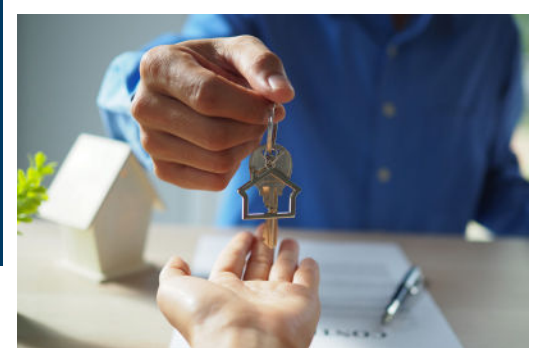


TEXAS LOAN TYPES

Article 16, Section 50 (a)1 through 8, of The Texas Constitution, outlines the various real estate loan types that are available in Texas. This is where the nicknames, “50a6” Home Equity or “50a7” Reverse Mortgage are derived from.



PURCHASE MONEY MORTGAGE *aka “PMM” “50a1”*

- ▷ Funds used to purchase real property.
- ▷ Property may be Homestead/Primary residence or Non-Owner Occupied.
- ▷ A buyer may have two PMM's, a first and a second.
- ▷ **Vendor's Lien** – A vendor's lien is a lien in favor of the “vendor” or the “seller” of real estate. When a warranty deed contains a vendor's lien, the buyer agrees to allow the seller to seize the property until the property is paid for in full. The vendor's lien is set out in the warranty deed and is secured by a Deed of Trust for the loan the borrower took out to purchase the property.
- ▷ When you see a mortgage description in Schedule C of the title commitment that describes a Vendor's Lien secured by a Deed of Trust; this is indication that the mortgage was the PMM.

RATE AND TERM REFINANCE *aka “No cash out refi” or “Renewal and Extension” “50a4”*

- ▷ Sole purpose is to refinance existing loan to change the interest rate and term of the loan.
- ▷ The loan being refinanced could be the original PMM or the PMM that has been refinanced or renewed and extended numerous times. A Renewal and Extension Rider should be attached to the new Deed of Trust to reflect the DOT being refinanced or renewed and extended.
- ▷ Property type may be Homestead/Primary residence or Non-Owner Occupied.

CONSTRUCTION OR HOME IMPROVEMENT *Loan aka “50a5”*

- ▷ Purpose of loan is to pay for work and material used in construction new improvements or for work and material used to repair or renovate existing improvements.
- ▷ This type of loan requires a written signed contract between builder/contractor and the owner of the property. This contract is called a Mechanic's Lien Contract and is usually secured by a Deed of Trust if the owner has obtained financing from a third-party lender to pay for the work and material.

HOME EQUITY OR HELOC *aka “50a6”*

- ▷ Purpose of loan is to get cash out. Cash may be used for any reason, i.e. to payoff other debt such as credit cards, a new boat or a vacation.
- ▷ This type of Loan can **only** be used when the property is the borrowers **HOMESTEAD/PRIMARY** residence.
- ▷ A Home Equity loan may be refinanced as a rate/term or non-home equity loan provided:
 1. Refinance is NOT closed before the 1st anniversary of date of closing (funding date)
 2. No additional funds are advanced except:
 - a. Funds to refinance a debt under Subsections 50(a)(1) through (a)(7), or
 - b. Actual costs and reserves required by the Lender to refinance the debt.
 3. Principal and all other liens on the property do not exceed 80% of fair market value on date of close.
 4. Written notice provided by Subsection 50 (f)(2)(D) on a separate document within 3 business days of application and at least 12 days before closing.

REVERSE MORTGAGE *or HECM aka “50a7”*

- ▷ Purpose of loan is to get cash out either in a lump sum or in equal monthly installments paid to the borrower by the lender. Cash can be used for any reason.
- ▷ This type of Loan can **only** be used when the property is the borrowers **HOMESTEAD/PRIMARY** residence.
- ▷ Owner or owner's spouse must be 62 years or older.
- ▷ Repayment of this type of loan does not occur until:
 - a. Death of all borrowers;
 - b. Property is sold or transferred;
 - c. All borrowers have abandoned the property for a period longer than 12 consecutive months
 - d. Borrower defaults, i.e. does not pay property taxes and insurance, defaults on an obligation written in the loan docs or fails to maintain the priority of the lender's lien.

