A Reprint from *Tierra Grande*

Reverse Mortgages

Alternative Home Equity Funding

By James P. Gaines and Beth Thomas

A growing number of senior homeowners are using reverse mortgage loans to augment their retirement or to provide immediate capital for a major expense while they remain in their homes.

What is a Reverse Mortgage?

A reverse mortgage (RM) is a unique home loan available to homeowner-borrowers age 62 or older. The loan is based on the home's current value, the borrower's age and current interest rates. The borrower can choose to receive the loan proceeds in a single, lump-sum payment, as periodic payments that are either predetermined or as a line of credit, or a combination of both. There are no restrictions on the use of the borrowed funds. Closing costs and fees may be paid up front or rolled into the loan amount.

The loan does not require monthly payments of principal or interest by the borrower. The RM lender is paid from the sale of the home when the borrower dies, moves or fails to fulfill any terms of the loan. The homeowner-borrower's current monthly income and credit score are not factors in making the loan or in determining the amount of the loan.

The RM balance increases over time through the accumulation of interest, plus any other costs or fees, thereby reducing the homeowner-borrower's equity over time (Table 1).

The homeowner-borrower must occupy the home as a principal residence and the property must be owned outright or have a substantial equity. RM borrowers are required to maintain homeowner's

Table 1. Comparison of Typical 'Forward' and Reverse Mortgages

Item	"Forward" Mortgage	Reverse Mortgage
Purpose of loan	to purchase a home or for capital needs	to generate income or for capital needs
Before closing, borrower. . .	has no equity in the home	has a lot of equity in the home
At closing, borrower. . .	owes a lot and has little equity	owes very little and has a lot of equity
During the loan, borrower. . .	makes monthly payments to the lender, the loan balance goes down and equity grows	receives payments from the lender, the loan balance rises and equity declines
At end of loan, borrower. . .	owes nothing and has substantial equity	owes substantial amount and has much less, little, or no equity
Type of Transaction	Falling Debt-Rising Equity	Rising Debt-Falling Equity

Source: *Reverse Mortgage Loans: Borrowing Against Your Home,* AARP, 2008

Table 2. Top Ten Reverse Mortgage Lenders

Rank	Lender	Total Since April 2009
1	Wells Fargo Bank NA	17,699
2	Bank of America NA	9,775
3	MetLife Bank	3,200
4	Financial Freedom Acquisition	3,019
5	One Reverse Mortgage LLC	2,937
6	World Alliance Financial Co.	1,755
7	Generation Mortgage Co.	1,704
8	Urban Financial Group	1,383
9	1st AAA Reverse Mortgage Inc.	1,329
10	Security One Lending	1,134
	Top Ten Subtotal	43,935
	Industry Total	102,194

Source: Reverse Market Insight Inc., Reverse Mortgage Retail Leaders

insurance coverage, keep property taxes current and physically maintain the property. As with a forward mortgage, the RM borrower holds title to the property subject to a mortgage lien.

The potential market for RMs is large and expanding as the population ages. The U.S. Census Bureau estimated that 22.2 million homeowners met the age requirement in 2008 and owned homes worth approximately $6 trillion in aggregate value. In Texas, roughly 1.44 million homeowners owned homes worth approximately $200 billion.

RMs are offered by hundreds of lenders, including major banks as well as lenders that specialize in them. The top ten RM lenders (Table 2) originated between 40 and 45 percent of the total market during the past two years. Loans may be conventional or come with FHA insurance.

Currently more than 90 percent of all originated RMs are FHA-insured Home Equity Conversion Mortgage (HECM) loans. The FHA program provides significant protections for the borrower as well as the lender. The HECM program guarantees that the lender will meet its payment obligations to the homeowner-borrower, limits the borrower's loan origination costs, and ensures the full repayment of the loan balance to the lender up to the maximum claim amount.

FHA requires preapplication counseling for the borrower and a nonrecourse loan.

The borrower can never owe more than the property's value. Neither the borrower nor the borrower's heirs are responsible for repaying any deficiency between the net proceeds from the sale of the home and the balance owed on the RM. If the net sale proceeds are more than enough to pay off the RM, the lender receives only the amount required to pay off the loan. Any excess proceeds revert to the borrower or heirs.

