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Phil McCollum's Real Estate Articles & Advice Newsletter

Phil McCollum
REALTOR®
BRC Realty
DRE License Number: 01339323
700 S. Flower St
Los Angeles, CA 90017
562.225.5234
phil@philipmccollum.com
http://www.philipmccollum.com

Articles and Advice

When double-pane glass needs replacing

By Paul Bianchina

Q: I am sort of handy around the house and was wondering how difficult it is to remove and replace the windows in my house. There seems to be moisture between the double-pane windows now. Any tips? --Frank C.

A: If you are seeing moisture between the panes of glass in a double-pane window, that indicates that the air-tight seal has failed, which is not unusual. What you want to do is replace the insulated glass unit, not the entire window -- the same as what would happen if you broke the window glass.

Insulated glass units need to be special ordered to fit the window. Contact any licensed and bonded glass company in your area, and have them come out and measure and order the units for you. They can also discuss any options you have for installing glass that is more energy efficient.

Installation involves snapping out the trim pieces that hold the glass in place, removing the old insulated glass unit, setting the new unit into the window frame with special tape to hold it in place and help with the air-tight seal, and then reinstalling the trim pieces. All in all, it's something best left to the glass company.

Q: I recently had my wood shingles removed and replaced with an Elk 40-year composition shingle. My wood shingle roof did not have any vents, and the new roof was installed with continuous "Z" ridge on top for ventilation. The house is single-story, 3,000 square feet, and I have calculated that I need 10 square feet of vent area. There is vent all around the house at the eaves. How do you figure the ventilation of the ridge vent? Do you think I need more vents? --Don H.

A: The Z-Ridge that you mention is actually Elk's ridge shingle, not the vent itself, so the first thing you would need to know is exactly what type of ridge vent was installed, because they can differ between brands in the amount of net free area (NFA) that they provide. If you have the Elk brand of continuous ridge vent, they list it at 10.65 square inches of NFA for every one linear foot of vent length. That assumes that the roofer cut back the roof sheathing at the ridge by the recommended 1/2 inch on each side, creating a total of 1 inch of air space at the ridge.

Because you want your vents to be divided roughly equally between high and low, you would want about five square feet in high ventilation, which is 720 square inches. Divide that by 10.65, and you would need almost 68 linear feet of ridge vent.

The final step would be to measure (or ask) how much ridge vent was installed, and see how close it is to that 68-foot figure. If it's substantially less, I would suggest adding additional ventilation in the form of individual gable or ridge vents.

Q: During our remodel, our existing wood floors got soaked during an unexpected rainstorm in the spring. They were refinished in September. I've noticed some gaps between the lengths of the boards, maybe 1/16 inch wide. Is there a way to fill the gaps without refinishing the whole floor? Should I fill these gaps or leave them alone? The wood floors are 3/4-inch red oak and nearly 40 years old, and they have been refinished two times. --Cindy K.

A: There are ways to fill the gaps and repair the finish, but they are difficult to do correctly for a nonprofessional. They should also not be left alone, because gaps in the finish will more readily allow for the intrusion of dirt and, more importantly, moisture, which can damage the floor in the future.

It sounds as though the floor may have been refinished before it had dried down to a low-enough moisture content for finishing. As a result, when the boards completed drying, the gaps opened up. Since the floor was just refinished last September, in my opinion the flooring contractor needs to come back out and make the necessary repairs for you.

Tips for paying off mortgage early

By Benny Kass

DEAR BENNY: I was reading in one of your columns about paying off your mortgage faster by making an extra payment each year. You said to make sure your coupon clearly indicates you are making an extra payment. I did this at the end of 2008, but didn't know whether it should go under an extra payment or payment on the principal. I paid it on the principal because otherwise it wouldn't show up until January as a payment.

I called the mortgage company and could not get a straight answer from them. I was told I could do it either way, which was not helpful. Did I do the right thing by paying the extra payment on the principal? I was setting up our payments to come out of our checking bimonthly so the extra payment would be included each year. We also have money going into our escrow account to pay our taxes and homeowners insurance. I am confused. –Lynette

DEAR LYNETTE: I am also a little confused about your question, but let me try to answer it this way. I always recommend that if you can make at least one extra monthly payment each year, you can lower the amount of interest you will ultimately pay as well as shorten the term of the loan. For example, one additional monthly payment per year should reduce a 30-year loan down to approximately 22 years.

