Escape to Colombia: Everything You Need to Know to Retire Better, Invest Well, and Live the Good Life For Less

1st edition

Author: Michael Evans

Editor: Nazareen Heazle

Designer: Lorie Drozdenko

Cover photos: ©Fotolia.com/jkraft5
©Fotolia.com/Ariane Citron
©Fotolia.com/Butch
©iStockPhoto.com/DC_Colombia

ISBN: 978-1-905720-81-1 120B003154

CHAPTER FOUR

Buying Real Estate in Colombia

Romantics might dream of throwing open the shutters each morning and gazing out at the charm of a colonial neighborhood, while those more taken with everything modern might imagine a swanky, modern penthouse apartment in a sprawling metropolis. In Colombia, whatever your dream house, you can find it here.

Most Colombians prefer to own a home, rather than rent. Economically speaking, Colombia is a very conservative country and people have very conservative attitudes when it comes to spending money. Traditionally, first-time homeowners started out with a modest, one-story home, which they expanded when more money was available. For this reason, the look of neighborhoods evolves as the years go by. My neighborhood, built in the 1980s, began as a development for working class families. But today, families earn much more than in the past, so many homes are now two-story dwellings—some even three stories.

In recent years, Colombians have begun migrating out of the inner city, and developers have kept up with the trend toward a suburban lifestyle. In cities such as Popayán, located a three-hour drive south of Cali, new neighborhoods are popping up the northern sector of town. In Popayán's Altos de Antigua neighborhood, started about 10 years ago, you'll find high-rise apartments and street after street of gated communities.

In cities such as Bogotá, large communities of high-rise condominiums and apartments dominate the skyline. And in small towns, such as Líbano, situated in the heart of the Tolima department's coffee region, modest older homes still rule the marketplace. In most large and mid-sized cities, you can find a wide variety of home styles. So you see, you can find almost any style home you want.

The real estate market today

Colombia's real estate market is hot, hot, hot. Home prices have been on the rise since 2002, when homeowners saw their properties increase in value by 20% to 25%. While home prices in the U.S. plummeted during the economic crisis, Colombia's real estate market weathered the storm unscathed. Between 2010 and 2011, property values leveled off, with values increasing an average of 4.78% to 5.3% nationwide. In 2012, home prices soared again, with property values rising by over 16%.

A trend toward suburban living has made older homes passé. That's good news and bad news, depending on the type of home you want to buy. While newer homes are easier to sell, many homes built between 1950 and 1980 often have better construction. In 2011, a Dutch expat and his Colombian girlfriend were able to buy a 27-room mansion in Pereira's trendiest neighborhood for just $200,000, simply because the home was older and less desirable to most homebuyers.

If reselling whatever property you buy is a consideration, a lot will depend on the city and neighborhood in which you decide to buy. If you buy a 30 to 50-year-old home in a popular urban neighborhood, such as Manizales's La Francia, you won't likely have problems reselling it a few years later. However, that's not true of colonial homes. Since colonials require more upkeep than contemporary homes, they often sit on the market for years. The same is true of rental housing. Two expats living in Buga were able to rent a six-bedroom Republican-era home—built around 1920—for under $700 a month. Although the home is just steps from the main plaza, the property owner was not able to find a renter for over two years.

In some markets, such as Medellín, the rapid rate of new development has led some foreign homebuyers to believe Colombia has a housing bubble. However, Colombia's rapidly expanding middle class are snatching up properties left and right and the market has more first-time homebuyers than ever before.

House construction in Colombia

The quality of construction often depends on the age of a home. Older homes tend to be rock solid, with firm foundations and well-constructed structures. Most homes built in the past 50 years sit on concrete foundations, with brick or concrete block walls. Exterior walls are often finished with stucco or plaster, for either a textured or a smooth finish. Newer homes often have hollow, drywall interior walls and ceilings.

In most regions of Colombia, developers rarely use wood in homes. Typically, doors and windows are made of metal. Older homes in some locations, including Buga, Manizales, and Bogotá, have rich wood floors and interior moldings. However, a trend toward North American style homes is creating a resurgence in the use of wood for doors, windows, and detailing. Many homes built after the 1950s have wood panel ceilings. While these ceilings look attractive, they can lead to major headaches, due to woodworm problems that plague many Colombian regions. If you buy a home with wood panel ceilings, be prepared to replace them with newer, treated panels or drywall.

Roofs and floors

Roofs vary, depending on the style and age of a house. Many homes have traditional Spanish tile roofs, or modern versions of Spanish tiles, made with plastic or fiberglass. Many Colombians build their homes with flat concrete roofs, making it easier to add a second level. Houses in working class neighborhoods have roofs made of corrugated tin or fiberglass sheeting. These simple, inexpensive roofs rarely leak and are very easy to maintain.

