

## **Housing Reverse Mortgage Research Based on the Foreign Relevant Theories Management College**

**Zhaojing**

Shanghai University of Engineering Science (SUES)  
Shanghai, China

### **Abstract**

*With an aggravated aging level, social safeguard stress deserves no evading. In market economy developed countries, housing reverse mortgage loan is extended for realization of living out life in retirement with house, which not only raises life quality of the aged, but mitigates social safeguard stress of the state. Therefore, it is of great significance for building up a harmonic society to present housing reverse mortgage loan to public. The article analyzes the current situation of China's housing problems and implementation of patterns in foreign countries learns their experience for our own use.*

**Keywords:** Reverse Mortgages, Housing for the elderly

### **1. Introduction**

Retirement has been a topic of human concern, it is not only a livelihood issues, and also economic issues, but also political issues. As China's population aging more serious, whether it is a family or a social pension is facing enormous pressure, older persons earn pension plan is a wise move. Meanwhile, China's real estate industry is booming and thriving .The other hand, because of people's preferences for housing, property ownership in China is relatively high. To get a better pension, can be associated with real estate and pension, form a new endowment model--House-for-Pension Pattern

#### **1.1 Background**

“Reverse mortgage "pension model in foreign countries has been implemented for ten or twenty year's time, which originated in Netherlands, that most development is the United States. The specific mode of operation of house-for-pension is as much as up to more than 10 kinds, but most typical is "reverse mortgage" mode. In market economy developed countries, housing reverse mortgage loan is extended for realization of living out life in retirement with house, which not only raises life quality of the aged, but mitigates social safeguard stress of the state. Many older people in foreign countries do not "reverse mortgage" mode as a means of subsistence, but as an important way to change lifestyle and live a higher-quality life.

#### **1.2. Basic Meaning**

The reverse mortgage is simply, to bequeath the old peoples' property as collateral for banks, insurance companies and other financial institutions, the latter in the comprehensive assessment of the borrower's age, life expectancy, property value and now expects the owner died after the value of the property and other factors, offer the landlord a fixed sum of money each month, homeowners continue to receive residency until he dies. When the owner died, property will be for sale and used to repay the loan, and all its appreciation also belongs to the mortgagee. There are many kinds of concrete operation way, the basic idea is :

First, homeowners with its houses that have full property rights to get the whole loan mortgages from the Bank for one time;

Second, home owners use loan proceeds to purchase lifelong annuity life insurance from life insurance companies;

Third, the homeowners each month obtain pension income from life insurance companies as pension cost of living, has adapted to his death;

Fourth, after the death of the owner, the house will be used as restitution to repay the bank reverse mortgages, and bank final liquidates the loan's costs and benefits.

## **2. Necessity of Housing for the Elderly in Our Country**

### **2.1 Introduction**

In the eyes of people, "Fostering children to defend aged" concept is rooted in tradition, but now since the "Family Planning Policy" become the backbone of the social age, 421-style family into the mainstream, more and more empty nesters, and greater age, the pressure of supporting great self-evident. Modern survival pressure is growing, increasingly fierce competition, just "supported by the son" is no longer a reality. Under normal circumstances, people in youth is the savings in old age is negative savings, pension of the deposit is easy for the rich, but for jobless workers and landless peasants who never have many deposits, deposits is unlikely. Therefore, the endowment goal and the sources of income can be realized by their house property. Selling house for the aged will make old people homeless, that's not available. Old people reverse mortgage their houses to the Bank but never lose right of using their house on the basis of the monthly pension benefits until they die, that can be achieved, it is a way that satisfy both parties. In recent years, governments have focused more on the people's livelihood, providing for the aged by society has large development, but there is no denying that there are still many loopholes in China's basic old-age insurance. For the unemployed they have to fill full amount of endowment insurance by themselves, but cause of economic reasons they can't afford to pay this fee, some farmers also face the same awkward predicament.

Now a day pension level is very low, it is difficult to guarantee the normal standard of living. So improving pension level is one of serious problems in our society. Relying on the country and government completely to provide the pension is impossible currently considering our country's economic strength. To raise the level of pension we can set our sights on more prosperous real estate and finance insurance industries, obtain a pension by mortgaging old people's house property.