You can make this extra payment in several ways. In December of each year, you can make that extra payment. Or, better yet, divide the monthly payment by 12 and add that amount to your payment each and every month.

I recommend that you call it "extra payment" and include it in your coupon as an "extra payment." To be on the safe side, I also would include the amount as a note on the bottom on your check, and again call it "extra payment." If you are using an automatic payment account, instruct the organization paying the loan to make sure they label the extra payment as such.

And in January of each year, do your own calculations to make sure that these extra payments have, in fact, been included in your new mortgage loan balance.

DEAR BENNY: My wife and I (via our LLC) own a two-story brick building built in 1890. We are eight years into a 15-year fixed-rate mortgage with payments of $816 monthly, and a $42,000 balance. We have a successful business, which my wife operates, on the first floor.

For the last several years there has been a successful historic renovation of our downtown. Many of the second-story lofts have been or are being renovated into urban living spaces. Our second-story loft has 1,800 square feet and 11-foot ceilings with 8-foot windows, but has been bricked up since the 1950s. We are considering moving forward with a renovation, but we must borrow to complete this work. Our economy has experienced a downturn recently and our county currently has a 10 percent unemployment rate. I am uncertain if we should continue under these circumstances and if we do, is it wise to refinance the total building or extend our HELOC?

We are debt-free (except for our home and business mortgage), own four small businesses, have no children, own other free-and-clear rentals, and we have a six-month reserve on hand in the bank. I have proposed a budget of about $100,000 to complete this work, and other downtown rentals are running at about $1,100. What advice can you offer given the current economic situation and our borrowing needs? I do feel confident that given a 90 percent occupancy rate we can accomplish a slightly positive cash flow over our PITI. –Michael

DEAR MICHAEL: I always appreciate hearing positive things from my readers. You have asked the $100,000 question, but I can provide only general information. Only you can make the final decision. Since you wrote this question to me, (a few months ago) the economy has not gotten better, and indeed it has declined further. Perhaps the new Obama administration will create hope and optimism similar to Camelot when John Kennedy became president back in 1960.

You indicate that the unemployment rate in your county is quite high, but you will need a 90 percent occupancy rate to make a profit. What guarantee do you have that you will reach that goal? Keep in mind that being a landlord means you will have vacancies.

Have you lined up any potential tenants, and checked out their financial and credit ratings? That's the first thing I would do before launching in the project.

Only you can make the final decision. However, if it were up to me, I would hold off at least until we see some signs of an economic recovery. You can always do this later, but if you fail now, you could lose the building.

DEAR BENNY: In June 2007, I purchased a house with a fixed-rate mortgage. A year later, the mortgage company requested an extra payment of $715. Six months later, they sent me *another bill, claiming an extra payment was required.*

I am being told that a mistake was made on the original amount needed for insurance and taxes, and they cannot be sure if or when additional extra payments will be required. And nobody seems sure whether I will be allowed to take over payment of my own insurance and taxes, which I've always done in the past.

Since I'm not a first-time homebuyer and have excellent credit and have managed house insurance and taxes in the past, this all seems highly weird. –Willi

DEAR WILLI: I personally dislike the concept of having to pay money monthly into an escrow fund managed by a lender to pay real estate taxes and insurance. However, it is legal and most lenders (especially FHA and VA) require this.

My objections are twofold. First, most lenders use this money as collateral and do not pay any interest on it. Second, lenders sell/assign loans all over the country, and often a lender in one state does not know where or how to pay the real estate tax in your particular county.

But whether you are a first-time homebuyer or have good credit, if you want the loan you have to comply with the lender's requirements.

You should obtain and carefully review the lender's financial records regarding your loan. Find out the costs of your tax and insurance, and compare those costs to what the lender has been charging -- and paying. By law, lenders have the right to a two-month cushion, just in case you miss a mortgage payment.

Finally, I recommend that every borrower who escrows for taxes and insurance send a demand letter once a year (or twice a year if real estate taxes are paid every six months) requesting proof that your lender did, in fact, make the required payments. This is especially true in today's market economy, when many mortgage lenders are no longer in business.

