costs of owning a mobile home

Extension Folder 287

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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 in Minnesota costs about $45,000 and requires an annual income of nearly $20,000.

Because many people do not have incomes that high, they evaluate their alternatives and frequently purchase mobile homes. About 7,000 new mobile homes are sold each year in Minnesota. This represents about 30 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 $8,500 and $16,000. Double-wide mobile homes generally cost from $12,000 to $25,000.

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—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

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/she should expect to pay about $5.30 per month. (This amount may vary substantially.)

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 average 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 you are planning to buy a mobile home, you should consider your monthly costs as shown in the following example. To help you estimate your costs, you may wish to use the forms provided in Extension Folders 266 and 265, "Selecting a Mobile Home" and "Site Selection for Your Mobile Home."

If we assume that all costs will remain stable (which, of course, they won't), the costs of a $10,300 mobile home could be similar to the following example:

- PURCHASE AND INITIAL COSTS

	$10,300	BASE PRICE (Average 14 x 70, 3 BR with refrigerator and range)
+	600	OPTIONS (Entrance light, laundry equipment, bath vent fan, decor group, carpet, etc.)
+	600	ESSENTIAL ACCESSORIES (Steps, skirting, tie-downs, heat tape, etc.)
	$11,500	PURCHASE PRICE (inc. delivery, utility connection, 4 percent sales tax, title fee)
-	1,500	DOWN PAYMENT
	$10,000	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	$ 69.45	$10,000	26.3
Interest*	55.91	8,052	21.2
Property taxes* (at 1¾ percent of taxable market value per year)	8.39	1,207	3.1
Property insurance (at 1¼ percent of price per year)	11.77	1,695	4.4
Credit life insurance (at ¾ percent of original principal per year)	6.25	900	2.4
Utilities (at 5 percent of price per year)	47.92	6,900	18.2
Repair and maintenance (at 1 percent of price per year)	9.58	1,380	3.6
Park rent (varies from $40 to $80)	55.00	7,920	20.8
TOTAL	$264.27	$38,054	100.0

*Interest and property taxes are deductible 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 saving would be about $1,852 over the 12 years, or an average of $10.86/month.

Analysis of mobile home financing is not easy, since it involves factors substantially different from other types of residential mortgages. For instance, mobile home loans generally have a shorter term or length than other mortgages—usually between 7 and 12 years for new single width units. Also the method by which interest is computed is often significantly different from that used for other residential mortgages. Frequently, the add-on method is used to determine the actual rate of interest the mobile home buyer pays. The importance of this fact is that the true annual or simple rate of interest is higher and more expensive than the add-on rate which may be quoted. The following table illustrates this relationship:

Add-on Rate	(for)	Number of Years	(equals)	Simple Interest
7%		7 years		12.15%
		10 years		11.68%
		12 years		11.40%
8%		7 years		13.69%
		10 years		13.11%
		12 years		12.78%

When shopping for mobile home financing, ask the lender (or dealer) to quote simple (not add-on) interest rates. According to the Federal Truth in Lending Law, all written contracts must state the simple interest rate. However, this fact may not help you when shopping for a loan. Remember—ask what the simple interest rate is. You may find it to your advantage to ask the lender to quote also (1) the dollar amount of the monthly payment and (2) the total cost of interest during the mortgage period. With this information you can compare different types of loans and obtain the "best buy for your money."

Another important fact mobile home buyers should recognize is that the allocation of the buyer's payment to interest and principal may vary according to the computation method used by the lender. This fact is EXTREMELY IMPORTANT IF THE OWNER PREPAYS HIS/HER LOAN EARLY DURING THE ORIGINAL TERM, and the majority of mobile home loans are paid before the contract expires (e.g. the home is sold and the seller pays his/her contract). To illustrate the importance of the computation method when prepayment occurs, let's examine the two basic methods of computation:

—Rule of 78's (also known as "Sum of the Digits" or "Direct Ratio" method) is the most common method of computing repayment for add-on interest rate contracts. When prepayment occurs, the simple interest rate increases and the borrower is in effect penalized. For example, if you obtain a 96-month loan with an add-on interest rate of 7½ percent, the simple rate of interest is 12¾ percent if you hold the contract for the entire 96 months. However, if you prepay your loan, the simple interest rate will be higher. For instance, if after 6 months you prepay the 96-month contract, your simple interest rate increases to 14.63 percent when the Rule of 78's is used.

