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Are FHA Loans Filling the Need Once Filled by Subprime Loans? Yes and No...

As subprime loans proliferated over the past several years and as seller down payment assistance programs became more common, we saw fewer and fewer homes being purchased using FHA loans. Recently — and before the subprime market came to a crashing halt, by the way — FHA took steps to make their loans more attractive, and they are slowly winning back market share.

It wasn't uncommon just a few years ago that the FHA appraiser would act like a second inspector and require that certain repairs be made in order to close with an FHA loan. I remember, for example, having to paint the

soffit on my own property, not because the buyer demanded it subsequent to inspection, but because the FHA required it as a loan condition.

This practice has thankfully ended. In addition, buyer closing costs which sellers had been required to pay until just last year were a strong disincentive to accepting FHA financing. Those fees have now been reduced to under \$100 in order to make FHA financing competitive with other

forms of financing.

Then the subprime crisis hit, and FHA became the only game in town for buyers with low credit scores and little or no down payment.

As I understand it — not being a mortgage broker myself — subprime's attraction to brokers was that it was easy to do and, it did pay well — although FHA has no caps at all and can earn brokers twice what they earn on conventional loans, when you combine the disclosed origination fees and the undisclosed back end payments called "yield spread premium" or YSP.

One of Colorado's biggest mortgage companies which does not do FHA loans has reportedly lost one third of its loan officers to companies promising much higher commissions on FHA loans.

However, many of the people who got subprime loans actually qualified for conventional loans, and so some of that traffic is now going conventional. Shelley Ervin, my long-time mortgage colleague, does not do FHA and says she got a conventional mortgage for a client who failed to qualify for FHA.

And many subprime buyers are not able to qualify for any loan now, which is impacting low-end sales.

REAL ESTATE TODAY



By JIM SMITH, Realtor®

This Week's Featured New Listing:

One-Owner Brick Ranch in Meadowlark

Good homes like this one don't last long in Meadowlark when they are priced right, as this one is. Located between Carr and Dudley Streets on 1st Place, this home is just one block from Meadowlark Park. It has three bedrooms on the main floor and another one, plus a second bathroom in the fully finished basement. Oak flooring dominates the main floor, including under the wall-to-wall carpeting in the spacious living room. The large 2-car garage and the eat-in kitchen open onto a patio overlooking the expansive backyard. The seller has lived here since the home was built for his family in 1957. The pride of ownership and careful maintenance will be obvious to you when you ask for a private showing. If you've been looking for a home where you can enjoy main-floor living without deferred maintenance, this may be for you!



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