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Law blocks new reverse mortgage

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Imagine being able to buy a new home with a 40 percent down payment and not ever having to make a mortgage payment for the rest of your life.

The Federal Housing Administration early this year approved such a deal as a form of reverse mortgage for home buyers who are 62 or older.

But in Texas, the only thing anyone can do is imagine. The home-equity-for-purchase deal is available in 49 states, but not Texas.

According to MetLife Bank, this is how the deal works:

“An empty nester couple who wants to downsize can sell their existing home and use the equity to make a cash down payment on a smaller residence. Or, an eligible couple who owns their home outright can refinance using a traditional home-equity conversion mortgage, then pull out a lump sum to use for an all-cash purchase of a second home.

“Participants never make another mortgage payment as long as they continue to live in the home,” according to MetLife’s media materials.

These options would be popular with many Texans as they reach retirement age.

They won’t be able to do so, however, until the Texas Constitution is amended.

Texas lagged the rest of the nation in offering home-equity and reverse mortgage loans by more

than a decade because of the state constitution's homestead protections.

Home-equity lending finally was approved in 1997 by a constitutional amendment, followed by reverse mortgages in 1999. One of the Texas consumer safeguards requires owning equity in a house before anyone could apply for a reverse mortgage, which is a form of home-equity lending. No one could foresee the new home-equity-for-purchase option.

Take that restriction away, and the home-equity-for-purchase deal becomes available in Texas, allowing lenders to apply reverse mortgage loans to the purchase price of the house.

Here's an example: A homeowner who is 62 or older can sell a \$100,000 house and use \$40,000 of the sale to buy another \$100,000 house. The senior then receives a \$60,000 loan from a reverse mortgage lender.

The loan accrues interest year by year until the homeowner sells the house or dies, at which time the heirs sell the house. When the house is purchased, the proceeds repay the loan. The seller receives any money left over. If the house has depreciated in value, and the sale does not fully repay the loan, the seller owes nothing.

Reverse mortgage loan interest rates are similar to mortgage interest rates. Some rates are below 5 percent now.

As in reverse mortgages, closing costs and fees must be paid when taking out a home-equity-for-purchase loan. Homeowners are required to have homeowners insurance coverage and to pay property taxes. Homeowners have titles to the house, with loan liens attached, just like a regular mortgage.

Scott Norman of Austin, a MetLife Bank retail manager and president of the Texas Reverse Mortgage Lenders Association, said the Texas Mortgage Bankers Association will seek a constitutional amendment change during the 2011 session of the Texas Legislature.

Perhaps by 2012, Texas seniors will be able to have the same financial options as the rest of the country.

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