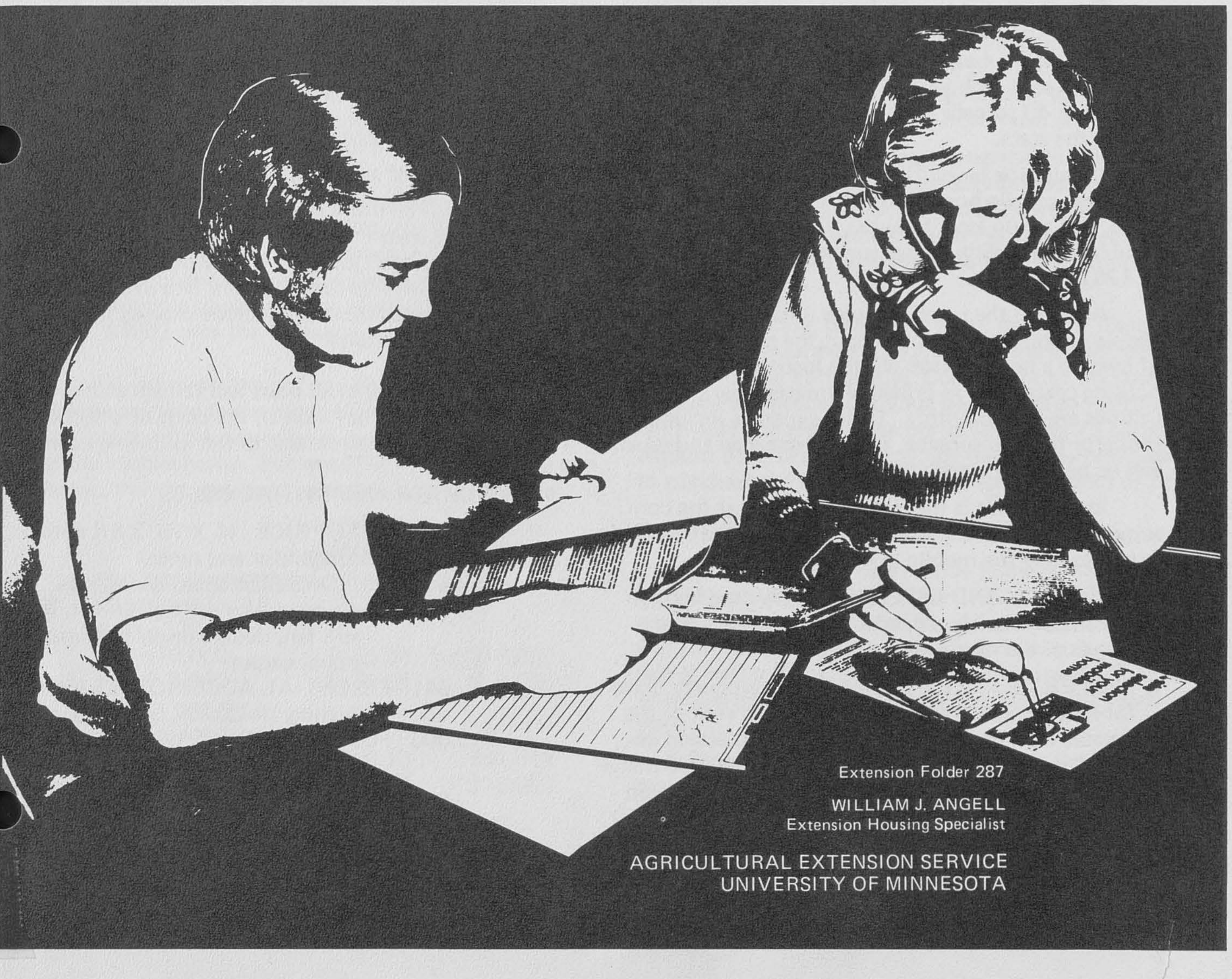
costs of owning a mobile home



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costs of owning a mobile home

With inflation, many consumers find that a new house is out of their financial reach. It is a painful shock to find that the average new house costs more than $30,000 and requires an annual income of $12,000-$15,000.

Because many people do not have incomes that high, they evaluate their alternatives and frequently purchase mobile homes. About 10,000 new mobile homes are sold each year in Minnesota. This represents more than 40 percent of the new single family houses sold in the state.

Usually the mobile home buyer finds that new 14-foot-wide mobile homes, including furnishings, equipment, and set-up, cost between $7,000 and $14,000. Double-wide mobile homes generally cost from $8,500 to $20,000.

Although the purchase price is important, most people are more concerned about the monthly costs of owning a home. After all, the highest proportion of housing costs, such as principal, interest, park rent, and utilities are paid monthly. Other expenses including property taxes, insurance, and maintenance and repair can be budgeted monthly.

In the end, it is the monthly costs that the consumer must be willing and able to meet. What monthly expenses may the mobile home buyer find?

