City & Country

How a reverse mortgage scheme works

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A reverse mortgage scheme allows senior homeowners to convert their home equity into cash income with no monthly mortgage payments

While retirement financial planning is not a new topic in Malaysia, many people seem ill-prepared for their financial needs after retirement. It has become an even more pressing issue after the government approved three Employees Provident Fund (EPF) withdrawal schemes during the Covid-19 pandemic to alleviate the burden of the people.

According to the latest data from EPF, a total withdrawal of RM101 billion by 7.4 million members has been recorded since the outbreak of Covid-19. As a result, half of the members under the age of 55 have less than RM10,000 in their accounts, while 3.6 million members have less than RM1,000, indicating that nearly three-quarters of these members may not have sufficient funds to retire above the poverty line.

This is where reverse mortgage schemes come in as a retirement financing option.

A reverse mortgage scheme is a mortgage loan that allows senior homeowners to convert their home equity into cash income with no monthly mortgage payments.

In other words, a reverse mortgage scheme allows an elderly homeowner to take out a loan using his primary residence as collateral. In return, he receives a steady stream of disbursement on a monthly basis while still being able to stay in the home. As the loan tenure progresses, the homeowner's debt will increase while his equity in the property decreases.

It is an established and mature scheme in many countries such as Australia, Canada and the US. The first reverse mortgage financing scheme in Malaysia was launched only last year.

In December 2021, the Mortgage Corporation of Malaysia (Cagamas Bhd) introduced Skim Saraan Bercagar (SSB) with an allocation of RM100 million to assist the elderly in financing their retirement.

Under the market-first scheme, retirees aged 55 and above will be able to borrow against the value of their fully paid home by converting it into a steady monthly payout throughout their lifetime to supplement their retirement.

If a borrower's property is worth RM2 million, and Cagamas has already disbursed RM2 million over a period of time, Cagamas will continue to pay the monthly amount as long as the borrower is alive.

Upon his demise, the borrower's next of kin has the option to repay the reverse mortgage. If they choose not to do so, Cagamas will put the property up for sale and any excess proceeds from the sale will be given to the borrower's estate or next of kin. If the sale proceeds cannot cover the loan amount, however, the estate or next of kin will not be liable for the amount.

The scheme has been open for registration in the Klang Valley since Jan 17. The allocation and locations will be expanded according to the needs of the time.

FAQ

Is the reverse mortgage scheme legitimate?

Yes, globally, reverse mortgages have been in existence for some time. In Malaysia, the first reverse mortgage was issued and is regulated by the national Mortgage Corporation of Malaysia (Cagamas Bhd), which is also the largest issuer of debt instruments in the Malaysian capital market.

What are the criteria for borrowers?

Residential property owners or joint owners aged 55 and above are eligible to apply for a reverse mortgage.

What are the criteria for the property?

Any primary residential property in the borrower's name (joint ownership or single owner) that is unencumbered and mortgage-free is eligible.

Can a borrower surrender or terminate the loan during his lifetime?

Under Cagamas' reverse mortgage scheme, the borrower may surrender or terminate the agreement by settling or paying off the outstanding loan amount accumulated until that point of time.

What is the catch with a reverse mortgage?

A successful reverse mortgage borrower will not receive a one-off payment of the full value of a loan. The amount is disbursed monthly and will be reduced by higher-than-average closing costs, origination fees, insurance fees and servicing fees over the life of the mortgage.

Pros and cons

Pros

- A fixed monthly disbursement to cover one's expenses after retirement;
- The borrower is allowed to stay in the home during his lifetime; and
- The next of kin does not have to worry about paying the balance if the value of the property is less than the total amount owed on the reverse mortgage.

Cons

- Higher-than-average initial costs such as valuation fees and property insurance; and
- Borrowers still need to fork out money to maintain the house, as well as pay property taxes and insurance.