hence, it is imperative that a 'FIT FOR PURPOSE' 'safety net' is established before introduction:

1) An entity similar to NRMLA – 'crying need to endorse the product offering'
2) Strong/Robust counseling through accredited counselors
3) Mandatory capping of interest and upfront costs
4) Upfront disclosure of Reverse Mortgage calculations
5) Standardised documentations, cleared by a neutral body
6) Norms and procedures for title verification and valuation
7) Demonstrated professionalism of all service providers to be accredited
8) Procedures for encashment of property appreciation
9) "Loan limits" as maximum 'permissible loanable' amount
10) Eliminating marketing by lenders and their agents

(ILLUSTRATIVE)

AN APPEAL TO DIGNITY FOUNDATION

Dignity Foundation demonstrated that it has a heart for senior citizens issues. Given that these are first days for the concept and products, Dignity Foundation needs to take on the following vis-à-vis elders:

1) Role of a Fiduciary (Trustee) to:

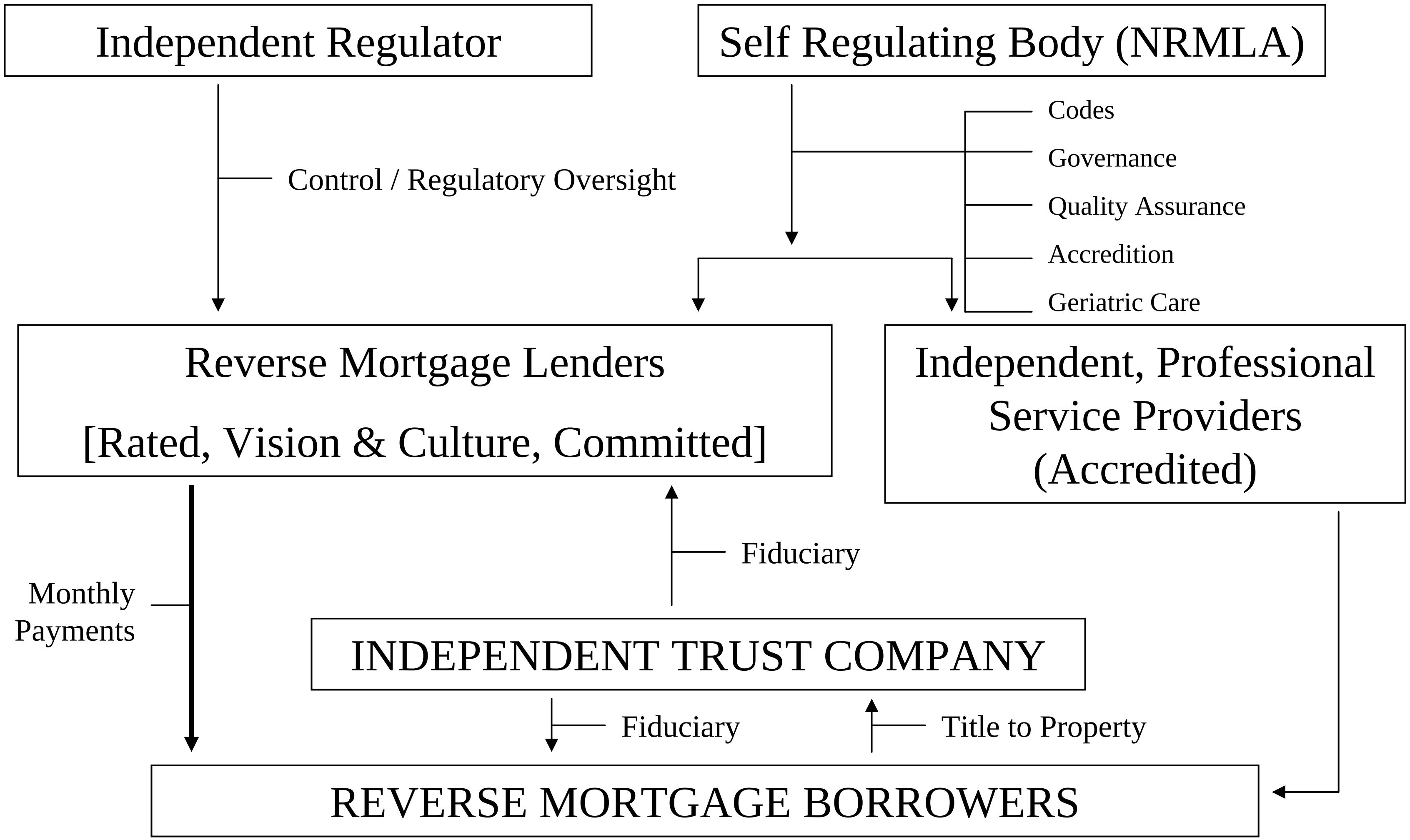
- Evaluate the lenders and clear their offerings
- Hold the title documents between lenders and borrowers:
  - to prevent high handedness
  - to guarantee smooth access on closure of the loan

2) Role of a Self Regulating Organisation, similar to NRMLA:

- Enforcing fair play and transparency; setting codes to “Treat Customers Fairly”
- Standardised documents especially with respect to:
  - tenor of the loans – cover upto death or moving out
  - non-recourse leading
  - Provision for early closure, if the building/property is acquired by builders, etc
  - Appreciation of value of Properties – Ways to encash the appreciation
  - Ensuring ‘No Negative Equity Guarantee”
  - Ensuring full and correct disclosure of value, costs and other adjustments

(Illustrative List Only)

SUGGESTED PRODUCT STRUCTURE



RM IS AN IDEAL OPTION TO

- Elders who owned a home for a long time
- Elders who don’t want to move (emotionally attached)
- Need additional inflow
- Not overly concerned about how much of their wealth is left to their heirs.
- Not very concerned about apparent high cost of Reverse Mortgage

THANK YOU

&

NAMASKAR

STRUCTURE

- Section 1 : The Yesteryears & Golden Years
- Section 2 : Introduction to Reverse Mortgage
- Section 3 : Reverse Mortgage - Global Scenario
- Section 4 : Reverse Mortgage – Indian Offering
- Section 5 : Treating the elders fairly

Section 1 :
The Yesteryears & Golden Years

THE YESTERYEARS

- The best investments that you have made are:
  - Educating your children and settling them
  - Portfolio Investments
  - Cash and jewels
  - Family's 'Nest Egg' – your family home/residence
- When everything is gone, your Nest-Egg is your only support.
- Currently, properties have significantly appreciated. However encashing them especially for elders is a huge challenge.