### **2.2 The Reality of Housing for the Aged in Our Country**

We know that house-for-pension requires applicants have a house first, then also needs to have the appropriate financial and insurance institutions. Depending on China's situation, the resident's homeownership rate is still relatively high, including the unemployed and landless farmers, and he current domestic financial insurance industry has been relatively mature, these substances, and system requirements are already available. High homeownership rate of urban residents in China can be confirmed at 'Chinese State of the cities report 2010/2011'. This report shows that in the year of 2008, urban residents 'per capita housing area is 23 square meters, the quality of housing and living conditions have greatly improved, the homeownership rate of urban residents increased by 2008 has reached 87.8%.

In the early 1990s our country in order to solve the housing problem of urban employees, many State-owned enterprises are organized fund-raising building, during that age a lot of workers suffered layoffs when shareholding system reform, these workers have houses. Farmers who lost their land in accordance with national policies and regulations receive houses in proportion. The unemployed and farmers who also belongs to the low-income groups, they do not have any pension, health insurance, even with the improvement of the social security system of their coverage is still low, their normal life in old age cannot be guaranteed, and houses where they live is really part of their property, they can draw on their own to improve the level of pension.

Remote city of Mr. Wang, a 62 - year - old, is a unemployed man, no endowment insurance, but he has a new eighty percent in downtown housing, 130 square meters, equivalent to about 400,000, if he had taken to old-age pension in the manner and in accordance with average life of men was 69.63 years to count, we can know that the pension amounts here receives. Today house's price are in arising trend, Mr. Wang's real estate depreciation and its added value offset, after deducting the advance discount interest 25%, Mr. Wang will receive 37,500 per annum, that is, could receive 3125 dollars a month. We passed rough estimates can be seen, house-for -pension enables the unemployed to live in their own houses on the basis of receiving more than 3,000 yuan a month living expenses, this will ensure thy own their homes, but also have considerable pension for life, so as to improve their standard of living.

## **3. Foreign "Reverse Mortgage" Endowment Model**

We often talk about "reverse mortgage" pattern generally refers to the more popular "United States model", and "Singapore model" where there is also so much we can learn from.

### **3.1 United States Model**

#### **3.1.1 Introduction**

The popular "United States model", its mortgage lending target is 62 years of age or older. Its principles being housing assets higher amount can be higher; Older people can obtain high amount of loans, this is determined by their short life expectancy, which means short loan period; Husband and wife still alive family its loan is less than the single family, because its combined life expectancy is longer than single; The higher expected value of the houses, the higher amount of loans. There are mainly the following three types:

##### ( 1) Federal-insured reverse mortgages

It's also known as Home Equity Conversion Mortgages, HECM. The loan is insured by the United States Federal Housing Administration, its targets are 62-year-old people or older, it will guarantee the recovery of the reverse mortgage loan exceeding house value and is responsible for compensation for damage other than loans. This kind of loan is flexible, does not need to prove income, its business is handled by some institutions (such as banks, State-owned social security authorities), loan able amount is depended on the borrower, property's value, current interest rates, and the age of the borrower. About 90% of the reverse mortgage loans belong to this type.

##### ( 2) Government-sponsored reverse mortgage loans

This loan is handled by United States Federal National Mortgage Associations. It is a very good alternative to HECM, and mode of operation is also largely similar to HECM. However, this loan has a fixed term, the user must be payment within the prescribed period. Before getting the loans, the borrower must make long-term capital plan with the assistance of relevant financial institutions, and move out housing and loan repayment plans.

##### ( 3) Proprietary reverse mortgages

This kind of mode of reverse mortgage loan to launch by different companies, according to the customer classification there are certain differences, which belongs to the personal finance products.

#### **3.1.2. Effect Analysis**

"The United States model" being able to successfully implement can benefit from United States populations widely recognized and internationally been spreading, it may be due to several factors:

##### (1) Government's support

"Reverse mortgage "in the United States began in the 1960 of the 20th century, but fairly slow.Until1989, the United States Federal Housing Administration guaranteed reverse mortgage loans (HECM) product and ensured the wide participation of older persons. By 1900, all around the America had only 3,000 "reverse mortgage" user, from 1900 to 1992 there were new increase of 5,000 users, after 1992, the growth rate began to accelerate. Today, this model has won the United States public's approval. If there was no relevant policy measures government support, "reverse mortgage" is impossible widely accepted in such a short time. Therefore, government support is a guarantee of success for "reverse mortgage" mode.