—Actuarial or Direct Reduction method is less common for mobile home loans although used for FHA, VA, and other mortgages where simple (rather than add-on) interest is stated. Using this method, the interest rate will not change if the borrower prepays his/her loan. In short, this computation method is more desirable for the borrower.

When shopping for a mobile home loan, ask the lender (or dealer) what the remaining balance due would be if you prepaid your loan after 12 months, for example. The lower the remaining balance (on contracts with the same original term and principal), the more favorable you will find the loan.

When shopping for financing, you may also wish to consider the following items:

—The most favorable rate of interest and other loan terms may be available directly from a local bank or savings and loan association. In other words, check with local lenders as well as the dealer. You may wish to inquire about the following types of mortgages as well as installment financing:

Federal Housing Administration (FHA)—see a local lender
Veterans Administration (VA)—see a local lender or veterans service officer
Farmers Home Administration (FmHA)—see your FmHA county supervisor

—Does the lender require the borrower to carry credit life or decreasing term insurance and will the borrower be required to carry property insurance? If so, how much coverage is required? The lender can require the borrower to carry a certain amount of insurance. However, legally, the borrower cannot be required to purchase the insurance from a specific agent or firm. Shop around and compare the cost and coverage needed for your situation; you can save money.

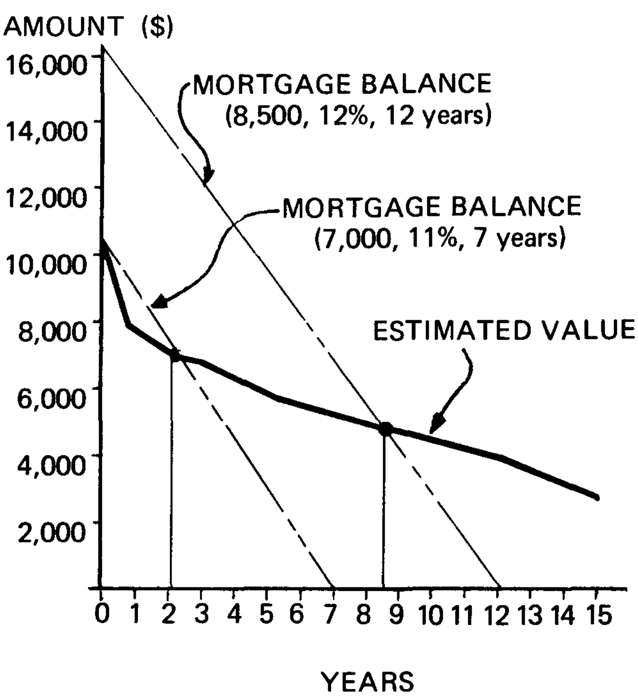
—Make sure the lender (or dealer) gives you a complete listing of all service, processing, and closing charges.

● 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 (national) 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 average 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:



This general rate of depreciation has been confirmed by financial institutions, including the First National City Bank of New York. This rate of depreciation is also similar to the depreciation schedule used by assessors in Minnesota to determine taxable market value.

To illustrate the relationship between estimated value and loan balances, 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)

		Outstanding mortgage balance	
Year	Estimated value	$8,500 at 12% for 12 years	$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

Although data are incomplete, we can state the following in summary:

—Mobile homes do depreciate on the average.

—The rate of depreciation, however, may be less in Minnesota than the national average and has stabilized with the recent high rate of inflation.

—Resale value is influenced by many factors*, as previously noted, and thus is unique to each individual's situation (*original quality, maintenance, location, park condition, improvements, etc.).

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