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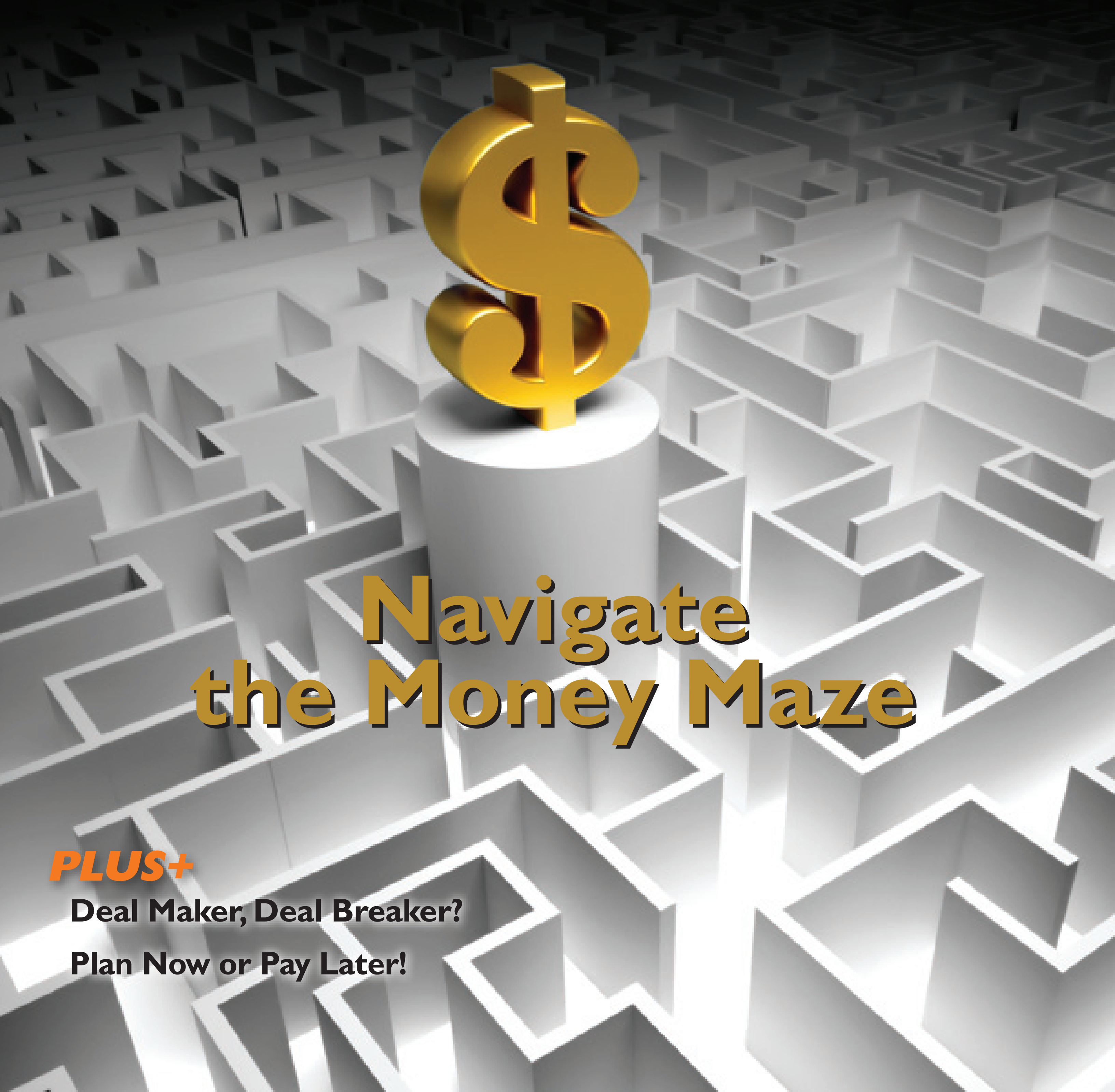


Navigate the Money Maze

PLUS+

Deal Maker, Deal Breaker?