DEAR BENNY: My mother recently applied for a reverse mortgage. I have been trying to find a benchmark for reasonable costs associated with this loan to no avail. Could you please guide me in the right direction? –Peter

DEAR PETER: Congress recently enacted a law putting a maximum limit of $6,000 on closing costs for federally insured reverse mortgages. But different lenders will have different costs. I recommend that you do a search for "Reverse Mortgage" at your favorite Internet search engine. Specifically, AARP has a lot of helpful information, which can be found at www.aarp.org.

DEAR BENNY: I have an investment property I would like to use in a 1031 tax-deferred exchange. I have great credit scores (770), but my debt ratio will not allow me to qualify for a loan on the new property. I currently own the current investment property in my own name.

I now have a significant other in my life. Can he go on the new loan and title work, allowing me to take advantage of the 1031 tax exchange rules and qualify? We plan on the new property being our retirement home eventually. –Kathy

DEAR KATHY: It all depends on the price of the properties. Your current property is the relinquished property and the new one is called the replacement property.

Since you own the relinquished property by yourself, the replacement property must also be in your name only. However, let's take this example. The relinquished property will be sold for $500,000, and the replacement property will cost $750,000. If you and your significant other take title to the replacement property as tenants in common, with your interest equaling two-thirds (i.e. $500,000), I believe this would fly through the Internal Revenue Service. But confirm this with your own tax and legal advisors.

Benny L. Kass is a practicing attorney in Washington, D.C., and Maryland. No legal relationship is created by this column.

A primer on purchase offers

By Dian Hymer

Decades ago, sellers priced a little high to leave room to negotiate down. Buyers typically offered 5 percent less. Then they negotiated and settled at a price in between. Today, there is so much variability in the housing market that it's impossible to use a pat formula for coming up with an offer price.

Your goal is always the same: You want to buy the best house for your needs and pay the lowest price. In many cases, you can start with a price that is less -- maybe even considerably less -- than the asking price and negotiate from there.

However, this strategy might not work in some California inland markets where housing prices have dropped about 50 percent in recent years. Some low-end housing markets plagued with foreclosures have heated up in recent months. Multiple offers are common, and some listings sell for more than the asking price.

Tailor your offer price to the specific house you want to buy. How much you offer should depend on how much you can comfortably afford to pay, which may be less than what the lender says you can afford. The price should be determined by current local market values, how well the listing is priced for the market, and whether or not you are in competition.

HOUSE HUNTING TIP: Buyers making offers in competition should try to make a rational decision regarding how much they're willing to pay. Don't get caught up in the frenzy of activity and offer more than your top price for the property. If you overpay, you could get cold feet and back out. In this case, your deposit might be at risk.

An appraisal contingency makes your offer contingent on the house appraising for the price you agreed to pay in the purchase agreement. If the property appraises for less than that price, you can withdraw from the contract and your deposit will be returned to you. That is, if your purchase agreement clearly stipulates this.

Other options are to try to renegotiate the price with the seller or put more cash down to make up the difference between the loan amount the lender is willing to lend and the purchase price.

Lenders are being just as cautious about appraisals as they are about qualifying buyers for a mortgage. Some appraisals are coming in lower than market value and some lenders are knocking down the appraisal 5 percent or so if they're concerned that home prices might decline.

Buyers who offer an under-asking price can improve their chances of starting a dialogue with the seller if they are preapproved by a lender for the financing they'll need to close the deal. The number of transactions that fail has increased in the current market. In most cases, this is due to buyers having difficulty getting financing. If the sellers know you will be able to perform, they'll be more likely to work with you to come up with a mutually acceptable price.

Short-sale sellers will need lender approval if the accepted price is lower than the amount of financing secured against the property. This can be a slow and tedious process. Many lenders realize that it makes more sense for them to work with a buyer on a short sale than it is to let the property go into foreclosure. But, your contract should include an escape clause so that you can withdraw without penalty if the lender is not responsive.

THE CLOSING: If you make a low offer on a bank-owned property (REO) and you don't get a response, make another offer at a higher price, but only if you think the property is worth it.

Dian Hymer is a nationally syndicated real estate columnist and author.

Water conservation tips

By Amy Westervelt

It seems you can hardly open a newspaper these days without reading the headline "Water is the new oil." But what does that mean exactly? In fact, water shortages may cause more severe problems than oil shortages: our lives literally depend on water, plus there are several alternatives to fuel but none really to water. We can technically "make" more water through techniques like rainwater catchment and desalination, but few individual homeowners have their own catchment tanks and even fewer are likely to rig up their own desalination plant. Even if such things were easy, it would still behoove us all to reduce our water usage first, not only because water is scarce, but also because we could all stand to shave a few dollars off our water bills. With that in mind we compiled the following tips to help you do exactly that.