##### (2) Perfect real estate and financial markets

In America the Federal National Mortgage Association, the Government National Mortgage Association and Federal Home Loan Mortgage Corporation constitute the real estate secondary market, combine with the Federal Housing Administration, the Federal Reserve and other government agencies to provide credit guarantee system to ensure that the "reverse mortgage" of low risk and high returns. Various kinds of real estate credit activities also makes the housing finance market has a great vitality and good liquidity, this makes "reverse mortgage" pension model have the basis of development elements.

##### (3) Open cultural concepts

Open culture is the premise of the "reverse mortgage" model. American uphold independence, their intergenerational cohesion of substance is weak. Children's obligations to support their parents are also very light when they become adults, meanwhile, old people in handling their assets have great autonomy, therefore, older people who have the open concept makes "reverse mortgage" has no ideological barriers.

#### (4) Help to relieve the aging crisis

“Reverse mortgage” originated in the United States because it solved one of the biggest problems of aging population, both help old people solve pension problems and share the burden of Government, meanwhile, it provide a variety of benefits for banks. It has played a positive role in solving aging and social security problems in the United States.

### 3.2. Singapore Model

#### 3.2.1. Introduction

The people aged 60 years or older mortgage their house to NGOs which have government-backed, and then they will receive ne-time pension or installment payment from public institutions. When the elderly die, their house property will disposed by these institutions, "residual value" (House price subtracts the payable total pension) will be given to their heirs.

#### 3.2.2. Effect Analysis

Singapore Government to guarantee citizens' right of residence, to solve the housing problem and cannot rely solely on the property market, its core must be adapted to people buying the "comfortable housing project" or "affordable housing", it is the responsibility of the Government's responsibility, not the real estate business. In order to achieve the "home ownership" goal, Singapore design housing and other medium-term objectives long-term objectives together with the endowment of a central provident fund system, similar to our "insurance" personal accounts "and" housing accumulation Fund "setting as a whole. The long-term goals of the medium-term goals such as housing and pension together, we can solve the value of pension funds, on the other hand can increase costs when they are old. Thus, for workers, "individual development accounts" will no longer be a completely controlled by the Government, only for the old-age social security in young stage cannot be used "idle", but rather a belongs to own assets, and even can be used as investment in housing, education and other costs. “Singapore model” of implementation is carried out by public institutions, whether from the management or from interests distribution has some public interest. In China and other oriental countries have more emphasis on family values, which has no doubt of greater development space.

### 4. Resistance Factors of House-for-age in Our Country and its Countermeasures

From implementation subject angle, China existing policy in mixed industry operating aspects has limit measures, but domestic each big financial, and social security institutions is not has can independent bear this items business of conditions, from Bank aspects considered, its funds compared ample, personal savings deposits in the for purchased housing, and prepared pension of funds also occupies high of proportions, has opened traditional of real estate loan business of by face. But "reverse mortgage" model long run cycle and bank deposit for short, reception duration does not match on both sides. See from the insurance companies, especially life insurance companies have long been engaged in insurance business, life insurance product development and promotion, we have a wealth of experience, but because of policy restrictions, China's insurance companies still do not have the function of financial credit, General Insurance Fund also does not allow a direct investment in the country's real estate projects. On the social insurance institution, although with strong financial strength, business scope is closely related to old-age care, but this business involves the evaluation of loan origination and mortgage housing, maintenance, marketing and so on, are not the social security institutions of expertise. From the angle of implementation object, object of an old concept rooted in tradition, handed down according to China's thousands of years of traditional family values, the elderly normally will house as an inheritance to their children, and in our view it is the logical thing, the Court will not easily change; "In old age, "this traditional concept. Not only profoundly affects the elderly, while also affecting younger people now, if the parents through a reverse mortgage as a pension supplement, seen as unofficial children might have, even with the pressure of public opinion. Object b housing property rights, in accordance with the People's Republic of China town-owned land under the interim regulations on the assignment and transfer of the right, our residential land of maximum life span of 70 years, developers get the land use right certificate as a starting point for the time, the residential life expectancy is less than 70 years. Although the 149th of real right law of China provides that ": the use of land for housing construction period of automatic renewal.

”Financial institutions there is a problem in handling the reverse mortgage business: If a mortgage term of remaining years of land-use reverse mortgage cannot be overwritten, land for renewal of mortgage do you need to change is not, it will increase the operating costs of financial institution reverse mortgage. Meanwhile, housing quality, are aged with housing in our country faces urgent problems

### ***5. In View of the Above Difficulties, China's "Reverse Mortgage" Mode Should Fully Take into Account the Following Recommendations***

(1) The Government into full play in the development of "mortgage" the regulation in the supporting model. General principle is that the Government macro-control, but not taking up the reins. “Reverse mortgage "pattern is the pattern that will combine housing and pension, social benefits, promoted on social development and social stability, and is a greater risk of financial products. Foreign experience shows that the Government "reverse mortgage" model plays a very important role in the development process. In order to promote the healthy development of the business in China, the Government should refer people from the very beginning, in terms of policies, regulations, information, advocacy, and support.