RETIREMENT – GOLDEN YEARS ?

- No meaningful social security net
- Inadequate pensions/retirement benefits
- Age, generation, upbringing and life experiences, health related issues
- Loneliness and emotional stress
- Financial inadequacy
- Lack of opportunities to earn income

Any combination of the above would lead to a "stressful retirement"

Consequence : A steep deterioration in standard of living

Section 2 :

Introduction to Reverse Mortgage

WHAT IS REVERSE MORTGAGE

- Reverse Mortgage is a type of *loan* available to elders (60/62 and over), used as a way of converting their home equity (the value of the home less any existing mortgages) into one or more cash payments while retaining ownership of the property (continuing to live there) and *avoiding* monthly payments

- Repayment of loan is deferred until the borrower *(last of the spouses)* is no longer living in the home

- Reverse Mortgage is also referred to as-

  - Lifetime Mortgages
  - Equity Release Mortgages
  - Financial Gerontology

- This is not new, not just invented

TYPICAL USAGES / PURPOSES

- Daily living expenses
- Health care expenses / geriatric care
- Home improvements / home care
- Paying off existing debts (minor ones, on the Principal Residence)
- Use for recreational / religious fulfillment

FEATURES

- A non-refundable, non-recourse funding/financing

  (Lenders have no legal resource to anything other than the value of the home)

- Continue to 'live' in your home and 'retain' your legal title, pass on to your 'chosen' successor

- Yield mortgage on that specific home to Reverse Mortgage Lender

  [An independent trust company to create the "fair-playing ground" between the lenders and you ??]

- Repay or close 'only' on:

  - Selling the home
  - Permanently leaving the home to live elsewhere / No longer use the home as Principal Residence
  - Death

- Access to a wide array of geriatric services

- Biggest drawback : High Upfront Costs

ELIGIBILITY & CONDITIONS

Eligibility

- Home owners above 60/62 years of age
- No income/health conditions attached / credit history not relevant
- Clear 'Title' (i.e.without any charges / encumbrances) or a low outstanding loan balance on the primary residence that can be paid off with an initial draw

Conditions

- Must have a owned principal residence/primary dwelling
- Reasonably well maintained residence / dwelling place
- Free from 'land' related encumbrances
- No loans against ancestral properties
- Borrower to undergo counseling, regarding reverse mortgage from a panel of 'approved counselors'
- If the Reverse Mortgage borrower dies/moves, anyone who lives cannot stay anymore or make any claims

Ongoing Obligations

- To maintain the property in good shape, through repairs and maintenance
- To keep the property related taxes up to date

COMPARISON

Forward Mortgage Home Loan	Reverse Mortgage Loan
1) Pay back the loan amount + interest through EMI's.	1) No repayment of the loan amount + interest during the borrower's lifetime.
2) Loan amount sanctioned for a specific purpose.	2) Loan amount can be used for any scheme defined purposes.
3) Earning Capacity/Repayment Capacity crucial.	3) Earning Capacity/Repay Capacity nor relevant.
4) Eviction or forceful action in the event of default in repayment.	4) No fear of eviction.The borrower and his spouse can live in the house till their death.
5) Any other security owned by the borrower can be pressed in the event of default in repayment.	5) A non-recourse loan.No assets of the borrower other than the home, can be pressed in the event of default in repayment.

Section 3 :

Reverse Mortgage – Global Scenario

GLOBALLY POPULAR CONCEPT

1) Reverse Mortgage as a concept is in existence in USA, UK, Canada, Japan and France (with minor differences) for well over 2 decades

2) Canada and Japan, follow the base US model. Japan differs in the type of products available, insurance structure, etc, whereas Canada differs in percentage of equity accessible and costs involved

3) France, for that matter has a totally different structure, known as Viager (This is a type of contract relating to purchase and sale of housing property, in which the aged seller continues to live in the property even after signing the contract and the purchaser continues to pay fixed amount to the seller until he dies)

4) However, US model (HECM Model) Home Equity Conversion Mortgage is a progressive and responsive model

NRMLA National Reverse Mortgage Lenders Association

- Established in December 1997, NRMLA, headquartered in Washington, DC
  - serves as an educational resource, policy advocate, and public affair center for Reverse Mortgage lenders and related professionals
  - strives to enhance the professionalism of the Reverse Mortgage business;
  - educates customers, trains lenders to be sensitive to the needs of older Americans
  - enforces code of conduct and best practices and promotes reverse mortgages in the media
- Its members make and service more than 90 percent of all reverse mortgages in the U.S.
- As the official voice of the reverse mortgage industry in Washington, D.C.
  - represents the interests of the members before Congress and the key government officials
  - is responsible for shaping federal reverse mortgage policies
  - promotes the reverse mortgage product and member lenders to the public and press

NRMLA ROLE

- A fulcrum around which the Reverse Mortgage world in the US revolves.
- Assuming the role of a Self Regulating Organisation (SRO).
  - Every lender or other service providers need to be accredited/registered with them
  - Has issued a Code of Conduct and a Best Practices manual insisting on transparency & fair processes
  - Continuously builds safeguards around the Reverse Mortgage product, keeping in mind the vulnerability of “Elders”
  - Carrying out-Boogie traps, prowling for defects on service providers
  - Providing collateral support(facilities) to the elders (ensuring the highest level of quality assurance)
  - Continuous Advisory Services and others