In the Shower

Install water-saving shower heads or flow restrictors. Readily available at any hardware or home store, low-flow shower heads deliver 2.5 gallons of water per minute while traditional shower heads use 5 to 7 gallon per minute.

Take a Shorter Shower. You don't have to be a hero, just shave off a couple of minutes. According to the EPA, even a one or two minute reduction in shower time can save up to 700 gallons per month.

Use the Cold Water. If your shower takes awhile to warm up, catch the cold water in a bucket and use it on your lawn or in the garden.

In the Bathroom

High Efficiency Toilets. If your toilet is from 1992 or earlier, you probably have an inefficient model that uses between 3.5 to 7 gallons per flush. New and improved high-efficiency models use less than 1.5 gallons per flush - that's 60 to 80 percent less than their less efficient counterparts. According to the EPA, over the course of 10 years, one high-efficiency toilet can save a family of four roughly $1,000 without compromising performance.

Displace Water. Here's an old-fashioned trick: Put a plastic bottle or bag weighted with pebbles and filled with water into your toilet tank. Displacing water in this manner allows you to use less water with each flush, saving between 5 and 10 gallons per day.

Check for Leaks. To check your toilet for leaks, put dye tablets or food coloring into the tank. If color appears in the bowl without flushing, there's a leak that should be repaired. To check showers and faucets for leaks, read your water meter before and after a two-hour period during which no water is being used. If the meter does not read exactly the same, you probably have a leak. Fixing a leaky toilet saves up to 400 gallons of water per month, while fixing a leaky faucet can save up to 225 gallons per month.

Brush and Shave Efficiently. Turn off the water while brushing your teeth or shaving. Fill the bottom of the sink with a few inches of water to rinse your razor. Turning off the water while brushing and shaving saves six gallons of water a day.

In the Yard

Timing Is Everything. Sprinklers running when it's raining? Not cool. Put your irrigation system on a weather-based schedule. If you set it to water in the early morning, that's even better. Using weather-based irrigation scheduling on a moderate-sized yard can save up to 37 gallons of water per day

Maintenance. Make sure a leaky sprinkler head isn't costing you dollars and gallons.

Go Native. Use native plants in your landscaping that are adapted to the local weather, and you won't have to water them as much (if at all). Native plants in the yard can reduce residential water use by 20 to 50 percent.

Contingent sale offers can benefit sellers

By Dian Hymer

Convincing a seller to accept an offer that's contingent on the sale of another property can be challenging. The odds of acceptance improve if the offer is structured to the mutual benefit of both buyers and sellers.

From the buyers' perspective, there are advantages and disadvantages to contingent sale offers. A big advantage is that the buyers don't have to go through with the purchase if their home doesn't sell. They don't risk much.

The buyers may incur costs of inspecting and appraising the property, but the expense is minimal compared to buying a new home before selling the old one and ending up owning two homes at once.

From the sellers' point of view, contingent sale offers are not desirable because the outcome is uncertain. This is why sellers who agree to a contingent sale offer usually want a release clause in the contract.

A release clause allows sellers to continue to market their home and accept other offers in backup position, subject to the collapse of the primary offer. If the first buyers can't perform, they have to withdraw from the contract so that the seller can proceed with backup offer.

Buyers can spend a lot of time finding the right house to buy. If they can't sell their current home before another buyer boots them out of contract, they have to start house hunting again.

HOUSE HUNTING TIP: A contingent sale offer can be structured to give buyers more certainty about being able to close the deal. Normally, when there is a release in a contingent sale offer, it goes into effect as soon as the contract is ratified. But it doesn't necessarily have to go into effect then.

Buyers can request that the release clause not go into effect for a period of time, say 14 to 21 or so days. If the buyers' home is ready to be put on the market and it's priced right and well located, there's a chance it will be under contract before the release clause goes into effect.

A release clause that doesn't go into effect immediately should specify that if the buyers' property is under contract within the specified time frame, the release clause will not go into effect unless that deal were to fall apart.

Sellers might think this approach benefits only the buyers. However, it can benefit the sellers in terms of their overall marketing strategy.