Few homes have carpeting. Many have painted concrete floors, but ceramic tile is the most popular floor covering. In many small towns, homeowners cover the sidewalks outside their homes with ceramic tiles, too. Colombians are obsessively clean, so they choose building materials that make cleaning easier. If you step outside early in the morning, you will often find your neighbors scrubbing the sidewalk with soap and water.

Heating and air conditioning

Since Colombia has a tropical climate, most homes don't have central heating and air conditioning systems. Colombian architects design houses for maximum airflow. Most homes have ornate security bars on windows. In most locations, opening doors and windows throughout the day provides ample cooling. In cities at high elevations, such as Bogotá, you might find a few wall heaters in homes.

Outdoor space

Most homes, with the exception of those found in high-rise buildings, have some type of outdoor space, such as a patio, terrace, or balcony. Colombians use modern washing machines, but few people use clothes dryers. Even in wealthy neighborhoods, you'll find patios with clotheslines. All homes, even new houses, have large utility sinks—located in kitchens or on patios—designed for hand washing clothes.

Colonial homes

The age of colonial homes varies drastically. In some locations, you can find colonials dating back to the 16th century. But most of the remaining colonial houses were built in the early to mid-19th century. Early settlers built most colonial homes with bamboo, mud, straw, and Spanish tile roofs, using a construction method known as *bahareque*. While traditional colonials offer all the charm and romance you might long for in a Latin American lifestyle, they often require much more upkeep than contemporary houses.

It is very difficult to find contractors who know how to renovate or repair *bahareque* homes, and many suffer from severe woodworm problems. If you are in the market for a colonial home, it's best to find a competent contractor first, and then be prepared for an extended renovation before you move in. However, in many towns, you can find excellent replicas of colonial homes, which offer the charm of the past, with modern electrical and plumbing features.

Republican-era homes, built in the late 19th and early 20th centuries, are among the most well-constructed on the market. These homes are real gems, and many still have original wooden windows, doors, and molding, as well as hand-painted tile floors. Builders in those days preferred stone blocks for foundations and walls. Many Republican era homes have withstood generations of earthquakes with little or no signs of damage.

The property-buying process

Foreigners can buy property in most Colombian towns and cities. The exception lies in a few small, historic towns, such as Salamina, where local laws prevent the sale of property to non-Colombians.

Always employ a good real estate agent and attorney when shopping for a home and never hire the attorney or real estate agent of the seller. While the majority of sellers are legitimate, some are not. Many Colombians own property, and often informally pass properties between family members, so it's important to make sure you are dealing with the person who has the legal right to sell the property you want to buy.

Colombian home sellers shoot for the moon when setting an asking price. So, it's often difficult to ascertain the price per square meter/foot of homes in a particular city or neighborhood. That's one more reason to work closely with a qualified real estate agent, who has current knowledge of sales in the

neighborhood that captures your fancy. Once you've agreed on a price, you can file an Intent to Purchase contract with the local notary office. If back taxes or mortgage payments are due, you must negotiate with the seller to determine if he or you will pay the delinquent funds. The notary will prepare the deed, which can take up to two weeks.

Colombia has a very sound and conservative banking system. To qualify for any type of loan, a Colombian must have an extensive history of good credit, money in the bank, and a steady income. Financial instruments such as adjustable-rate mortgages, interest-only loans, and second mortgages don't exist here. Fixed rate loans are the norm. It is very difficult for foreigners to take out a mortgage in Colombia. If you succeed, the bank will require you to make a 30% to 40% down-payment and charge you around 16% interest. Although a few banks now offer 20-year mortgages, most only offer five to 15-year home loans. So it's best to enter into a contract with cash in hand.

You can purchase a home before obtaining a visa, and can use the purchase to apply for a real estate visa. However, tight rules and regulations apply. Before buying property, you will need to transfer funds equal to or greater than 350 current monthly salaries—around $107,800—into a brokerage account in a Colombian financial institution. The financial institution must then draft a document to register the deposit with Colombia's Bank of the Republic. It is very important that you consult with an attorney before transferring funds and registering the deposit, because many financial institutions do not understand the procedures associated with foreign buyers. You must spend the entire amount on the property purchase. If you purchase a home for more than approximately $200,000, you can qualify for a residence visa. We'll talk more about this in **Chapter Five**.

When you find a home, your attorney or real estate agent will investigate the following documents:

- Property deed—obtained directly from the seller.
- Sellers identification document, called a *cédula*.
- *Certificado de tradición y libertad*—a document obtained through public records that proves ownership.
- Property tax records—obtained through public records to verify the tax payments are up to date.
- Mortgage documents—obtained directly from the seller.