NRMLA – RM – HECM SAFEGUARDS
(not exhaustive)

1) Counseling
2) Capped interest rates, lenders’ margin and other costs
3) Three-day right of recession
4) Total annual loan cost disclosures
5) Robust ‘No eviction’ terms
6) Robust Non-recourse terms
7) Payment guarantee
8) Grievance Redressal for elders

KEY HECM REVERSE MORTGAGE LOAN BUILDING BLOCKS

(not exhaustive)

- Significant HUD Support:
  - Area wise maximum loan qualification in all parts of USA
  - Capping on costs – especially interests, lenders margin
  - Federal Insurance Cover (even though Government of USA offers Home Equity Line of Credit facilities and Fannie Mae offers Money Keepers)
  - Counseling, a Condition Precedent for Insurance Cover
- Pioneering RMLA Role & Safeguards:
  - Code of Conduct and Best Practices
  - Screening and filtering of all proposal of all service providers
  - Continuous monitoring of all service providers
  - Capping on costs through consensus building

HECM LOAN STRUCTURE

<u>Monthly Loan</u>

Current Interest Rate		5.03%	(1year Treasury Bond Rate Index/Benchmark Rate)
Lenders Margin		1.50%	(Capped by HUD)
Current Loan Interest		6.53%	
HUD Mortgage Insurance		0.50%	
Effective Loan Rate		7.03%	
Value of home	US$	2,00,000	
Lending Limit		3,62,790	(Based on the location – Set by HUD)
Lending Value	US$	2,00,000	(Lower of the two)
Loan Principal		1,38,200	69.1%
Less: Loan Fees to lender		4,000	
Less: Mortgage Insurance		4,000	
Less: Closing Costs		2,074	
Less: Service Fee set aside		4,219	
Cash Available		1,23,907	
Less: Other Items		-	
Left for monthly advance		1,23,907	61.9%
Monthly	US$	887	(Till death/move out)

Section 4 :
Reverse Mortgage Indian Offering

1st PRODUCT OFFERING

- Congratulations to Dewan Housing for being the first to bring in the concept and the product in India – called ‘Sakshan’

- Being the first days, it is essential that all inputs are provided to DHFL to rejig their offering to suit the Indian market

- Our appeal to DHFL : Need to orient towards human side of the product rather than financial side

PERSONAL - Windows Picture and Fax Viewer

IL&FS

How does a reverse mortgage work?

Individuals over the age of 60 are eligible for this product

Vivek Kaul

Mumbai

Some things never change, like his habit of listening to Vividh Bharti early in the morning.

The song "Dekh tere sansaar ki halat kya ho gayi Bhagwaan, kitna badal gaya insaan" written and sung by Kavi Pradeep, was playing.

This made him nostalgic. Five decades since he had first heard the song and as time had passed, he felt that the song had become more relevant than it was when it had been originally composed. Things had gone from bad to worse.

At a personal level he had done well. He had retired from a government job, two years back and was receiving a steady pension every month. Both his daughters were working in the United States, something which his relatives never stopped reminding him of. But as life had turned out he and his wife were an extremely lonely and bored couple. Nobody had time for them these days. But now they had a new mission in life. They wanted to travel and see India. But there was a slight problem. The amount of pension he got, would be insufficient to fulfill this dream. And there was no way he was going to ask his daughters for money.

The only asset they had was the house they were living in. Most of what he had been able to save after educating his daughters had gone into the house. This left him wondering, was there someway he could get a regular income from the house without selling or renting it out. So he spoke to his younger daughter, who told him "Dad, you need to take out a reverse mortgage on the house."

That left him wondering, "What is a reverse mortgage?" With a little research, he found out that it is exactly what the name suggested, an opposite of a mortgage. In a mortgage or a home loan, as it is commonly referred to in India, an individual takes a loan to buy a house. And to repay the principal and the interest on the loan, the individual needs to pay an equated monthly installment (EMI) for the tenure of the loan. In a reverse mortgage it is exactly the opposite. Instead of the individual paying an EMI to the housing finance company (HFC), the HFC pays an EMI to the individual. Now, this was interesting. A little more digging told him that Dewan Housing Finance Corporation Ltd (DHFL) has just come out with India's first reverse mortgage product called "Sakshaam".

Individuals over the age of 60 are eligible for this product. Depending on the value of the house an individual will be paid an EMI every month or quarter.

The value of his house is around Rs 20 lakh. On this he would be eligible for a payment of Rs 4100 every month, for a period of 10 years, at floating interest rate of 12%.

This payment of Rs 4,100 per month is a loan against the value of his house. The loan to value ratio in case of Sakshaam is 50%. Now let's see what this means. The company is charging an interest of 12% per year, which effectively means an interest of 1% per month. So in the first month the Rs 4,100, an interest of 1% would Rs 41, taking the loan amount to a total of Rs 4,141.

In the second month there would again be a payment of Rs 4,100, taking the loan amount to Rs 8,241. On this the interest of 1% would amount to Rs 82.41, taking the loan amount to Rs 8,323.41. In the third month there would again be a payment of Rs 4,100, taking the loan amount to Rs 12,423.41. An interest of 1% on this would amount to Rs 124.23, taking the loan amount to Rs 12,547.64. Repeating the same process for the remaining period till the end of 10 years the total loan amount would be around Rs 10 lakh or 50% of the value of his property i.e., Rs 20 lakh.

At the end of ten years, they could continue to live in the house. Though the monthly payment would stop. At that point of time, the couple have the option of renewing the mortgage for an amount the value of the property would have gone up by.