HECM loans require the borrower to pay insurance premiums for FHA's coverage. An upfront insurance fee equal to 2 percent of the lesser of the home's value or the FHA HECM mortgage limit for the area is charged at closing. One-half of 1 percent (0.50 percent) is added to the interest rate for ongoing mortgage insurance.

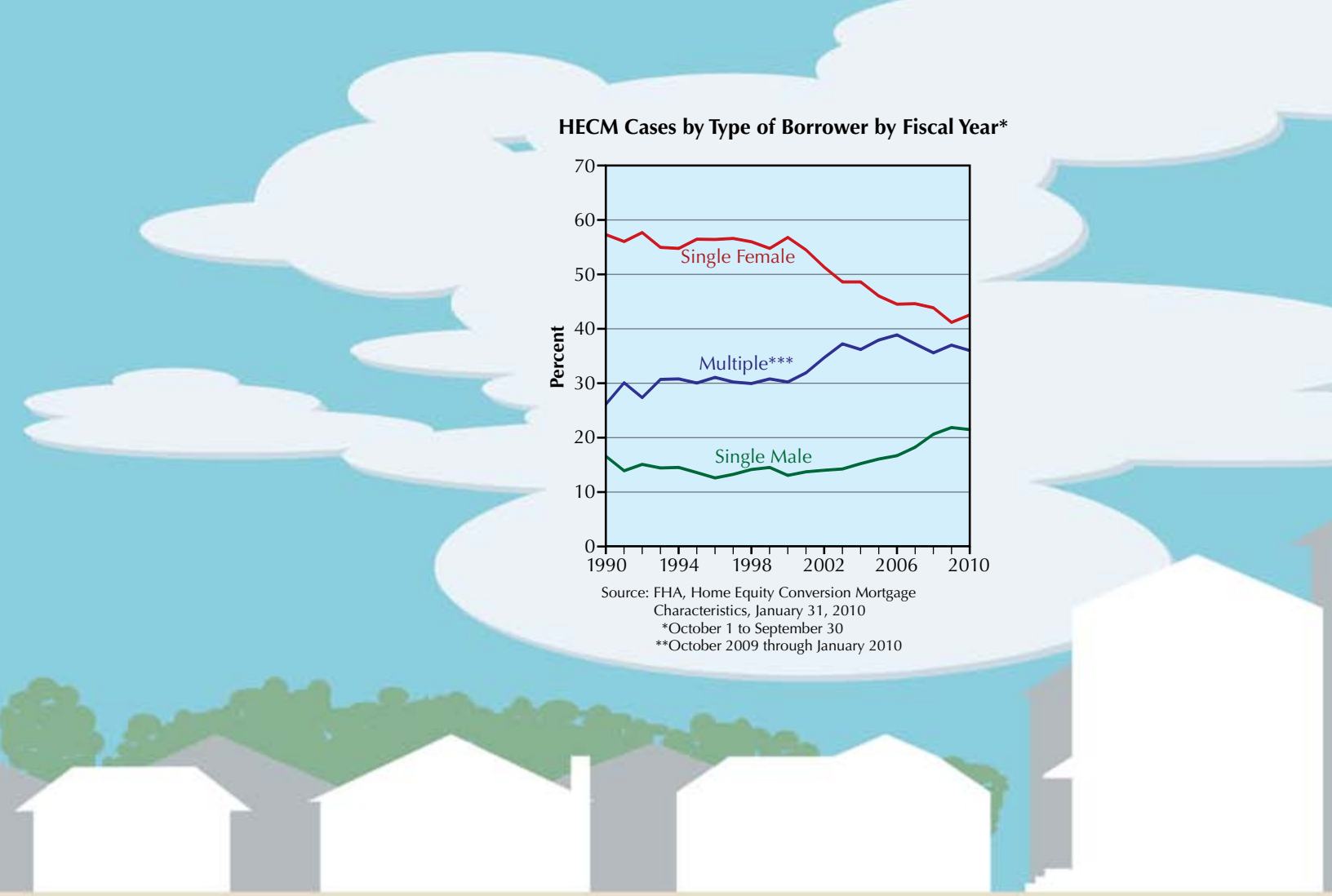
FHA requires that all HECM loans be first mortgages. If an existing first mortgage already exists, part of the proceeds of the RM must be used to pay off the existing loan.

Reverse Mortgages Appeal Growing

Annual FHA HECM loans nationwide have grown from 157 in 1990 to 114,642 in 2009, covering almost $32.5 billion in home values. More than 1,000 lenders have written nearly 605,000 FHA-insured reverse mortgages since 1990 (Table 3).

