Feedback from Mortgage Broker Shelley Ervin Regarding FHA Loans:

One thing that borrowers must understand with an FHA loan is that they WILL pay monthly mortgage insurance, regardless of their down payment, and they will pay it for up to 10 years. They will also pay up front mortgage insurance...an amount between 1.5% and 3.0% of the loan amount. This fee is never refunded...so getting an FHA loan with the primary goal being to take advantage of the possibility that a future buyer could / would assume the loan does carry some significant costs (versus the same borrower getting a conforming loan).

In addition, an FHA loan is considered a less desirable product than a conventional loan; consequently, ethics require a loan officer to first attempt to qualify a borrower for a conforming loan (actual test question from the mortgage broker exam); if they cannot qualify, then the next step is FHA. I question the ethics of the loan officer and the borrower who choose the FHA loan for future personal gain. Haven't we had enough problems in our industry with ethics? The FHA program is specifically designed to assist homeowners that could not otherwise qualify, not to help qualified borrowers profit in the future.

Yours,

Shelley Ervin
Mortgage Banker, Clarion Mortgage Capital
Director, Colorado Association of Mortgage Brokers
Colorado Mortgage Broker License #100008979

2168 S. Franklin Street, Denver, CO 80210
303-722-7345 office
303-733-4582 fax
shelley@shelleyervin.com

Further Comment from Mortgage Broker Norm Lewis:

Hey Jim-

The column looks good- it's nice to see some encouraging news about our local real estate market. I have observed much the same conditions that you are mentioning; we seem to be enjoying a slow but steady recovery.

As to the FHA piece, I differ somewhat with Shelley's opinion. I say "somewhat" because she makes valid points. Where we diverge is in the matter of conventional being a better quality loan than FHA. The comparison I would draw is with hand tools- is a hammer a better tool than a saw? I don't know- first tell me what you plan to use it for. I doubt that future potential assumability would ever be the over-riding factor in choosing a loan, and I don't see it as an ethical issue. In making financing recommendations I almost always start with down payment- if the homebuyer has 20% down and can therefore avoid mortgage insurance, that is usually a primary factor in my recommendation of a conventional loan. If they have less than 20%, then how much less? The tipping point is generally 10%. At that level the buyer will pay approximately a half percent in PMI on a conventional and approximately the same on an FHA. However, they will still have the "upfront" MIP to pay on the FHA, so if the rates are comparable, conventional is probably the better choice. With less than 10% down the PMI on a conventional loan becomes quite expensive, and FHA usually seems to be the better choice. At that point I will recommend (keeping in mind that every buyer is an individual and may have other issues which need to be taken into consideration) utilizing an FHA loan and decreasing the down payment to the FHA minimum to conserve the buyer's capital.

So, that's my take on it. The assumability of an FHA loan is attractive, but I agree with Shelley that we shouldn't be recommending them to borrowers simply on that basis. If other issues point us in the direction of FHA, then the assumability is a nice "bonus" that we get with that loan type.

Norm Lewis
Senior Loan Originator
Guild Mortgage
Phone: 303-986-3105
Fax: 303-648-5200
Cell: 303-910-1629
Norml@lfgloan.com