

# Reverse Mortgage Plan's Fate is in Voters' Hands

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BY JORDAN GASS-POORE    OCT. 16, 2013    6 AM



📷 Illustration by Todd Wiseman / Ivan Vicencio

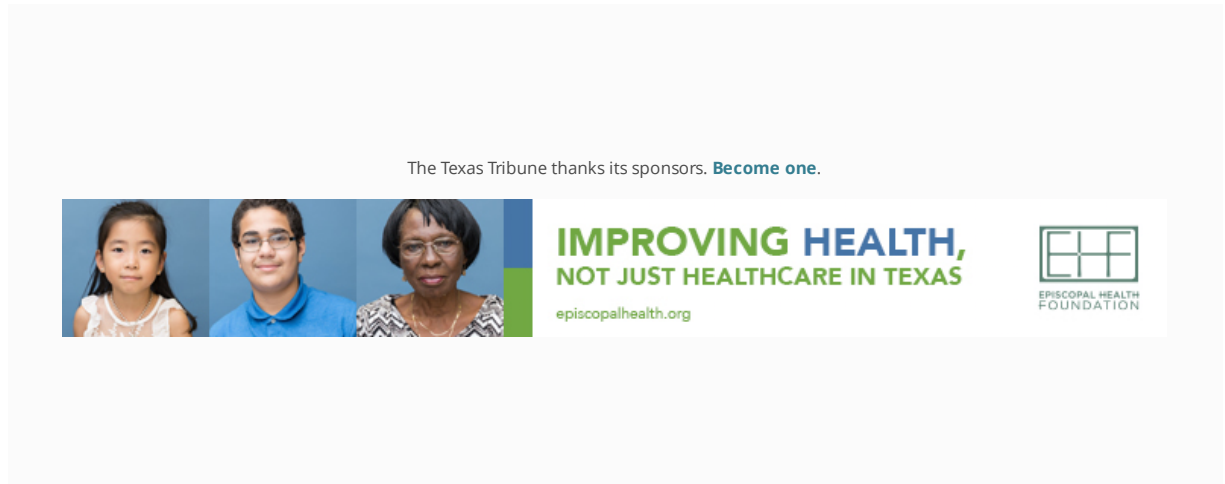
Currently the only state that doesn't let seniors use reverse mortgages for purchasing homes, Texas could switch course if voters approve a constitutional amendment in the Nov. 5 election.

Proposition 5 would allow homeowners age 62 or older to buy a new house by paying about half of their costs out of pocket and then using funds from a reverse mortgage loan to pay the difference — all in one transaction and without having to sell their current home first. Proponents say that such a streamlined process would cut closing costs and could benefit hundreds of thousands of Texans. But some observers warn that if the amendment passes, seniors shouldn't assume that a reverse mortgage is their only option when buying a new home.

If voters back Prop 5, Texans could become part of the [Home Equity Conversion Mortgage for Purchase](#) program, which offers seniors reverse

mortgages, insured by the federal government, specifically for purchasing new residences.

Unlike a traditional mortgage, reverse mortgages allow seniors to borrow money against the value of their homes. The homeowners are not expected to make payments on the loan; instead, when the borrower dies, the home could be sold by the lender or the borrower's heirs to cover the loan amount.



Texas, which began allowing home-equity lending in 1997, has allowed reverse mortgages since 2000. State lawmakers had resisted this type of home-equity lending because of the state's constitutional homestead protections, which are designed to prevent creditors from placing or enforcing liens on a property.

Legislators' hesitancy stemmed from the loan's relatively expensive up-front fees and interest rates compared with other types of mortgages, which the proposed amendment aims to alleviate. Other factors that had detracted from reverse mortgage proposals in the past included a nationwide decline in home equity that could result in a higher mortgage insurance premium to cover the lender's loss. (U.S. Department of Housing and Urban Development rules state that borrowers, their spouses or any heirs would never be required to pay more than the estimated value of their home.)

In resisting such loans, "the Texas Legislature was trying to anticipate the unintended consequences of reverse mortgages," said Scott Norman, treasurer for the advocacy group Texans for Proposition 5.

Proponents of the amendment, which also include industry and consumer groups like AARP, said Prop 5's importance lies in its potential to streamline costs like origination fees, making the process less costly for older homeowners.

"Combining the two transactions into one, this method of finance allows homeowners to save on closing costs and retain a portion of equity from the sale of their current homes to apply toward everyday living expenses," state Sen. John Carona, R-Dallas, said in a statement. Carona authored [Senate Joint Resolution 18](#), which created the proposition and passed through both chambers of the Legislature with a combined vote of 170-1.

But reverse mortgages can be more complicated and expensive than a traditional mortgage, said Todd Mark, vice president of education for the Dallas-based Consumer Credit Counseling Service.

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"A reverse mortgage is not for everybody," Mark said.