The data indicate that the average HECM borrower is significantly older than the minimum 62. This type of financing appeals most to older homeowners who have substantially or completely paid off their original home loans and who need the type of flexible payout options offered.

The average property value involved in RM financing has increased consistently,



especially during the home price bubble years (2004–06), and again after the loan limit was increased from $417,000 to $625,500. By early 2010, the average property value covered by a HECM approached $300,000.

HECM loans started out most often being made to single female borrowers (see figure). Multiple borrowers include more than one person as coborrowers regardless of marital status or relationship. More single male and more multiple borrowers are taking out RMs these days.

Total HECM RM costs and fees are limited by FHA, can be financed into the loan and typically total more than forward mortgage costs and fees.

Reverse Mortgage Terms

The terms of a HECM or a conventional RM are more complex than a forward mortgage and vary depending upon the state of residence, payout options and interest rate. The total loan amount is based on the value of the home, FHA's HECM mortgage limit, the current interest rate and the youngest borrower's age.

FHA developed a table of principal limiting factors (PLF) to actuarially control risk based on a loan's "expected" interest rate, the age of the borrower and the borrower's life expectancy to compute the dollar loan limit. The PLF multiplied by the home's current value equals the maximum loan amount, including all fees and costs. The current PLF table along with more details about HECM loans is available online at www.hud.gov/offices/hsg/sfh/hecm/hecm-homelenders.cfm.

For adjustable rate mortgages, the expected interest rate is calculated by the lender as the sum of an index rate and the lender's index margin. For fixed-rate loans, the expected rate is the fixed rate.

The loan dollar-limit computation is not affected by the pattern of loan payout. The PLFs were designed so that each loan will "break even" for each age and interest rate combination. That is, the present value of the premiums FHA expects to receive minus the insurance claim it expects to pay equals zero under the assumptions applied (future home price growth and life expectancy of the borrower).

The PLFs increase with the age of the borrower and decline as interest rates increase. Older borrowers can obtain larger loans, but if interest rates go up, the maximum loan limit goes down. For example, at 7 percent interest, the PLF for a 65-year-old borrower is 0.489; it is 0.738 for an 85-year-old borrower. If each borrower owned a home valued at $100,000, the principal loan limit for the 65-year-old would be $48,900 ($100,000 x 0.489), but the 85-year-old's limit would be $73,800 ($100,000 x 0.738).

The borrower can choose an adjustable rate that changes either monthly or

Table 3.
History of HECM Reverse Mortgages
United States and Texas

Fiscal Year*	Number of Loans	Average Expected Interest Rate	Average Property Value (in thousands)	Average Borrower Age	Texas Loans
1990	157	9.8	$108.7	76.7	
1991	389	9.3	126.4	76.5	
1992	1,019	8.9	124.7	76.6	
1993	1,964	7.6	119.7	75.7	
1994	3,365	7.6	124.9	75.2	
1995	4,166	8.6	124.8	76.0	
1996	3,596	6.8	117.2	75.9	
1997	5,208	8.1	117.5	75.9	
1998	7,895	7.4	118.7	75.7	
1999	7,923	6.5	131.9	75.3	
2000	6,637	7.3	141.7	76.0	
2001	7,789	6.7	167.1	75.5	332
2002	13,049	6.4	178.0	75.1	692
2003	18,084	5.4	197.6	74.3	943
2004	37,790	5.8	219.4	74.3	2,471
2005	43,082	5.7	254.9	73.8	2,654
2006	76,282	6.0	289.7	73.8	4,122
2007	107,368	6.0	261.9	73.5	5,554
2008	112,015	5.4	239.4	73.1	6,573
2009	114,642	5.5	283.3	72.9	7,592
2010**	32,326	5.8	$296.3	73.0	2,426
Total	**604,746**				**33,359**

*Fiscal years are October 1 to September 30
**October 2009 through January 2010
Source: FHA, Home Equity Conversion Mortgage Characteristics, January 31, 2010

annually or a fixed interest rate. FHA HECM adjustable rate loans use one of two indexes — the one-year or one-month U.S. Treasury Constant Maturity Rate or the London Interbank Offered Rate (LIBOR) — plus a margin charged by the lender. Both the monthly and annually adjusted rates have lifetime caps.

