FHA Finance Becoming Very Expensive
February 24, 2013

I am thinking that the Federal Government wants to disengage from helping the average family buy a home. FHA (Federal Housing Authority) is increasing the mandatory Mortgage Insurance Premium (MIP) charged on an FHA loan, effective 1st April 2013.

FHA is the program that helps homebuyers to purchase a property with only 3.5% down. Otherwise, you would need 5% down for Conventional financing. However, the penalty with FHA is a hefty lump sum premium at the front end (1.75%) PLUS a monthly premium (1.35%) added to your monthly payment.

The current policy is that this monthly MIP only lasts until the borrower has reached 22% equity. That is, it drops off once you have reached a 78% loan to purchase price ratio. The new policy, effective April 1, is that the monthly premium goes from 1.25% to 1.35%, but the real kicker arrives in June.

From 3rd June 2013, the monthly premium will now go on for the full life of the loan - i.e. 30 years. This is surely a tax on the middle class in disguise. Over 30 years on a house costing $325,000 you will pay $127,000 in MIP, or $4,234 each year, even after you have substantial equity and FHA's risk is zero to minimal in the event of a foreclosure. Quite a premium!

I just thought you should know. One solution will be to re-finance from FHA to Conventional financing after you reach 20% equity in your home. FHA is no longer your friend. Alternatively, you should consider raising 5% cash for your down-payment, use conventional financing and ask the seller to pick up your closing costs.

Ratios on FHA remain at 29% and 41%. That is, your monthly payment should be no more than 29% of your monthly income, and your total monthly debt payments (including the mortgage) must not exceed 41% of your monthly income. Your credit rating needs to score at minimum 640 to qualify for FHA, but a score of 680 will save you money on 'Credit Adjuster' points.

Dear Dave: Do you have any advice for folks, like us, in the process of acquiring some vacant land outside of city services?

Answer: Before agreeing to any contract, thoroughly investigate the location of the nearest electricity and gas, and the cost of connecting to it.

Also be sure to have the seller clearly identify the boundaries and corners of the property through a licensed surveyor. Depending on how remote and large the parcel, check for any history of trails and vehicular traffic across the property. It is often difficult to legally stop people using an established traffic pattern on vacant property. You may need legal advice on such uses.

Finally, make your offer to purchase subject to soil tests. Whilst the history of wells in the area is available from your Borough or Municipality (as well as from local residents), you must have the soils professionally examined for construction and septic purposes. Often, the seller will split the cost of these tests.

Dear Dave: We recently moved from a semi-urban location to a rural setting and were staggered at the whopping increase in our fire insurance premium. We thought the best way to warn our friends was by writing to you at the Anchorage Daily News.

Answer: Your problem is simple – you moved away from the fire hydrant and the fire service area! The best zone rating for fire insurance is achieved when your home is less than 1,000 feet from a fire hydrant and less than 5 miles from an approved fire station. If you don't meet these criteria your premium will increase as much as 150 percent.

Be sure to check out fire services when you move. Many rural fire stations, often run by volunteers or on a part-time basis, are not approved - and you will search in vain for a hydrant.

Dear Dave: We live in South Anchorage and have, like many, been having a horrible time with icy roads. The city sometimes sands but other times it is left really bad. Can you help?

Answer: Actually the Municipality tries hard to cover dangerous areas like intersections, hills and schools zones with sand during those hazardous meltdown periods.

Streets left unsanded are probably areas unknown to the maintenance division. Any time you have a concern you will find the Municipal Street Maintenance crew, at 343-8277, highly responsive when you telephone.

Dear Dave: We closed on our new home last week and already had to call a plumber to unblock a drain. The house was built in the 1980's, and we had a home inspection, so we were irritated about this. Who can we sue?

Answer: With respect, may I change your perspective a little? I owned a 1970's house until recently, which I had purchased 12 years earlier, and I had to call the plumber twice in the first month.

You need to understand that used property is not new, and there is always a period of fine-tuning a house when you move into it. The previous owners may have lived there for years without the drain necessarily blocking up. Who knows if one of your kids didn't flush a teddy bear down the toilet? You would be amazed at some of the stories I can't print here.

Sure, the seller might have lied in the property disclosure, the home inspector might have missed the problem, but all homebuyers should be prepared to expect maintenance expense to be a responsibility that co-exists with the privilege of ownership.