Your attorney and real estate agent will investigate these documents and perform a title search. If you discover liens on the property, or past due

mortgage payments, your real estate agent can negotiate with the seller to correct the matter before moving forward with the deal. Colombian law requires the seller to rectify any defect with the title.

Once you and the seller work through these issues, you can submit a *Promesa de Compraventa*. This contract spells out all the terms of the deal, defining the property and price. The *Promesa de Compraventa* also explains when and where the transaction will occur, the type of payment, transaction costs, and delivery date. This contract should contain all relevant details, including the names of all parties required to attend the closing. Closing transactions typically take place at a notary office, but all parties may also need to visit a bank together for the transfer of funds.

Closing costs

Compared with many North American markets, Colombia has low closing costs.

- Real estate agent fees: 1% of the purchase price, plus 16% VAT, paid by the buyer.
- Attorney fees: typically around COP 1 million ($534) for basic work, such as investigating the title and property tax records.
- Registration fee: 0.05% to 1% of the purchase price, paid by the buyer.
- Sales tax: 1% of the purchase price, paid by the seller.
- Notary fees: 0.30% to 0.35% of the purchase price, split equally between the seller and buyer.
- Income tax: the notary will also collect 1% of the purchase price from the seller for income tax.
- Transfer charges: 0.15% of the purchase price, split equally between the seller and buyer.
- Local taxes: 1.05% of the purchase price, split equally between the seller and buyer.

After the notary prepares the deed, you will need to register it with the local registration office, which will give you a property certificate. After paying all associated costs, you can move into your new home on the date specified in the Intent to Purchase contract. It's the seller's responsibility to make sure the property complies with the terms of the contract. In other words, if the terms include home furnishing, the furniture must be in the home on the date you move in.

The *estrato* system

When you look at Colombian real estate listings online, you will likely see a reference to the home or apartment's *estrato*, followed by a number. The *estrato* number refers to a tiered system that determines the price you will pay for utilities. The system applies subsidies to the bills of low-income residents, based on the average income of a neighborhood.

When looking for a home or apartment to buy or rent, it's important to take note of the *estrato* level of the property. An *estrato* 1 home receives the highest subsidy, while an *estrato* 6 dwelling doesn't qualify for any subsidy. In fact, people who live in *estrato* 6 neighborhoods pay rates similar to businesses, which are often quite high.

To illustrate how the *estrato* system works, I'll give you a little peek at my own utility bills. I live in a lower middle class, *estrato* 2 neighborhood. My neighborhood ranks as *estrato* 2 because it's in a small farm town. Middle-class neighborhoods in cities typically rank as *estrato* 3 or 4.

Electricity: I receive a 48.60% subsidy for electricity. So, if I use $40 worth of electricity in a month, I only pay $20.56.

Water and city services: For my water usage, a 40% subsidy applies. The subsidy applies to all water-related charges, including line items such as aqueduct fees, reducing my $8.58 water bill to $5.14. I also get the same 40% subsidy on city services fees, such as street cleaning and garbage collection, which cost me around $4.50 a month.

Internet: I receive a much lower subsidy for Internet service, just 10.57%. Nonetheless, every little bit counts, and the subsidy reduces my bill by about $3 per month.

TRADING | INVESTING | FINANCE
zantrio
SINCE 2007

Search... SEARCH

TRADING
INVESTING
PERSONAL FINANCE
ZANTRIO WIKI

CHOOSING THE RIGHT MORTGAGE (PART 1)

by Michael Evans on May 2, 2012 with 5 comments

For most people, buying a home is the largest purchase they will ever make. In most cases, a home-buyer must spend a significant number of years paying off a mortgage before owning the house free and clear. Choosing a mortgage can result in a great investment or lead to a financial nightmare. When buying your first home, it pays to learn as much as possible about the types of mortgages available, and which one best fits your plans and budget.

Regardless of the type of loan you choose, it is also important to understand other aspects mortgages, such as closing costs, mortgage insurance and prepayment penalties, which can significantly affect how much you pay over the lifetime of a loan. You should also carefully consider which lender you use to obtain a mortgage, and get professional help to make sure you understand the intricate details of the loan.

> CHOOSING A MORTGAGE CAN RESULT IN A GREAT INVESTMENT OR LEAD TO A FINANCIAL NIGHTMARE.

TYPES OF MORTGAGES

Lenders offer a wide variety of home loans. Some mortgages feature more straightforward terms than others, so it is important to know the type of loans that best fit your home-buying and refinancing needs.