When sellers of a property that's listed on the Multiple Listing Service (MLS) accept a contingent sale offer with a release clause, this information is published in the MLS. It is a material fact affecting the sale. A buyer can make an offer only for a backup position. Many buyers don't want to waste their time.

So, a release clause can slow down the marketing of the sellers' property. And, it can be difficult to regenerate enthusiasm about the property if the buyers' property doesn't sell and the sellers' listing is still encumbered by a release clause.

The sellers' property will show up as pending in the MLS if the buyers and sellers agree to delay the activation of the release clause. If the buyers' property doesn't sell by the end of the specified time period, the sellers' property will show up in the MLS as back on the market. This quickly and clearly announces that the listing is available for sale with no strings attached.

THE CLOSING: Make sure your agent includes in the confidential MLS remarks to agents that the listing is back on the market because the buyers' home didn't sell, and due to no fault of the listing.

Dian Hymer is a nationally syndicated real estate columnist and author.

Features

Remodels holding more value than home prices

By Dian Hymer

“Remodeling Magazine's” 2008-2009 Cost vs. Value Report, produced each year in conjunction with REALTOR® Magazine, contains good news about the value of remodeling projects.

The recent Cost vs. Value Report showed that renovations on a nationwide basis held their value better than home prices did in 2008. According to the NATIONAL ASSOCIATION OF REALTORS® (NAR), home prices declined 7 percent in 2008, while the value of homeowners' investments in remodeling dropped only 2.8 percent in 2008.

During slow real estate cycles, many would-be sellers postpone their move and remodel instead. This makes sense as long as the projects are selected carefully for maximum return on the investment. It's important to avoid renovations that would overimprove the property for the neighborhood.

One benefit of remodeling sooner rather than just before selling is that the homeowner is able to enjoy the improvements before moving on. All too often, sellers wait until right before they put their home on the market to enhance its appeal.

HOUSE HUNTING TIP: Remodeling, if done smartly, can result in a quicker sale and less negotiation with buyers over perceived shortcomings. Painting the house and updating the kitchen, baths, lighting fixtures and floor coverings are examples of improvements that can improve the sale price.

In today's slow economy, there are more contractors looking for work in some areas. And, in some cases, their prices have come down. This positively impacts the return on investment when the home is sold.

Recently, an Oakland, Calif., homeowner received a bid of under $20,000 for a midrange kitchen remodel. Four years ago, he received a $45,000 bid for the same work, but decided against going ahead with the project because of the cost. Now that he's ready to sell, he's planning to do the midrange kitchen remodel to enhance the salability of his home.

The amount of return from a remodel investment that is recouped when the property is sold varies significantly from one place to the next and from project to project. For example, nationally, 70.7 percent of the cost of a major kitchen remodel was recouped at sale.

In the Pacific region (Alaska, California, Hawaii, Oregon and Washington), a major kitchen remodel returned 95.5 percent. In San Francisco, a major kitchen remodel returned 131.5 percent of the investment at sale. Despite higher labor and material costs, The Pacific Coast average cost recouped at sale was 14.8 percent higher than in the rest of the country.

Smaller cities such as Jackson, Miss., and Billings, Mont., had high rates of recovery due to lower labor and material costs.

Nationally, exterior improvements generated the biggest payback on average. A midrange deck returned 80.8 percent. Upscale fiber cement siding returned 86.7 percent. A midrange minor kitchen remodel returned 79.5 percent. And upscale vinyl windows returned 79.2 percent. These projects increase curb appeal -- an important selling feature for most homebuyers.

The data used to generate the Cost vs. Value Report was obtained from surveys sent to more than 150,000 appraisers, real estate agents and brokers in July and August 2008. The cost data was obtained from HomeTech Information Systems, a remodeling estimating software company. The confidence level of the results is 99 percent, plus or minus 2 percent, according to NAR.

Homeowners who are concerned about the resale value of their home should first consult contractors to obtain estimates. Then consult with an experienced local real estate agent for input on the estimated cost recovery of the anticipated improvements before moving forward.

THE CLOSING: Sellers often spend too much on improvements, or make improvements that don't add value at sale. Some improvements can actually decrease value if they are so specialized that they don't have broad-based appeal.

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Cool tools under $200

By Paul Bianchina

Here, in order of price, are a few tools worth considering, and all are under $200 -- many of them way under! Most are available at local home centers and hardware stores, or check out their Web sites for more information.

