

Study on Reverse Mortgage Pattern in China

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Abstract

Currently, China is facing severe situation of population ageing. Pension problems have become one of the major issues related to people's livelihood. While old-age security system is not yet perfect, exploring mode that suits China becomes a top priority. In recent years, the "reverse mortgage" became a hot topic in China's new endowment. China has planned pilot conducted in Beijing, Shanghai and other major cities. The purpose of this paper is to analyze the feasibility and risk preventing and propose policy suggestions to improve reverse mortgage pattern.

Keywords: reverse mortgage, pattern, China

1. Introduction

Reverse mortgage pattern refers to a pension mode that elderly people mortgage their property to access to a certain amount of old-age pension or receiving elderly services. After the old man died, banks or insurance companies recover housing tenure. This kind of pension is considered as an important supplement to improve the old-age security system.

2. Basis of Reverse Mortgage

2.1 Theoretical Basis of Reverse Mortgage

2.1.1 Reverse Mortgage under the Angle of Life Cycle Theory

The creation and development of reverse mortgage pattern is closely related to the theory of life cycle support. The "reverse mortgage" concept puts forward, to a great extent, from the family life cycle theory. Demand for housing due to the different stages of life cycle theory of the family differences, making the "reverse mortgage" with a feasibility. In the pursuit of its individual stages in the life cycle, a rational consumer's income and expenditures are balanced. The "reverse mortgage" attempts to realise the surplus value out of the house when the man died and consumption of the old man in his lifetime, so as to achieve housing wealth throughout the life cycle of older persons reasonably.

2.1.2 Reverse Mortgage under the Angle of Futures Option Theory

Reverse mortgage is essentially a form of housing futures that housing ownership of the elderly will be residential as a "futures", which is pre sold to a bank, insurance company and other financial institutions or specific institutions to get a fixed annual (monthly) payments. At this time, old people still have the right to live in the house. Until the old man died, the property was delivered and the ownership is to the lending institution.

2.2 Realistic Foundation of Reverse Mortgage

"Reverse mortgage" pattern is an effective way to cope with issues of aging, but its operating conditions compared to other pension model is more demanding which requires some realistic foundation. First of all, the old family must have property rights, their own housing and full ownership, which is possible to have the right to sell, lease or transfer of the housing. Second, in the "reverse mortgage" pattern, only the elderly parents living separately from their children, the model can work. Otherwise, after the death of the old man, children will have no place to home. Third, when the old people's economic material foundation is very strong, it is not necessary to consider the use of real estate pension. While the financial situation of the elderly is poor, or they do not have their own independent housing or housing value is too low, it's hard to count on them as their pension capital.

Fourth, old people reside in the city or in the suburbs, especially thriving, rapid economic growth in the city or suburbs. The value of housing is very high and in constant value. Housing realizable transfer is also relatively easy for housing reverse mortgage endowment. But if the house is located in the countryside, or modest economic added value for the slow development of less developed regions, it will be difficult to apply this model because of the low value and not easy to liquidate. Therefore, the "reverse mortgage" model is particularly suitable for the urban elderly in the low income level with independent property room and without a direct heir.

3. Operation Impeding of China's Reverse Mortgage Pattern

Reverse mortgage pattern has the advantages and characteristics that other model does not have. Because of its corresponding to the specific requirements of other pension mode, it will bear pressures from the concept, economic, legal, institutional and other aspects when operation. Resistance mainly exists in the following aspects:

3.1 Obstacles of Traditional Ideas

The traditional concept has been formed that raising children to provide against old age and leaving the legacy to posterity in the family ethics aspect in China. Parents often scrimp and save and leave property to their children. At the same time, an expression of filial piety is that children help parents improve their living conditions so that parents live on a new house. Chinese people always have the habit of buying a house so that a lot of people cost most lifetime savings in the purchase. Finally, the house is left to their children as they do not want to see hard-bought house was taken by stranger. In addition, if the elderly do not leave the house to their children but to other institutions, it is also very likely to cause family conflicts and deterioration of relations with their children.

3.2 Restrictions of Real Estate Market

A necessary condition of operation for reverse mortgage pattern is to have one's own property. However, buying a house has become a concern of the whole society in serious problem with current high price. Housing is unattainable for many people especially in a fast-developing city so that it is a universal phenomenon that one family live together in a small house. Meanwhile, China's real estate development in rural areas is unable to advance. Therefore, the reverse mortgage pattern in rural areas can hardly be implemented.

3.3 Impact of the Imperfect Financial System

Reverse mortgage pattern is dependent on the integrity of the real estate industry and the financial system. The real estate industry is a high risk industry with a large capital demand and a long capital turnover period. At present, China's real estate development is not mature and the market operation mechanism has not been fully established. At the same time, the financial system related to the real estate is unable to meet the needs of the rapid development of the real estate industry. It has a serious impact on the development of real estate finance that includes the single source of funds, the imperfect financial system, the lack of financing tools and the unreasonable macro management system.

4. Proposal of China's Reverse Mortgage Pattern

With reverse mortgage pattern runs successfully, China can effectively deal with pension challenges of aging society and alleviate the contradiction between supply and demand of housing, promoting the healthy development of real estate market. Proceed from China's specific national conditions, the reverse mortgage pattern is new, lacking the top-level design of the system and lack of grass-roots experience, which is a focus on the exploration of the research field.

4.1 Increasing Public Opinion and Advocating the Concept of Modern Nursing

With China's economic development and social progress, the concept of raising children to provide against old age has gradually lost the necessity from an economic point of view. Meanwhile, more and more elderly people also chose to not live together with children but live a relatively independent life. Therefore, self-support guarantee has become increasingly popular. The state and society should actively promote the new concept of the old age by means of propaganda, letting the old people with conditions accept the new model and pay attention to the improvement of the life quality of the elderly. At the same time, in particular, it is necessary to strengthen the propaganda of the younger generation and cultivate the housing endowment awareness in the younger generation so that they can accept reverse mortgage practices and see the guarantee on the quality of life in the elderly. After which, in its old age, they can also take the initiative to accept this pattern.

4.2 Focusing on Top Design and Improving Policies and Regulations

As is a systematic pattern, reverse mortgage needs the top design and national macro-control. It involves value assessment of residential property, actuarial life expectancy, the financing of the purchase of pension funds and investment management, the relationship between the parties to the interests of the parties, the implementation of relevant laws and regulations of the state and many other contents of the construction of reverse mortgage pattern. The state needs to strengthen the overall control of the reverse mortgage pattern and formulate and adjust the relevant laws and regulations such as improving real estate financial operation mechanism, launching inheritance tax timely to reduce children's resistance, establishing and improving the market access system and the regulatory system, making clear of qualification of applicant, strengthening the supervision of the lending institutions, intermediaries and assessment agencies and so on.

4.3 Integrating Multi Resources and Developing Market Function

Real estate and finance is the project of market operation. The government should pay attention to guide and play the role of the market in the macro adjustment and control. Only the healthy development of the real estate market can consolidate the foundation and guarantee to the smooth operation of the reverse mortgage pattern. It can promote the development of the reverse mortgage pattern through financial institutions playing a leading role to assess the house value scientifically and make huge purchase capital turnover and increase the value. In addition, the reverse mortgage pattern also needs the social welfare institutions to provide strong support so that the concerns of the elderly will be mitigated when they take the replacement approach to the reverse mortgage pattern. It is an important condition for the recognition and expansion of the reverse mortgage pattern to improve the pension system and pension benefits. Governments should be actively involved in the construction of facilities for the elderly through various policies and measures to encourage active participation in the community and market resource integration.

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