FIXED-RATE MORTGAGES

A fixed-rate mortgage offers a set interest rate, which will not change throughout the life of the loan. Most lenders allow you to choose from a number of repayment terms, typically ranging from 10 to 30 years. However, the interest rate you pay usually depends on the repayment term you choose. Lenders typically charge higher rates for long repayment terms, with gradually-decreasing rates for shorter repayment periods.

When repaying a fixed-rate mortgage, you pay the same monthly note throughout the life of the loan. Each payment applies to both the principal and interest of the loan. Lenders typically apply the majority of the first monthly payments to interest, and gradually apply more to the principal over time.

> FIXED-RATE MORTGAGES WORK BEST IF YOU PLAN TO STAY IN YOUR HOME FOR MANY YEARS.

The fixed-rate mortgage is the grandfather of home loans and usually offers the most easily understandable terms. Fixed-rate mortgages work best if you plan to stay in your home for many years. A fixed-rate loan also makes it easier to make long-term financial decisions, because your interest rate and payments do not change.

Fixed-rate mortgages also have some drawbacks. Fixed-rate loans often have higher interest rates than other types of home loans, such as adjustable-rate mortgages. With a fixed rate, you are locked into the rate for the life of the loan. If market rates go down, your rate will remain the same. In such cases, you can only get a lower rate by refinancing your loan, which involves time and payment of additional costs, such as appraisals and closing costs.

ADJUSTABLE-RATE MORTGAGES

Adjustable-rate mortgages, also referred to as ARMs, start at a current interest rate, but can change as rates increase or decrease in the market. In most cases, the interest rate of an ARM stays the same for a specific period of time, usually ranging from one month to five years. Lenders must inform you of the initial, non-adjustment period in the terms of the loan.

After the non-adjustment period has passed, the lender can adjust your interest rate according to the market. Depending on the terms of your loan, the interest rate can change monthly, quarterly, yearly or in some other interval, such as every three or five years. Lenders name their ARM products according to the adjustment period. For instance, a mortgage with a one year adjustment period is called a 1-year ARM.

Lenders base ARM interest rate adjustments on the margin and index. Common indexes that influence mortgage rates include the Cost of Funds Index, 1-year constant maturity Treasury securities and the London Interbank Offered Rate. When these indexes fluctuate, the interest rate of your mortgage can increase or decrease.

The margin is an extra amount lenders add to index rates when determining mortgage pricing. For instance, if the index rate is 5 percent, and the lender uses a margin of 3 percent, the lender will charge an 8 percent interest rate. For this reason, it is important to know what index and margin the lender uses to calculate rates. Some lenders base the margin on your credit rating. If you have a good credit history, you can often work out terms for a low margin.

Some lenders offer ARM loans with interest-rate caps, typically either a periodic adjustment cap or lifetime cap. If your loan has a periodic interest rate cap, the lender must apply a limit to the amount of increase or decrease during each adjustment period. For example, if you have a 6-percent interest rate, with a periodic cap of 2 percent, the lender can only raise your rate to 8 percent during an adjustment period.

The majority of ARMs have a lifetime adjustment cap. This means a lender can only raise your interest rate to a certain limit during the lifetime of the loan. For instance, if your loan starts with an interest rate of 7 percent, and has a 5-percent lifetime adjustment cap, the lender never raise your rate above 12 percent.

An ARM may also have a payment cap, which limits the amount your monthly payment can increase. For instance, if you have a 1-ARM, with a monthly payment of $1,000 and a payment cap of 8 percent, the lender can raise your payment to a maximum $1,080. However, the lender can raise your monthly payment up to the limit again during the next adjustment period.

Lenders offer a variety of ARM products, but most allow you to choose a loan term, such as repayment over 15, 20 or 30 years. As with fixed-rate loans, lenders typically offer the lowest rates to borrowers who select the shortest repayment terms.

> ARMS ARE A BIT OF A GAMBLE AND NOT THE BEST TYPE OF LOAN FOR EVERYONE.

ARMs often have lower initial interest rates than fixed-rate loans, which many consumers find attractive. However, remember that the interest rate will likely change. If rates go down, you can pay less after an adjustment. But if rates go up, you will pay more money each month and over the lifetime of the loan. For this reason, ARMs are a bit of a gamble and not the best type of loan for everyone. ARMs are often good choices if: your income is flexible; you can afford to pay more than your current monthly note; you only plan to keep your home for a short period of time; or if you take out a mortgage when interest rates are high.