Striker Magnetic LED Light ($6.99, www.strikerhandtools.com): Here's a clever little gadget that is sure to be a big help to do-it-yourselfers and pros alike -- a spotlight that's about the size of a golf ball! The Striker is a little acrylic sphere, studded around the outside with 12 powerful rare earth magnets and a bright, wide-angle, LED light. The magnets hold the sphere firmly to any metal surface, while the light gives surprisingly bright illumination. And with a choice of 12 different magnetic positions, you can direct that light right where you need it. Use it under the sink while you stop that leak, behind the stereo while you sort out the cables, or inside the cabinet while you get the last screw into the drawer guides -- the possibilities are endless!

Zip Sander (Model 7186, $11.99) and Zip Sanding Sponge (Model 7233, $9.99, www.zipsander.com): You may not take these little guys seriously when you first see them, given their bright yellow resemblance to your favorite bathtub rubber ducky. But if you're used to doing your hand sanding by wrapping sandpaper around a wood block, you're sure to love these innovative sanders. The Zip sander is made of a tough foam material with a contoured grip that fits perfectly in your hand. It has a flat bottom with pointed ends to simplify sanding along edges and into corners, and it uses hook and loop material to make changing sandpaper a snap. If your project calls for a sanding sponge instead of sandpaper, try the Zip Sanding Sponge, which has the same comfortable foam grip and interchangeable sponges in different grits.

Stanley Maxsteel Multi-Angle Vise (Model 83-069M, $29.99, www.stanleytools.com): Here's a versatile little vise that's perfect for all your small- to medium-size projects. Made of durable cast-aluminum, this multi-angle vise has a huge ball socket that allows the head of the vise to be rotated, pivoted and angled into a virtually unlimited number of positions. The jaws will open to 3 inches wide, and have steel faces with a horizontal V-groove for holding pipe, dowels and other round objects. There also is a pair of soft jaw covers that slip in place when working with more delicate objects. A large screw clamp holds the vise securely to your workbench, table or truck.

Dremel Duo Cordless Screwdriver and Rotary Tool Combo (Model 1130-01, $92.99, www.dremel.com): This is a great combo kit, featuring the "Dremel Driver" cordless screwdriver and the Dremel "Stylus" cordless rotary tool. Both are compact and powerful, with 7.2-volt motors and lithium ion batteries. The Dremel Driver, with variable speed and reverse, is less than 5 inches long but is powerful enough to drive 3-inch screws. The Stylus is also small and lightweight, with a very comfortable grip and a speed dial that regulates the speed from 5,000 to 25,000 RPM. The dual charging stand holds and charges both tools at the same time, and also provides bit storage. The kit also includes a nice collection of 33 different accessories in a storage case.

Bosch Lithium Ion I-Driver Kit (Model PS10-2, $119.95, www.boschtools.com): Bosch has taken advantage of the smaller, lighter lithium ion battery with its compact and powerful 10.8-volt "I-Driver." It's the perfect solution for those tight spots when you need real power. The head rotates to five different positions, from zero to 90 degrees in relation to the handle. It has an eight-position clutch, accepts any 1/4-inch hex bit, and has a comfortable, sturdy feel -- a real workhorse in a compact size. The complete kit includes the driver, two batteries, a 30-minute charger, soft carrying case, and a couple of bits.

Skil X-Bench (Model 3100-12, $159.95. Optional accessories range from $19.95 to $79.95, www.skilshop.com): If you don't have the shop space to spread out all your tools or if you need a portable shop you can take to where the work is, Skil's new X-Bench may be just what you need. The X-Bench has a solid 53-by-23-inch table top with ruler markings to help with your layouts, mounted on a sturdy frame that folds in half for transport. The table sits on four steel legs that independently adjust from 24 to 34 inches high, allowing you to set the table to the height that works best for your project, or to compensate for uneven surfaces. The table has a "cut channel" in it that allows you to lay materials on the table for cutting without worrying about damaging the table top.

Inset into the table is an innovative Universal Insert Plate system that lets you turn your portable tools into bench-top tools for easier, more accurate use. There's a router plate that accepts several of Skil's routers, making the X-Bench into a router table in seconds. There's a plate to hold a jigsaw, and one to hold a sander. There is also a tail vise attachment, a vacuum sanding table, a staining table and more, all designed to work with the basic X-Bench.

