

An Empirical Study of Influence of Awareness Campaigning, Family Bonding and Saleability of Reverse Mortgage Products in India

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Abstract

The Indian economy is the world's tenth-largest by nominal GDP and third-largest by purchasing power parity (PPP) and had the 20th largest banking market in the world in 2010. Strong economic growth in the last decade combined with a population of over a billion makes it one of the potentially largest banking markets today. Innovative products, imaginative marketing, and aggressive distribution had enabled fledgling private banks to sign up Indian customers faster than anyone expected. The present study analyze the level of influence of awareness campaigning on marketability of reverse mortgage in India and correlation between family bonding and saleability of reverse mortgage across 424 accountholders of *fivemain* banksof India, using the advanced statistical tools.

Introduction

With over a billion people, India is fast becoming a global economic power. With a relatively youthful population, India becomes an attractive banking market over the next decades. The Indian economy is the world's tenth-largest by nominal GDP and third-largest by purchasing power parity (PPP) and had the 20th largest banking market in the world in 2010. Strong economic growth in the last decade combined with a population of over a billion makes it one of the potentially largest banking markets today. Up-gradation and diversification in the banking sector of India would take place very rapidly over the coming decades in India. The major drivers included sound economic fundamentals, a rising middle-income class, an improving regulatory framework, rising risk awareness, social security and pension reforms too benefit from a mature banking industry. Both the Authority and the sector had been playing an active role in increasing consumer awareness. In addition, the banks in general and private banks in particular, were

reaching out to untapped semi-urban and rural areas through advertisement campaigns and by offering products suitable to meet the specific needs of the people in these segments (RBI, 2006). Innovative products, imaginative marketing, and aggressive distribution had enabled fledgling private banks to sign up Indian customers faster than anyone expected (Pritam S. P., 1999). While at the time of opening up of the sector, bank accounts were viewed as saving devices only, but now a day's, customers looked for avenues which were offering products which suited their specific requirements, and plenty of choices were available in the market now. One of such innovative product is “*Reverse Mortgage*”.

“A reverse mortgage is a home loan that provides cash payments based on home equity. Homeowners defer payment of the loan until they die, sell, or move out of the home.”

The concept of reverse mortgage of houses originated in the US, where senior citizens who felt uncared for by their wards set out to cash in their homes without selling them. Banks give money to them either as annuities or lump sum amounts on the strength of the mortgage of the property but without repayment obligations. The interest keeps on accruing and gets added to the loan amount without disturbing the sleep of the mortgagor. The bank accepting such reverse mortgage would obviously be cautious and keep a safe margin. It patiently bides its time, and on the death of the mortgagor it sells the property to realize its dues unless the legal heirs come forward to pay off the dues. Specific rules for reverse mortgage transactions vary depending on the laws of the jurisdiction.(Y S Murlidharan,)

Review of Literature

Reverse mortgage as a concept is not a recent one. There is evidence that as far back as 400 years in Europe, investors purchased homes from elderly homeowners and allowed them to continue living in the house for the rest of their lives, without them being liable for any rent payments. The most common type of reverse mortgage loans is the Home Equity Conversion Mortgage (HECM), insured by the Federal Housing Administration (FHA) and constituting over 90% of all reverse mortgage loans originated in the U.S. market. A HECM loan is a reverse mortgage secured by the borrower's home equity. In a forward mortgage, the borrower's home equity increases over time and her mortgage debt decreases over time. In a reverse mortgage, on the other hand, the borrower's home equity declines over time and her mortgage debt grows over time. Congress established

the Home Equity Conversion Mortgage (HECM) program in 1987 and authorized the Department of Housing and Urban Development (HUD) to administer the program. The first HECM loan was made in 1989. Since then, the HECM program has been the dominant reverse mortgage product in the United States.

In many developed countries, Home Equity Release Products (ERPs) have been promoted as a means of accessing equity locked up in a residence, particularly after the holder of the property has retired (Gibler & Reed 2003). Reverse mortgages are designed for elderly homeowners to access their home equity while continuing to live in their homes (Bartel, Daly & Wrage 1980; Gibler & Reed 2003).

According to Rajagopalan (2002), many countries face budgetary constraints in terms of sustaining old-age income and social schemes. He argues that government's inability to provide such schemes at the level required, combined with the quality of life that elderly people now expect, will fuel a massive demand for financial products tailored to the elderly.

The amount of money that can be borrowed by means of a reverse mortgage generally depends on the borrowers' age and the value of the home. Typically, the older the borrower and the greater the home value, the more funds can be made available via loan advances (Redfoot, Scholen & Brown 2007).