Plan Now or Pay Later!

Navigate the "Money Maze"

Smart Borrowing

By Ginny Cooper

You've heard it said. In fact, you may have said it yourself. "There's no money out there to borrow."

"Nothing could be further from the truth!" says Will Dukes of Summit Mortgage. Not only is the money there according to Dukes, but it's just as easy to access as it was in the 50 years prior to the heyday of "no-doc loans" — those nefarious mortgage instruments that were so popular in 2003-2007. "You just have to prove your assets," he says.

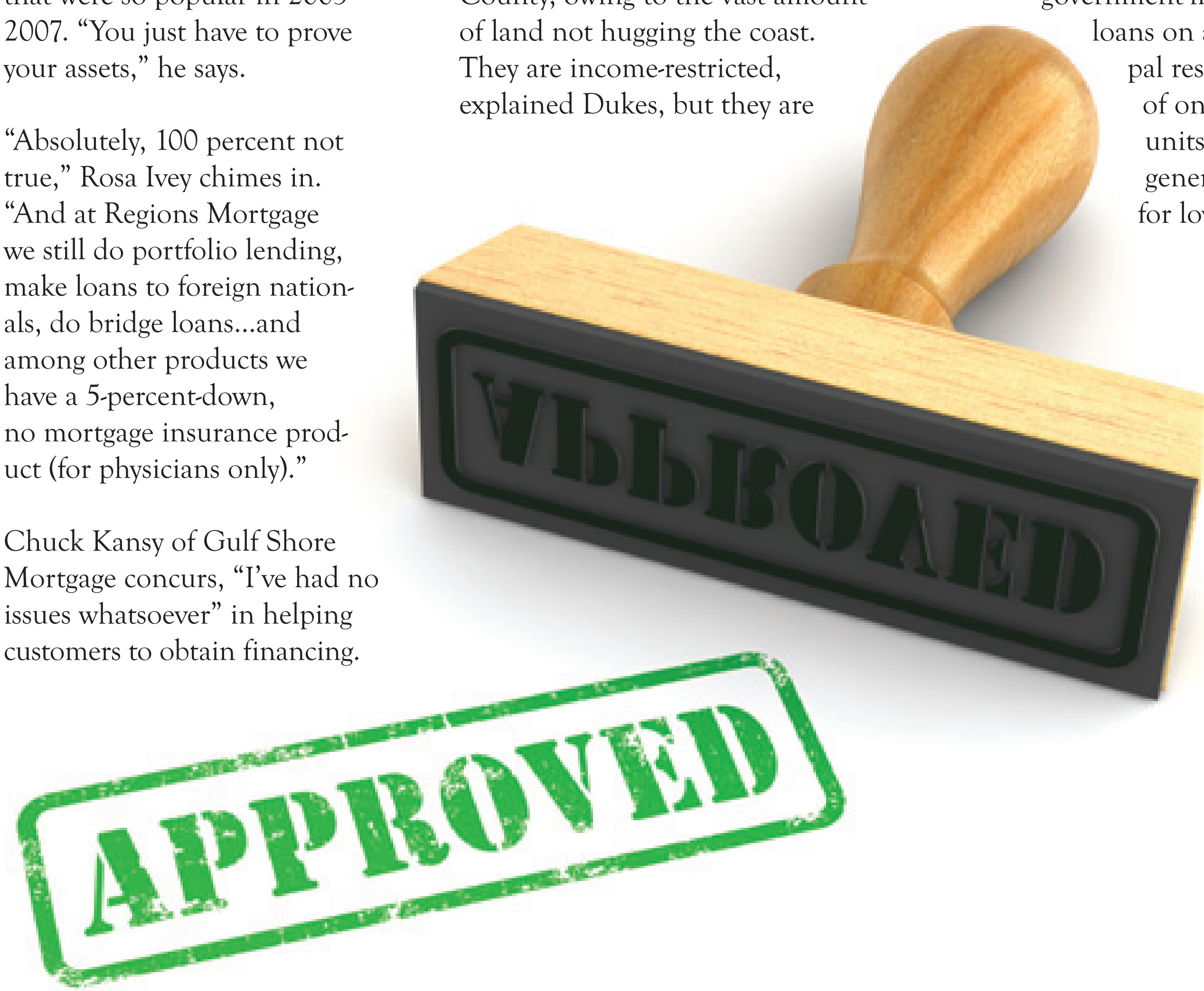
"Absolutely, 100 percent not true," Rosa Ivey chimes in. "And at Regions Mortgage we still do portfolio lending, make loans to foreign nationals, do bridge loans…and among other products we have a 5-percent-down, no mortgage insurance product (for physicians only)."

