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### THE REVERSE MORTGAGE SYSTEM AS A RETIREMENT INSTRUMENT APPLICABILITY IN TURKEY

BİR EMEKLİLİK ARACI OLARAK TERSİNE MORTGAGE SİSTEMİNİN TÜRKİYE'DE  
UYGULANABİLİRLİĞİ

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#### ABSTRACT

The state of the housing market, as well as in the world, is one of the frequently mentioned topics in Turkey. The need for housing is constantly increasing due to both regional population increases and migration. Mortgage system is one of the housing financing methods encountered in purchasing these housing and meeting these rising needs. The purpose of this system is to bring assurance to housing finance providers and also to ensure regular cash flow. ReverseMortgage is a system based on the principle that people with a fixed pension and housing in developed countries convert their homes into cash. The aim of this system is to increase the level of welfare of retired people with fixed income and housing and thus to help increase the liquidity in the economic system. The aim of this study is to discuss the applicability in Turkey of Reverse Mortgage system by examining the applications of the world.

**Key Words:** Housing market, mortgage, reverse mortgage, applicability in Turkey

#### ÖZ

Konut piyasasının durumu, dünyada olduğu gibi Türkiye'de de sık sık dile getirilen konulardan birisidir. Gerek bölgesel nüfus artışlarından, gerekse de göçlerden dolayı konut ihtiyacı sürekli artmaktadır. Nitekim artan bu ihtiyaçları karşılamak üzere yapılan konutlar ve bu konutları satın almada karşımıza çıkan konut finansmanı yöntemlerinden birisi de ipotekli konut finansmanı sistemi olarak bilinen Mortgage sistemidir. Bu sistemin amacı konut finansmanını sağlayanlara güvence getirmek ve aynı zamanda düzenli nakit akışı sağlamaktır. Tersine Mortgage ise özellikle gelişmiş ülkelerde sabit bir emekli maaşı ve konutu olan kişilerin, ellerindeki konutları nakde dönüştürmeleri esasına dayanan bir sistemdir. Bu sistemin amacı ise sabit geliri ve konutu olan emekli insanların refah düzeyini artırmak ve aynı zamanda ekonomik sistem içinde likiditenin artmasına yardımcı olmaktır. Bu çalışmanın amacı Tersine Mortgage sisteminin dünyadaki uygulamalarına değinerek, Türkiye'de uygulanabilirliğini tartışmaktır.

**Anahtar Kelimeler:** Konut piyasası, mortgage, tersine mortgage, Türkiye uygulanabilirliği

## 1. INTRODUCTION

The increasing population brings with them many requests and needs. It is such that people constantly have some basic needs. Population growth and consequently increasing housing need have become one of the main needs in Turkey as well as in the world. In addition, Turkey as a developing country, as a result of rapid industrialization since the 1950s, is going through an extensive process of urbanization, population increase and migration to urban areas from rural areas play an active role in the rapid growth of cities.

The provision of housing is stipulated as “The State shall take measures to meet the need for housing within the framework of a plan that takes into account the characteristics of cities and environmental conditions, and also support community housing projects” in Article 57 of the Constitution of the Republic of Turkey. Moreover, there are alternative housing acquisition applications such as housing loans with low interest provided by the state in various years and Mortgage, which has been applied in various countries for many years, and can be applied in Turkey since 2007.

The concept of Reverse Mortgage, which is implemented by the countries with high level of development as an alternative to the mortgage system, is defined as the process of converting the their current housing of the retired people into cash. Thus the aim of this study is to discuss the applicability in Turkey of Reverse Mortgage system which is a type of mortgage loans and used as a means of funding by developed countries.

## 2. REVERSE MORTGAGE CONCEPT AND DEVELOPMENT

Today, many of the people in retirement age worldwide complain that their income is not enough. In Turkey, the pension of the retired people are not very satisfactory level, so people are constantly raise this topic. As such, older people need some additional income to make their lives better. Some people, after retirement, as a hobby, as well as income in terms of earning themselves to create a small number of small businesses to provide additional income, while some people in developed countries if they have the housing they have to choose the method of converting cash with the Reverse Mortgage system.

In 1950, the Reverse Mortgage system was introduced as a private crediting concept, but it was not implemented nationally until 1987. US Housing and Urban Development-HUD and its subsidiary, Federal Housing Administration-FHA, have been implemented with The Home Equity Conversion Mortgage-HECM program in the Reverse Mortgage sector. In addition, HECM is a private lending institution approved by HUD. According to HUD, the objectives of the HECM Program are as follows (Weber and Chang, 2006: 39):

- ✓ To ensure that homes are converted into liquid assets to meet the special needs of elderly people,
- ✓ To encourage participation and increasing participation in the Reverse Mortgage sector by converted housing value into liquid assets,
- ✓ To identify the demand for the Reverse Mortgage and to help determine the types of Reverse Mortgage will fit the needs of older people.