During the last one decade there has been significant demographic change in India's population due to globalization and improved medical facility and lifestyle. The fall of joint family system and rise in nuclear family system has brought new dimension to the care and welfare of Elderly. The population of aged people above 60 yrs as on 2009 is estimated at 90 million, i.e. around 8% of total population. According to UN the population of 60+ in 2050 will be around 20%. Life expectancy has increased 60% in last 60 years from 42 yrs in 1950 to 69yrs in 2009.

Although reverse mortgages have been in existence for more than a decade, their acceptance among consumers and financial institutions has been slow. Among the barriers to acceptance so far has been the lack of consumer familiarity with the product, the high cost of originating these loans, the lack of liquidity and diversification for lenders, unfavorable required accounting treatment, regulatory and legal uncertainties, and concerns over consumer protection. Nevertheless, as solutions to these problems are gradually worked out, the reverse mortgage may prove to be a financial product of choice

for many elderly homeowners, especially in the future when the numbers of elderly increase relative to the population as a whole

A number of prior studies have been of descriptive nature in the sense that they only described the features of reverse mortgage and its pros and cons (Godfrey & Malmgren, 2006; Huan & Mahoney, 2002; Kaur Brar, 2011; Nakajima, 2012). Gaps in the existing studies showed that there was a need to make a fresh attempt to understand the opportunities and challenges reverse mortgage on Indian banking sector as a number of improvements could be incorporated on account of gaps in the existing literature. Hence, the present study was conducted and it was a systematic attempt to analyze diverse dimensions of reverse mortgage for Indian banking sector because the successes of any innovative product depends upon the strategy, management directives, employee's involvement, family bonding, impact of ethos and value on family system prevailed in any country.

Research Methodology and Objectives

The present study had followed a macro level approach to verify and analyse the level of influence of awareness campaigning on marketability of reverse mortgage in India and correlation between family bonding and saleability of reverse mortgage in India so that the results of these studies can be generalized in Indian context. The broad objectives of the present study were as under:

Objectives

1. To analyze the level of influence of awareness campaigning on marketability of reverse mortgage in India.
2. To examine the correlation between family bonding and saleability of reverse mortgage.

Research Methodology

The present study was exploratory cum descriptive in nature. Account holders and general of five banks of India (State Bank of India, State Bank of Hyderabad, Central Bank of India, Punjab National Bank and Indian Bank) had been considered as sample unit. The sample units were selected using 'QUOTA' sampling i.e. on the basis of their respective market shares. Primary data was obtained from 500 account holders of the selected banks through well structured questionnaire. For analyzing the data, both simple (average, percentage, weighted average and mean score etc.) and advanced statistical

tools (Standard Deviation, Bi-variant Correlation, one way ANOVA, Post hoc, and Paired Sample t-Test) were used.

Frequency Distribution

Accountholders Response Rate (Exhibit No. 1.0)

Name of Bank	Frequency	Percent	Cumulative Percent
State Bank of India	252	59.4	59.4
State Bank of Hyderabad	48	11.3	70.8
Central Bank of India	41	9.7	80.4
Punjab National Bank	40	9.4	89.9
Indian Bank	43	10.1	100.0
Total	424	100.0	

Out of 479 responses received, 424 (88.56%) were usable responses and of which 323 (76.2%) were males and 101 (23.8%) were females; 252 (59.4%) were accountholders of SBI, 48 (11.3%) were accountholders of SBH, 41 (9.7%) were accountholders of CB, 43 (10.1%) were accountholders of IB, and 40 (9.4%) were accountholders of PNB; 206 (48.6%) of surveyed accountholders were residents of urban area, 132 (31.1%) were residents of metro city and 86 (20.3%) were residents of rural area; 236 (55.7%) surveyed accountholders were graduates, and 188 (44.3%) were post graduates.

Analysis and Discussion

To verify and analyse the level of influence of awareness campaigning on marketability of reverse mortgage in India, Mean variance, one way Analysis of Variance (ANOVA), Post hoc analysis and paired sample t-Test were applied. Mean value of statements related to overall marketability (two statements) were taken as dependent variable and selected banks were taken as independent variable. A significance value of less than 0.05 indicated that significant relationship existed between the variables under study. For further analysis, Post hoc analysis was used. Wherever Post hoc analysis could not be applied the analysis was done on the basis of mean scores.