Loan for home

Depending on the value of the house an individual will be paid an EMI every month or quarter

Dewan Housing is charging an interest of 12% per year, which effectively means an interest of 1% per month

The loan to value ratio in the case of the Dewan scheme is 50%

In fact, if one of them expired the other one could continue to live as long as he or she was alive. But once both them expired the housing finance company would sell the house. The amount that is left after DHFL has recovered the total loan amount of around Rs 10 lakh that it gave out, will go to the legal heirs of the couple.

Also, if both of them expired during the period of ten years, then the housing finance company would sell the house and the amount left after the HFC has recovered the total loan amount would go to the legal heirs. The legal heirs have the option of settling the loan amount directly with the housing finance company. In this situation, the housing finance company will not sell the house and hand it over to the legal heirs.

Now, this was a product that would allow him to earn some income from his house. Though the amount was not much, but it was good enough to help him see the country.

(The example is hypothetical)

start PERSONAL - Window... Microsoft PowerPoint ... 3:39 PM

IMPORTANT

- The proposed product is a fixed term loan; you may have to sell the home and repay the 'Loan' – Think now!!

- The property would be revalued every three years and instalments adjusted accordingly – Is it both ways

- Would the proposed product provide for "No negative equity guarantee" from the lenders? [you may have to meet the shortfall if your debt (principal + interest) amounts to more than the value of your property

- As you grow older, how would you maintain the asset? – Help from where??

REVERSE MORTGAGE CALCULATIONS

IL&FS

Reverse Mortgage Calculator - 1		
Loan Calculations	**Monthly Adjusting**	**%**
Current interest rate index		
Lender's margin		
Current loan interest rate		
Mortgage Insurance		
Current effective loan rate	**12.00%**	
Cap on effective loan rate		
Value of your Property	2,000,000	
Lending limit		
Lesser of limit or home value	**2,000,000**	
Loan principal limit	632,000	31.6%
Less loan fees to lender	40,000	
Less Mortgage Insurance	40,000	7.00%
Less other closing costs	20,000	
Less service fee set-aside	40,000	
Cash available to you	**492,000**	24.60%
Less liens on your home	-	
Less necessary repairs	-	
Less other upfront cash	-	
Less Desired Creditline	**-**	
Left for monthly advance	492,000	
Monthly advance: Tenure (10 yrs)	4,100	

Reverse Mortgage Calculator - 2				
Particulars	**Principal (Rs,)**	**Interest (Rs.)**	**Total (Rs.)**	
At the end of 120 months	492,000	460,590	952,590	
% of Property Value	25	23	48	
Add: Initial set up costs	-	-	140,000	app.
% of Property Value	-	-	7	
Total Costs			600,590	
% of Property Value			30	

Section 5 :
Treating The Elders Fairly

TREATING THE 'ELDERS' FAIRLY

- Customers for Reverse Mortgage are elders – who are fragile and vulnerable.
- Hence, it is imperative that a 'FIT FOR PURPOSE' 'safety net' is established before introduction:

  1) An entity similar to NRMLA – 'crying need to endorse the product offering'
  2) Strong/Robust counseling through accredited counselors
  3) Mandatory capping of interest and upfront costs
  4) Upfront disclosure of Reverse Mortgage calculations
  5) Standardised documentations, cleared by a neutral body
  6) Norms and procedures for title verification and valuation
  7) Demonstrated professionalism of all service providers to be accredited
  8) Procedures for encashment of property appreciation
  9) "Loan limits" as maximum 'permissible loanable' amount
  10) Eliminating marketing by lenders and their agents

  (ILLUSTRATIVE)

AN APPEAL TO DIGNITY FOUNDATION

Dignity Foundation demonstrated that it has a heart for senior citizens issues. Given that these are first days for the concept and products, Dignity Foundation needs to take on the following vis-à-vis elders:

1) Role of a Fiduciary (Trustee) to:

- Evaluate the lenders and clear their offerings
- Hold the title documents between lenders and borrowers:
  - to prevent high handedness
  - to guarantee smooth access on closure of the loan