Especially after the 1990s, with the increase in literacy rate in developed countries and the high level of education of people over 65 years old, it has become inevitable for people to understand some financial systems such as Reverse Mortgage, to learn about these issues and to start to implement these financial systems based on the information they receive. There are four different organizations of the Reverse Mortgage system, which is one of the income methods that people in this age group get using financial systems. These are as follows:

- ✓ *The Home Equity Conversion Mortgage (HECM)*: is the oldest and most known Reverse Mortgage variety that serves people aged 62 and over with loans insured by Federal Housing Administration-FHA which is a subsidiary of HUD (Weber and Chang, 2006: 38);

In order to borrow from HECM loan type, there are some conditions as follows ([www.lakeareabank.com](http://www.lakeareabank.com)):

- ✓ The host must be 62 years or older,
- ✓ The house must be the owner's own primary residence,
- ✓ In a four-story residence, only one floor should be resident or only one family should reside in a designated section,
- ✓ The houses must be comply with the requirements of HUD and at least one year old,
- ✓ Most cooperative and most portable houses should not be suitable for this structure.

As a result, if the HUD approved consultancy agency negotiates with a consultant to borrow under this program, the process will begin.

- ✓ *Fannie Mae's Home Keeper*; is the largest national Reversal Mortgage fund source in the Reverse Mortgage industry. Fannie Mae introduced their own product, Home Keeper, in 1995. ([www.fanniemae.com](http://www.fanniemae.com)). Fannie Mae, Home Keeper is a program that allows seniors to tap into the equity in their homes. This product has made it possible for many individuals to create a source of residual income for themselves. In 2008, the Fannie Mae Home Keeper reverse mortgage program was discontinued for the future. Because of legislative changes, the FHA HECM program was greatly expanded, and Fannie Mae did not see much point in continuing operation ([www.Mortgage101.com](http://www.Mortgage101.com)).
- ✓ *Financial Freedom Cash Account Plan*; is an organization that provides more flexible lending opportunity compared to other organizations. In other words, this institution is distinguished from the others by providing the possibility of borrowing for houses with higher value ([www.reverseMortgage.org](http://www.reverseMortgage.org))
- ✓ *Financial Freedom Senior Funding Corporation*; is a Reverse Mortgage type operating in Canada and applied for almost all types of housing types. With this type of borrowing, no refund is made until the housing is sold or moved from the house. Up to \$ 500,000 is generated by borrowing without any tax provision. In other words, in this Reverse Mortgage type, debtors benefit from providing tax advantage (Abdioğlu, 2008: 133-134).

### 3. OPERATION OF THE REVERSE MORTGAGE SYSTEM

The Reverse Mortgage system, which has not yet found the opportunity to be implemented in our country, is now being implemented as a financial retirement instrument in most of the developed countries. In this system, people do not use loans to own housing, on the contrary they use loans to convert their existing housing into cash only. Unlike mortgage, you do not have to pay back this loan. Because this loan is taken with the amount of interest, the amount of the house that is currently owned is up to and the person requesting the loan adds this to his/her income within the framework of the determined payment plans. In other words, the debtor, unlike Mortgage, is not the one who makes the payment, but the one who demands the payment.

One of the most important points to be mentioned here is that each home owner cannot benefit from this system. In order to benefit from this system, it must be at least 62 years of age and applicant must be resident in the house where the application is made for the Reverse Mortgage. In addition, the houses subject to Reverse Mortgage must be self-contained, have 2 to 4 units of houses, or the condominium must be owned by the borrower. Similarly, it is another requirement that the house where the loan is taken does not have any debt.

The house is subject to Reverse Mortgage contract when the debtor is killed or permanently moved to another address, the creditor is given in advance for his payments. The person requesting the loan can receive his payments either collectively or at one time, either in monthly payments or in bulk amounts (Chou et al., 2006, 717).

In determining the loan amount, the current value of the house, the age of the debtor, interest rates, payment method, income of the borrower, marital status, gender are considered. (Guttentag, 2004). According to these conditions, after the value of the house is determined and payments are made, if the person who uses the loan dies or moves to another house, the house is paid by selling the house without applying to the guardians. If the remaining debt is above the value of the house, it is a risk that the bank should be folded. Although no liability is applied to the guardians for the debt, if the bank has met the debt after the sale of the house and there is still some money after all the debt has been closed, the increased portion is given to guardians.

Since the person who is requesting a loan is still the owner of the house, he is also responsible for all kinds of repair, insurance, taxes and various expenses related to the house. Normally, after the debtor has died or moved to another house, the entire debt is paid; however, in case of not fulfilling the above mentioned responsibilities, the creditor may request the payment of the debt (Tyson and Brown, 2006: 180).

