

Ignore the myths, FHA loans are a good deal

MORTGAGE SHOPPING



DAVID C. MULLY

You may have noticed my discussions in this column about VA loans over the past several months. I've tried to share information of how VA loans work so that more buyers might consider them as a mortgage option. Now I'd like to cover another important type of financing which is FHA loans. I hope you'll see the potential these loans can offer.

FHA stands for Federal Housing Administration, which is a division of the Housing and Urban Development Department of the Federal Government. FHA was created more than 60 years ago to stimulate affordable housing financing for qualified borrowers.

The Michigan State (Detroit) office of HUD is located in the

McNamara Building in downtown Detroit. Both are agencies of the U.S. government and cover the eastern half of the lower peninsula of Michigan. The telephone number for Single Family Production is (313) 226-7230.

What is an FHA loan?

An FHA loan is one of the many methods by which a buyer can obtain financing to purchase a home. You may be most familiar with conventional loans which involve obtaining a mortgage through a lender with a down payment in excess of 5 percent. FHA loans are very similar with easier and lower cost, but there are quite a few different requirements.

In the case of the FHA loans, the Federal government insures the loan being made by a lender.

FHA allows a lower down payment than conventional methods, plus many other advantages a conventional mortgage does not allow, such as loans that are fully assumable and pre-payable at any time without penalty at

very low cost and short processing time by more than 200 FHA-approved lenders.

Some people have heard FHA financing is very complicated and costly to use. That is not true. There have been a number of changes over the years which fully streamlined the process.

The procedures and costs of FHA financing are now very similar, yet more flexible than conventional methods. Unfortunately, in the past, many people have had unfavorable perceptions about FHA financing which no longer apply.

FHA does not set interest rates or points. They can require up to 60 percent less down payment overall for a buyer to qualify for an FHA mortgage. Up to 6 percent of the mortgage can be paid by the seller, or a blood relative can pay the total costs as a gift. Even the mortgage can pay all the closing costs, including the tax and insurance by charging a "premium" interest rate.

Selling a house FHA is no different from selling it by other

methods. The time period for getting approval is now virtually the same as for obtaining a conventional mortgage. All FHA lenders now have what is called "direct endorsement." This means a lender has been authorized to take application, approve and close a loan for the buyer without the prior approval of FHA. This has significantly reduced the time it takes to receive approval for an FHA loan. FHA loans are closed in as little as 28 days. Most transactions are closed in five weeks or less.

Some sellers wonder if they'll have to make more repairs on their house with an FHA loan than required with a conventional mortgage. As with all mortgage loans, repairs may be required to insure the health, safety and structural soundness of the house, now a new state law requirement since 1994.

If there are repairs, the costs are negotiated between the seller and the buyers and should be clarified when you sign a purchase agreement. It is important

to note that neither the lender nor the FHA guarantees the value or condition of the property. Lenders have certain rights in modifying appraisals, repairs and values.

Please note that an appraisal is used to estimate the value of the property for mortgage insurance purposes. It is performed for the benefit of HUD/FHA.

Since the buyer is paying for the appraisal, he/she is entitled to a copy of it. Although the appraiser is there to estimate value, he/she will also note any visible defects which may affect the health or safety of the occupants, or continued marketability of the property.

FHA makes no warranties as to the value of condition of the property. It is up to the homebuyer to decide if they wish to hire a home inspection firm, architect, contractor or engineer to determine the condition of the house. FHA will allow the borrower to include up to \$200 as a closing cost item for the home

inspection fee.

FHA also has a loan program under which most inside and outside repairs or additions can be put into the first mortgage, and the seller can be immediately paid before repair or rebuilding begins. This program is open to investors as an 85 percent loan-to-value ratio after repair. It's called the 203(k) Program.

Next week, I'll continue with more information about FHA loans.

David Mully has been writing his weekly "Mortgage Shopping" column for the Observer & Eccentric Newspapers since June 1995. He has been directly involved with residential mortgage lending in the Detroit area since 1988 and is a local mortgage consultant. For information about a new mortgage, call Mully toll-free at 800-405-3051, fax him at 810-380-0603 or send e-mail to cgb004d@prodigy.com. You can access Mully's previous Mortgage Shopping articles on-line at <http://oeonline.com/~cmoryd/mully>

Beware of conflict of interest relationships

I received a call the other day from a reader and the questions and issues which we discussed were interesting and may be of use to those of you out there who are reading these articles and contemplating using an architect or builder.



STEVEN SIVAK

Basically the scenario goes like this: He and his wife go to look at a piece of land just prior to the first of the year in a low-lying area of a low-lying community.

The seller of the parcel is a "developer/builder" and the stipulation for the sale is that the buyer must use this "developer/builder" to build the house and is putting pressure on the buyer to use "his" architect.

I told him that there is something a bit stinky about the relationship and obligations which such a relationship would have. Hopefully, one falls in love first with a piece of land then finds

out who the builder must be. So the client pays for architectural services and then what natural force is at work to keep the "developer/builder" competitive with fair market prices? Nothing and this is not the way it was meant to be.

In the case that this person were to hire the architect recommended to him by the "developer/builder" the problem would only escalate and become a further conflict of interest. In order to answer why this is the case I need to briefly explain the situation I am currently faced with a client of mine in Pleasant Ridge.

In this project we have had a tough time with the general contractor which was selected. I am a representative of the owner but had to force/demand performance out of the contractor. It is my belief that we paid for top quality workmanship and must get such from the contractor and that it is my professional obligation to do so. I have been

retained to administer the construction contract and have high expectations for the project.

In essence, due to poor performance on behalf of the general contractor and my demands (which are slowly being met) I am no friend of the contractor but instead have proven myself to be a valuable ally of the homeowner. Remember, my only contract is with the homeowners, not with the general contractor.

In this scenario, the architect has been given a strong lead from the builder - maybe there is no kickback maybe there is - but in any case the builder is a repeat customer while the client is certainly not.

How can that architect go up against the builder and demand better quality or faster service? He can not and I think it would be foolish to enter into a relationship with any architect who

was suggested in this scenario. Now that is not to say that builders can not suggest the names of multiple architects for review by the client - but that is different than what is going on in this situation.

As a matter of fact I have received calls from prospective clients who were given my name by general contractors - but in the end I determined that these contractors were not appropriate for the project and the recommending contractor never even saw the project because it went to another general contractor. But in the case being discussed above, the general contractor has the job all wrapped up.

The next series of issues which surround this project involves the time of year in which the client looked at the land - early winter and in a low-lying

area with potential drainage problems, this is not the right time to be shopping for land.

The worst case scenario includes a wet basement, mold and fungus problems, odors, mosquitoes and a low future value for the completed project. These are very possible occurrences and there is no way, I repeat no way, that the architect who has been recommended by the "developer/builder" could lead the home buyer away from the lot to a better site.

I suggested two possible solutions to the problem. First is to cancel the contract with the "developer/builder" and go look for a "good" lot and use the services of a "good" architect. Second is to force the builder to agree to a fair market value for his construction either through

competitive bidding or by acting as a construction manager whereby all costs and expenses are on the table and the homeowner will not be subject to gouging.

Along with this proposal, if I were him, I would hire a good architect to fully represent the needs and concerns of myself and my family and stay as far as possible away from the recommended architect of the "developer/builder."

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