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Housing Bill: Also A Reverse Mortgage Fixer-Upper

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The $300 billion housing bill signed into law on July 30 by President Bush helps stretched homeowners renegotiate their mortgages and provides tax credits to first-time buyers.

But it also addresses three major criticisms of reverse mortgage loans, which are increasingly popular among homeowners 62 and older who use the money for living expenses, health care, prescription drugs or to pay off an existing mortgage.

With a reverse mortgage, you can tap your home equity without having to make monthly payments. Instead the bank pays you. The loan comes due only when you die, sell or move away permanently. The amount you get depends on the home's value, location, interest rates and the age of the youngest borrower if there are co-owners.

The new bill raises the amount you can get from the mortgage and lowers the cost of getting it.

Most reverse mortgages today are Home Equity Conversion Mortgages (HECMs), which are insured by the Federal Housing Administration. Up to now, HECM has capped a home's appraisal, which affects the loan amount. The loan limit depends on the county where the home is located and ranges from $200,160 to $362,790.

While the new limit has not been finalized, the bill will increase the amount significantly. “The higher limit will give homeowners access to more cash from their home equity,” says Peter H. Bell, President of the National Reverse Mortgage Lenders Association.

A second criticism has been that the transaction fees for reverse mortgages are too high. An AARP Public Policy Institute study in December 2007 found that high costs were one of the main reasons why eligible homeowners decided against a home mortgage.

The new bill will make HECMs less expensive for many borrowers. Origination fees had been a flat 2 percent of the home's value, but the new bill reduces that to 2 percent of the first $200,000 of the home's value, and then 1 percent after that. Also, the fee is capped at $6,000.

And finally, the new bill puts an end to one of the main problems related to reverse mortgages: lenders cross-selling other financial products. The new law forbids requiring the purchase of an annuity, insurance product or investment product as a condition of the loan.

“These prohibitions will protect borrowers from aggressive marketers who try to get them to invest proceeds they receive from their reverse mortgages unwisely,” said David Certner, AARP legislative policy director. “For example, pushy marketing tactics used by some originators encourage borrowers to purchase deferred annuities or long-term care insurance products that are costly and generally not in the borrower's best interest."

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Cathie Gandel lives in New York and writes about business and finance.