In countries applying this system, people usually do not have the heirs to leave their homes, the current income is not enough for themselves or people who have a few homes in the value of their homes that do not want to lose their sitting in the high value, as a result of reasons such as reverse Mortgage preferred.

Reverse Mortgage for creditors has several risk factors. These risk factors are as follows (Boehm and Ehrhardt, 1994: 390):

- ✓ Risk of value exceed (the credit given exceeds the value of the house),
- ✓ Timeout risk (the borrower lives longer than the calculated time)
- ✓ House value risk (the value of the house falls faster than expected),
- ✓ Risk of care (the physical structure of the house is worse than expected) or the debtor does not look at the house well),
- ✓ Risk associated with changes in interest rates.

In order to eliminate these risks, insurance and diversification are a suitable way for the borrower and the lender.

#### 4. POSITIVE AND NEGATIVE ASPECTS OF REVERSE MORTGAGE PAYMENTS

There is a variety of payment options in reverse mortgage system. Each option has positive and negative characteristics. These are summarized in Table 1.

**Table 1:** Positive and negative aspects of reverse mortgage payment options

Payment options	Positive aspects	Negative aspects
<b>Credit Limit;</b> Fund access by request	1)Flexibility; access to the fund as needed 2)Growth feature; unused balance grows.However, it does not mean interest earning. This growth factor includes the past 12 weeks of the house, which is older than one year.	1)These funds may be exhausted within the credit limit. 2)One of the options in such a situation; to convert the reverse mortgage into a source of funds by reverse finance.
<b>Duration;</b> monthly fixed payments for a certain period	1)Funds are automatically deposited in a bank account. 2)Extensive monthly payment advantages	1)Every monthly payment of funds is fixed, therefore, if you need an additional fund, you will have to request a change of payment plan. 2)Monthly developments are not indexed to inflation.

<b>Usufruct;</b> as long as you live at home, get fixed monthly payments	1)Even if the total amount exceeds the value of the house, monthly payments continue for the period of time spent at home.	1) Every monthly payment of funds is fixed, therefore, if you need an additional fund, you will have to request a change of payment plan. 2)Monthly developments are not indexed to inflation.
<b>Regulated Durations;</b> monthly fixed payments for a certain period and also access to the credit line	1)Provides two sources for existing funds 2)Credit advantages line and duration combination	1)Since some of the capital is allocated on the credit line, lower monthly payments are received.
<b>Regulated Usufruct;</b> monthly fixed payments for a certain period and also access to the credit line	1)Provides two sources for existing funds 2)Credit advantages line and usufruct combination	1)Since some of the capital is allocated on the credit line, lower monthly payments are received.

Reference:

<http://www.reversemortgage.org/AboutReverseMortgages/ReverseMortgagePaymentOptions/tabid/659/Default.aspx>

## 5. APPLICABILITY OF REVERSE MORTGAGE SYSTEM IN TURKEY

Most individuals who are closely tied to the traditions and customs in Turkey, is subject to various retirement-related concerns. People who have the motivation to be more comfortable in their retirement during their working lives evaluate various investment alternatives according to their income. If risk-free system such as private pension system is needed to support a variety of state even considered for acceptance in Turkey; systems such as Reverse Mortgage implemented by developed countries may come to be unfamiliar at first. However, if the positive effects of this system implemented in various countries began to spread in Turkey, this system may begin to arouse interest for people. Therefore, the existence of a system such as Reverse Mortgage should be known by the people, its advantages should be emphasized and supported by the government, then the applicability of this system should be the subject of debate.

People in countries applying this system generally prefer this system because there is no one to leave their homes after death, they don't want to leave their homes to their heirs after death or they think their current income is not enough. However, the situation is slightly different in Turkey and people prefer to leave their existing real estates by inheritance or some people are forced to choose this situation. Because, according to the opinion of the Turkish people, there should be a property to be leave to children in the future. Persons without a heir usually donate their property to a number of social organizations in order to provide charity. Thus, the possibility of the reverse mortgage system seems to be low in Turkey.

## 6. CONCLUSION

In addition to the differences in the social responsibilities of countries such as traditions, customs, customs and customs, development policies and development levels differ in economic terms. For this reason, the economic implications of a country may not have the same effect in another country.

Mortgage system has been applied for many years in developed countries, are implemented in Turkey for nearly 12 years. While credit usage rate is low in Turkey compared to other countries, first the advantages and disadvantages for the people of the mortgage system to be determined. Because the first thought of the people in the current structure is the difficulty in repaying the loan and people take into account the borrowing situation with such a loan type according to the level of income levels.

Just like the Mortgage System, Reverse Mortgage system can be applied in Turkey after many years in developed countries. However, the possible contributions of the Reverse Mortgage system to the Turkey economy should be evaluated and people should be informed. In addition to widespread use of this system in Turkey should increase primarily people earning income with this system. If

people who practice this system share with other people the benefits of the system, it seems to be able to implement the system in Turkey.

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