Chuck Kansy of Gulf Shore Mortgage concurs, "I've had no issues whatsoever" in helping customers to obtain financing.

"It's a huge misconception," says Kansy of the "no money out there" motto. "You just have to make your customers aware of what to expect." For instance, United States Department of Agriculture (USDA) loans are taking 30-45 days longer than conforming (conventional) loans.

USDA loans are for areas of the country designated as rural. Surprisingly, that includes Collier County, owing to the vast amount of land not hugging the coast. They are income-restricted, explained Dukes, but they are also the only true 0-percent-down loan available.

With interest rates at a 30-year low (at press time), choosing a loan program comes down to one factor: how much do you have to put down? Most first-time homebuyers don't have much, which is why Federal Housing Administration (FHA) loans are a popular vehicle for them. Since 1934, the FHA has been offering government-insured loans on a principal residence of one-to-four units that, in general, allow for lower down



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payments, lower closing costs and easier credit qualifying criteria than conventional loans. The most popular FHA loan is the Section 203(b) loan, often secured for a first home purchase. Unlike conventional loans, the source of the down payment on an FHA mortgage may be a gift from a family member; a grant from another government program or perhaps aid from a local non-profit agency. The down payment requirement is as low as 3.5 percent.

"There is a price to pay for the privilege of the low down payment," explained Dukes. That price is the Mortgage Insurance Premium (MIP). FHA borrowers must pay 1 percent up front, although they can roll that into the mortgage itself. Dukes cautions, "But they must pay the MIP for five years regardless of how much they have paid down on the loan." This is because the FHA handles its own Private Mortgage Insurance and uses those funds to offset future defaults. Contrast that with a Federal National Mortgage Association (FNMA, or as it's more commonly known, Fannie Mae) conforming loan where, with a down payment of 20 percent or more, the requirement for mortgage insurance is waived.

But FHA loans are for primary residences and in Naples, and other coastal regions of Collier County, the second home market is strong. What mortgage vehicle are most of Naples' second home buyers choosing? "Cash!" quips Dukes, "Especially during 'season'." He estimates that in the first two months of the year about 80 percent of the second home market has been cash buyers. Of those buyers who do choose to finance, he said about 90 percent choose a Fannie Mae loan program.

Originally founded in 1938 as a government-sponsored enterprise, the mission of Fannie Mae was to remove barriers to home ownership, lower lending costs and increase the possibility for home ownership and affordable housing for all Americans. On September 7, 2008, the financial crisis of Fannie Mae caused it to be put into conservatorship of the Federal Housing Finance Agency. Although both are associated with governmental agencies, FHA and Fannie Mae loans differ from start to finish.

While the FHA insures loans issued by a local lender, Fannie Mae buys them on the secondary market, providing more capital for lenders to continue to make loans. Fannie Mae loans are a more traditional mortgage option, with a minimum 5 percent down payment. Fannie Mae has stricter credit-score guidelines than the FHA and charges higher rates for lower-credit-score borrowers. FHA loans are available in fixed- and variable-rate options, with terms of 15 or 30 years. Fannie Mae loans also offer fixed- and variable-rate options, but have a wider range of terms, from 10 to 40 years.

