



# Alaska REAL ESTATE

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## REAL ESTATE FINANCING 101

In Alaska there are essentially four sources of financing your home purchase. Here is a run-down:-

**V.A.:** One of the benefits of joining the armed forces is that the Federal Government agrees to guarantee any loan you may need to purchase a home.

The reason that lenders will provide a 100% loan with no down-payment (and no mortgage insurance) is that the government guarantees 25% of the loan. From a lender's point of view this is as good as receiving a 25% down-payment. The maximum amount that can be spent on a VA purchase with zero down is \$726,525 in Alaska.

The VA benefit can be used repeatedly over the veteran's lifetime, as many times as he or she purchases a home, provided the previous loan is paid off when the veteran relocates. Alternatively, the veteran can buy another home with the balance of their VA entitlement if the full amount of \$726,525 was not previously used

(This number varies from State to State). That is, the balance of the \$726,525 not used on the first home is still available for another owner occupied property. This is called your "Bonus Entitlement".

The seller can lawfully pay absolutely all your closing costs, pre-pays and reserves. This is called a Triple Zero Down purchase.

It is even possible for the seller to pay some of your V.A. funding fee (normally added to the loan amount) but keep in mind there is an ultimate limit of 4% of the purchase price for seller concessions. This easily covers your closing costs, prepaids and reserves but talk to your Realtor or Lender about maximizing the 4% seller concession, especially in what is likely to be a buyer's market this winter.

**FHA:** This Federal Government program requires 3.5% down (even for a duplex, triplex or fourplex) and the seller may, if willing, contribute up to 6% of the purchase price to cover your closing costs, prepaids and reserves. You can even ask for a Home Warranty too.

Current interest rate is 3.5% for a 30 year fixed rate loan. Many lenders, including Wells Fargo, will quote the rate at 3.375% but this is with a 0.5% discount point billed to your closing costs.

The loan amount allowed in Anchorage and Matsu is limited to a maximum of \$401,350 but, different to VA, expect to pay a Mortgage Insurance Premium upfront plus a monthly premium for the life of the loan. That hurts a bit, especially when the rules are much more generous if you can afford a 3% to 5% down Conventional Fannie Mae loan.

**Origination Fees:** Almost all lenders nationwide have followed Quicken Loans now in providing zero origination fee loans (used to be a 1% add-on to your closing costs).

This has reduced the profit margins of lenders but, don't worry, they still do quite well with other more subtle sources of

income such as selling the servicing of the loan to others. Also, beware of “Junk Fees” being charged by Quicken or other lenders to offset the 1% origination fees they say they are waiving. In particular, check for ‘Processing fee’, ‘Document Fee’ or any other fee that has a spurious title.

Be sure to ask for a detailed cost estimate from all lenders you approach so that any spurious fees are flushed out.

**Conventional:** Fannie Mae loans are available with any amount down starting at 3%. If you put less than 20% down you will be billed monthly (or charged a flat fee up front) a mortgage insurance premium until your equity reaches 78% of the original purchase price. This is far more attractive than FHA where you pay mortgage insurance forever so long as the loan remains with even the smallest balance.

The premium is based on your credit score and obviously varies depending on your down-payment. Always strive to put 20% down to avoid this lender insurance premium for the risk they take lending you more than 80% of your home purchase.

The loan limit for conventional financing is \$726,525 and the seller can pay up to 6% of the purchase price towards your closing costs provided you put at least 10% down. Less than 10% and seller concessions are limited to 3%. Current Interest Rate is 3.625% for a 30 year fixed rate loan.

**Note:** Unlike FHA, where a 3.5% down payment applies to a residential property of 1 through 4 units, conventional financing will require 20% minimum down if you are buying a duplex through fourplex.

**AHFC:** This profit earning Alaska State Agency has done an awesome job boosting liquidity for homebuyers over decades now and has its own unique loan programs which provide balance and stability to the mortgage industry.

The loan limit for a home purchase, at \$799,177, is higher than conventional financing and there are special programs for veterans, low income borrowers and first time homebuyers. Down-payment is as low as 5% and similar rules apply to mortgage insurance premiums that are required for other conventional loans.

Interest rates are often identical, or at least very close, to conventional rates but are driven by separate factors because the money is produced by their own bond issuing practices.

**Note:** Not all lenders can offer you an Alaska Housing AHFC loan! Not all lenders are approved by AHFC to represent them.

I recommend you always work with a local and substantial lending institution to insure all Federal and State programs are presented to you as options. There are other subtle differences in AHFC rules that can definitely benefit a homebuyer at times.

**Interest Rates:** The rates quoted here are effective as of 1st October 2019 but, naturally, can change from day to day. However, these rates won't move much in the winter months ahead and may even go down.

I have used the 30 year fixed rate for this discourse but also know that you can cut up to 1% off those rates if you ask for a 15 year loan.

By the way, Alaska State law prevents any residential lender charging a prepayment penalty should you decide to pay off the loan in full if, for example, you win the Lottery.

**Jumbo Loans:** For high ticket purchases above \$800,000 you should definitely shop around because these are very individualized products depending on the banking institution involved.

Jumbo loan offerings vary considerably because they are generally ‘in house’ portfolio loans from a bank or credit union, so they make their own rules. Very few institutions nationwide actually buy these loans from a lender so you are dealing with the bank or credit union directly.

**Conclusion:** Please call me if you, a family member or friend is considering buying a home. Over 30 years in the business I have acquired a considerable database

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