HYBRID MORTGAGES

In recent years, lenders have created new types of mortgage products, including the hybrid mortgage. Hybrid mortgages typically include features of ARM and fixed-rate loans, and have names such as 3/27 hybrid and 5/25 hybrid. For instance, a 5/25 hybrid would have a 5-year fixed-rate period at the beginning of the loan and then change to an ARM for the remaining 25 years. While many hybrid loans adjust just once per year, after the initial fixed-rate period, others may adjust every month.

As with traditional ARMs, hybrid mortgages typically have interest caps, which can include periodic caps, lifetime caps or both. Hybrids may also have payment caps, depending on the terms of the loan agreement.

Generally, hybrid mortgages carry the same risks as ARMs in the long run. If you know you will keep your home for only a few years, a hybrid may offer a better initial interest rate as compared to a fixed-rate loan. If you plan to stay in your home for 20 or 30 years, you may want to consider the potential of your future finances, just in case interest rates climb in the years to come.

INTEREST-ONLY MORTGAGES

Interest-only mortgages allow you to make payments only on the interest owed for a specified period of time, typically during the first five years of the loan. During this interest-only period, you can also make payments on the principal, but they are not required.

After the initial, interest-only period expires, most interest-only loans convert to an ARM, which requires you to start paying both interest and principle. If you made interest-only payments prior to the conversion, you may face higher interest rates and much higher monthly payments because of the principle payment requirement. This happens because, just like a fixed-rate loan, an interest-only mortgage has a defined number of years in which you must repay the loan.

> INTEREST-ONLY MORTGAGES CAN LEAD TO FINANCIAL RUIN.

Since their inception, interest-only mortgages have attracted many consumers because of the payment flexibility offered during the first few years. However, interest-only mortgages can lead to financial ruin if you cannot afford higher monthly payments after the loan adjusts to an ARM. In most cases, interest-only loans work best if you plan to stay in your home for only a few years.

FHA LOANS

Many commercial lenders make FHA loans, which are guaranteed by the Federal Housing Administration. FHA loans have strict requirements and are designed for first-time homebuyers and people who do not qualify for other commercial mortgages, such as home-buyers who have not established a long credit history.

FHA loans typically allow you to make a low down payment, but the amount of money you can borrow is limited. This type of loan is not designed for everyone, and limits are based on the median home price in specific areas. For instance, you may be able to borrow $700,000 for a home in San Francisco, California, but may face limits below $300,000 in Hot Springs, Arkansas.
FHA loans also require you to pay mortgage insurance, which may include upfront and monthly premiums. The FHA uses these funds to guarantee FHA loans.

VA LOANS

The U.S. Department of Veterans Affairs also backs mortgages, but you must be a veteran of the U.S. Armed Forces or a spouse of a deceased veteran to qualify. As with FHA loans, participating commercial lenders offer VA loans.

VA loans work in much the same way as FHA loans. The government guarantees your mortgage, but loan limits apply. Qualifying requirements can vary, depending on the number of years you served in the military. In many cases no down payment is required for VA loans.

To be continued...

RELATED ARTICLES

7 Obvious but Overlooked Ways to Save Money
7 Ways to Pay Less to the Utility Companies
A Boring but Detailed Look at 403(b) Retirement Plan Options

comments

LACY Mar 7, 2012 at 11:11 am
is an arm ever a good idea?

SATURNINE May 8, 2012 at 3:04 pm
Right now interests rates are really low, so ARMs probably don't make sense, but when interest rates are high, you might not want to lock in a high fixed rate.

June 5, 2012 at 4:41 pm
FHA loans are indeed a big help to everyone who qualifies for it.

HARRINGTON June 26, 2012 at 4:48 pm
Don't you think that interest only mortgages are a bad idea because you are not eating away the principal amount, but instead applying your payments only to interest?

BRADV July 12, 2012 at 10:28 am
I think the fixed rate mortgages are better, especialy fro 30 year mortgages.

Login or join the community to add your comment!

WRITE FOR US
WE'RE LOOKING FOR WRITERS!
We're always looking for people who can write killer articles about trading, investing, and finance. Shoot us an email, if you're interested in more information!
Contact Us

ZANTRIO WIKI
REDEEMABLE BOND
A bond which the issuer has the right to redeem prior to its maturity date, under certain conditions. When issued, the bond will explain when it can be redeemed and what the price will be. In most cases, the price will be slightly above the par value for the bond...
Continue Reading

TRADING | INVESTING | FINANCE
zantrio
SINCE 2007

Search... SEARCH

TRADING

INVESTING

PERSONAL FINANCE

ZANTRIO WIKI

CHOOSING THE RIGHT MORTGAGE (PART 2)

by Michael Evans on May 8, 2012 with 4 comments

Continued from: Choosing the Right Mortgage (Part 1)

GETTING THE BEST INTEREST RATE

> IF YOU FIND AN INTEREST RATE YOU LIKE, ASK THE LENDER TO LOCK IN THE RATE.

