



Shri Dharmasthala Manjunatheshwara Institute for Management Development, Mysuru, India

## 9th International Conference on

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# **A Study of Customer Preference towards Reverse Mortgage as A Retirement Planning Tool**

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### **Abstract:**

This analysis highlights key factors shaping consumer attitudes toward reverse mortgages: competitive interest rates, quality customer service, and transparent terms are major influences. Financial institutions should prioritize favourable rates, excellent service, and clear policies to attract clients. Additionally, provider credibility and meeting diverse financial needs, such as handling unexpected expenses and supporting retirement goals, are crucial in decision-making. These findings suggest institutions should focus on these areas to enhance reverse mortgage appeal and strengthen market position.

**Keywords:** Reverse mortgages, consumer attitudes, competitive interest rates, customer service, transparency, provider credibility, financial needs, retirement planning, market positioning.

### **Introduction**

Reverse mortgages are designed especially for elderly homeowners who want to access their equity without having to make monthly mortgage payments. In a reverse mortgage agreement, the lender pays the homeowner—either as a lump sum, a line of credit, or periodic instalments—as opposed to standard mortgages where the homeowner pays the lender. Reverse mortgages stand out due to their capacity to give homeowners access to a portion of their equity while they still own the house. For retirees or seniors wishing to augment their retirement income, cover unforeseen costs, or improve their quality of life, this feature can be quite helpful. The truth is reverse mortgage. Generally, payments are held back until the homeowner sells the house, vacates the property, or passes away is one of their many notable benefits. Because they can access funds without having to make immediate repayment arrangements, this flexibility gives borrowers peace of mind. Reverse mortgages provide financial freedom, but it's important to acknowledge that one has responsibilities attached. As a way to preserve the property's value, borrowers are still in charge of paying property taxes, homeowner's insurance, and upkeep. Furthermore, because accruing interest causes the loan balance to rise over

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time, borrowers should carefully consider the long-term implications and consult a financial advisor or housing counsellor to fully understand the terms and possible dangers involved in reverse mortgages. Reverse mortgages are intended for homeowners aged 62 and older who wish to generate cash out of their home value. Borrowers can choose to receive the funds as a lump sum, a fixed monthly payment, or a credit line. When the debtor expires, gives up the property, or moves out permanently, the loan is paid in full. Mortgages are an essential part of the house-buying process for a lot of borrowers who lack the liquid assets to buy a property outright. Different financial circumstances are accommodated by different kinds of home loans. With the help of government-backed programs, more people can now meet the requirements for mortgages and realize their dream of becoming homeowners.

**Key points to consider when contemplating a reverse mortgage:**

**Eligibility Criteria:** To be eligible for reverse mortgages, individuals typically need to meet the lender's criteria, which generally include being a senior citizen aged 60 or older and owning a self-acquired and self-occupied residential property. For married couples applying jointly, a minimum age of 60 years is required for one spouse, and a minimum of 55 years old for the other.

**Loan Amount and Tenure:** Recognize the methods used to determine the loan amount depending on variables like age, property valuation, and current interest rates. It's also important to consider the loan's maximum term, which is typically 20 years.

**Repayment Structure:** Unlike traditional loans, reverse mortgages do not involve monthly repayments. Instead, the loan is usually settled when the borrower permanently leaves the property or passes away, at which time the property is sold.

**Financial and Legal Counselling:** To ensure that borrowers completely understand the terms, conditions, and consequences of the loan for reverse mortgages, the borrower must participate in counselling sessions offered by banks or other approved institutions. By providing this counselling, borrowers are guaranteed to make well-informed decisions about their financial future.

**Impact on Heirs:** The borrower ought to think about the implications of a reverse mortgage on their heirs. They can either repay the loan and keep ownership of the property or sell the property to settle the debt after the borrower's passing. It is crucial that the borrower consult their heirs in the decision-making process and that they understand the consequences of the reverse mortgage.

**1. LITERATURE REVIEW**

1. **Căzilia Loibl, Donald R. Haurin, Julia K. Brown, and Stephanie Moulton, (2018)** - examines how reverse mortgage borrowing influences older adults' satisfaction in finances, housing, health, daily life, and overall well-being. Comparing 1,088 borrowers with counselled non-borrowers, it found higher financial and housing satisfaction among borrowers, with no differences in health or daily life satisfaction. Housing satisfaction affects overall satisfaction more for borrowers, while health impacts non-borrowers' satisfaction more.
2. **Peter Knaack, Margaret Miller, Fiona Stewart (2020)** - evaluates reverse mortgage markets in various countries, highlighting benefits and risks related to financial inclusion and economic impact. It notes that while demand grows among aging populations, market failures like

adverse selection, high costs, and abuse limit supply. Countries that are developing confront more difficulties due to high transaction costs and insufficient consumer protection. Reverse mortgages are often seen as last-resort options rather than reliable retirement tools.

