

New Law Makes Changes to Reverse Mortgages

In addition to addressing the current housing crisis, the Housing and Economic Recovery Act of 2008 makes changes to reverse mortgages, including higher borrowing limits and protections from aggressive marketing.

A reverse mortgage allows a homeowner who is at least 62 years old to use the equity in his or her home to obtain a loan that does not have to be repaid until the homeowner moves, sells, or dies. The new law, which goes into affect October 1, 2008, increases the borrowing level on reverse mortgages. The national limit on the amount a homeowner can borrow will be \$417,000. The limit can be increased to \$625,000 in areas with high housing costs. The amount a homeowner can actually borrow depends on the home's value, location, interest rates, and the age of the borrower. Currently, the range in loan limits is between \$200,160 and \$362,790.

The new law also offers some protections for seniors. High fees and aggressive marketing have been cited as problems with reverse mortgages. Under the new law, fees will be capped at 2 percent of the first \$200,000 borrowed and 1 percent on the balance, with a maximum of \$6,000 in fees. In addition, the law prevents lenders from requiring borrowers to purchase insurance, annuities, or other products as a condition for getting a reverse mortgage. Lenders are also prohibited from working with other professionals who are trying to sell seniors financial products as part of the lending process.