The adjustable-rate loan options are used for periodic or line-of-credit loan payout methods. A fixed-rate loan must be a single, lump-sum disbursement. HUD imposes an effective interest rate floor of 5.5 percent for PLF determination. Thus, all interest rates of 5.5 percent or less show the identical PLFs for each borrower age. Most conventional reverse mortgage products are based on the LIBOR index plus a margin.

Up-front HECM loan fees include an origination fee, closing costs, mortgage insurance premiums and an allowable servicing fee. Total HECM RM costs and fees are limited by FHA, can be financed into the loan and typically total more than forward mortgage costs and fees. Currently, origination fees are limited to $2,500 for homes valued less than $125,000 or 2 percent of the first $200,000 of value plus 1 percent of the value above $200,000. FHA caps origination fees at $6,000. Closing costs are typical loan closing costs including appraisal fees, title search fees, inspections and recording fees.

The initial mortgage insurance premium is 2 percent of the lesser of the home's value or the FHA HECM mortgage limit for the area. Future insurance premiums are 0.5 percent of the monthly loan balance.

Servicing fees cover the costs of administering the loan over its duration by a servicing agent. Servicing activities include sending account statements, making loan disbursements and enforcing all loan terms and requirements. FHA allows servicers a fee of $30 per month for annually adjusting interest rate loans and $35 for monthly adjustable rate loans. The estimated total service fee for the life of the loan is deducted from the principal loan limit at loan origination and then added to the monthly loan balance. This creates a substantial up-front cost difference between reverse and forward mortgages,

Home Equity Conversion Mortgage Loan Requirements

Borrowers must:

- be 62 years of age or older,
- own the property outright or have a small current mortgage balance,
- occupy the property as a principal residence,
- not be delinquent on any federal debt and
- participate in mandatory counseling conducted by a HECM-approved instructor.

Financial requirements:

- no minimum income or credit qualifications for the borrower,
- no regular repayments as long as the property remains the principal residence and
- closing costs may be financed into the loan amount.

Property must be:

- single-family home or one- to four-unit home with one unit occupied by borrower,
- HUD-approved condominium or
- manufactured home meeting FHA requirements.

Mortgage amount based on:

- age of the youngest borrower,
- current interest rate and
- lesser of appraised value of the home or the applicable FHA HECM mortgage limit, currently $625,500.

Table 4.
Reverse Mortgage Example Payout

Interest adjusts>	HUD HECM One-month LIBOR Monthly	HUD HECM Fixed Rate –	HUD HECM One-year LIBOR Annual
(1) A single lump sum advance of	$92,948	$108,127	$57,119
(2) **Or** a line of-credit account of	$92,948	–	$57,119
that grows larger each year by*	3.81%	–	7.67%
so, if unused, available credit			
in five years would be	$112,066	–	$82,639
in ten years would be	$135,117	–	$119,561
(3) **Or** a monthly loan advance for as long as you live in your home	$649	–	$516
(4) **Or** with HECM, any combination of lump sum, credit line account, and monthly advance.			
Interest rate index	0.247%	–	0.910%
Plus lender's margin	3.000%	–	6.000%
Initial loan interest rate	**3.247%**	**5.750%**	**6.910%**
Plus mortgage insurance	0.50%	0.50%	0.50%
Initial total loan rate	**3.747%**	**6.250%**	**7.410%**
Initial credit line growth rate	3.812%	–	7.667%
Lifetime cap on loan rate	13.247%	5.750%	11.910%
HECM Expected Rate**	6.730%	5.75%	9.730%
Monthly Service Fee	$30.00	$30.00	$30.00
Value of the home	**$200,000**	**$200,000**	**$200,000**
Home value limit	$625,500	$625,500	$625,500
Lesser of limit or home value	$200,000	$200,000	$200,000
Loan principal limit	**$108,600**	**$124,200**	**$71,800**
Less Service fee set-aside	$4,294	$4,714	$3,322
Available principal limit	**$104,306**	**$119,486**	**$68,478**
Less Financial Items			
Loan origination fee	$4,000	$4,000	$4,000
Mortgage insurance	$4,000	$4,000	$4,000
Other closing costs	$3,359	$3,359	$3,359
Net Principal Limit	**$92,948**	**$108,127**	**$57,119**
Less **Lump-Sum Cash**	$0	$108,127	$0
Less **Selected Credit line**	$0	$0	$0
Left for monthly advance	$92,948	$0	$57,119
Monthly Advance	$649	$0	$516
No more lien payments	+0.00	+0.00	+0.00
Increase in monthly cash	$649.39	$0.00	$515.78
Monthly **Term**	Tenure	Tenure	Tenure
Total Fees and Costs	**$11,359**	**$11,359**	**$11,359**

*The credit line growth rate above is based on 2010 interest rates. Actual growth in the available credit line will vary with future changes in rates.