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A Fannie Mae mortgage can be placed on any size debt; however, mortgages larger than $417,000 are considered jumbo mortgages, and those larger than $2 million are considered super-jumbo mortgages. Each designation involves different regulations and rate sheets. FHA loan limits are significantly lower and vary based upon geographic location. Kansy is seeing more jumbo loans come back into the market.

On the other end of the age spectrum is FHA's Home Equity Conversion Mortgage (HECM). The HECM is FHA's reverse mortgage program that enables homeowners 62 years of age or older to withdraw some of the equity in their home. The borrower must own the home outright, or have a low mortgage balance that can be paid off at closing with proceeds from the reverse loan. The property must be owner-occupied. Often touted through commercials featuring considerable "star power," Kansy says not as many people are taking advantage of them as you'd think.

Fixer-uppers can be purchased with an FHA 203(k) loan that is based on an amount that will cover the purchase or refinance cost of the property, the remodeling costs and the allowable closing costs. The amount of the loan will also include a contingency reserve of 10 percent to 20 percent of the total remodeling costs and is used to cover any extra work not included in the original proposal. Like the 203(b), the down payment is approximately 3.5 percent, but that is 3.5 percent of the acquisition and repair costs of the property.

FHA's new Streamlined 203(k) program permits homebuyers to finance up to an additional $35,000 into their mortgage to improve or upgrade their home before move-in. With this new product, homebuyers can quickly and easily tap into cash to pay for property repairs or improvements, such as those identified by a home inspector or FHA appraiser. "These (203(k) programs) are fantastic programs," says Kansy, "Especially if the property has been vandalized, which is sometimes the case in foreclosure properties."

There are also bond programs available through the state which allow for up to 100 percent financing. These loans have highly individualized terms.

With so many options, what's the smartest thing for a borrower to do? "Get prequalified," says Ivey. She spends time interviewing borrowers up front. "There are so many different products that it can be overwhelming. I only offer my customers what they qualify for after determining with them what they need." Ivey will even take the time to educate prospective borrowers on the steps they need to take to qualify, such as improving a poor credit score.

We know the houses are out there. Now we know the money to lend is out there. Go get it!

Ginny Cooper is a freelance contributor to NABOR magazine.

Deal Maker, Deal Breaker?

Appraisals vs. BPOs

By Ginny Cooper

The Valuation Circus

Never has determining the value of a home been more critical to the sales process than in these days of massive foreclosures and short sales. Whereas once the center ring of this "valuation circus" was dominated by the real estate appraisal, other acts are taking their place under the Big Top.

