

Homebuyers look to 100% financing

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By Patricia Daddona

This past spring, Kathy McBride was hoping to buy a bungalow in Providence so she could move out of a mold-ridden apartment that was exacerbating her severe asthma.

Not only did she buy the home at the end of June – she did so using a 100 percent financing package provided by the Federal Housing Administration and obtained by working with Rhode Island Housing mortgage originator Rob Rocchio.

Using 100 percent financing on the \$62,000 short sale meant the few thousand dollars she had deferred by not having to provide a down payment could instead be put toward home improvements, including leaky bathroom pipes and kitchen remodeling, said McBride, who is disabled and not working.

Securing 100 percent financing through FHA, Fannie Mae or through a private lender is an option that, while available for decades, is getting more attention from some borrowers.

Rhode Island Housing, a public agency dedicated to helping individuals, especially with low- and moderate-incomes, find homes, helped 213 buyers secure 100 percent financing loans between January and July, up 28 percent from 154 buyers for that same period in 2012, said Peter Walsh, director of home ownership and customer service.

“The housing market is up in general, plus because of all the tightening in the market and unavailability of 100 percent financing in other places, anybody who wants it would naturally come to RI Housing,” said Walsh.

Nationally, since about 2010, as housing markets stabilized following the crisis and bubble in 2008, “lenders are more willing to take a look at things,” said Deborah A. Imondi, president of the Rhode Island Bankers Mortgage Association, “They do seem to be easing on some standards.”

For instance, here in Rhode Island, the number of vacant homes on the market made the offering of a new 100 percent financing program seem viable for the Wave Federal Credit Union, said Pier-Mari Toledo, director of mortgage lending. Since the instrument was introduced in May, two buyers have closed on properties and at least two more sales are pending, she said.

“We’re in a purchase market,” Toledo said. “So, you look at the community and there are a lot of vacant houses out there. And what’s the one thing they lack? The down payment. They have jobs and good credit. Over time, the biggest obstacle for people is a down payment. So, we came up with this option. I don’t see it going away.”

This is not to say that the 3.5 percent FHA loan down payments and more-traditional 10 percent and 20 percent down payments are going away any time soon. In fact, most lenders prefer homeowners to have an equity stake in their property, so it is less likely they will abandon it, said Holden Lewis, senior mortgage analyst and editor at Bankrate Inc., in a phone interview.

Putting no money down on a home loan has long been an option through Veterans Affairs, the Navy Federal Credit Union and the U.S. Department of Agriculture, according to Lewis’ 2011 online article published by Bankrate, “4 mortgages that require little money down.”

But he warned against so-called “piggy-back loans” prevalent during the housing crisis, in which a first mortgage is taken out for 80 percent of the home’s value, and then a 20 percent second mortgage is also taken out – in many cases without insurance. The danger is that there is no protection for the lender in case of default.

At Wave FCU, which uses an 80/20 first and second mortgage, Toledo said the piggyback concept has merit – if used properly with insurance to back it up.

“It’s always risky when you’re loaning 100 percent value of a home, because if someone were to get into trouble and couldn’t pay that mortgage, you need to at least break even,” Toledo said.

“For us, because we can take advantage of some credit-union insurances, we’re able to insure the second-loan mortgages ourselves to make it safer for the buyer. So, it’s not so scary for us as a lender to be exposed at 100 percent.”

Wave also has instituted eligibility requirements for the 100 percent financing, including a credit score of 660, proof of income, two years of tax returns, no mortgage delinquencies in the past 24 months, no judgments or repossessions, and bankruptcies only if they’ve been discharged a minimum of two years, she said.

The combined value of the Wave’s 100 percent financing loans to date is \$500,000, Toledo said, adding that she’s excited to expand the credit union’s offerings and services.

Rhode Island Housing, which lends throughout the state, is busiest in Providence, Cranston and Warwick, said Walsh.

“We are one of the few that can offer 100 percent financing because we’re a government institution,” he said. “Loans are insured by FHA or sold to Fannie Mae. Down-payment

assistance and closing-cost assistance are provided to help people buy the house and they can go up to 105 percent combined with all that assistance.”

Fannie Mae allows refinancing up to 97 percent with no mortgage insurance, a feature that is also not available out in the market, he added, with the caveat that the buyer can't have secondary financing.

R.I. Housing works with up to 39 lenders and some brokers, he said.

The federal Consumer Protection Finance Bureau also has issued new rules that require lenders to offer only “qualified mortgages” that consumers have the ability to repay. Otherwise, the lender would be at risk of being sued if the borrower defaulted, Imondi said.

For instance, one of the criteria for a qualified mortgage is that buyers can have no more than 43 percent maximum debt-to-income ratio, which means 43 percent of a buyer's income is used to pay off debt every month, according to the government bureau's website. At Wave FCU, that figure is 40 percent, Toledo said.

Ultimately, the key, Imondi says, is for the buyer to do his homework financially and know his appetite for home ownership, which is not for everybody – even when a mortgage proves cheaper than rent.

“There's a lot to owning a home,” said Imondi, “and people have to do an inventory of time and money resources. They're not called money pits for nothing.”