Press Releases

June 12, 1996

OTS 96-41 - Reverse Mortgage Loans with Equity Share Okayed

Office of Thrift Supervision

News Release

FOR RELEASE at 12:30 p.m. EDT	For further information
Wednesday, June 12, 1996	Contact: Paul Lockwood
OTS 96-38	202/906-6693

REVERSE MORTGAGE LOANS WITH EQUITY SHARE OKAYED

WASHINGTON, D.C., June 12, 1996 -- Federal savings associations may originate the Home Keeper Mortgage for prompt sale to Fannie Mae, Chief Counsel Carolyn Buck of the Office of Thrift Supervision (OTS) stated in a recent legal opinion.
Like all reverse-annuity mortgages, the Home Keeper Mortgage enables a homeowner to borrow against the equity that has built up in his or her home, deferring repayment until the home is sold or the borrower dies.

The Home Keeper Mortgage, a new program of Fannie Mae, is an adjustable rate reverse mortgage loan that includes an equity share option. The Home Keeper Mortgage permits eligible home owners age 62 and older to borrow against the equity in their homes and delay repayment until they no longer occupy the home. Homeowners can receive equal monthly payments, establish a revolving line of credit, or get a combination of the two. Money repaid under a revolving line of credit may be reborrowed, up to the homeowner's credit limit.

All principal payments to the borrower are added to the loan balance, as are accrued interest and any fees. The loan becomes due and payable at the time the borrower moves or dies. The loan is repaid exclusively out of the proceeds of the sale of the home and is not a general liability of the borrower.

Ms. Buck's opinion dealt only with Home Keeper loans that are originated for prompt sale to Fannie Mae and not held in an association's portfolio. The opinion applies to federally chartered savings associations and to non-federally chartered lenders (other than state banks and credit unions) that qualify as "housing creditors" under the federal Alternative Mortgage Transaction Parity Act.

The new opinion builds on 1994 OTS guidance indicating that federal savings associations have authority to originate or purchase reverse mortgages. Ms. Buck's opinion clarifies the equity share feature.

The equity share option enables a home owner to borrow a larger amount of principal in exchange for agreeing to pay the association a percentage of the market value of the property at the time the loan is paid off. Ms. Buck's opinion concludes that such a payment does not violate the general prohibition against federal associations acquiring equity investments in real estate, because the equity-based payment is only a small portion of the compensation -- mostly interest -- received by the lender.

The equity share feature applies only if the borrower elects the option at loan origination in order to increase the loan amount beyond the standard loan-to-value ratio specified by Fannie Mae, and the loan is not paid off in the first 24 months of the loan term. The equity payment, limited to 10 percent of the property's value, is intended to compensate the association for the added risk of the higher loan-to-value ratio, Ms. Buck wrote.

###