3. **Anurag Pahuja, Rinku Sanjeev (2016)** - explored the factors that impact potential buyers' choices regarding reverse mortgage loans in India. Using factor analysis, it connected demographic variables with attitudes towards reverse mortgages. The research identified that key factors influencing buyers' decisions include financial independence, the returns from reverse mortgages, concerns about risk, the complicated nature of the lending arrangement, and issues related to ownership.
4. **Mohammed and Sulaiman (2017)** - highlighted that many elderly individuals frequently face financial difficulties in covering rising medical costs. There is also concern about the insufficiency of social security systems, such as pension schemes and welfare programs, which are intended to support seniors after they have retired.
5. **Chatterjee (2016)** – defines reverse mortgages as a "hybrid financial product" enabling homeowners aged 60 and above to borrow against their primary residence. This allows borrowers to cover retirement expenses while retaining the right to live in the house for their lifetime without repayment obligations.
6. **Anna Warchlewska, Rafał Iwański (2020)** - examines various long-term care coverage options in private and public sectors, focusing on reverse mortgages and annuities, which are debated in both academic and practical contexts. The authors call for further exploration and aim to assess the current financial market conditions for these options in selected European countries. Given that funding for elderly care is mostly voluntary, the study also forecasts the costs of long-term care that would require public funding.
7. **S Moulton (2019)** - examined reverse mortgage in contrast to alternative equity financing sources. The study analysed borrowing patterns between areas with and without credit constraints, finding that borrowers in credit-constrained regions prefer to opt for Housing Equity loans particularly at times of booms in the property market.
8. **Neng Lei Rose, Merton Robert C (2017)** - proposed a reverse mortgage contract design adaptable across geopolitical regions, focusing on key criteria, education, and marketing for retirees and their beneficiaries. A sustainable funding model is essential to provide a consistent, cost-effective supply of funds, making reverse mortgages a standard retirement option. We examine the government's role as regulator and risk-bearer, suggesting alternative funding methods and addressing cultural challenges, like those in Asian societies, to enhance retirement security.
9. **Roberto Martinez-Lacoba, Isabel Pardo-Garcia (2020)** – highlights that Individuals over 65 often have incomes below the national average but typically own homes. Reverse mortgages can help cover increasing care costs and ensure steady income. Despite limited private sector development, government management could integrate these homes into public housing. The paper suggests reverse mortgaging 313,833 homes would need public investment of around 0.73% of GDP, offering a feasible solution.

**10. David Atance, Ana Debon, Ivan De La Fuente (2022)** - Given Spain's appeal to foreign retirees, lenders might target reverse mortgages to this group, though longevity risk varies by nationality. They compared reverse mortgage pricing in Spain, considering these differences. Calculations show amounts offered by three types of reverse mortgages to various nationalities, genders, and ages. Results indicate slightly higher risks for Spanish lenders with foreign borrowers.

## 2. OBJECTIVES

- Measure awareness and familiarity with reverse mortgages.
- Evaluate perceptions and concerns about reverse mortgages.
- Compare perceived competitiveness and service quality of banks.
- Understand decision-making factors and influences.
- Assess the role of reverse mortgages in retirement planning.

## 3. RESEARCH METHODOLOGY

The research follows a descriptive design, employing convenience sampling to gather data. The target population is elderly individuals aged 55 and above, who are potential candidates for reverse mortgages. A total of 150 respondents will be surveyed. Data will be collected through a questionnaire designed to capture insights from this demographic regarding their perceptions and decision-making factors related to reverse mortgages.

## 4. DATA ANALYSIS AND INTERPRETATION

Table 5.1: Gender of respondents

	Frequency	%	Cumulative%
Male	107	71.3%	71.3%
Female	43	28.7%	100.0%
Total	150	100.0%	

Analysis and Interpretation: The data indicates that 107 respondents (71.3%) are male, while 43 respondents (28.7%) are female. This shows a strong male predominance in the sample, with more than twice as many males as females.

Table 5.2: Heard of reverse mortgage

	Frequency	%	Cumulative%
Yes	67	44.7%	44.7%
No	83	55.3%	100.0%
Total	150	100.0%	

Analysis and Interpretation: The data shows that 67 respondents (44.7%) are familiar with reverse mortgages, while 83 respondents (55.3%) are not. This indicates a majority are unaware of reverse mortgages.