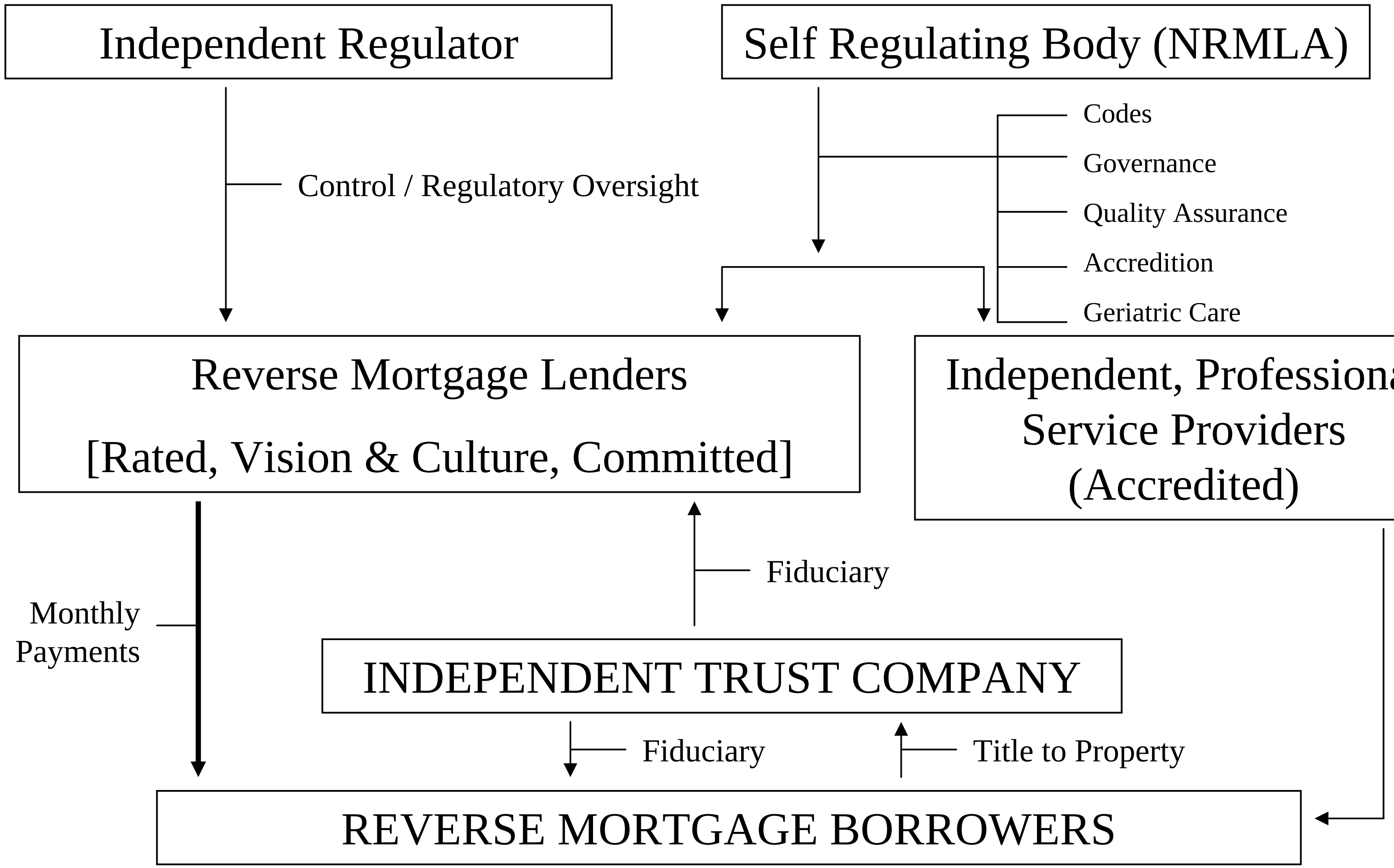
2) Role of a Self Regulating Organisation, similar to NRMLA:

- Enforcing fair play and transparency; setting codes to "Treat Customers Fairly"
- Standardised documents especially with respect to:
  - tenor of the loans – cover upto death or moving out
  - non-recourse leading
  - Provision for early closure, if the building/property is acquired by builders, etc
  - Appreciation of value of Properties – Ways to encash the appreciation
  - Ensuring 'No Negative Equity Guarantee"
  - Ensuring full and correct disclosure of value, costs and other adjustments

(Illustrative List Only)

SUGGESTED PRODUCT STRUCTURE

IL&FS



RM IS AN IDEAL OPTION TO

- Elders who owned a home for a long time
- Elders who don’t want to move (emotionally attached)
- Need additional inflow
- Not overly concerned about how much of their wealth is left to their heirs.
- Not very concerned about apparent high cost of Reverse Mortgage

THANK YOU

&

NAMASKAR

STRUCTURE

- Section 1 : The Yesteryears & Golden Years
- Section 2 : Introduction to Reverse Mortgage
- Section 3 : Reverse Mortgage - Global Scenario
- Section 4 : Reverse Mortgage – Indian Offering
- Section 5 : Treating the elders fairly

Section 1 :
The Yesteryears & Golden Years

THE YESTERYEARS

- The best investments that you have made are:
  - Educating your children and settling them
  - Portfolio Investments
  - Cash and jewels
  - Family's 'Nest Egg' – your family home/residence
- When everything is gone, your Nest-Egg is your only support.
- Currently, properties have significantly appreciated. However encashing them especially for elders is a huge challenge.

RETIREMENT – GOLDEN YEARS ?

- No meaningful social security net
- Inadequate pensions/retirement benefits
- Age, generation, upbringing and life experiences, health related issues
- Loneliness and emotional stress
- Financial inadequacy
- Lack of opportunities to earn income

Any combination of the above would lead to a “stressful retirement”

Consequence : A steep deterioration in standard of living

Section 2 :

Introduction to Reverse Mortgage

WHAT IS REVERSE MORTGAGE

- Reverse Mortgage is a type of *loan* available to elders (60/62 and over), used as a way of converting their home equity (the value of the home less any existing mortgages) into one or more cash payments while retaining ownership of the property (continuing to live there) and *avoiding* monthly payments

- Repayment of loan is deferred until the borrower *(last of the spouses)* is no longer living in the home

- Reverse Mortgage is also referred to as-

  - Lifetime Mortgages

  - Equity Release Mortgages

  - Financial Gerontology

- This is not new, not just invented

TYPICAL USAGES / PURPOSES

- Daily living expenses
- Health care expenses / geriatric care
- Home improvements / home care
- Paying off existing debts (minor ones, on the Principal Residence)
- Use for recreational / religious fulfillment

FEATURES

- A non-refundable, non-recourse funding/financing

  (Lenders have no legal resource to anything other than the value of the home)

- Continue to 'live' in your home and 'retain' your legal title, pass on to your 'chosen' successor

- Yield mortgage on that specific home to Reverse Mortgage Lender

  [An independent trust company to create the "fair-playing ground" between the lenders and you ??]