Overall Marketability Before Organizing Awareness Campaigning Related to Reverse Mortgage Services

Descriptive Mean : Overall Marketability Before Organizing Awareness Campaigning Related to Reverse Mortgage Services (Exhibit No. 2.0)

Name of Bank	Mean	Std. Dev.	Std. Error	Min.	Max.
SBI (n=252)	5.46	.456	.029	5	7
SBH (n=48)	5.13	.726	.105	4	6
CBI (n=41)	5.32	.687	.107	5	6
PNB (n=40)	4.60	.744	.118	4	6
IB (n=43)	4.59	.366	.056	4	5
Total (n=424)	5.24	.636	.031	4	7

In the case of overall service quality Exhibit No. 2.0 clearly revealed that before organizing awareness campaigning related to reverse mortgage services, the current status of overall mean value of selected banks related to overall marketability was 5.24. The mean value of SBI was 5.46, SBH was 5.13, CBI was 5.32, PNB was 4.60, and IB was 4.59. One way ANOVA was used to reveal further details of level of influence of awareness campaigning on marketability of reverse mortgage in India.

ANOVA : Overall Marketability Before Organizing Awareness Campaigning Related to Reverse Mortgage Services (Exhibit No. 3.0)

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	47.937	4	11.984	40.813	.000
Within Groups	123.035	419	.294		
Total	170.971	423			

Significance value of 0.000 (Exhibit No. 3.0) indicated significant relations between overall marketability and selected banks. Post hoc analysis (Exhibit No. 3.1) and mean

score before awareness campaigning v/s selected banks clearly revealed that revealed that accountholders of SBI were having high mean score hence SBI reverse mortgage services/products marketability was more about satisfied with the current service quality.

Multiple Comparisons
Dependent Variable: Overall Marketability Before Organizing Awareness
Campaigning Related to Reverse Mortgage Services (Exhibit No. 3.1)

(I) name of Bank	(J) name of Bank	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
SBI	SBH	.34	.085	.000	.17	.51
	CBI	.15	.091	.107	-.03	.33
	PNB	.86	.092	.000	.68	1.05
	IB	.87	.089	.000	.70	1.05
SBH	SBI	-.34	.085	.000	-.51	-.17
	CBI	-.19	.115	.096	-.42	.03
	PNB	.53	.116	.000	.30	.75
	IB	.53	.114	.000	.31	.76
CBI	SBI	-.15	.091	.107	-.33	.03
	SBH	.19	.115	.096	-.03	.42
	PNB	.72	.120	.000	.48	.95
	IB	.72	.118	.000	.49	.96
PNB	SBI	-.86	.092	.000	-1.05	-.68
	SBH	-.53	.116	.000	-.75	-.30
	CBI	-.72	.120	.000	-.95	-.48
	IB	.01	.119	.953	-.23	.24
IB	SBI	-.87	.089	.000	-1.05	-.70
	SBH	-.53	.114	.000	-.76	-.31
	CBI	-.72	.118	.000	-.96	-.49
	PNB	-.01	.119	.953	-.24	.23

* The mean difference is significant at the .05 level.

II. Overall Marketability After Organizing Awareness Campaigning Related to Reverse Mortgage Services

Descriptive Mean : Overall Marketability After Organizing Awareness Campaigning Related to Reverse Mortgage Services (Exhibit No. 4.0)

Name of Bank	Mean	Std. Dev	Std. Error	Min.	Max.
SBI (n=252)	3.08	.708	.045	2	6
SBH (n=48)	4.31	.501	.072	4	5
CBI (n=41)	4.21	.602	.094	4	5
PNB (n=40)	3.60	.496	.078	3	4
IB (n=43)	3.63	.489	.075	3	4
Total	3.44	.794	.039	2	6

The Exhibit No. 4.0 clearly revealed that after organizing awareness campaigning related to reverse mortgage services, the overall mean value of selected banks related to overall marketability of reverse mortgage had decreased from 5.24 to 3.44. The mean value of SBI had decreased from 5.46 to 3.08, SBH from 5.13 to 4.31, CBI from 5.32 to 4.21, PNB from 4.60 to 3.60, and IB had decreased from 4.59 to 3.63. One way ANOVA was used to reveal further details of level of influence of awareness campaigning on marketability of reverse mortgage in India (Exhibit No. 4.0).