1. PRINCIPAL AND INTEREST—Vary according to the amount borrowed, annual interest rate, and length of the mortgage.
2. PROPERTY TAXES—In Minnesota, property taxes for mobile homes average about 1¾ percent of the taxable market value per year after homestead exemption is deducted. For example, a $10,000 homesteaded mobile home on a rented lot will be taxed about $175 the 1st year ($15 per month) and $150 the 2nd year ($12.50 per month). For specific figures, contact your local assessor.
3. INSURANCE (COMPREHENSIVE PROPERTY)—Mobile homeowners' insurance policies covering physical damage, theft, and liability usually cost about 1¼ percent of the purchase price per year depending on coverage and policy. For example, the insurance on a $10,000 mobile home may average about $125 per year or $10.40 per month over a 12-year period.
4. INSURANCE (CREDIT LIFE)—If a loan is secured for purchase, the lender may ask the borrower to carry insurance to cover either the balance outstanding on the loan or the principal alone. Generally, rates are about ¾ percent (75 cents per $100) of the insured value per year. For instance, if the buyer wants credit life insurance to cover the principal on a 12-year, $8,500 loan, he should expect to pay about $5.30 per month.
5. UTILITIES—Annual cost of utilities is at least 5 percent of the purchase price of the mobile home. Thus, the buyer of a $10,000 mobile home could expect the costs of electricity, water and sewer, heating fuel, and phone service to be at least $480 per year or an average of $40 or more a month.
6. REPAIR AND MAINTENANCE—Generally about 1 percent of the purchase price of the mobile home should be allowed annually for repair, maintenance, and replacement of equipment. Repair and maintenance of a new $10,000 mobile home would cost about $100 per year or $8.35 a month.
7. PARK RENT—If the mobile home is to be placed in a park, the owner will probably pay between $40 and $80 a month for rent. (Sixty dollars per month is common in large communities; $45 in small towns.) Sometimes, park rent will include charges for water, sewer, and electricity.

If we assume that all costs will remain stable (which, of course, they won't), the costs of a $8,548 mobile home could be similar to the following example:

- PURCHASE AND INITIAL COSTS

	$ 8,548	BASE PRICE (14 X 70, 3 BR with refrigerator and range)
+	911	OPTIONS (Entrance light, storm windows, laundry equipment, bath vent fan, double insulation, decor group, carpet)
+	541	ESSENTIAL ACCESSORIES (Steps, skirting, tie-downs, heat tape, etc.)
	$10,000	PURCHASE PRICE (inc. delivery, utility connection, 4 percent sales tax, title fee)
–	1,500	DOWN PAYMENT
	$ 8,500	MORTGAGE AT 11 percent (6¾ percent add-on interest for 12 years)

- MONTHLY EXPENSES

Item	Monthly expense (12-year average)	12-year Total	Percent
Principal	$ 59.03	$ 8,500	26.0
Interest*	47.53	6,844	20.9
Property taxes* (at 1¾ percent of taxable market value per year)	9.72	1,166	4.3
Property insurance (at 1¼ percent of price per year)	10.40	1,498	4.6
Credit life insurance (at ¾ percent of original principal per year)	5.30	763	2.4
Utilities (at 5 percent of price per year)	41.67	6,000	18.3
Repair and maintenance (at 1 percent of price per year)	8.33	1,200	3.7
Park rent (varies from $40 to $80)	45.00	6,480	19.8
TOTAL	$226.98	$32,451	100.0

*Interest and property taxes are deductable from your taxable income. For instance, if you were in a 20 percent tax bracket (combined federal and state), you could expect to "save" 20 percent of the interest and property taxes. In the example above, this savings would be about $1602 over the 12 years.

The amount necessary to pay for the mortgage varies according to the amount borrowed, interest rate, and length of the mortgage as well as the purchase price of the mobile home. For example, if we vary only one factor, the results would be as follows:

	MONTHLY PAYMENT	TOTAL PAYMENT
– amount borrowed at 11 percent for 12 years		
= $10,000	$125.36	$18,052
= $ 5,000	$ 62.68	$ 9,026
– interest rate for $10,000 for 12 years		
= 15 percent	$150.10	$21,614
= 11 percent	$125.36	$18,052
– length of the mortgage for $10,000 at 11 percent		
= 12 years	$125.36	$18,052
= 7 years	$171.23	$14,383

Mobile home financing differs from conventional house mortgages. Mortgage interest for a conventional house is calculated on the decreasing balance of the loan. However, mobile homes usually are financed on an installment basis, and the interest is calculated on the original balance of the loan and added to the principal. Although the conventional mortgage borrower pays both principal and interest in each payment, the mobile home buyer does not pay any of the principal until the interest (finance charge) is completely paid. Thus, depending on the amount, interest, and length (years) of the contract, the mobile home buyer may not acquire equity other than the down payment for the first few years. Although this situation is not bad for buyers who live in their mobile homes until the contract is fully repaid, it may create a problem for the borrower who sells his mobile home before acquiring equity.