- Repay or close 'only' on:

  - Selling the home
  - Permanently leaving the home to live elsewhere / No longer use the home as Principal Residence
  - Death

- Access to a wide array of geriatric services

- Biggest drawback : High Upfront Costs

ELIGIBILITY & CONDITIONS

Eligibility

- Home owners above 60/62 years of age
- No income/health conditions attached / credit history not relevant
- Clear ‘Title’ (i.e.without any charges / encumbrances) or a low outstanding loan balance on the primary residence that can be paid off with an initial draw

Conditions

- Must have a owned principal residence/primary dwelling
- Reasonably well maintained residence / dwelling place
- Free from ‘land’ related encumbrances
- No loans against ancestral properties
- Borrower to undergo counseling, regarding reverse mortgage from a panel of ‘approved counselors’
- If the Reverse Mortgage borrower dies/moves, anyone who lives cannot stay anymore or make any claims

Ongoing Obligations

- To maintain the property in good shape, through repairs and maintenance
- To keep the property related taxes up to date

COMPARISON

Forward Mortgage Home Loan	**Reverse Mortgage Loan**
1) Pay back the loan amount + interest through EMI's.	1) No repayment of the loan amount + interest during the borrower's lifetime.
2) Loan amount sanctioned for a specific purpose.	2) Loan amount can be used for any scheme defined purposes.
3) Earning Capacity/Repayment Capacity crucial.	3) Earning Capacity/Repay Capacity nor relevant.
4) Eviction or forceful action in the event of default in repayment.	4) No fear of eviction.The borrower and his spouse can live in the house till their death.
5) Any other security owned by the borrower can be pressed in the event of default in repayment.	5) A non-recourse loan.No assets of the borrower other than the home, can be pressed in the event of default in repayment.

Section 3 :

Reverse Mortgage – Global Scenario

GLOBALLY POPULAR CONCEPT

1) Reverse Mortgage as a concept is in existence in USA, UK, Canada, Japan and France (with minor differences) for well over 2 decades

2) Canada and Japan, follow the base US model. Japan differs in the type of products available, insurance structure, etc, whereas Canada differs in percentage of equity accessible and costs involved

3) France, for that matter has a totally different structure, known as Viager (This is a type of contract relating to purchase and sale of housing property, in which the aged seller continues to live in the property even after signing the contract and the purchaser continues to pay fixed amount to the seller until he dies)

4) However, US model (HECM Model) Home Equity Conversion Mortgage is a progressive and responsive model

NRMLA <u>National Reverse Mortgage Lenders Association</u>

- Established in December 1997, NRMLA, headquartered in Washington, DC
  - serves as an educational resource, policy advocate, and public affair center for Reverse Mortgage lenders and related professionals
  - strives to enhance the professionalism of the Reverse Mortgage business;
  - educates customers, trains lenders to be sensitive to the needs of older Americans
  - enforces code of conduct and best practices and promotes reverse mortgages in the media
- Its members make and service more than 90 percent of all reverse mortgages in the U.S.
- As the official voice of the reverse mortgage industry in Washington, D.C.
  - represents the interests of the members before Congress and the key government officials
  - is responsible for shaping federal reverse mortgage policies
  - promotes the reverse mortgage product and member lenders to the public and press

NRMLA ROLE

- A fulcrum around which the Reverse Mortgage world in the US revolves.
- Assuming the role of a Self Regulating Organisation (SRO).
  - Every lender or other service providers need to be accredited/registered with them
  - Has issued a Code of Conduct and a Best Practices manual insisting on transparency & fair processes
  - Continuously builds safeguards around the Reverse Mortgage product, keeping in mind the vulnerability of “Elders”
  - Carrying out-Boogie traps, prowling for defects on service providers
  - Providing collateral support(facilities) to the elders (ensuring the highest level of quality assurance)
  - Continuous Advisory Services and others

NRMLA – RM – HECM SAFEGUARDS

(not exhaustive)

1) Counseling
2) Capped interest rates, lenders' margin and other costs
3) Three-day right of recession
4) Total annual loan cost disclosures
5) Robust 'No eviction' terms
6) Robust Non-recourse terms
7) Payment guarantee
8) Grievance Redressal for elders

KEY HECM REVERSE MORTGAGE LOAN BUILDING BLOCKS

(not exhaustive)

- Significant HUD Support:
  - Area wise maximum loan qualification in all parts of USA
  - Capping on costs – especially interests, lenders margin
  - Federal Insurance Cover (even though Government of USA offers Home Equity Line of Credit facilities and Fannie Mae offers Money Keepers)
  - Counseling, a Condition Precedent for Insurance Cover
- Pioneering RMLA Role & Safeguards:
  - Code of Conduct and Best Practices
  - Screening and filtering of all proposal of all service providers
  - Continuous monitoring of all service providers
  - Capping on costs through consensus building

HECM LOAN STRUCTURE

Monthly Loan

Current Interest Rate		5.03%	(1year Treasury Bond Rate Index/Benchmark Rate)
Lenders Margin		1.50%	(Capped by HUD)
Current Loan Interest		6.53%	
HUD Mortgage Insurance		0.50%	
Effective Loan Rate		7.03%	
Value of home	US$	2,00,000	
Lending Limit		3,62,790	(Based on the location – Set by HUD)
Lending Value	US$	2,00,000	(Lower of the two)
Loan Principal		1,38,200	69.1%
Less: Loan Fees to lender		4,000	
Less: Mortgage Insurance		4,000	
Less: Closing Costs		2,074	
Less: Service Fee set aside		4,219	
Cash Available		1,23,907	
Less: Other Items		-	
Left for monthly advance		1,23,907	61.9%
Monthly	US$	887	(Till death/move out)

Section 4 :
Reverse Mortgage Indian Offering

1st PRODUCT OFFERING

- Congratulations to Dewan Housing for being the first to bring in the concept and the product in India – called ‘Sakshan’

- Being the first days, it is essential that all inputs are provided to DHFL to rejig their offering to suit the Indian market

- Our appeal to DHFL : Need to orient towards human side of the product rather than financial side

PERSONAL - Windows Picture and Fax Viewer

How does a reverse mortgage work?

Individuals over the age of 60 are eligible for this product

Vivek Kaul
Mumbai

Some things never change, like his habit of listening to Vividh Bharti early in the morning.

The song "Dekh tere sansaar ki halat kya ho gayi bhagwaan, kitna badal gaya insaan" written and sung by Kavi Pradeep, was playing.