ANOVA : Overall Marketability After Organizing Awareness Campaigning Related to Reverse Mortgage Services (Exhibit No. 5.0)

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	95.270	4	23.817	58.123	.000
Within Groups	171.697	419	.410		
Total	266.966	423			

Significance value of 0.000 (Exhibit No. 5.0) indicated significant relations between overall marketability and selected banks. Post hoc analysis (Exhibit No. 5.1) and mean score before awareness campaigning v/s selected banks clearly revealed that revealed that account holders of SBH were having high mean score hence SBH reverse mortgage services/products marketability was more about satisfied with the current service quality

Multiple Comparisons
Dependent Variable: Overall Marketability After Organizing Awareness
Campaigning Related to Reverse Mortgage Services
 (Exhibit No. 5.1)

(I) name of Bank	(J) name of Bank	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
SBI	SBH	-1.23	.101	.000	-1.43	-1.03
	CBI	-1.12	.108	.000	-1.34	-.91
	PNB	-.52	.109	.000	-.73	-.30
	IB	-.54	.106	.000	-.75	-.34
SBH	SBI	1.23	.101	.000	1.03	1.43
	CBI	.11	.136	.440	-.16	.37
	PNB	.71	.137	.000	.44	.98
	IB	.68	.134	.000	.42	.95
CBI	SBI	1.12	.108	.000	.91	1.34
	SBH	-.11	.136	.440	-.37	.16
	PNB	.61	.142	.000	.33	.89
	IB	.58	.140	.000	.30	.85
PNB	SBI	.52	.109	.000	.30	.73
	SBH	-.71	.137	.000	-.98	-.44
	CBI	-.61	.142	.000	-.89	-.33
	IB	-.03	.141	.843	-.30	.25
IB	SBI	.54	.106	.000	.34	.75
	SBH	-.68	.134	.000	-.95	-.42
	CBI	-.58	.140	.000	-.85	-.30
	PNB	.03	.141	.843	-.25	.30

* The mean difference is significant at the .05 level.

It was clear from the above data interpretation and analysis that organizing awareness campaigning related to reverse mortgage services does not have any significant influence on overall marketability of Reverse Mortgage Services. To support the above findings two-related-samples (paired sample) t-Test was also applied by the researcher on the overall results to confirm the findings of the above analysis i.e. there was a

significant influence of awareness campaigning on marketability of reverse mortgage in India. The Paired-Samples t-Test procedure compared the means of two variables that represented the same group at different times (e.g. before and after an event) or related groups (e.g., husbands and wives). In the present study, account holders level of reverse mortgage services (Exhibit No. 6.0, 6.1) were tested twice i.e. once before organizing awareness campaigning related to reverse mortgage services and the other after organizing awareness campaigning related to reverse mortgage services.

CORRELATION BETWEEN FAMILY BONDING AND SALEABILITY OF REVERSE MORTGAGE.

Bivariate correlations had been done on the responses of general account holders on statements regarding family bonding and saleability of reverse mortgage using third questionnaire. The result clearly depicted that a significant negative correlation existed between both the variables (Exhibit No. 7.0).

**Bivariate Correlations : Family Bonding v/s Saleability of Reverse Mortgage
(Exhibit No. 7.0)**

		Family Bonding	Saleability of Reverse Mortgage
Family Bonding	Pearson Correlation	1	-.788**
	Sig. (2-tailed)	.	.000
Saleability of Reverse Mortgage	Pearson Correlation	-.788**	1
	Sig. (2-tailed)	.000	.

** Correlation is significant at the 0.01 level (2-tailed).

This result was not surprising, because numbers of studies has found that strong bonding exist in the Indian families and children’s take care of their parents and elders after retirement and during old age. Because of this old age people are not worried about their survival after retirement and as a gesture they transfer their property to their children’s.

The result clearly depicted that there exist a significant negative linear correlation existing between family bonding and saleability of reverse mortgage. Meaning thereby as family bonding increase there will be a negative impact on saleability of reverse mortgage products.

Conclusion

The concept of reverse mortgage is gaining ground in the banking sector of India. The researcher has found that the customers who have taken the loan from bank under the scheme are more or less satisfied with the product by the product and as such the product is not taking up to the desired level. The product was introduced with a noble intention in the year 2007 but has not received desired attention from the stake holders. Although reverse mortgages have been in existence for more than a decade, their acceptance among consumers and financial institutions has been slow. Among the barriers to acceptance so far has been the lack of consumer familiarity with the product, the high cost of originating these loans, the lack of liquidity and diversification for lenders, unfavorable required accounting treatment, regulatory and legal uncertainties, and concerns over consumer protection. Nevertheless, as solutions to these problems are gradually worked out, the reverse mortgage may prove to be a financial product of choice for many elderly homeowners, especially in the future when the numbers of elderly increase relative to the population as a whole.

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