**The effective loan rate equals the interest rate index used by the program plus a lender's margin that varies among lenders on adjusting-rate HECMs. HECM adds another 0.5 percent for mortgage insurance. The growth rate in the HECM credit line will be the same as the total periodic rate being charged on the loan's balance and reflects monthly compounding. Interest rates and margins may vary from lender to lender. The numbers shown on this page are based on interest rates available on the date of the computer run and are for educational and illustrative purposes only. The numbers generated by the calculator are estimates only that vary with interest rates and other assumptions and may differ from those received from lenders.

Source: Calculated using the Reverse Mortgage Calculator developed by Ibis Software and available on the National Reverse Mortgage Lenders Association's website: http://rmc.ibisreverse.com/default_nrmla.aspx

which typically deduct the service fee from the monthly mortgage payment.

Sample Reverse Mortgage

Consider the example of a 73-year old homeowner-borrower living in the Dallas area in a $200,000 home with no mortgage debt. The borrower could receive either a lump sum of $108,127 or up to $649 per month for as long as they live in the home. Table 4 summarizes the options available.

The PLF at age 73 for the three expected interest rates are 0.543, 0.621 and 0.359, respectively. The loan principal limit under each option reflects each PLF times the $200,000 home value. The amount of actual funding, however, is the net principal limit, which is derived by deducting the total costs and fees. The origination fee, closing costs, mortgage insurance and service fee set-aside total 14.4 percent, 12.9 percent and 20.4 percent of the loan principal limit, respectively, for the three options.

Table 5.
Texas Senior's Estimated Payment Options Under Home Equity Conversion Mortgage Program
By Age of Youngest Homeowner

Age	HUD HECM FIXED* Lump Sum Only Loan Proceeds Option	HUD HECM One-Month LIBOR						HUD HECM One-Year LIBOR Annual Rate Adjustment					
		Lump Sum Available	Monthly Income Available	Creditline Available	Annualized Growth Rate Available	Unused Creditline Value in 5 Years	Unused Creditline Value in 10 Years	Lump Sum Available	Monthly Income Available	Creditline Available	Annualized Growth Rate Available	Unused Creditline Value in 5 Years	Unused Creditline Value in 10 Years
62	$90,123	$68,418	$444	$68,418	3.81%	$82,498	$99,476	$30,603	$267	$30,603	7.99%	$44,288	$64,092
63	$91,628	$70,441	$459	$70,441	3.81%	$84,937	$102,417	$32,611	$285	$32,611	7.99%	$47,193	$68,296
64	$93,265	$72,266	$474	$72,266	3.81%	$87,138	$105,070	$34,619	$303	$34,619	7.99%	$50,100	$72,503
65	$94,905	$74,093	$489	$74,093	3.81%	$89,341	$107,726	$36,628	$322	$36,628	7.99%	$53,007	$76,711
70	$103,144	$84,660	$580	$84,660	3.81%	$102,083	$123,091	$48,093	$431	$48,093	7.99%	$69,598	$100,720
75	$111,870	$95,902	$695	$95,902	3.81%	$115,639	$139,437	$61,400	$568	$61,400	7.99%	$88,856	$128,590
80	$121,116	$107,452	$851	$107,452	3.81%	$129,565	$156,228	$76,580	$750	$76,580	7.99%	$110,824	$160,381
85	$130,124	$119,355	$1,090	$119,355	3.81%	$143,918	$173,536	$92,681	$1,007	$92,681	7.99%	$134,125	$194,101
90	$138,756	$130,482	$1,529	$130,482	3.81%	$157,334	$189,713	$109,185	$1,452	$109,185	7.99%	$158,009	$228,666

Note: Estimates are based on home value of $200,000 and assumes homeowner has no outstanding liens against the property.
Payout amounts are based on interest rates estimated to be available as of June 4, 2010.
*HECM Fixed Product computed based on a 5.75 percent rate. The one-month adjustable rate index used is 0.249 percent plus a 3 percent lender spread.
The one-year adjustable rate index is 0.915 percent plus a 6 percent lender spread.
**Combination payment options are also available that could involve an initial lump sum payment plus monthly advances or a line of credit in the future.