This made him nostalgic. Five decades since he had first heard the song and as time had passed, he felt that the song had become more relevant than it was when it had been originally composed. Things had gone from bad to worse.

At a personal level he had done well. He had retired from a government job, two years back and was receiving a steady pension every month. Both his daughters were working in the United States, something which his relatives never stopped reminding him of. But as life had turned out he and his wife were an extremely lonely and bored couple. Nobody had time for them these days. But now they had a new mission in life. They wanted to travel and see India. But there was a slight problem. The amount of pension he got, would be insufficient to fulfill this dream. And there was no way he was going to ask his daughters for money.

The only asset they had was the house they were living in. Most of what he had been able to save after educating his daughters had gone into the house. This left him wondering, was there someway he could get a regular income from the house without selling or renting it out. So he spoke to his younger daughter, who told him "Dad, you need to take out a reverse mortgage on the house."

That left him wondering, "What is a reverse mortgage?" With a little research, he found out that it is exactly what the name suggested, an opposite of a mortgage. In a mortgage or a home loan, as it is commonly referred to in India, an individual takes a loan to buy a house. And to repay the principal and the interest on the loan, the individual needs to pay an equated monthly installment (EMI) for the tenure of the loan. In a reverse mortgage it is exactly the opposite. Instead of the individual paying an EMI to the housing finance company (HFC), the HFC pays an EMI to the individual. Now, this was interesting. A little more digging told him that Dewan Housing Finance Corporation Ltd (DHFL) has just come out with India's first reverse mortgage product called "Saksham".

Individuals over the age of 60 are eligible for this product. Depending on the value of the house an individual will be paid an EMI every month or quarter.

The value of his house is around Rs 20 lakh. On this he would be eligible for a payment of Rs 4100 every month, for a period of 10 years, at floating interest rate of 12%.

This payment of Rs 4,100 per month is a loan against the value of his house. The loan to value ratio in case of Sakhsham is 50%. Now let's see what this means. The company is charging an interest of 12% per year, which effectively means an interest of 1% per month. So in the first month the Rs 4,100, an interest of 1% would Rs 41, taking the loan amount to a total of Rs 4,141.

In the second month there would again be a payment of Rs 4,100, taking the loan amount to Rs 8,241. On this the interest of 1% would amount to Rs 82.41, taking the loan amount to Rs 8,323.41. In the third month there would again be a payment of Rs 4,100, taking the loan amount to Rs 12,423.41. An interest of 1% on this would amount to Rs 124.23, taking the loan amount to Rs 12,547.64. Repeating the same process for the remaining period till the end of 10 years the total loan amount would be around Rs 10 lakh or 50% of the value of his property i.e., Rs 20 lakh.

At the end of ten years, they could continue to live in the house. Though the monthly payment would stop. At that point of time, the couple have the option of renewing the mortgage for an amount the value of the property would have gone up by.

Loan for home

Depending on the value of the house an individual will be paid an EMI every month or quarter

Dewan Housing is charging an interest of 12% per year, which effectively means an interest of 1% per month

The loan to value ratio in the case of the Dewan scheme is 50%

In fact, if one of them expired the other one could continue to live as long as he or she was alive. But once both them expired the housing finance company would sell the house. The amount that is left after DHFL has recovered the total loan amount of around Rs 10 lakh that it gave out, will go to the legal heirs of the couple.

Also, if both of them expired during the period of ten years, then the housing finance company would sell the house and the amount left after the HFC has recovered the total loan amount would go to the legal heirs. The legal heirs have the option of settling the loan amount directly with the housing finance company. In this situation, the housing finance company will not sell the house and hand it over to the legal heirs.

Now, this was a product that would allow him to earn some income from his house. Though the amount was not much, but it was good enough to help him see the country.

(The example is hypothetical)

1

start | PERSONAL - Window... | Microsoft PowerPoint ... | 3:39 PM

IMPORTANT

- The proposed product is a fixed term loan; you may have to sell the home and repay the ‘Loan’ – Think now!!

- The property would be revalued every three years and instalments adjusted accordingly – Is it both ways

- Would the proposed product provide for “No negative equity guarantee” from the lenders? [you may have to meet the shortfall if your debt (principal + interest) amounts to more than the value of your property

- As you grow older, how would you maintain the asset? – Help from where??

REVERSE MORTGAGE CALCULATIONS

IL&FS

Reverse Mortgage Calculator - 1		
Loan Calculations	**Monthly Adjusting**	**%**
Current interest rate index		
Lender's margin		
Current loan interest rate		
Mortgage Insurance		
Current effective loan rate	**12.00%**	
Cap on effective loan rate		
Value of your Property	2,000,000	
Lending limit		
Lesser of limit or home value	**2,000,000**	
Loan principal limit	632,000	31.6%
Less loan fees to lender	40,000	
Less Mortgage Insurance	40,000	7.00%
Less other closing costs	20,000	
Less service fee set-aside	40,000	
Cash available to you	**492,000**	24.60%
Less liens on your home	-	
Less necessary repairs	-	
Less other upfront cash	-	
Less Desired Creditline	**-**	
Left for monthly advance	492,000	
Monthly advance: Tenure (10 yrs)	4,100	

Reverse Mortgage Calculator - 2				
Particulars	**Principal (Rs,)**	**Interest (Rs.)**	**Total (Rs.)**	
At the end of 120 months	492,000	460,590	952,590	
% of Property Value	25	23	48	
Add: Initial set up costs	-	-	140,000	app.
% of Property Value	-	-	7	
Total Costs			600,590	
% of Property Value			30	

Section 5 :
Treating The Elders Fairly

TREATING THE ‘ELDERS’ FAIRLY

- Customers for Reverse Mortgage are elders – who are fragile and vulnerable.
- Hence, it is imperative that a ‘FIT FOR PURPOSE’ ‘safety net’ is established before introduction:

  1) An entity similar to NRMLA – ‘crying need to endorse the product offering’
  2) Strong/Robust counseling through accredited counselors
  3) Mandatory capping of interest and upfront costs
  4) Upfront disclosure of Reverse Mortgage calculations
  5) Standardised documentations, cleared by a neutral body
  6) Norms and procedures for title verification and valuation
  7) Demonstrated professionalism of all service providers to be accredited
  8) Procedures for encashment of property appreciation
  9) “Loan limits” as maximum ‘permissible loanable’ amount
  10) Eliminating marketing by lenders and their agents

  (ILLUSTRATIVE)

AN APPEAL TO DIGNITY FOUNDATION

Dignity Foundation demonstrated that it has a heart for senior citizens issues. Given that these are first days for the concept and products, Dignity Foundation needs to take on the following vis-à-vis elders:

1) Role of a Fiduciary (Trustee) to:

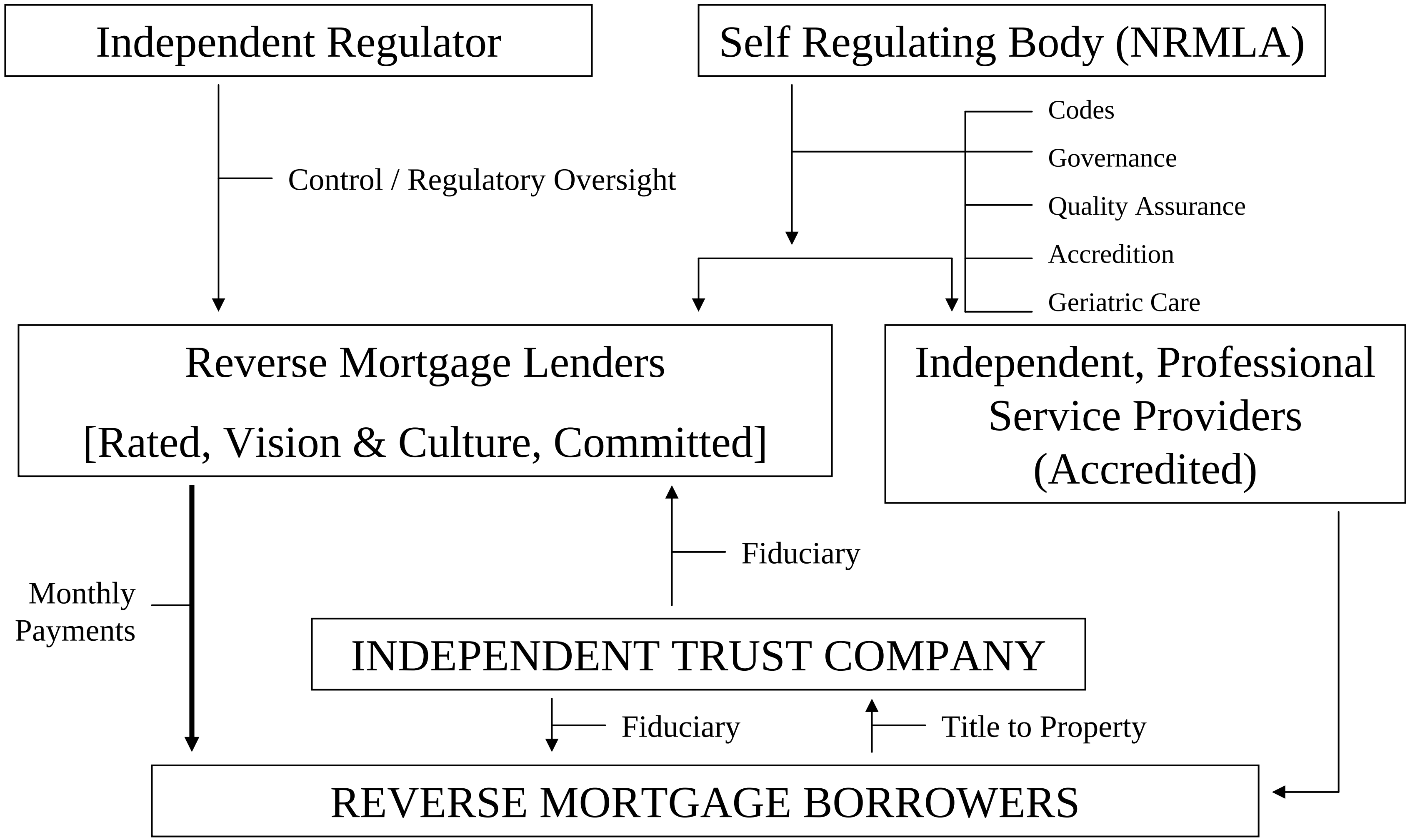
- Evaluate the lenders and clear their offerings
- Hold the title documents between lenders and borrowers:
  - to prevent high handedness
  - to guarantee smooth access on closure of the loan

2) Role of a Self Regulating Organisation, similar to NRMLA:

- Enforcing fair play and transparency; setting codes to "Treat Customers Fairly"
- Standardised documents especially with respect to:
  - tenor of the loans – cover upto death or moving out
  - non-recourse leading
  - Provision for early closure, if the building/property is acquired by builders, etc
  - Appreciation of value of Properties – Ways to encash the appreciation
  - Ensuring 'No Negative Equity Guarantee"
  - Ensuring full and correct disclosure of value, costs and other adjustments

(Illustrative List Only)

SUGGESTED PRODUCT STRUCTURE



RM IS AN IDEAL OPTION TO

- Elders who owned a home for a long time

- Elders who don’t want to move (emotionally attached)

- Need additional inflow

- Not overly concerned about how much of their wealth is left to their heirs.

- Not very concerned about apparent high cost of Reverse Mortgage

THANK YOU

&

NAMASKAR