Published Nov. 17, 2022, in the Denver Post's YourHub section

A Reader Asks Whether a Reverse Mortgage Could Be Funded by Heirs at Less Cost

Let's Talk Home Financing

By JIM SMITH Realtor®

Recently, I heard from a reader about reverse mortgages. The reader astutely observed that the costs associated with a reverse mortgage (or HECM) could be eliminated by putting a family-funded mortgage into place. This would require an attorney to draft the legal documents that would spell out and secure each family member's future interest in the property, but those fees would likely be lower than the costs associated with a HECM.

I asked **Jaxzann Riggs**, owner of **The Mortgage Network** to weigh in on the topic. "Absolutely," she told me, "a family-funded reverse is preferable to a traditional reverse if the homeowner has a family that is able and willing to be the lender."

Reverse mortgage closing costs are very straightforward. A borrower should expect to pay, on average, a 1% origination fee and a 2% initial mortgage insurance premium, plus closing costs and third-party fees such as appraisal, title, settlement and recording fees.

Jaxzann told me there is a difference, however, between closing costs and the actual expense of a reverse mortgage. The expense is far more difficult to calculate because it would require concrete information about the future value of the home, the duration of the occupancy (how long will the owner live in the home), and how much the homeowner will draw now and in the future from the home's equity. A homeowner who decides to sell the home within a few years after creating a reverse mortgage would find it to be VERY expensive.

If a borrower rolls $10,000 of closing costs into the loan balance and then sells the home after one year, the cost of selling (without calculating and adding the interest and mortgage insurance accruals) would be the full $10,000. If, on the other hand, the homeowner lives in the home for 20 years, the initial cost spread out over the life of the loan would be approximately $500 per year. The future appreciation or depreciation of the home is critically important when attempting to calculate HECM expenses because, unlike a family-funded reverse, FHA HECMs are **non-recourse** loans meaning that if the home is worth less than the dollars owed at the time of sale, the borrower or heirs are not responsible for the deficiency. If the home does not appreciate much (or depreciates), a HECM can be very inexpensive.

The Mortgage Network

Good News for First-Time Homebuyers

There is great news this month for first-time homebuyers. The Federal Housing Finance Agency (FHFA) has made changes that will benefit up to 20% of people looking to buy.

The most significant could result in as much as a 0.5% reduction of the interest rate. When you apply for a mortgage, your rate is based upon various risk factors. If you have a low credit score, a small down payment, or are buying an investment property, your loan is at a higher risk of default than someone who has excellent credit, large down payment, or is going to live in the home. These risk factors are added into your interest rate as "Loan Level Price Adjustments," or LLPAs.

First time home buyer programs such as "**HomeReady**" and "**Home Possible**" have always had reduced LLPAs, but this month FHFA announced that they are removing all such pricing adjustments from their most popular first-time homebuyer programs.

FHFA has also increased the income limits associated with the programs and is allowing lenders to offer up to $2,500 in grant funds to qualifying borrowers. If you have questions about either a reverse or standard mortgage, reach out to Jaxzann at **(303) 990-2992** for answers.