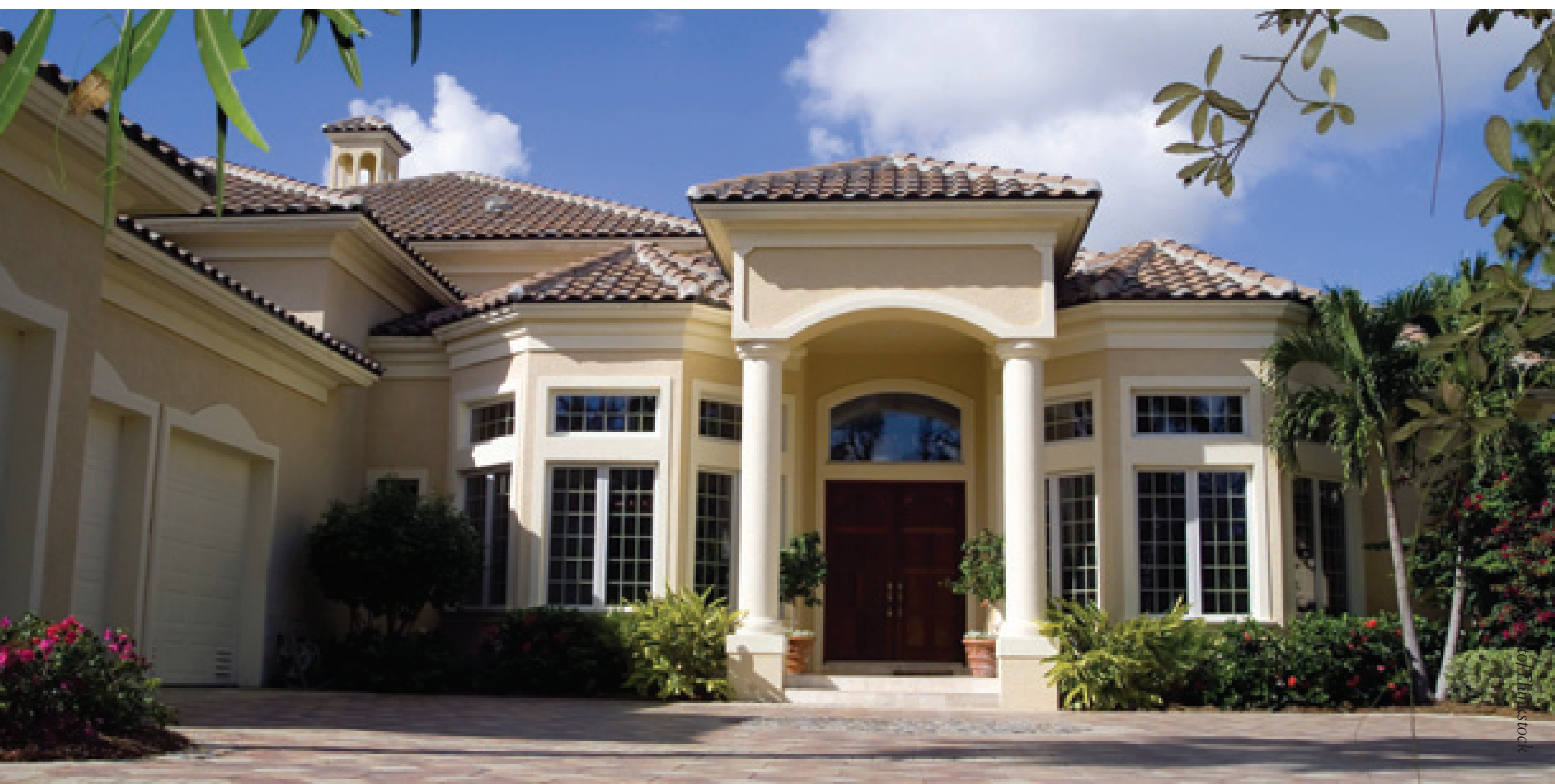
The Sideshow — the CMA

It's a rare individual who will hire a licensed real estate appraiser to do an appraisal on their home prior to listing it for sale, or simply because they are curious. Instead they will contact a local real estate agent to prepare a Competitive Market Analysis (CMA) in order to arrive at a reasonable sale price for their home. The agent researches the active and pending listings and closed sales in an area that are similar in size and condition to the subject property. No inspection of the comparables is performed, and the agent relies heavily on the MLS and their personal knowledge of the properties in arriving at an opinion of value. The CMA is an agent's marketing tool for acquiring a listing and an opportunity to show the prospective client they are both familiar with the client's neighborhood and experienced in the market.

In One Ring — the BPO

Sometimes referred to as a "glorified CMA," the Broker Price Opinion (BPO) has emerged as the favorite act of lending institutions considering foreclosure or short sale proceedings on a property. "I can't think of a bank that doesn't use them," says Karen Dancsec of RE/MAX Realty Select. "Sometimes a bank will order two or three BPOs, especially in a short sale situation," although Dancsec doesn't know of a single one that will lend specifically on the BPO. In fact, Dancsec would be "uncomfortable" with a bank making a loan decision based on a BPO she submits.

BPOs are completed using only the comparable sales approach to market value, whereas an appraisal uses two, and sometimes three, approaches: comparable sales, cost and income. Determining the market value by the cost approach



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is "simply outside the expertise" of the real estate broker, according to Dancsec. However, active and experienced real estate brokers are a valuable source of information when it comes to the comparable sales approach. In fact, a real estate appraiser will often call a broker during the course of completing an appraisal, when researching the condition of a comparable sale or determining if there were any concessions that would affect the sales price.

