

Real Estate

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More buyers use conventional loans

With the record pace of existing house sales last year, the majority of local buyers used a conventional mortgage to finance their purchase.

The figures show that for the first time in recent years, more than half of the buyers—54.5 per cent—used the conventional mortgage, according to the Western Wayne-Oakland County Board of Realtors.

The other methods are assumption of an existing mortgage, 16.6 per cent; Federal Housing Administration loans, 15.5 per cent; land contract, 5.3 per cent; Veterans Administration loans, 5 per cent; and cash, 3.2 per cent.

"Higher use of conventional mortgages for home buying reflects the ready availability of mortgage funds in saving institutions throughout the year," said Conrad Jakubowski, president of the WWOBCB.

"It's in direct contrast to the tight money days of 1974 and the early part of 1975 when such funds were not in good supply and the share of conventional mortgage use dipped below 40 per cent."

While conventional mortgages had a 24 per cent gain over 1976 in 1977, some of the other methods declined sharply.

THE USE OF LAND CONTRACTS to buy existing houses was down 34.5 per cent, assumptions were 25.9 per cent less and cash purchases dropped 13.5 per cent.

With a high percentage of veterans having used their eligibility, the percentage of local buyers using VA mortgages followed a declining trend with a drop of nine per cent, while FHA loans were off only six per cent from 1976 in 1977.

Recently enacted legislation increases in maximum amounts of FHA-insured mortgage loans is expected to increase the use of these loans this year.

Recent trends in methods of financing existing house purchases are indicated in the following percentage table compiled by WWOBCB.

METHOD	1977	1976	1975	1974	1973
Conventional	54.5	43.9	39	38.6	49.2
Assumption	16.6	22.3	25	24.3	17.6
FHA	15.5	16.5	15.3	11.5	13.6
VA	5	5.6	7.7	9.6	
Land Contract	5.3	8.1	10.6	11.3	6.5
Cash	3.2	3.7	3.6	3.6	3.4

House hunting?

By SUZIE MARKS

So you want to buy a house? But how do you go about financing that life-long dream?

Unless you have a tremendous amount of cash on hand, you'll probably pay for a substantial portion of the new dwelling through a mortgage.

The mortgage is a loan that commercial banks, savings and loan associations or independent mortgage companies make on a house. It enables a potential buyer to put a down payment on a house and pay for it over a period of years.

Usually, you don't hold title to the house, the mortgage lender does. As the mortgagee, you make payments to the lender until the term of the mortgage has expired.

Terms may be 25 to 30 years, depending on the lending institution chosen and, in some instances, arrangements can be made to assume an existing mortgage.

Interest rates on mortgages vary depending on the type selected, the lending institution, the down payment amount and geographic location, says Burton West, vice-president and assistant manager of the mortgage and loan department at First Federal Savings and Loan Association.

THERE ARE three types of mortgages available to buyers, all maintaining different qualifications. For these reasons, it is important for a new buyer to shop around for a mort-

gage just as one would for a new car.

Conventional mortgages are the most common type purchased. They run from 25-30 years and the money market determines their interest rates which range from 9 1/4 per cent on a 20 per cent downpayment to 9 3/4 per cent on a five per cent downpayment.

Because conventional mortgages are less cumbersome to handle than a government loan, they are approved quicker, says Brian Jakes, senior vice president at American Federal Savings and Loan Association.

A Veterans Administration mortgage is one government loan that can only be obtained by qualified veterans or their widows. Known as a VA loan, its interest rate is established by U.S. Secretary of Housing and Urban Development.

Build your equity with an older home

New increases in home mortgage interest rates probably will force house buyers to lower their sights somewhat lower and look at houses with a smaller price tag.

Many potential buyers are realizing that while the older houses may not quite match their preferences, they do offer the required space and most of the amenities in an affordable price bracket.

The VA loan is guaranteed rather than insured like a conventional mortgage. This means the government promises, on an approved loan, that it will repay up to a certain amount or a certain percentage. The borrower has no insurance premium to pay.

Nothing-down loans are possible under the VA program often for amounts of \$25,000 or more and for up to 30 years.

FHA mortgages are another type of government loan, issued by the Federal Housing Administration covering the entire amount of the loan.

