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# Reverse Mortgage Loans - Borrowing against Your Home

Kotecha Manojkumar Vrujlal[1st]
Visiting lecturer,
S.D.Mehta mahila B.Ed. collage,
Dhrol, Jamnagar, Gujarat (India)

Kotecha Asha Vrujlal[2nd]
Teacher,
Shree Haripar Primary School,
Dhrol, Jamnagar, Gujarat (India)

***Abstract:*** ***A reverse mortgage is a unique home loan available to home owner. The loan is based on the home's current value, the borrower's age and current interest rates. The borrower can choose to receive the loan proceeds in a single, lump-sum payment, as periodic payments that are either predetermined or as a line of credit, or a combination of both. There are no restrictions on the use of the borrowed funds. The loan does not require monthly payments of principal or interest by the borrower. The loan is paid from the sale of the home when the borrower dies, moves or fails to fulfill any terms of the loan. The homeowner-borrower's current monthly income and credit score are not factors in making the loan or in determining the amount of the loan.***

***Keywords: Reverse Mortgage, Loan, Interest rates, payment.***

## I. INTRODUCTION

The elderly people in any country are the most valuable treasure of a society who have served the country various capacities in the fruitful years of their lives and are now in the evenings of their lives. With vast improvements in leaving styles, rapid developments in medical and information technologies, life spans have increased and this is amply borne out by the last census figure.

With average age of citizen in the country having gone up substantially since independence and in the background of the fact that it is improving year by year person deriving income from pension and other elderly ones constitute a significant segment of population.

However, there is no all pervasive social security scheme, as it is in USA and some other countries, which may take care of such person in regard to their medical and other necessities in a systematic and organized manner hence , many of them faces varied problems- most important of them has been the cash crunch. Many such person as the medical report show, are even disowned and discarded by their children, who do not give any financial support and therefore, because of limited incomes have to lead a miserable life dispite their owning houses, where they are living of considerable values. 'House rich cash poor' is the predicament in which many such persons have to live what they need besides a residential house, is significant cash too for meeting their needs.

## II. WHAT IS A REVERSE MORTGAGE?

Until recently, there were two main ways to get cash from your home, you could sell your home, but then you would have to move or you could borrow against your home, but then you would have to make monthly loan repayments.

Now there is a third way of getting money from your home that does not require you to leave it or to make regular loan repayments

A "reverse" mortgage is a loan against your home that you do not have to pay back for as long as you live there. With a reverse mortgage, you can turn the value of your home into cash without having to move or to repay a loan each month.

## III. REQUIREMENTS FOR HOME EQUITY CONVERSION LOAN

Borrowers must be  years of age or older, occupy the property as a principal residence, no minimum income or credit qualifications for the borrower, no regular repayments as long as the property remains the principal residence and closing costs may be financed into the loan amount. Property must be single-family home or one- to four unit home with one unit occupied by borrower,

## IV. MORTGAGE AMOUNT

The amount of money you can get depends most on the specific reverse mortgage plan or program you select. It also depends on the kind of cash advances you choose. Some reverse mortgages cost a lot more than others, and this reduces the amount of cash you can get from them. Within each loan program, the cash amounts you can get generally depend on your age and your home's value i.e. The older you are, the more cash you can get, The more your home is worth, the more cash you can get.

Age of the youngest borrower

| | |
|---|---|
| 60-65 | 40% of value of property |
| 66-70 | 50% |
| 71-75 | 55% |
| Above 75 | 60% |

## V. NATURE OF PAYMENT

The cash you get from a reverse mortgage can be paid to you as single lump sum of cash, regular monthly cash advance, credit line account that lets you decide when and how much of your available cash is paid to you, or combination of these payment methods. i.e.

1. A lump sum payment, where the cash will be available to you immediately
2. Equal monthly payments for as long as one borrower lives in the home
3. Equal monthly payments for a fixed number of months
4. A line of credit that will allow you to draw funds when you need them
5. Any combination of these options

No matter how this loan is paid out to you, you typically don't have to pay anything back until you die, sell your home, or permanently move out of your home. To be eligible for most reverse mortgages, you must own your home and be 60 years of age or older.

## VI. UTILIZATION OF AMOUNT

The amount so borrowed from loan cannot be used for speculative, trading and business purpose. It can be used for following purpose only

1. Upgradation renovation and extension of residential house property
2. For uses associated with home improvement, maintenance and insurance of the property
3. On health issues , medical emergency and expenditure for maintenance of family
4. Repayment of any existing loan and
5. Meeting other genuine needs

## VII. REPAYMENT

All reverse mortgages become due and payable when the last surviving borrower dies, sells the home, or permanently moves out of the home.

Reverse mortgage lenders can also require repayment at any time if you fail to:

1. pay your property taxes or special assessments
2. maintain and repair your home
3. keep your home insured
4. your declaration of bankruptcy
5. your donation or abandonment of your home
6. your perpetration of fraud or misrepresentation

## VIII. USE YOUR HOME TO STAY AT HOME

The purpose and operation of a reverse mortgage are different from those of a standard "forward" mortgage.

| Forward mortgage | Reverse Mortgage |
|---|---|
| The purpose of a forward mortgage is to purchase a home | The purpose of a reverse mortgage is to generate cash. |
| There is no equity in the home | There is a lot of equity in the home |
| During the loan, borrower makes monthly payments to the lender loan balance goes down equity grows | During the loan, borrower receives payments from the lender loan balance rises equity declines |
| Falling Debt Rising Equity | Rising Debt Falling Equity |
| At end of loan, borrower owes nothing has substantial equity | At end of loan, borrower owes substantial amount has much less, little, or no equity |

## IX. SPECIAL FEATURES

1. The borrower need not have an income, the pre-requisite for raising any other loan.
2. No verification is done on the credit worthiness of the borrower.
3. The loan amount depends on the borrower's age, value of the property, rate of interest and lenders terms.
4. Borrower will continue to be the owner of the property.
5. The housing property being used for such loans should be free from other debts.
6. The amount received is not considered as income, so that menace no tax.
7. Rising Debt and Falling Equity.

## X. CONCLUSION

There are two main ways to get cash from your home, you could sell your home, but then you would have to move or you could borrow against your home, but then you would have to make monthly loan repayments. Now there is a third way of getting money from your home that does not require you to leave it or to make regular loan repayments. In western countries reverse mortgage are very popular. In India the concept of reverse mortgage was first proposed in finance act 2007 and the scheme has been formulated thereafter by national housing bank. At present many scheduled banks has started the scheme.

## REFERENCES

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