There are two types of BPOs, just as there are two types of appraisal, a "drive by" or an "internal" format. They are priced accordingly. At approximately $50 - $100 per BPO, the instrument is a cost-efficient one. But some banks are expecting a great deal of information for that $50, requiring photographs of comparables used and the completion of forms that are sometimes two to four pages long. Dancsec recalls doing her first BPO in 1990. At that time there were no specific forms and the BPO was simply a one-page narrative submitted on the company's letterhead.

In the Other Ring — the Real Estate Appraisal

Compare that to a real estate appraisal performed by a licensed appraiser. A properly documented FNMA/FHLMC form with sketches, photographs and other attachments can be 30-50 pages long depending on the scope of the work involved. The report must be completed as required by the Uniform Standards of Professional Appraisal Practice, or USPAP, that details the criteria for appraising residential, commercial and personal property, as well as review and mass appraising. "USPAP is really the dividing line between an appraisal and a BPO," says Cindy Carroll of Carroll & Carroll, Inc. "Brokers are not governed by USPAP. Consequently there is a more limited number of clients for a BPO than for a full, conforming appraisal report."

The Ringmaster — the Property Appraiser

Accountable to an audience of property owners who have elected them, county property appraisers are often called upon to put their heads in the lion's mouth. This generally occurs on an annual basis, right after the tax notices come out. However, it's not the property appraiser who determines what the taxable value of a home is — it's the market.

The Collier County Property Appraiser's office explains this on its Website: "The Property Appraiser does not create market value. It is created by supply and demand for property through buying and selling transactions. The Property Appraiser has the responsibility to discover this value as it exists and appraise the property accordingly."

Discovering the value on a county-wide basis involves the use of Computer Assisted Mass Appraising (CAMA), most often employing multiple regression analysis. Market areas, neighborhoods, subdivisions and large groupings of similar properties are appraised at one time by adopting standard techniques and using uniform rates so that the resulting appraised values are equitable for all properties within an acceptable statistical deviation. And although computer programs are used extensively, Collier County Property Appraiser Abe Skinner emphasizes that "we have hands on each appraisal." Using myriad daily reports in addition to sales reports, Skinner and his staff reappraise every property every year, as required by Florida Statute.

Is the system foolproof? There wouldn't be an appeals process if it were. "We are continually looking at improving our system," Skinner says.

Appraising is as much art as it is science, and in all forms – CMA, BPO or appraisal, the end result is an "opinion of value."

Ginny Cooper is a freelance contributor to NABOR magazine.

Plan Now or Pay Later!

Tax Strategies for REALTORS

By Ginny Cooper

If a conversation with your accountant about taxes goes something like this:

Accountant: "Have you done your tax planning?"

You: "Yes, I plan to pay my taxes!"

Then it's time to take stock of your tax strategy. You have already concluded your business for 2010 and how you conducted it will affect the way you file your tax return(s) and your chance of being audited. And while this article will offer tips to maximize your deductions for the 2010 tax year, real tax planning begins on January 1. It's not too late, however, to make some changes that will provide a better bottom line for you come April 15, 2012.

"The size of your tax bill depends not only on how much money you make but also on how your business is set up," explains Mark Stout, CPA. "Every business has two parts: the legal entity and the taxable entity. In Florida, a company (legal entity) can be treated three different ways for tax purposes (taxable entity) and there are at least four different ways to set up your business as a REALTOR.

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The one you choose initially can be changed later if your business is growing and you take on employees or partners."

For most REALTORS, wages are reported by their broker on Form 1099-MISC, as non-employee compensation. "The biggest tax bite for most REALTORS will be self-employment taxes (Social Security), not income taxes," says Stout. "Social Security taxes are 15 percent of the net earnings of your business while your income taxes may be only 10 percent or possibly less." While taking measures to reduce the self-employment tax is tempting, Stout warns that older REALTORS approaching retirement will want to consider the size of their Social Security check in their financial planning. "Your Social Security check will be determined by the last 40 quarters of earnings. Having 40 quarters of earnings for which Social Security taxes are paid in can be an important part of the equation. For younger REALTORS, keeping your business going is more of a priority so different strategies can be applied to reduce this extra tax bite."