Estimated total fees and costs: $11,139

Source: Calculated by the Real Estate Center using the Reverse Mortgage Calculator on the National Reverse Mortgage Lenders Association's website: http://rmc.ibisreverse.com/default_nrmla.aspx

The magnitude of these costs has been a primary criticism of reverse mortgages. The total costs and fees for an RM are greater than the corresponding costs for a standard forward mortgage. The insurance fee and the closing costs are fairly standard and would apply to a forward FHA loan. The origination fee and service fee set aside, however, can total 5 percent or more of the home's value.

Since April 2010, a number of RM lenders have eliminated origination fees and/or prepaid service fees to increase the attractiveness of RMs. This effort can reduce RM costs by as much as $10,000 or more. Lenders are able to eliminate these fees because of the growth in Home Equity Conversion Mortgage Backed Securities (HMBS) issued by the Government National Mortgage Association (GNMA). The HMBS offers an investor FHA-insured collateral loans plus a GNMA guarantee of the security.

The lender's margin for a one-year adjustable rate loan in the example causes the expected interest rate to increase by 3 full percentage points, reducing the loan principal limit 34 percent from the monthly adjustable rate loan. This option is clearly not beneficial.

If there is an existing loan on the home that is not paid off before closing a reverse mortgage, the borrower must take at least that amount as a lump-sum advance at closing and use it to pay off the existing debt. This would reduce the remaining amount of cash available in a single lump sum, credit line or monthly payments. If the borrower does not qualify for a loan sufficient to pay off the debt at closing, the reverse mortgage would be denied.

Using the same assumed property value of $200,000 and the same interest rates, Table 5 shows how the lump-sum payout and the monthly payments vary by the age of the borrower and payment options. The schedule of potential payments under the various options indicates how the amounts of the proceeds of the RM increase dramatically with the age of the borrower. A 62-year-old borrower with a $200,000 home can receive $90,123 in a lump sum or $444 per month for as long as they live in the home. An 80-year-old borrower could receive $121,116 or

FHA allows servicers a fee of $30 per month for annually adjusting interest rate loans and $35 for monthly adjustable rate loans.