When shopping for a mortgage, specifically ask the following questions: (1) What is the annual percentage (not add-on) rate for interest? (2) What is the total cost for interest during the mortgage period? (3) Does the lender require the borrower to carry credit-life or decreasing term insurance? (4) Does the lender require the borrower to carry property insurance to cover the unpaid balance of the loan? (5) What is the cost of the insurance recommended by the lender? (6) What service charges are involved, and how much are they?

Compare the financing arrangements offered by the dealer and local banks and savings and loan associations. Banks usually handle mobile home financing as installment contracts or through Federal Housing Administration (FHA) and Veterans Administration (VA) programs.

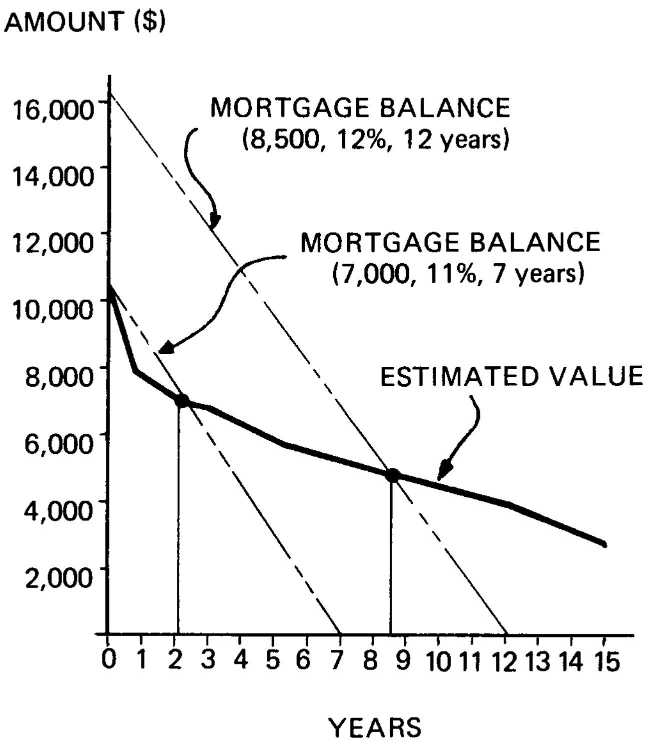
If credit life, decreasing term, mortgage disability, or property insurance is required by the lender, shop around for the best policy. Compare both the cost and the coverage needed for your own situation. Although the lender can require the borrower to carry a certain amount of insurance, he cannot require the borrower to purchase the insurance from a specific agent or firm.

DEPRECIATION AND RESALE VALUE

The resale value of a mobile home is influenced by: (1) quality of construction, (2) level of maintenance and repair, (3) location, (4) quality of the park, and (5) how quickly the owner wants to complete the sale as well as age and size of the home itself. The more favorable each of these factors, the higher the resale value.

The "Official Mobile Home Market Report," a blue book of used mobile homes, reports the average sale value of units by age and model. The values serve as a guide to banks for loan amounts and to insurance companies for reimbursement amounts if a home is destroyed. The values listed represent current, not future, values. Thus, they do not reflect specific future depreciation on mobile homes purchased today.

However, recent research and various mobile home spokesmen indicate that depreciation is about 20 to 25 percent the 1st year, and 5 to 10 percent each year thereafter. One of the most extensive reports (see The Appraisal Journal, July 1972) indicates that the resale value of a $10,000 (retail price) mobile home is similar to the "estimated value" line shown on the chart and table below:



Two different loan balances have been calculated and plotted:

(1) $8,500 mortgage at 12 percent for 12 years (monthly payments = $111.65) and

(2) $7,000 mortgage at 11 percent for 7 years (monthly payments = $119.86)

Year	Estimated value	Outstanding mortgage balance: $8,500 at 12% for 12 years	Outstanding mortgage balance: $7,000 at 11% for 7 years
0	$10,000 (100%)	$16,078	$10,068
1	7,700 (77%)	14,638	8,630
2	7,100 (71%)	13,298	7,191
3	6,800 (68%)	11,958	5,753
4	6,200 (62%)	10,618	4,316
5	5,600 (56%)	9,278	2,876
6	5,300 (53%)	7,938	1,438
7	4,900 (49%)	6,598	0
8	4,600 (46%)	5,258	0
9	Not Available	3,918	0
10	4,100 (41%)	2,578	0
11	Not Available	1,238	0
12	3,700 (37%)	0	0

If the mobile home were sold before the mortgage balance was less than sale price (estimated value), the seller may not receive the amount he owes on the mortgage. If the mobile home were destroyed by an insured peril before the mortgage balance was less than the estimated value, the owner would receive less than the mortgage balance unless the insurance covers the total amount financed (principal and interest).

Thus, the buyer may wish to reduce the gap between the outstanding mortgage balance and estimated value of the mobile home by: (1) increasing the down payment, (2) reducing the length of the mortgage and making larger payments, (3) and shopping for the lowest annual interest rate.

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