

HOUSE RESEARCH

Bill Summary

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Overview

This bill makes changes in state laws regulating reverse mortgages. A reverse mortgage is a mortgage that secures a loan in which a homeowner (usually elderly) receives monthly or other payments from the lender, instead of making monthly or other payments. The payments, and interest on those payments, accumulate as debt secured by a mortgage on the borrower's home. The loan is paid off when the home is sold, which is often after the death of the borrower. It is a way for a homeowner to "tap into" the equity the homeowner has in the home.

Section

- 1** **Definitions.** Eliminates language from the definition of a reverse mortgage loan that includes a loan that is required to be repaid when the payments to the borrower required in the loan agreement are complete.
- 2** **Payment; repayment; amount.** Makes a change consistent with section 1. Makes purely technical changes in the numbering/lettering of items in an existing list.
- 3** **Counseling; requirement; penalty.** Makes extensive changes in an existing law requiring that a prospective borrower get counseling specific to reverse mortgages before entering to a reverse mortgage loan. The overall effect is to add much specificity and detail to the process and to the counseling content.
- 4** **Lender default; forfeiture.** Adds new language specifying what happens when a lender defaults on the lender's promise to make the payments to the borrower when the loan is not federally insured. The penalty is forfeiture of the lender's right to recover any payments, and any interest on those payments, already made. Makes this penalty conditional on the lender failing to cure the default after the borrower has given the lender whatever notice of default is required in the loan documents. This section does not apply to reverse mortgages that are federally-insured.

- 5 **Lender responsibility.** Says that if the original lender sells the loan and mortgage, the new owner of it assumes liability for any wrongdoing of the original lender. In other words, the buyer of the loan acquires not only the rights but also any liabilities of the seller.
- 6 **Right of rescission.** Gives the borrower a 3-day right of rescission after the loan is agreed to. Specifies the procedure and effects of doing that.
- 7 **Suitability.** Requires that a lender not recommend that a borrower enter into a reverse mortgage loan unless the lender has first determined that the loan is suitable for the borrower, based on the specific financial situation of the borrower and upon consideration of the other options available to the borrower.
- 8 **Reverse mortgage loans coordination with chapter 47.** Amends the chapter of law (chapter 58) that regulates residential mortgage lenders. Requires that a lender governed by that chapter comply with that chapter and with the section of chapter 47, dealing with reverse mortgage loans, which is amended in this bill. Specifically mentions the suitability provision, so as to import the suitability requirement enacted in this bill into chapter 58 as well.
- 9 **Cross-selling limitations on reverse mortgage proceeds.** Prohibits an insurance agent from selling an annuity, life insurance, or long-term care insurance product, if agent knows it will be paid for with payments received under a reverse mortgage loan.
- 10 **Effective date.** Makes the entire bill effective the day following final enactment.