Table 5.3: Familiarity with reverse mortgage

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	Frequency	%	Cumulative%
VeryFamiliar	13	8.7%	8.7%
SomewhatFamiliar	47	31.3%	40.0%
Neutral	29	19.3%	59.3%
Somewhatunfamiliar	16	10.7%	70.0%
Notfamiliaratall	45	30.0%	100.0%
Total	150	100.0%	

Analysis and Interpretation: The data shows that 31.3% of respondents are somewhat familiar with reverse mortgages, and 8.7% are very familiar. However, 30.0% are not familiar at all, 10.7% are somewhat unfamiliar, and 19.3% are neutral. This suggests that while some respondents are familiar, the majority are either unfamiliar or only partially familiar with the concept.

Table 5.4: Believe reverse mortgage is a viable option

	Frequency	%	Cumulative%
Stronglyagree	23	15.3%	15.3%
Agree	54	36.0%	51.3%
Neutral	31	20.7%	72.0%
Disagree	17	11.3%	83.3%
Stronglydisagree	25	16.7%	100.0%
Total	150	100.0%	

Analysis and Interpretation:The data shows that 36.0% of respondents agree and 15.3% strongly agree that reverse mortgages are viable for retirees. However, 16.7% strongly disagree, 11.3% disagree, and 20.7% are neutral. This indicates that while many view reverse mortgages as viable, there is notable skepticism and a significant number of neutral opinions.

Table 5.5: Concern regarding reverse mortgage

	Frequency	%	Cumulative%
Highinterestrates	19	12.7%	12.7%
Losingownershipofproperty	38	25.3%	38.0%
Complextermsandconditions	33	22.0%	60.0%
Impactoninheritanceonheirs	16	10.7%	70.7%
Others	44	29.3%	100.0%
Total	150	100.0%	

Analysis and Interpretation:The data shows that 25.3% of respondents are most concerned about losing property ownership, 22.0% about complex terms, 12.7% about high interest rates, and 10.7% about inheritance impact. Additionally, 29.3% have other concerns, highlighting property ownership and complexity as key worries, along with various other concerns.

Table 5.6: Benefits in reverse mortgage

	Frequency	%	Cumulative
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			%
Steady income stream	20	13.3%	13.3%
Ability to stay in home	41	27.3%	40.6%
No monthly mortgage payments	38	25.3%	65.9%
Flexibility in spending	12	8.0%	73.9%
Others	39	26.1%	100.0%
Total	150	100.0%	

Analysis and Interpretation: The data shows that 27.3% of respondents value staying in their home, and 25.3% appreciate not having monthly mortgage payments. A steady income stream benefits 13.3%, while 8.0% value spending flexibility. Additionally, 26.1% mention other benefits. This indicates that staying in the home and avoiding monthly payments are the main perceived advantages of reverse mortgages.

Table 5.7: Competitive interest rates offered by banks

	Frequency	%	Cumulative %
Bank of Baroda	31	20.7%	20.7%
Union Bank	31	20.7%	41.4%
Axis Bank	26	17.3%	58.7%
Bajaj Finserv	20	13.3%	72.0%
Others	42	28.0%	100.0%
Total	150	100.0%	

Analysis and Interpretation: The data shows that 20.7% of respondents view Bank of Baroda and Union Bank as offering competitive reverse mortgage rates, 17.3% favor Axis Bank, and 13.3% prefer Bajaj Finserv. Additionally, 28.0% mention other institutions. Bank of Baroda and Union Bank are seen as top providers, with other banks also receiving notable recognition.

Table 5.8: Best customer service by bank

	Frequency	%	Cumulative %
Bank of Baroda	29	19.3%	19.3%
Union Bank	36	24.0%	43.3%
Axis Bank	27	18.0%	61.3%
Bajaj Finserv	17	11.3%	72.6%
Others	41	27.4%	100.0%
Total	150	100.0%	

Analysis and Interpretation: The data shows that 24.0% of respondents believe Union Bank offers the best customer service for reverse mortgages, followed by 19.3% for Bank of Baroda, 18.0% for Axis Bank, and 11.3% for Bajaj Finserv. Additionally, 27.4% prefer other banks. Union Bank is seen as the top provider, though other banks also receive notable support.

Table 5.9: Easy to understand terms and conditions

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	Frequency	%	Cumulative %
BankofBaroda	35	23.4%	23.4%
UnionBank	32	21.3%	44.7%
AxisBank	26	17.3%	62.0%
BajajFinserv	16	10.7%	72.7%
Others	41	27.3%	100.0%
Total	150	100.0%	

Analysis and Interpretation: The data shows that 23.4% of respondents find Bank of Baroda's reverse mortgage terms easiest to understand, followed by 21.3% for Union Bank and 17.3% for Axis Bank. Bajaj Finserv is considered clear by 10.7%, while 27.3% chose other banks. This indicates that Bank of Baroda and Union Bank are viewed as offering the clearest terms, with other institutions also recognized.