So the burden of reducing taxes lays on the expense side of the equation. Home office, medical, entertainment and vehicle expense deductions can all add up to tax savings. And there are lesser-known strategies that can boost your deductions significantly. The IRS will allow for deductions that are "ordinary" and "necessary" (also interpreted as "reasonable and customary") in the conduct of your real estate business. Keep in mind that it is not the transactions or expenses by themselves that determine whether or not the deductions are tax-deductible; it is the circumstances surrounding the transactions.

Driving Your Tax Bill Lower

Often referred to as the "Hummer Deduction" or "SUV Loophole" for its application to large vehicles purchased for business use, Section 179 of the IRS tax code allows businesses to deduct the full purchase price of qualifying equipment and/or software purchased or financed during the tax year. The "Jobs Act of 2010," the "Tax Relief Act of 2010" and previous economic stimulus acts have had enormous impact on this section of the IRS Code, which was once slated for elimination. Consult your accountant before purchasing that new equipment however, as new qualifications and limits apply.

Even if you do not use a Section 179 deduction for your vehicle, the benefits of the "mileage" vs. "actual expenses" deduction options should be carefully considered. Should you choose the standard mileage deduction method, be sure to keep a detailed log of your miles that includes the beginning and ending mileage of each trip taken for business purposes, the date, the name and address of the location, the purpose for the trip and who, if anyone, you met with, including a brief description of what was discussed.

Driving to and from the office is not a deductible expense, it is "commuting." You can, however, change commuting to a deductible activity by driving by FSBOs, stopping to refill the brochure boxes or previewing property before going to the office.
Plan ahead!

Let Them Eat Cake! It's Deductible!

Most meals and entertainment expenses are only 50 percent deductible. However, when meals are eaten on business premises for the benefit of the employer, they are 100 percent deductible. So too, are meals for which you will be reimbursed by a client, as long as they are invoiced as a separate line item.

When is a meal not a meal?

When it is an entertainment expense. Instead of taking clients out to lunch or dinner, hold a client appreciation event (such as a party or open house) and take the deduction under advertising and promotion. You can also do the same thing for broker open houses.

When you travel for business, you can deduct 100 percent of the ordinary and necessary expenses while traveling away from your normal place of business, including meals. There is no stipulation as to what constitutes travel, so make the most of any trip out of the office.

Home Sweet Deductible Home Office

If you regularly and exclusively use a part of your home as your principal place of business you are eligible to take deductions such as rent, mortgage interest, utilities and other related housing expenses. To meet the "principal" rule, your place of business has to meet one of three criteria: it's where you do your administrative tasks like bookkeeping; it's the place where you bring clients; or it's a separate structure. It does not mean the place where you do most of your business. So you may rent an office in town, but use a portion of a room in your house to do your bookkeeping. The costs for that portion of the home, assuming it's used exclusively and regularly for bookkeeping, may be deducted. "The amount you deduct is based on the square footage of your office compared to the overall square footage of the house," explained Stout.

ER for Your HR

Depending on your business structure, you may be able to take advantage of a Section 105 Medical Reimbursement Plan which allows for reimbursement of medical expenses under an employer-sponsored health plan. This is accomplished by hiring a family member to work for you and offering him/her a benefits package which provides for reimbursement of all medical expenses, including out-of-pocket expenses, for the employee and his/her family. You are then covered under the medical plan as a member of his/her family, yet the expenses you pay to that employee are 100 percent deductible for you.

All of these options should be thoroughly discussed with your accountant. Overall, Stout's most important piece of advice: "Your accountant can't take a deduction for something that you don't include as part of your expenses. ***Keep good records***. This is a business, treat it like one."

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