THERE IS MUCH more red tape involved with FHA loans because the administration has no arbitrary rules with respect to age or income of its applicants. You can apply for a FHA

insured mortgage loan just as you would apply for any other loan.

The lender will supply you with the necessary forms and help you complete them. If the lender is willing to make the loan, your application is sent to the FHA insuring office for review, a process which may be a time consuming endeavor.

It is possible, with a FHA loan, to borrow up to 97 per cent of the first \$15,000 of the appraised value of an approved house, plus 90 per cent of the next \$10,000 and 80 per cent of the rest up to \$33,000.

The maximum interest rate that can be charged for a FHA loan is usually below market interest rate, but you will have to pay discount points, a device designed to raise the effective interest rates you pay on the mortgage.

A point is a charge on one per cent of the loan which may be assessed against the buyer, seller or both, but most often against the seller.

For example, say you have to pay four discount points on a \$25,000 loan. This means you will get a loan of \$25,000 minus four per cent of the \$25,000 or only \$23,000 but you pay interest on the full \$25,000.

Local lending institutions report a decrease in the number of FHA loans applied for because some lenders say processing takes too long.

"There is more demand for conventional loans because there are no discount points involved," West said.

Buy now or face the potential price hikes

By SUZIE MARKS

The house you talked about buying last spring is cost 12 per cent more this season.

And if you wait until June, the price tag will probably increase again.

That's the word from local builders, citing accelerated labor and material costs are responsible for the price hikes since last year.

Houses in West Bloomfield's Freshuiff Farms development, for example, rose \$34,000 in the past 14 months, said sales and marketing director Arlene Yanowitz.

The former farm site only has 10 of its original 57 lots left to sell despite the vast markups as the builder offers a choice of three models starting at \$98,950.

"People are getting scared. They realize labor may increase six per cent in June and are buying now," Ms. Yanowitz said.

"Buy now, even if you don't buy from me." Land costs are escalating as quickly as housing

costs, said Warren Chilton, president of C&N Building in West Bloomfield.

Builders in White Lake Township and Macomb County, Chilton's company builds single-family units 1,500-1,600 square feet for \$55,000-\$60,000.

THE APPRECIATION benefits of these homes currently is absorbed by the buyer, but they may come to a halt soon, say local builders.

Presently, it is the builder who makes up the cost difference between the time the purchase order is signed until time of delivery of the completed house.

Here's an example: A buyer signs an agreement for a \$50,000 house and closes his loan at that price. During the construction period, the cost of materials and labor rise, causing an increase in list price to \$53,000.

By law, the builder must absorb the added expense. However, the homeowner benefits from the house's added value, although he didn't pay the extra \$3,000.

The Southeastern Michigan Homebuilders Association has recommended that an escalation clause be written into the sales contract making the buyer responsible for sharing the rising costs.

Rising prices are almost limitless in today's housing market. Forest Trails, a Cechum and Rosser development, bordering Plymouth and Canton townships, sells a 2,350-square-foot house with four bedrooms, 2 1/2 baths, a family room, fire place, two-car garage and full basement for \$80,000. The houses increased in price \$10,000 since the project opened last June.

"IT'S ALMOST frightening when you look at these prices," said builder Dick Rosser. "We're very concerned with pricing. Frankly, I'm amazed rising prices haven't had more adverse effects. But most people are very aware that their best investment is to buy a home."

Family sacrifices are made so consumers may buy their homes now, Rosser said. Forest Trail's typical customers are about 35 years old and buy-

ing their second house. They average 1.6 children with 40 per cent of the wives working. Many are already living in Canton, but are moving into larger houses as an investment, Rosser said.

Price tags at the builder's Rochester project have increased more dramatically than in Canton. The three-bedroom townhouse condominium has gone from \$48,990 in May of last year to \$61,000 today.

Existing homes are not exempt from appreciation. Their value has increased eight to 11 per cent in the last year, depending on area, said Ron Galperin, partner with the Durban Co., real estate agents serving the northwestern suburbs.

"The further north you go from Eight Mile, the greater the appreciation," he said.

The high price of new houses have made the used house a better buy. There is a scarcity of used homes, Galperin said, although "Twenty per cent of the population is constantly moving."

"We are scrambling for homes," he said.

