

BILL ANALYSIS

C.S.S.J.R. 7
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Financial Institutions
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Reverse mortgages allow the conversion of home equity into income that can significantly increase the relatively low incomes of senior homeowners. These funds allow seniors to maintain independence and a better quality of life. The loan does not become due until the senior homeowner moves or dies. Current law, however, permits advances under a reverse mortgage to be made only in a lump sum or in regular periodic, predetermined equal amounts over a term of years or the lifetimes of homeowners. Often these options do not suit the needs of borrowers. Many senior homeowners would prefer to take advances under their reverse mortgage only when money is needed to pay property taxes and insurance, medical bills, or other life necessities. This change will allow the flexibility to borrow only what they need while preserving the balance as equity and reducing interest costs significantly because interest accrues only on the amount borrowed.

C.S.S.J.R. 7 would amend the Texas Constitution to allow senior homeowners to draw advances under a reverse mortgage at unscheduled intervals if and when needed, and only in amounts needed, during the loan term.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.S.J.R. 7 amends Article XVI, Texas Constitution, as follows:

The substitute authorizes line-of-credit advances under a reverse mortgage at any time after the loan is approved. The advances may be in any amount and at any time requested by the borrower until the credit limit of the loan is reached.

The substitute requires the reverse mortgage to provide that the owner does not use a credit card, debit card, preprinted solicitation check, or similar device to obtain an advance. The substitute prohibits the charging of transaction fees for each advance after the time the extension of credit is established. Additionally, the lender or holder may not unilaterally amend the extension of credit.

FOR ELECTION

The proposed constitutional amendment shall be submitted to the voters at an election to be held November 8, 2005.

COMPARISON OF ORIGINAL TO SUBSTITUTE

C.S.S.J.R. 7 modifies the original by adding language that requires each advance under a reverse mortgage be according to the terms established by the loan documents.

The substitute modifies the original by adding language that prohibits an owner from using a credit card, debit card, or similar device to obtain an advance; prohibits the charging of transactions fees for each advance after the time the extension of credit is established; and prohibits the lender or holder from unilaterally amending the extension of credit.

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