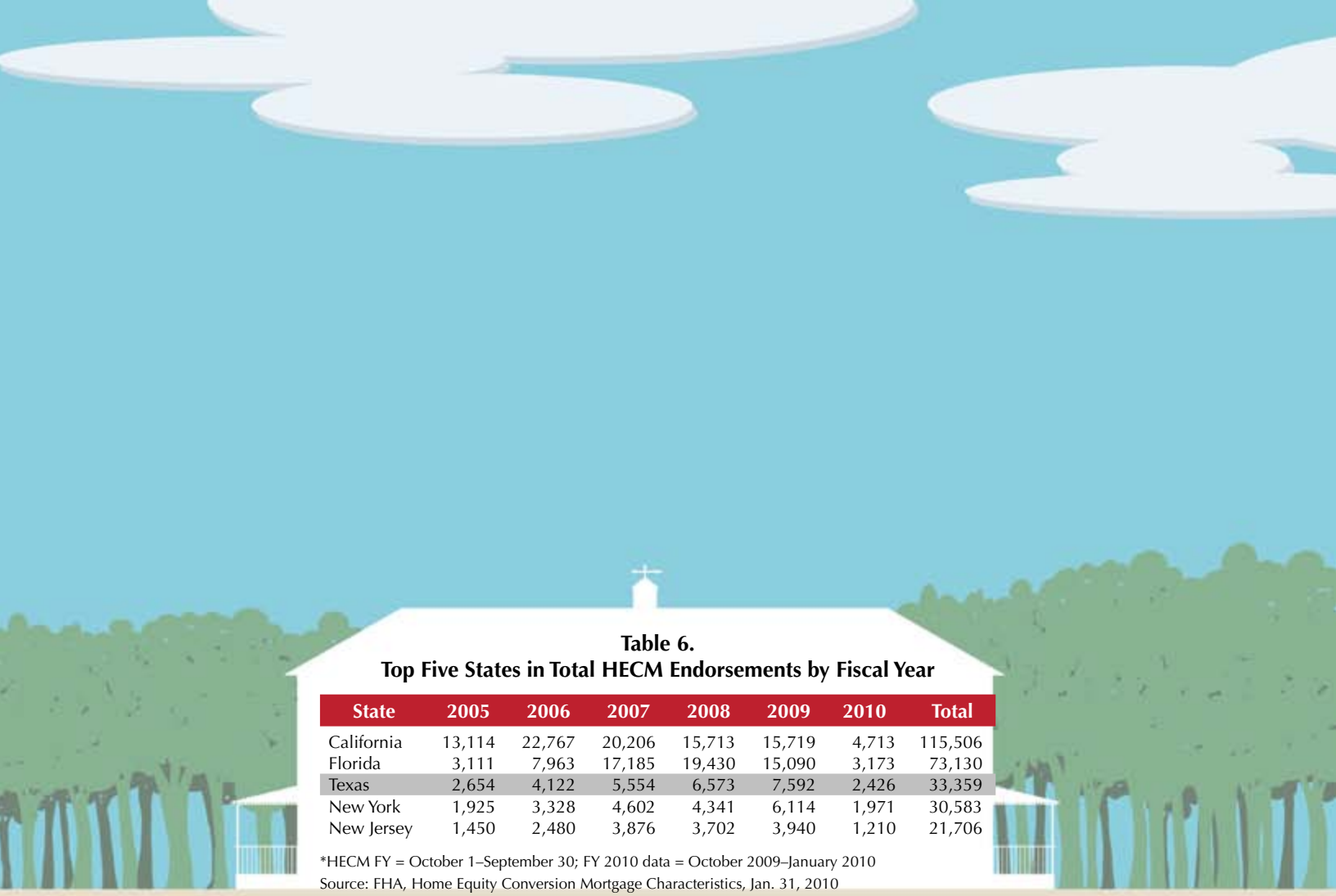


Table 6.
Top Five States in Total HECM Endorsements by Fiscal Year

State	2005	2006	2007	2008	2009	2010	Total
California	13,114	22,767	20,206	15,713	15,719	4,713	115,506
Florida	3,111	7,963	17,185	19,430	15,090	3,173	73,130
Texas	2,654	4,122	5,554	6,573	7,592	2,426	33,359
New York	1,925	3,328	4,602	4,341	6,114	1,971	30,583
New Jersey	1,450	2,480	3,876	3,702	3,940	1,210	21,706

*HECM FY = October 1–September 30; FY 2010 data = October 2009–January 2010
Source: FHA, Home Equity Conversion Mortgage Characteristics, Jan. 31, 2010

$851 per month. The one-year annual adjustable rate creates substantially less payout for each scenario and age and is really not a viable option.

Texas Reverse Mortgage

While both RMs and home equity loans derive their legal existence from the same section of Texas' constitution (Article 16, Section 50), the loans are significantly different in how they are originated, how they are repaid and other key characteristics. For example, a(6) home equity loans (referring to the subsection in the constitution) limit total debt to a maximum of 80 percent of the house value, while a(7) loans (RM loans) are not limited in this respect. Texas' reverse mortgage restrictions, requirements and limitations generally mirror FHA's HECM requirements.

In 2009, FHA authorized HECM loans for home purchase with at least a 40 percent down payment. The logic behind allowing purchase RMs is that people often downsize their housing as they age. Selling a previous home and using some or all of the proceeds as a down payment with a RM lets the borrower acquire a home without monthly mortgage payments. The Texas Constitution currently does not allow "purchase" reverse mortgages. Texas borrowers must already have equity in a homestead before obtaining a RM.

Since 2004, Texas has risen to third in the nation in HECM-endorsed loans annually while California and Florida vie for first and second place (Table 6). In February 2010, the Texas Department of Savings and Mortgage Lending reported that "in the last 12 months, the Commissioner has not issued any disciplinary action based on complaints against a reverse mortgage broker or banker."

To Choose or Not to Choose

Reverse mortgages are not always the best choice for seniors. A standard home equity loan generally may be less costly and can be for up to 80 percent of the property's value. By contrast, an RM provides a way to redeem the accumulated equity in a principal residence without selling the property, without creating monthly repayment requirements and without limitation of the borrower's current credit rating or income.

