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Buying a condo? It's now easier to get an FHA loan

One of the simplest ways to obtain a mortgage for a first-time homebuyer – or for anyone who might not have terrific credit and a big down payment – is a loan insured by the Federal Housing Administration.

The FHA doesn't make loans, but it insures them for lenders. This makes lenders much more willing to offer a mortgage, because if the borrower defaults, the FHA will be on the hook.

FHA loans often require a down payment of as little as 3.5 percent, and can be obtained in many cases by people who have iffy credit or who have a bankruptcy or foreclosure in their past.

The catch is that borrowers have to pay mortgage insurance. Actually, they usually have to pay two types of insurance – an upfront payment of 1.75 percent of the loan amount (which can be rolled into the loan), and a monthly payment that depends on the length of the loan and the loan-to-value ratio.

The FHA insures loans for both single-family homes and condominiums. But a few years ago, the agency tightened up its rules for condos. This had the effect of dramatically reducing the number of condominium communities for which it was possible to obtain an FHA loan.

Now, however, the FHA has loosened the rules again. This should make far more condos eligible for FHA-backed financing.

Here's a look at the most important changes:

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- Previously, the FHA wouldn't insure loans for any units in a condo if 15% of the unit owners were 30 days behind in their condo fee payments. This was a huge problem, because 30 days is a very short time. The new rule changes the 30-day period to 60 days.
- In the past, the FHA wouldn't back loans for any units in a condo complex if a single person or entity owned more than 10% of the units. That meant that if one person bought three units in a 29-unit complex as an investment, every unit in the entire complex would become ineligible for an FHA loan. It also meant that if a developer had trouble selling all the units in a new building right away, and

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In 2012, buying a house was more affordable than at any time since at least the 1960s. And when more people can afford a home, more people will be in the market for one.

Housing prices are suddenly spiking – and here's why

House prices have been increasing sharply lately – in fact, prices for existing homes in February were up an astonishing 10% over the previous year. What's behind the increase?

The main reason is simple – lack of inventory. Not many homes are on the market, which means buyers are bidding on a small number of houses, driving up the price.

Lack of inventory is caused by a number of factors, including:

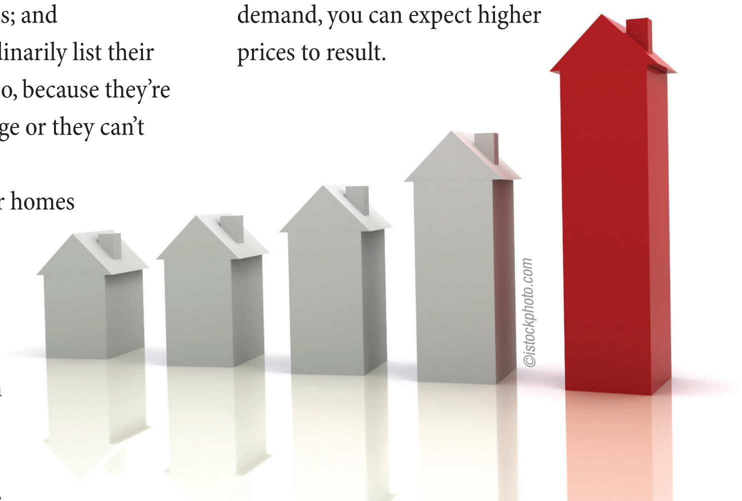
- Few new homes have been built since 2008;
- Banks are no longer selling many foreclosed homes, due to red tape;
- Investors have bought up a lot of homes recently and are using them as rentals; and
- Many people who would ordinarily list their homes for sale aren't doing so, because they're underwater on their mortgage or they can't qualify for a new mortgage.

At the same time, demand for homes has been on the increase. This is because of both continued low mortgage rates and increased rental rates, which have made it cheaper for many people to own than to rent.

Interestingly, each year the National Association of Realtors compiles a "housing affordability index." It compares the median home price in the U.S., the median family income, and the average mortgage interest rate. It then calculates how easy it would be for the typical family to afford the typical home, assuming a 20% down payment and 25% of gross income being devoted to house payments.

In 2012, the association says, buying a house was more affordable than at any time since it started keeping records back in 1970. And when more people can afford a home, more people will be in the market for one.

Price is a function of supply and demand, and whenever there's both reduced supply and increased demand, you can expect higher prices to result.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Banks must do more to help troubled homeowners

Banks and other companies that collect mortgage payments from homeowners will have to do more to help homeowners who are having financial problems to avoid foreclosure, under new rules issued by the U.S. Consumer Financial Protection Bureau.

Currently, there are no national standards for what financial institutions have to do if a borrower falls behind on payments.

The new rules, which take effect next year, say that banks and loan servicers must evaluate borrowers under all possible financial-help programs permitted by Fannie Mae, Freddie Mac, and private investors. They cannot simply steer borrowers to whatever program is most financially beneficial to the lender.

The rules also say that a lender can't start the foreclosure process on a home unless a borrower has missed payments for four months. Within 15 days of a second missed payment, the lender must provide a notice explaining alternatives to foreclosure and offering information on housing counseling. And a foreclosure can't be completed if the owner submits an application for an aid program more than 37 days before the home is scheduled to be repossessed.