Interest rates can change daily. If you find an interest rate you like, ask the lender to lock in the rate. Rate locks enable you to complete the approval and closing processes, while guaranteeing the rate for 30 to 90 days. In order to get a locked-in rate, you must sign a rate-lock agreement, which typically requires paying a fee. A rate lock is an agreement between you and the lender. If rates go down, the lender may allow you to back out of the rate lock agreement. However, in most cases this involves submitting a new application and losing the money you paid for the rate-lock fee.

You can reduce the interest rate of a mortgage by paying points. However, you can only pay points to reduce a rate before the loan period begins. You cannot pay points to reduce a rate after the mortgage deal closes. One point equals 1 percent of the loan amount. For instance, if you borrow $100,000, and buy one point to reduce the rate, you must pay $1,000. In most cases, you can reduce an interest rate by 0.125 percentage point per point purchased. When you buy down a rate by purchasing points, the rate remains reduced for the life of the loan.

LOAN FEES

Loan fees can play a big role in the final cost of a mortgage. Common mortgage costs include loan origination charges, broker fees, settlement costs and realtor fees. You must typically pay certain costs the loan closes, such as appraisal and application fees. In some cases, you may be able to negotiate with a lender to reduce or eliminate certain fees.

Lenders often allow you to roll some or all of the fees into the loan amount, which eliminates the need for upfront money. However, if you roll costs into the loan, you increase the amount borrowed, which can increase your monthly payment and the total amount you pay over the life of the loan.

However, your out-of-pocket costs can depend on whether you are purchasing a home or refinancing an existing mortgage. While the loan fees may be similar in both cases, you must typically make a down payment when purchasing a new property.
Lenders often advertise "no cost" mortgages. While these mortgages enable you to get a loan with no immediate out-of-pocket costs, they typically come with a higher interest rate than other loan products.

FINE PRINT

Regardless of the type of mortgage you choose, always make sure you understand all of the terms before signing any loan documents. Some mortgages have features that can cause problems down the road, such as prepayment penalties or balloon payments.

PREPAYMENT PENALTIES

Certain mortgages include a prepayment penalty, a feature lenders include to discourage borrowers from refinancing during the first few years of a loan. In such cases, you may face requirements to pay extra money, often up to six months of interest, if you refinance your home during a specified period. In some cases, you must also pay if you sell your home before the prepayment penalty period expires.

> PREPAYMENT PENALTIES DISCOURAGE BORROWERS FROM REFINANCING DURING THE FIRST FEW YEARS OF A LOAN.

BALLOON PAYMENTS

You should also look closely at loan terms for balloon payments. Mortgages that include balloon payments, typically ARMs, enable you to enjoy low monthly payments for a specified period of time, and then the entire outstanding balance become due in one payment. If you take out a loan that includes balloon terms, you must be financially prepared to pay the outstanding balance or refinance your mortgage before the balloon payment comes due.

Sometimes lenders may offer you a mortgage deal that seems too good to be true, which typically means it is too good to be true. Look carefully at the fine print for game-changing loan features, particularly those that can lead to financial problems or disasters. When offered a mortgage with terms that seem too risky, ask the lender to renegotiate, or simply move on to another lender. Just be sure you understand all loan terms before you sign a mortgage contract.

Unless you are a seasoned real estate professional, who works with mortgage documents on a regular basis, it is best to employ a professional to help you make a mortgage decision. Working with a trusted realtor or real estate lawyer can help you avoid serious financial problems in years to come. Unscrupulous lenders that employ predatory lending practices prey on borrowers who do not understand the mortgage process or legal documents.

SEARCHING FOR A MORTGAGE

All of the above-mentioned factors often play a role in making a mortgage decision. When searching for a mortgage, it is best to apply for loans with a number of lenders. While one lender may offer the lowest out-of-pocket costs, another may provider a lower interest rate, which can save you money over the long term.

You can get mortgages from many types of financial institutions, including mortgage companies, banks, credit unions and mortgage brokers. Brokers often work with many lenders, which can enable you to submit one application and see a comparison from several institutions. You may even consider applying with multiple brokers to obtain an even wider comparison.
If your finances are flexible, consider comparing a number of different loan products, including fixed-rate and ARM, along with different repayment terms. This will allow you to get a broad range of options and help you zero in on the best home loan available. By carefully weighing loan terms with your current budget and long-term financial plans, you can land a mortgage that best fits your individual needs.