(2) Change the traditional concept of

In the Chinese tradition, property may not be sold, be sure to leave to future generations, but it's not, let your children really should be inherited is not a property, but work hard for self-reliance, and that is the real wealth. For the unemployed, landless farmers and other low-income groups, the left property to his children, his pension became the issue, section Clothing food with low living standards, this is not the right choice for a harmonious family, only old people live well, children can focus on their work, and hard struggle. This is no property as an inheritance, but will also stimulate young people's drive

(3) Innovation in financial and insurance system

Rapid development of China's financial and insurance, provide the institutional framework for the aged with housing, to encourage pension based on our country's financial product innovation, the insurance company can try a new endowment insurance, better have blessedness senectitude and services for the elderly. Reverse mortgage loans in view of its complexity, During the operation, you should adopt a joint approach. But in China, the current policies with regard to mixed operation has restrictions. However, institutions such as banks, insurance, trust, social security alone has its weaknesses and shortcomings in the line. Our country should establish the commercial banks as the mainstay, complement insurance companies and social security institutions, and real estate agents involved in one of the "reverse mortgage" mode the operating organizations and, in addition, real estate companies and accounting firms, law firms, real estate appraisal firms and other intermediary bodies, in the reverse mortgage business process is indispensable, but they will not be the protagonist. Therefore, the "reverse mortgage" mode to move these departments together, complement one another and risk sharing.

(4) Perfect legal system

Any operation of a new system, law is needed, the aged with housing relies on real estate reverse mortgages, this requires the legislatures for related financial and insurance regulations as a protection, which relates to banking, insurance, asset valuation, social security and other areas, is far more complex than traditional mortgages. In asset evaluation, housing insurance part, land links, "reverse mortgage" aspects of payment and recovery, to work out the relevant legal norms to regulate the market order. Compared with Western countries, the reverse mortgage is not related to the real estate, finance, insurance and endowment insurance legal system, reverse mortgages difficult to run. We need to formulate new regulations after research according to the actual situation. The aged with housing in the United States run mature, too hard for the mainstream in China is an important cause of United States legacy imposed a hefty inheritance tax, there is no inheritance tax in China. Aged with housing in China is not up to the purpose of tax avoidance, so can by way of levying inheritance tax to mobilize the enthusiasm of the aged with housing of older persons.

(5) Introduction of preferential taxation policies

I think the rich without the necessity of the aged with housing, their cash or assets sufficient to ensure a high quality of pension, you should use the aged with housing patterns are actually some low-income people, as laid off workers and peasants, for this segment of the population more preferential fiscal and tax policies should be developed.

The other hand, we are now market economy, no deal is all about fair and equitable, but the aged with housing reverse mortgage loans are requiring banks and other financial and insurance institutions to take the money, after the enjoyment of housing rights, which have external sexual conduct requires countries to grant certain financial preferential tax policies to encourage. As regards tax, could be implemented along with the reverse mortgage system, depending on the amount of different grades.

## **6. Prospect**

China has entered a "not rich old" social realities, in order to alleviate the pressure of supporting the big country small individuals are carrying out continuous experimentation and exploration, aged with housing may not be the best solution, but it works. The aged with housing can improve the living standards of older persons, can reduce the pressure of supporting young, can promote innovation in the insurance industry, and can also speed up the flow of real estate, for the harmonious development of society as a whole will have a positive impact. Any benefit policies early will have a variety of obstacles, to fill Housing Endowment implementing exceptions, its greatest resistance, from the elderly and the financial institutions ' risk-sharing, domestic real estate prices, the average life expectancy, and other key factors are difficult to predict. The result is that many elderly persons currently on the system was not die, financial institutions are hesitant, and on both sides there is wait-and-see attitude. In short, a healthy society, both fallback basic public pension system, it is necessary to open road to industrialization and commercialization for the elderly the choice of more and more advanced, neither can be neglected. Measure the moral conscience of the Government if the former, the latter test of the wisdom of the financial industry and regulators with the ability to control the risk.

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