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kept slightly more than 10% for rental purposes, the whole complex would be disqualified. Now, though, the FHA says a single investor can own up to 50% of the units.

- Before, the FHA wouldn't insure a condo if more than 25% of the floor space was used for commercial purposes. This was bad news for a lot of urban condos that rely on retail stores or offices on the street level. The new rule allows commercial use of 35% of the floor space, and up to 50% in certain cases.
- In the past, in order for a condo to qualify, the condo officers had to certify that they had no knowledge of any reason why a mortgage might become delinquent, of any dissatisfaction among unit owners with the management, or of any disputes concerning unit owners. If the officers were found to have knowingly made a false statement, they could face fines up to $1 million and 30 years in jail. While such extreme punishments were highly unlikely, this requirement scared a lot of board members. The FHA is now replacing the language with less frightening terms.

The agency seems to be admitting that its earlier rules were just too strict. By some estimates, less than 10 percent of the condo associations in the country would qualify under the old rules. In any event, the FHA estimated at the start of 2012 that it would insure more than 110,000 condo units that year, and thanks to the tough rules, the total was only about 35,000.

With the looser rules in place in 2013, it should be much easier for condo buyers to get a mortgage. This will be a boon to both buyers and sellers of condo units.

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U.S. cracks down on 'forced' homeowner's insurance

When people take out a mortgage, they're often required to obtain homeowner's insurance on the property. This policy protects the lender's interest in the property as well as the owner's.

But what happens if the owner later cancels the policy, or simply stops paying the premiums?

Since the housing crash a few years ago, millions of Americans have allowed their homeowner's insurance policies to lapse. Sometimes this was inadvertent – they just forgot to pay the bill – but in other cases the owner was struggling and had trouble affording the payments.

Typically, in such cases the lender is allowed to obtain a new policy and "force" the homeowner to accept it.

This is fair, since the owner signed a contract saying he or she would maintain the policy, and since the policy exists in part to protect the lender. But what isn't fair is that these "forced" policies are often far more expensive than the original policies were. A typical "forced" policy costs at least twice as much as a voluntary policy, and in some cases costs 10 times as much, according to the Federal Housing Finance Agency, the government bureau that oversees Fannie Mae and Freddie Mac.

One reason for this, the agency says, is that insurance companies often pay fees and commissions to banks in order to persuade them to select their more expensive policies. These fees and commissions can amount to 10% or more of the annual premium.

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So the agency has announced that it is planning to ban these fees and commissions. The ban will apply to all mortgages that are owned or guaranteed by Fannie or Freddie – which is about half of all mortgages in the U.S.

The ban should eliminate banks' incentive to select more expensive policies, and result in savings to homeowners, the agency says.

If you have a "forced" insurance policy, it's a good idea to examine how much you're paying, and shop around. You can always replace the forced policy with a different policy, as long as the new policy meets the requirements in the mortgage agreement.

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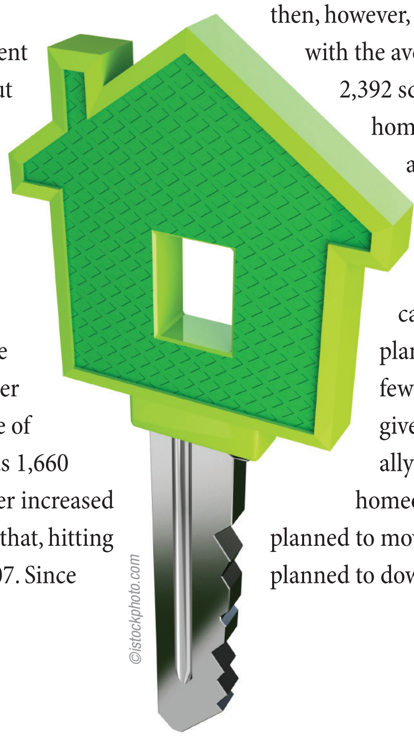
Demand for smaller homes is growing as baby boomers near retirement

As the baby boomer generation hits retirement and starts to think about downsizing, it appears that demand for smaller homes is growing significantly.



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For many years, the trend was always in the other direction – people wanted bigger and bigger houses. The average size of a new home in 1973 was 1,660 square feet. That number increased almost every year after that, hitting 2,521 square feet in 2007. Since then, however, there has been a decline, with the average size sliding to 2,392 square feet in 2010. Most homebuilders predict the average size will continue to decrease.

In a recent survey, some 43% of Americans age 50-64 said they planned to move in the next few years – a real surprise given that this is usually the most stable group of homeowners. And of those who planned to move, fully 50% said they planned to downsize to a smaller home.

One reason may be that more Americans nearing retirement have significant amounts of mortgage debt, and downsizing can be a good way to eliminate or reduce this debt.

For instance, more than 50% of couples age 55-64 still have a mortgage today, compared with less than 40% in 1989. For couples age 65-74, some 40% still have a mortgage, almost double the 1989 rate.

And the amount they owe on their mortgages is far greater. For people age 55-64, the average mortgage debt is almost $100,000, up from about $35,000 in 1989. For people age 65-74, the average debt is about $50,000, which is roughly triple the 1989 rate.