Norman, a vice president in Austin-based Sente Mortgage's reverse-mortgage division, said he hopes that discussions about the amendment would better educate the public about "one of the safest mortgages" and how it could affect about 700 newly eligible seniors every day in Texas.

The mandatory third-party counseling that takes place either in person or by phone before the borrower signs off on the loan, Norman said, makes the reverse mortgage a safer option. The Federal Housing Administration funds counseling agencies around the country for that purpose.

"Most [seniors] don't own 401(k)s," said Norman, adding: "The average Texan isn't prepared for retirement. It's expensive to grow old in Texas. ... Proposition 5 does affect every single Texan, maybe not now, but in the future."

To date, Norman said, reverse mortgage borrowers have accessed more than \$4 billion, making Texas the second-ranked state in the number of loans originated since the practice was first authorized in the state. Prop 5 would not affect those who already have a reverse mortgage, as borrowers cannot use multiple types of the loan simultaneously.

Approval of Prop 5 would also amend rules on lender disclosures, adding requirements that detailed counseling be made at least 12 days before the closing of a reverse mortgage to alleviate borrower confusion.

For Abilene resident Bob Click, the disclosure rules are a key part of the amendment.

Click, 75, got a reverse mortgage in 2007 to have some extra money to ensure that he and his wife could stay in their home. After a 2011 hailstorm damaged his home, he learned that his loan had been transferred to another lender, whose representatives said that until repairs were made, the remainder of his funds would not be distributed to him.

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“I didn’t get a notice of the bank changing,” said Click, who is pursuing legal action to obtain the remainder of his loan. “Banks do fail, banks do go, but they can’t change the contract. Beware of who you’re dealing with.”

He said that had the disclosure process been clearer and the rules explained more fully, he wouldn’t have had to face such confusion and frustration. He added that borrowers should be cautious, because some reverse mortgage lenders could be preying on seniors who have health and financial insecurities.

Jason Lemons, a Richardson-based lawyer who has counseled seniors on reverse mortgages, said borrowers shouldn’t assume that a reverse mortgage is the best option. He said many seniors could be better off selling their home and downsizing without a reverse mortgage.

Norman said reverse mortgage misconceptions abound, maybe the worst of which is that banks own a borrower's home. He stressed that borrowers always maintain the title to their home.

He agreed with Lemons that in many cases people should sell or downsize, especially those who could transfer to a nursing facility, before taking out a reverse mortgage because such a loan may not ensure funds for the remainder of a borrower’s life. But he added that the reverse mortgage option should remain in place.

A lender could amend a reverse mortgage contract per the original contract, Norman said. This could occur if a borrower has missed a homeowner’s insurance payment and the lender needs to find a way to pay that amount to prevent foreclosure.

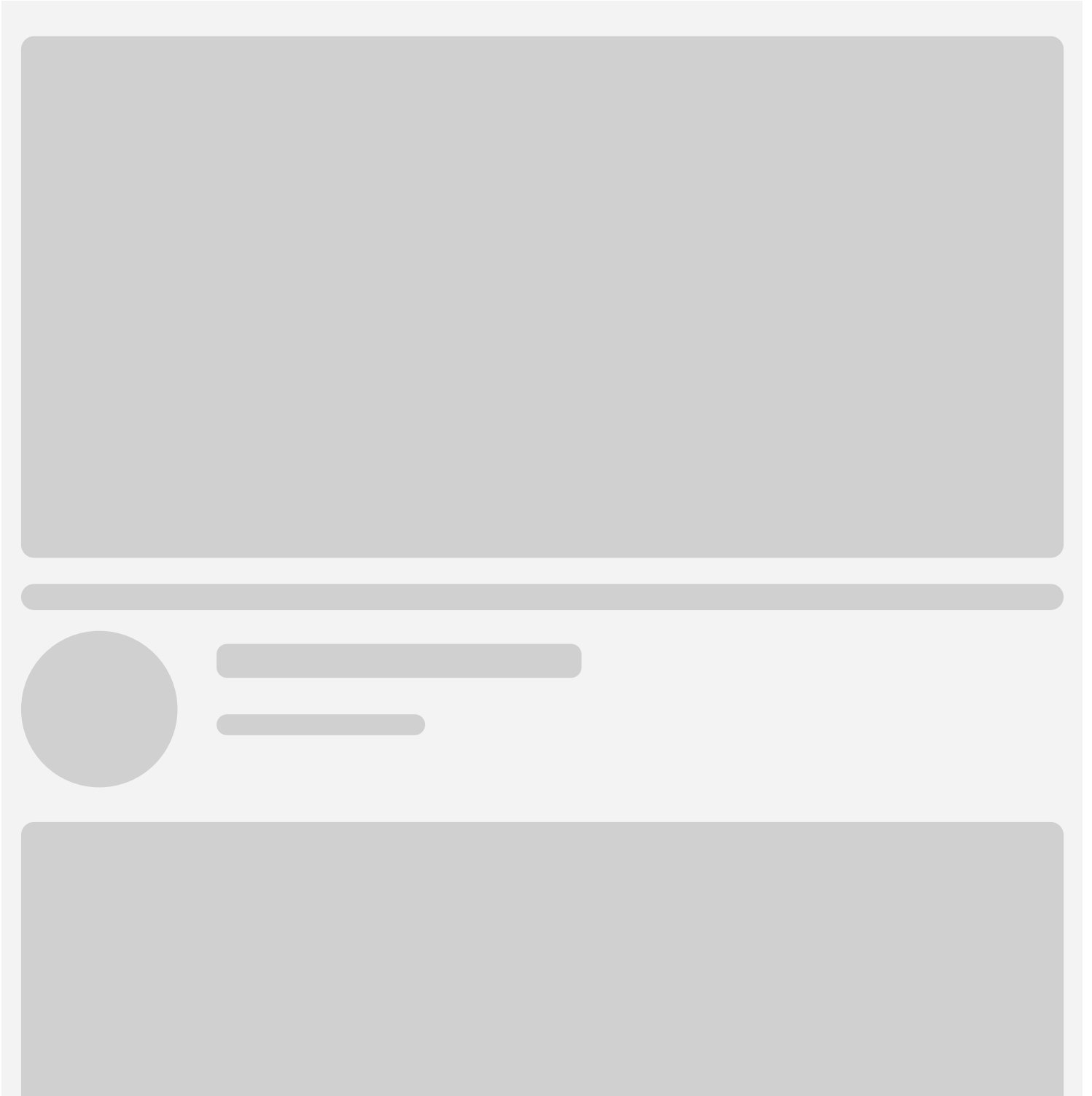
Foreclosures could still occur if the borrower does not continue to pay for property taxes, homeowner’s insurance and general upkeep. In some cases, heirs of the estate have the option of repaying the reverse mortgage without selling.