Mortgage lenders increase services

With conventional mortgages re-emerging as the dominant instruments for financing homes, private mortgage companies are increasing the services they offer.

There are 15 privately owned mortgage insurance firms with more than 140 regional offices providing mortgage lenders insurance against loan defaults.

These mortgage insurance companies, while less known by home buyers than government insurance programs, insured more than 230,000 mortgages during the first six months of 1977. This was more than was covered by either the Federal Housing Administration (FHA) or the Veterans Administration (VA).

This type of insurance is valuable in aiding prospective buyers with limited amounts for down payments to secure financing.

The Western Wayne-Oakland County Board of Realtors said the Federal Home Loan Bank Board allows federally chartered savings and loan associations to make mortgage loans covering as much as 96 per cent of the property values.

With the buyer starting out with a relatively low level of financial commitment, the lender technically is assuming more risk than if the down payment had been more substantial.

By underwriting the risk, mortgage insurance companies help make the high-ratio loans (more than 80 per cent) more acceptable from the lender's and bank board's viewpoints.

Interested?

If you are a builder, sales manager, real estate agent, banker or anyone else connected with real estate and want us to relay information to our readers, feel free to contact us anytime.

Direct your call to Ron Garbanski at our Birmingham office. His number is 644-1100, ext. 257. The office address is 1225 Bowers, Birmingham 46012.

The real estate page will appear regularly on Thursdays in all 12 Observer & Eccentric newspapers.

Home Showcase

Model offers versatility

Abbey Homes, a custom home builder in Oakland County, has combined the traditional colonial with the versatility of a modern floor plan in its new Barrington model.

The Barrington's traditional features begin with four fluted pilars and a pediment overhang in the front entrance. A two-story foyer has stained wood crown and dentil molding, which is also used in other rooms throughout the house.

Other features include a round wood stair handrail, wood dining room chair rail and six panel interior wood doors. There are bay windows in the living and dining rooms and a private library with window seat.

There's also a two-story brick fireplace, a continuous-clean oven, Jenn Air cook top, multicycle dishwasher and custom wood cabinets in the kitchen.

The master suit has a private loft overlooking the family room and fireplace, an outdoor balcony, dressing room with two vanities, walk-in closets and a tiled deck tub set.

Web, central air, cast iron and copper plumbing and insulated wood windows are other standard features.

The Barrington model is located in the Woods of Bloomfield development off Middlebelt Road, north of Long Lake Road in West Bloomfield. Sales are by Maple Associates Realtors. For more details, call Abbey Homes at 855-2121.



This is the front portion of the new Barrington model in West Bloomfield built by Abbey Homes. It's a two-story colonial with an attached garage.

Energy saving heating system is new option



Ernie Rouse's customized heating system utilizes this fireplace that prevents loss of heat common in most other conventional fireplaces. In this system, heat from logs boils water which is used to heat the house.

Builder Ernie Rouse of P.E.R. Construction Co. installed an energy-conserving heating system in his house as an experiment last winter. Now he's offering it as an optional system in his company's new custom house development, Horizons of Milford.

The system heats a 5,000-square-foot house during the winter for \$135 per month.

Rouse built the system with 20 inches of insulation in the roof and triple layers with vapor barriers in the walls. Insulated windows complete the package. Hot water baseboard heating is the method Rouse uses in the system.

The real innovation in the system is its energy efficiency—with the proper insulation, the house can be heated at a low cost using oil alone. In addition, this Rouse has incorporated solar heat with an unusual fireplace into the hot water system.

Most of the heat generated from wood-burning fireplaces is lost due to drafts created by the fire sucking most

of the hot air out of the chimney. Rouse's fireplace was designed to distribute its heat directly into the hot water heating system.

The fire burns on a specially constructed grate, which is hooked into the heat system plumbing. A circulator pump brings heat back to the furnace, where it is sent back out through the pipes to heat the house.

THE SYSTEM is designed for the heat generated in the fireplace to override the oil heat, cutting it off when it's unnecessary.

In addition, the system uses solar heat stored in energy panels installed on the roof and hooked into the heating system in the same manner as the fireplace.

The Rouse system costs \$5,000, and the builder claims it will pay for itself in six years.

For more information about the Rouse energy system, call Peter Orlop at Century 21, Cedar Shores Inc. at 694-4500.