RELATED ARTICLES

7 Obvious but Overlooked Ways to Save Money

7 Ways to Pay Less to the Utility Companies

A Boring but Detailed Look at 403(b) Retirement Plan Options

comments

SATURNINE *May 9, 2012 at 12:40 pm*

Very helpful set of articles! Thanks a lot Mike!

IKILZ *June 7, 2012 at 3:59 pm*

Reading the fine print is a best practice not only with mortagages but also with all contracts you sign.

HARRINGTON *June 20, 2012 at 4:48 pm*

Just to be clear here, if you ask to lock in the rate, it just means that you are safeguarding yourself from a higher rate in the future, but you can still take advantage of lower rates?

LOOKOUT *August 10, 2012 at 10:36 am*

What fees are the easiest to eliminate? I would like to know if there are fees that you can just ask the realtor to eliminate. Also, what would be a good discount when we're talking about realtor fees?

Login or join the community to add your comment!

ZANTRIO WIKI
REDEEMABLE BOND

A bond which the issuer has the right to redeem prior to its maturity date, under certain conditions. When issued, the bond will explain when it can be redeemed and what the price will be. In most cases, the price will be slightly above the par value for the bond...

Continue Reading

FHA Guidelines for Mobile Homes

By Michael Evans, eHow Contributor

The Federal Housing Administration (FHA) protects lenders against default mortgage loans by providing mortgage insurance. Established in 1934 and a division of the U.S. Department of Housing and Urban Development, FHA insures loans for multifamily and single family homes, hospitals and mobile homes. Loans, issued by FHA-approved lenders must meet specific guidelines to receive backing. The FHA insures loans on mobile homes and lots through its Title I program, which also encompasses home improvement financing.

Loan Purpose

The Title I program backs loans made for the refinancing or purchase of a mobile home. The program also offers insurance for loans made for developed lots for mobile homes and combination loans for mobile homes and lots. The FHA guidelines stipulate that the borrower can only obtain the loan if the mobile home will serve as a primary residence. Borrowers cannot use loan funds to purchase furniture, but FHA does allow financing to include items such as built-

in equipment or appliances in a mobile home.

Loan Amounts

The FHA sets limits on the amount of funding a lender can distribute for mobile homes. The FHA will back up to $69,678 for a mobile home refinance or purchase and up to $23,226 for a mobile home lot (as of October 2010). FHA lenders can fund up to $92,904 for a mobile home and lot in combination. In areas deemed high-cost by the FHA, lenders are allowed higher limits (as much as 85 percent) for funding a lot or combination of a lot and mobile home.

Interest Rate

The FHA only insures fixed interest rate loans for mobile homes. The interest rate must remain the same for the duration of the loan term.

Loan Terms

The FHA sets a maximum payback period of 20 years for funding a single-wide mobile home or a combination loan including a lot and single-wide mobile home. Lenders are limited to a maximum of 15-year terms for the financing of a mobile home lot only and 25-year terms for the financing of a multi-section mobile home.

HUD Placement Certificate

The FHA requires borrowers to sign a HUD Placement Certificate before the lender can disperse funds for a mobile home loan. The certificate states that the mobile home was installed to the satisfaction of the buyer. In the event the homeowner has problems with the mobile home construction after move-in, HUD provides a toll-free hotline (800-927-2891) for borrowers to call for assistance.

Borrower Requirements

You May Like


Does a Mobile Home Purchase Disqualify Me From FHA?


How to Get to an FHA Loan for a Mobile Home


How to Get an FHA Certificate for a Double Wide


Does My House Qualify for an FHA Loan?

FHA Guidelines for Manufactured Homes

Borrowers must have enough money to pay the minimum downpayment, typically 3.5 percent. The FHA requires borrowers to have sufficient income to pay their expenses and mortgage payments. The borrower must have a site for placing the home, which they own or lease.

Mobile Home Guidelines

The FHA requires that the installation of mobile homes meet the guidelines established by the Model Manufactured Home Installation Standards. The mobile home site must meet local code regulations and have sufficient water and sewage facilities. New mobile homes must come with a one-year warranty issued by the manufacturer.

Related Searches:

- FHA Homes for Sale
- FHA Loan Rate
- Bank Loan Rates
- Home Mortgage Loans
- FHA Loan

References

Mobile Home Underwriting Tools

FHA Guidelines for a Foundation Beam Embedment

About Home Equity Loans for Mobile Homes

Today in eHow Money

Why Budgeting Is Hard for Everyone

Online Banking Made Easy

Financial Planning For Women

U.S. Department of Housing and Urban Development: Financing Manufactured (Mobile) Homes

U.S. Department of Housing and Urban Development: The Federal Housing Administration (FHA)

U.S. Department of Housing and Urban Development: About Title I Home Improvement Loans

U.S. Department of Housing and Urban Development: Let FHA Loans Help You

Resources

U.S. Department of Housing and Urban Development

Photo Credit Laura Ciapponi/Creatas/Getty Images

Scams That Can Fool Just About Anyone

More Like This

FHA Guidelines for Mobile Home Loans

FHA Mobile Home Sale Requirements in South Carolina

Does a Mobile Home Purchase Disqualify Me From FHA?