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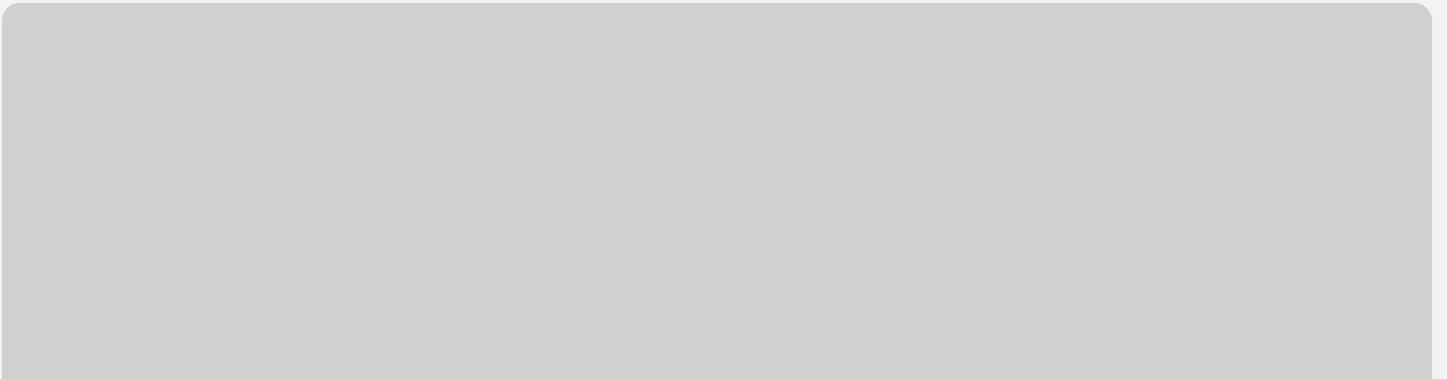
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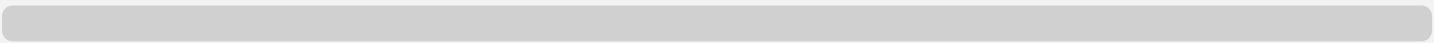
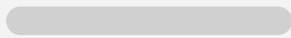
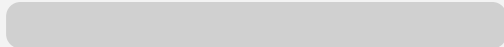
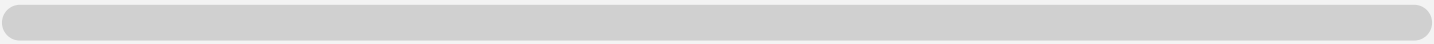
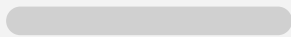
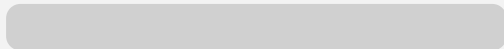
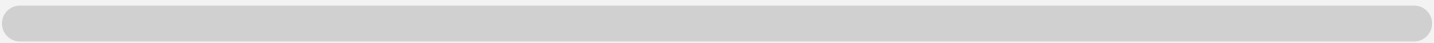
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