Table 5.10: Factors influencing decision to apply

	Frequency	%	Cumulative %
FinancialNeed	22	14.7%	14.7%
RecommendationsFromTrustedSources	24	16.0%	30.7%
BetterUnderstandingofterms	41	27.3%	58.0%
Positiveexperiencesfromothers	23	15.3%	73.3%
Others	40	26.7%	100.0%
Total	150	100.0%	

Analysis and Interpretation: The data shows that 27.3% of respondents are motivated by a better understanding of terms, 16.0% by recommendations, and 15.3% by positive experiences. Financial need affects 14.7%, and 26.7% cite other reasons. This highlights that clarity on terms is the main factor, with recommendations and personal experiences also important.

Table 5.11: Most important factor to choose bank

	Frequency	%	Cumulative %
Reputationofthebank	16	10.7%	10.7%
Interestratesoffered	39	26.0%	36.7%
Customerservicequality	43	28.7%	65.4%
TermsandConditions	17	11.3%	76.7%
Others	35	23.3%	100.0%
Total	150	100.0%	

Analysis and Interpretation: The data shows that 28.7% prioritize customer service, 26.0% focus on interest rates, 11.3% on terms and conditions, and 10.7% on the bank's reputation.



Additionally, 23.3% cite other factors. Customer service and interest rates are the main considerations

Table 5.12: Importance of reverse mortgage in retirement planning strategy

	Frequency	%	Cumulative %
VeryImportant	15	10.0%	10.0%
Somewhatimportant	42	28.0%	38.0%
Neutral	40	26.7%	64.7%
Somewhatunimportant	21	14.0%	78.7%
Notimportantatall	32	21.3%	100.0%
Total	150	100.0%	

Analysis and Interpretation: The data shows that 28.0% view reverse mortgages as somewhat important for retirement planning, and 10.0% see them as very important. Conversely, 21.3% find them not important, 14.0% see them as somewhat unimportant, and 26.7% are neutral. This indicates mixed opinions on the importance of reverse mortgages in retirement planning.

Table 5.13: Reverse mortgage as option for managing unexpected expenses

	Frequency	%	Cumulative%
StronglyAgree	13	8.7%	8.7%
Agree	53	35.3%	44.0%
Neutral	30	20.0%	64.0%
Disagree	20	13.3%	77.3%
StronglyDisagree	34	22.7%	100.0%
Total	150	100.0%	

Analysis and Interpretation: The data shows that 35.3% agree and 8.7% strongly agree that reverse mortgages can manage unexpected expenses. In contrast, 22.7% strongly disagree, 13.3% disagree, and 20.0% are neutral. This suggests that while some view reverse mortgages as helpful for managing unexpected expenses, there is notable disagreement and neutrality.

## 5. FINDINGS

- **Key Influencing Factors:** Competitive interest rates, customer service, transparent terms and conditions, and the credibility of the reverse mortgage provider are major factors influencing consumer decisions. These elements significantly impact how reverse mortgages are perceived.
- **Consumer Priorities:** Consumers prioritize competitive interest rates, easy-to-understand terms, excellent customer service, and provider reliability. These factors are crucial in making reverse mortgages a viable option for retirement planning.
- **Perception and Decision-Making:** The data supports the hypothesis (H1), a significant relationship exists between perceptions of reverse mortgage loan and their consideration as a retirement tool. Familiarity with reverse mortgages, perceived benefits, and provider credibility strongly influence the decision to choose this financial produ



## 6. SUGGESTIONS

- Enhance Transparency: Financial institutions should focus on making reverse mortgage terms and conditions clearer and more accessible. Simplifying documentation and providing straightforward explanations can improve consumer understanding.
- Improve Customer Service: Banks should invest in superior customer service, ensuring that representatives are well-trained and responsive to customer inquiries and concerns. Exceptional service can distinguish providers in a competitive market.
- Highlight Competitive Rates: Providers should prominently feature their competitive interest rates in marketing efforts, as this is a significant factor in consumer decision-making. Offering attractive rates can enhance appeal.
- Build Credibility: Institutions should work on building and maintaining a strong reputation for reliability and trustworthiness through consistent service quality, transparent operations, and positive customer experiences.

## CONCLUSION

The data reveals a mixed perception of reverse mortgages among respondents. A majority are unfamiliar with reverse mortgages, and while some view them as a viable option for retirees, significant skepticism and neutrality exist. Key concerns include losing property ownership and complex terms, with fewer worried about high interest rates or inheritance impacts. The primary perceived benefits are staying in the home and avoiding monthly payments. Bank of Baroda and Union Bank are noted for competitive rates and clear terms, with Union Bank recognized for superior customer service. Decision-making is largely influenced by clarity on terms, with customer service and interest rates being major selection criteria. Views on the role of reverse mortgages in retirement planning are diverse, and while some see them as useful for managing unexpected expenses, there is notable disagreement and neutrality.

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