Closing Cost Comparison

Forward vs. Reverse By Beth Paterson

IT SEEMS LIKE EVERY ARTICLE, report or maven you talk with states the reverse mortgage closing costs are high. But compared to what? Have you looked at closing costs on a conventional home mortgage?

As with a conventional home mortgage (called a "forward" by HUD), the closing costs for reverse mortgages may vary depending on the home value and the complexity of the loan. Let's compare the costs side-by-side for a Home Equity Conversion Mortgage, or HECM, and a conventional/forward mortgage.

The third party and recording fees are standard for any loan. Keep in mind that there has to be a cost involved because everyone in the transaction needs to be paid for their services. If the costs on a mortgage aren't paid up-front then they'll be paid over time with a higher interest. Look at an estimated comparison based on a Minnesota home valued at $200,000 (based on loan amount at 80% for the forward loans):

Third Party Fees	Reverse FHA	Forward	Forward FHA
Appraisal	$500	$450	$500
Credit Report	$25	$25*	$25
Flood Certification	$10	$10*	$10
Courier Fee*	$35	$35*	$35
Escrow, Settlement, or Closing	$275	$275	$275
Abstract or Title Search	$110	$110	$110
Title Exam	$110	$110	$110
Document Preparation	$125	$125*	$125
Title Insurance	$475	$392	$392
Endorsements	$50	$50*	$50
Recording Fees	$92	$46*	$92
County/Mortgage Registration Tax	$295	$384	$384
Plat Drawing	$60	$60	$60
Name Search	$35	$35	$35
Special Assessment Search	$35	$35	$35
Counseling Fee	$125	N/A	N/A
TOTAL THIRD PARTY FEES	**$2,357**	**$2,142**	**$2,238**

** These fees are included in the Qualified Mortgage (QM) Rule; included in as part of the "Closing Costs" under Lender Fees.*

Now let's compare the Lender Fees:

FHA's Mortgage Insurance Premium (MIP) is paid directly to FHA. The FHA reverse mortgage includes a .5% or a 2.5% initial mortgage insurance premium, determined by the funds being drawn in the first twelve months. The advantages with FHA insuring the reverse mortgage include:

- Guaranteeing the funds are available for you during the term of the loan.
- Guaranteeing the lender against default or shortfalls, which means the interest rates are lower compared to other mortgages.
- Providing a line of credit growth rate (available only with reverse mortgages).
- Ensuring as, a reverse mortgage, it is a non-recourse (no personal liability) loan.

The origination fee is what the originating lender receives to cover the loan officer's compensation, overhead to run the business, i.e.

Closing Cost continued on page 33

Closing Cost continued from page 32

staff salaries, administration costs, computers, electricity, office supplies, marketing expense, gas mileage, health insurance of employees, etc. The origination fee also includes the processing and underwriting costs, which are generally separate and charged to the borrower on forward loans. HUD regulates the reverse mortgage origination fee to be 2% of the 1st $200,000; 1% thereafter with a cap of $6,000, with a minimum of $2,500.

In some situations the lender will offer no or a reduced origination fee, however the interest rate will be higher than if one pays the origination fee.

The reverse mortgage fees are based on the full home value because over time borrowers can access more than the home value at the time of origination. One is essentially borrowing the interest and mortgage insurance premium each month because they are not making a payment. And as one draws from their line of credit or through monthly payments the loan balance will increase, making the loan amount higher.

An estimate based on a $200,000 home value (based on loan amount at 80% for the forward loans):

Lender Fees	Reverse FHA	Forward	Forward FHA
Origination/Points	$4,000	$4,800*	$1,600
MIP	$1,000**	$0***	$2,800
Administration Fees	$0	$900*	$900
SUBTOTAL LENDER FEES	**$5,000**	**$4,800**	**$5,300**
Prepaid Interest****	N/A	$375	$375
TOTAL LENDER FEES	**$5,000**	**$5,175**	**$5,675**

**QM Rule closing costs cannot exceed 3% of the loan amount. Number of points are directly related to interest rate charged; the more points paid, the lower the interest rate; the lower points paid, the higher interest rate.*
*** Based on .5% – taking 60% or less within the 1st 12 months.*
**** Conventional loans may have a Private Mortgage Insurance fee.*
***** Forward loans have up-front prepaid interest due for remaining days in the month of closing; this is an example amount. Funds will also be needed up-front to set up escrow.*

Total Loan Fees	Reverse FHA	Forward	Forward FHA
	$7,357	**$7,026**	**$7,913**

NOTE THE DIFFERENCE IS BASICALLY THE FHA MORTGAGE PREMIUM! And look at the advantages the insurance provides.

The fees associated with the reverse mortgage are fully financed as part of the loan, with no out of pocket expenses other than the FHA appraisal. (As of 2010 Appraisal Management Companies must be used to order and process the appraisal. This fee is required to be paid for the borrower up front or "out of pocket.") All of the fees for reverse mortgages and forward mortgages must be disclosed on the Good Faith Estimate (GFE).

When considering whether to do a forward mortgage or a reverse mortgage you must consider if you can even qualify for a forward mortgage; then if you can make the payments over time. For example, if "life happens," could you continue making those payments or would you be facing foreclosure?

You also need to consider that if you do a forward mortgage now (if you even qualify), you'll be paying the closing costs on that loan and then when you need more funds in the future and you refinance you'll be paying the closing costs again.

Whereas with the reverse mortgage you pay the closing costs up-front and then, without paying closing costs again, you have access to more funds through your life as long as you are living in the home as your primary residence. The additional funds would be either through monthly payments or a line of credit, if that is the type of loan you have chosen.

Consider the benefits of the reverse mortgage, which include:

- No monthly mortgage payments required, therefore increasing your cash flow.
- With no monthly mortgage payments required, the risk of default due to not being able to make monthly mortgage payments, is reduced. (Borrowers are still required to pay property taxes, keep hazard insurance and maintain the property and pay home owners association dues if applicable.)
- A line of credit option that has a growth rate, making more funds available to you in the future. No other mortgage offers this. Or you can use the funds to receive monthly payments either as tenure (life of the loan) or an amount set by you.
- Non-recourse, no personal liability to you or your heirs. RM