



**MBA Model State Bill to Regulate Reverse Mortgage Lending**  
**Section-by-Section Summary**  
*January 2010*

**Preamble (Section 1)** – States the purposes of this Act are to: 1) Meet the special needs of senior homeowners; 2) Increase participation in reverse lending; 3) Protect senior homeowners from abuse and fraud; and 4) Encourage senior consumers interested in reverse mortgages to use entities approved by the Department of Housing and Urban Development (HUD).

**Definitions (Section 2)** – States for this Act the definitions of a “reverse mortgage,” “eligible borrower,” and other essential terms. A reverse mortgage is defined as a nonrecourse loan secured by real property that meets the following criteria: 1) The loan provides a lump sum, periodic cash advances, and lines of credit to a borrower based on the equity or the value in the borrower’s owner-occupied principal residence; and 2) The loan requires no payment of principal or interest until the entire loan becomes due and payable. An eligible borrower is defined as any senior individual.

**Coverage (Section 3)** – This Act applies to all reverse mortgage loans originated or made to eligible borrowers on the borrower’s principal, single-family dwelling, including loans originated under HUD’s Home Equity Conversion Mortgage (HECM) program.

**Limitations and Parameters (Section 4)** – Reverse loans under this Act shall comply with the following requirements: 1) Permit prepayment, in whole or in part, without penalty, which does not include fees, payments or other charges; 2) Provide for a fixed or adjustable interest rate or certain other rates; 3) Any periodic advances to the borrower shall not be reduced in amount or number based on any adjustment in the rate; 4) The loan shall become due if: a) The home securing the loan is sold or title is transferred; b) The borrower ceases occupying the home, except for periods not exceeding 60 days; c) The fixed maturity date agreed to by the lender and the borrower occurs; or d) Any other event specified in the loan documents and which jeopardizes the lender’s security occurs; and 5) A lender shall not be required to extend a reverse mortgage to a borrower if the lender has reason to believe the borrower is unable to enter into a contract for any reason, including, but not limited to, incapacity or duress.

**Fees and Charges (Section 5)** – Allows the lender, or its designee, to charge costs and fees including costs and fees charged upon execution of the loan or execution of appreciation, on a periodic basis, or upon maturity. All fees must meet state and federal standards.

**Agreement and Note; Disclosure Requirements (Section 6)** – Requires the lender to provide a disclosure in plain language to the borrower of such terms and conditions as the interest rate, whether the rate is fixed or adjustable, the term of the loan and other specified details.

**Cross-Selling (Section 7)** – Prohibits lenders from requiring a borrower to purchase an insurance annuity or other similar financial product, excluding title insurance, hazard, flood or other peril insurance, as a condition of obtaining a reverse mortgage.

**Counseling and Consumer Education (Section 8)** – A lender cannot accept a final and complete application without a certification that the borrower completed counseling by a HUD-approved counselor. Counseling may be face-to-face or via telephone. Where a borrower is represented by a guardian or an individual with a durable power of attorney for the borrower, that individual must complete the counseling requirements. Any related fee for counseling may be financed into the costs of the loan as limited by HUD.

**Other Provisions (Section 9)** – Provides that the reverse mortgage shall constitute a lien on the subject property; for this Act, a property shall be deemed owner-occupied, despite differences in legal title; failure to comply with this Act shall not invalidate an arrangement, transfer or lien subject to this Act; A lender who fails to make loan advances as required in the loan documents shall forfeit to the borrower treble the amount wrongfully withheld plus interest at the legal rate; Lastly, releases lenders making reverse mortgages from the requirements of the forward mortgage market that hamper the purpose of reverse lending.

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