Comments

The Average Interest-Only Mortgage

By Michael Evans, eHow Contributor | updated March 26, 2011

Interest-only mortgages allow borrowers to pay only the interest on a loan for a particular period of time, without making payment on the principal. Lenders offer the interest-only option on both fixed-rate and adjustable-rate mortgages. According to a 2005 Forbes article, interest-only mortgages accounted for more than 60 percent of the home loans issued during the second half of 2004. Interest-only mortgages served as a key factor in default loans that led to the mortgage crisis that began in 2008.

Other People Are Reading


Strategies for Mortgage Interest Reduction


What is an Interest-only Mortgage?

Amortization

Lenders amortize loan payments with traditional fixed-rate mortgages. An amortized payment includes a portion of money to pay down the principal and another to pay on interest owed on the loan. By amortizing the loan payments, the borrower pays off the loan in the exact number of months as the loan term, paying the same payment each month and reducing the principal with every payment. Interest-only loans can work differently, depending on whether the borrower uses the option to pay only the interest. If the borrower pays regular payments, including the principal and interest according to the amortization schedule, he will pay off the loan with equal payments throughout the term. If,

0

however, the borrower pays interest-only during the period allowed, he will pay much higher payments in the last years of the loan, when he must pay principal and interest.

Interest-only Period

Loans with an interest-only option allow the borrower to make payments only on interest for a specific amount of time, typically for five or 10 years. If the borrower pays only the interest during that period, she will make lower monthly payments. However, by paying only the interest, her principal balance will remain the same, and she will not build equity in the home.

Principal and Interest

Once the allowable interest-only period ends, the borrower must pay principal and interest. The lender amortizes the remaining loan amount, which includes interest and principal. If the borrower paid only interest for 10 years on a 30-year mortgage, he will have 20 years left to pay on the loan. Because he used the interest-only option, he can expect much higher monthly loan payments. If he cannot afford the new payments, he has the option of refinancing the loan but may have difficulty obtaining a new mortgage because he has not built equity in the home.

Adjustable Rate Mortgage

Loans with an interest-only option often have fixed-rate terms during the interest-only period and then convert to an adjustable-rate mortgage after the interest-only period ends. Fixed-rate loans keep the same interest rate throughout the loan term, but adjustable-rate mortgages change as the market changes. Adjustable-rate mortgages can change rates up to every six months, depending on the contract terms. If the rate adjusts to a lower rate, it can work in favor of the borrower. If, however, the rate adjusts higher, the borrower faces higher monthly payments. If the borrower paid interest-only during the interest-only

You May Like


Interest-Only Mortgage Refinance


Explain Interest Only Mortgage Loans


How Do Interest-Only Mortgages Work?


erse Mortgage Line of Credit Interest-Only Loan?

Is an Interest-Only Mortgage Loan Right for You?

period and the interest rate adjusts to a higher rate after it converts to an adjustable-rate mortgage, she can face substantially higher payments.

Related Searches:

- Mortgage Calc
- Fixed Rate Mortgage
- Loan Mortgage
- Home Mortgage Loans
- Mortgage Payment

References

Forbes; Beware The Interest-Only Mortgage; Liz Moyer; June 6, 2005

MSN Money; Could You Handle an Interest-only Loan?; Liz Pulliam Weston

The Mortgage Professor: Interest-Only Mortgage Tutorial

Bankrate; Who Should Get an Interest-only Mortgage?; Holden Lewis

Bankrate; What is Amortization?; Holden Lewis

The Difference Between Interest Only and Repayment Mortgages

Dangers of Interest-Only Mortgages

Tips on Interest Only House Loans

Today in eHow Money

Why Budgeting Is Hard for Everyone

Online Banking Made Easy

Financial Planning For Women

Resources

The Federal Reserve Board: Understanding the Process and Your Right to Fair Lending

The Federal Reserve Board: Interest-Only Mortgage Payments and Payment-Option ARMs

Scams That Can Fool Just About Anyone

More Like This

Strategies for Mortgage Interest Reduction

What is an Interest-only Mortgage?

Interest-Only Mortgage Refinance

Comments

You May Also Like

The Average Interest Rates on 30-Year Mortgages

No one truly knows what the average interest rate is for a 30-year fixed rate mortgage. There are too many lenders who...