To ensure that RMs are beneficial for their specific situations, seniors should research requirements carefully and seek advice from financial counselors. Indeed, counseling is mandatory for a RM in Texas.

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THE TAKEAWAY

Reverse mortgages (RMs) offer older homeowners an alternative to selling their homes or obtaining a home equity loan for additional retirement income or needed capital. The major differences between an RM and a traditional home equity loan are the minimum age restriction of 62, no monthly repayments, a potentially lower loan-to-value ratio based on the borrower's age and higher upfront costs and fees.

Pros and Cons of Reverse Mortgages

Pros

- A RM has no fixed due date and requires no repayment as long as the home remains the borrower's principal residence. The loan becomes payable only if the borrower sells the home, ceases to live in the house for 12 consecutive months or more, dies or fails to fulfill any of the other requirements of the loan. The borrower cannot be foreclosed on or forced out of the house for failing to make a payment.
- A RM is a nonrecourse loan. The amount owed can never exceed the net selling price of the home. If the loan balance is greater than the home's net selling price, neither the borrower nor the borrower's heirs are responsible for making up the difference.
- A RM is a lien on the property like any other mortgage. The borrower continues to hold title to the home. If the property is sold, the loan is paid off from the proceeds, and the borrower or the estate receives any excess between the net price and the amount owed.
- RMs provide flexible payout options. The borrower can receive funds either in a single lump sum, as a series of monthly advances, as a line of credit that can be drawn against any time in the future or any combination of these methods. The lender cannot unilaterally change the amount or timing of loan advances and cannot reduce the amount or number of advances because of an adjustment in the interest rate.
- RM loan proceeds are nontaxable. All RM advances represent principal loan amounts, not ordinary income.
- Loan underwriting and approval does not depend on the borrower's current income, employment status, FICO score or anything other than the borrower's age and the value of the property.
- Prospective RM borrowers are required to meet with an independent financial counselor (HUD-approved in the case of HECMs) before signing a loan application or incurring any fees.
- The lender's lien against the property is removed if the lender fails to make loan advances according to the terms of the agreement or does not correct any failure to fund upon receiving written notice by the borrower.

Cons

- **RM loans are available only to homeowner-borrowers who are at least 62 years old and own their homes outright or have high levels of equity.**
- **Generally, RM loans provide around 65 percent of the value of the property based on the principal limiting factors (PLF) applied for different age and interest rate combinations. Home equity loans can be as high as 80 percent. The RM loan-to-value ratio is higher for older borrowers (even exceeding 80 percent), but higher closing costs and fees and shorter life expectancy offset some of this advantage.**
- **Upon the death of the borrower, the loan plus all accrued interest and costs becomes due and payable, typically necessitating the sale of the home. If the heirs want to keep the house, they have to repay the entire amount due, which could be greater than the value of the property at the time. Inheritance planning becomes trickier.**
- **With relatively high up-front costs, the borrower needs to stay in the home longer to make the loan more financially attractive. RM loans are significantly more costly than home equity loans if the borrower sells or moves just a few years after taking out the loan. The U.S. Office of the Comptroller of the Currency found that it is most advantageous to remain in the home at least ten years. This disadvantage has been offset lately by some RM lenders eliminating origination fees, setting aside service fees or both.**
- **Although there are no monthly mortgage payments, the borrower is responsible for all other ownership costs. For older borrowers, estimating the length of time they can afford to pay utilities, property taxes, insurance, maintenance and repairs, or condominium fees, and how long they are physically able to keep living there may be difficult.**
- **A home subject to a RM can be foreclosed upon by court order if the borrower ceases to live in the property for 12 consecutive months without prior approval of the lender or if the borrower defaults on any obligation specified in the loan, such as maintenance, taxes and insurance.**
- **RM borrowers may be the target of aggressive sales pitches for other expensive and potentially inappropriate products or services because of the large sum of money they receive from a reverse mortgage. Lenders providing RMs are generally prohibited from cross-selling other investment products such as annuities, long-term care insurance or services such as home repairs. The Housing and Economic Recovery Act of 2008 (HERA) specifically prohibits cross selling to a RM borrower. HERA's provisions are applicable to HECMs only.**
- **A RM is fundamentally different than a forward purchase mortgage or a home equity loan with generally more complicated terms and conditions. Borrowers often do not fully understand all the differences and nuances of RM loans, despite both Texas law and FHA requirements for full disclosure and counseling before obtaining the loan.**

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