Mortgage seekers hit new roadblocks

By Dian Hymer

Mortgage rates on conforming loans up to loan amounts of $417,000, and $729,750 in high-cost housing markets like San Francisco and New York City, are attractively low -- hovering close to 5 percent. That's the good news. The challenge is getting through the approval process.

Several years ago, one couple bought a home in Hercules, a suburb in the San Francisco Bay Area, for $650,000, with no cash down payment and no documentation of their income, employment or assets. They would not have qualified using conventional financing with full documentation. Their income didn't support a $650,000 mortgage.

Today, a buyer is having difficulty getting approved for a conforming $417,000 mortgage even though his credit score is high, his debt-to-income ratio is low and he is putting 30 percent cash down. His file, which is now a couple of inches thick, is caught in the quagmire of underwriting.

The problem from the underwriter's standpoint is that the borrower has income from several sources. If he was employed by the government and received one W-2 from his employer each year, income verification would be simple. Self-employed individuals are having a much more difficult time getting approved.

This doesn't mean that you shouldn't apply for a mortgage if you're self-employed, or have multiple sources of income. Just be prepared for a long loan approval process. In one case, the borrower's file took 31 days to get through underwriting.

And, steel yourself for frustration. You'll be required to document everything, which can include requests that seem ridiculous.

One borrower was asked to write a letter explaining why he made less money last year than he did the year before. He was an attorney in his 60s who decided to work less. He handily qualified for the mortgage on his current income.

Borrowers who have income from investments should be prepared to provide documentation about these investments. Even if you qualify without using your investment income, if it's reported in your income tax return, the underwriter is probably going to want full documentation.

Recently, a borrower with good income and credit applied for a $729,500 conforming loan, but was denied because he had only one credit card. The lender required the borrower to have two credit cards. The lender did, however, approve the borrower for a $417,000 confirming loan.

To qualify for the $625,000 mortgage, this borrower would have to acquire a second credit card, use it a few times, pay the bills on time and wait one year before applying to refinance for the larger loan amount.

Is this sensible underwriting? Why encourage a borrower to take on more credit in order to qualify to borrow more money?

Sloppy underwriting and lax lending practices are partially responsible for today's economic crisis. Lenders should qualify and lend only to borrowers who can handle the monthly payments, have a decent equity stake in the property and have a good credit history. However, in many cases, prospective qualified borrowers are being put through the wringer. We need rational, prudent and intelligent underwriting, not prohibitory underwriting.

The government is pouring billions of dollars into the economy -- ultimately at taxpayers' expense -- to stimulate lending and the recovery of the housing industry. If the approval process is so arcane and unreasonable that responsible, qualified buyers can't get approved in a reasonable amount of time, and without enduring giant frustration, it defeats the purpose of the stimulus.

THE CLOSING: If you have trouble getting a mortgage, and you know that you're a qualified buyer, call your congressperson and wage a complaint. The pendulum has swung too far.

Dian Hymer is a nationally syndicated real estate columnist and author.

When seller financing goes awry

By Benny Kass

DEAR BENNY: We carry the first and only mortgage on our married daughter's house, which is approximately $200,000. Without our knowledge they obtained an equity loan on the house for $100,000. Our son-in-law has since lost his job and we are carrying them on the first mortgage. If he defaults on the equity loan, what effect does this have on us? –Joan

DEAR JOAN: An equity loan -- usually called a "home equity loan" or a "HELOC" -- is a second mortgage (in many states it is called a "deed of trust"). And basically, as with a first trust, the HELOC lender can foreclose on the property if their loan is in default. However, the second lender must advise the first trust lender (which you are) of the pending foreclosure, and that would give you the right to pay off the second so as to keep the property.

Alternatively, if you should opt not to make the payment and the house is sold, you will receive your proceeds first because you are in first trust position.

What this means in real life is that most second trust holders are reluctant to institute foreclosure proceedings. There is an expense involved (such as advertising, auction and legal fees) that the HELOC bank may not want to spend if they believe the foreclosure sale will not generate any money for them.

You or your attorney may want to discuss the situation with the HELOC holder and see if you can work out some kind of amicable resolution.

DEAR BENNY: In January 2005 our daughter bought a home for $125,900. My ex-wife and I co-signed so she could get the loan. My daughter made all the payments and lived in the home until March 2008 when she sold it for $145,000 and bought another home for $259,000.

We each received a Form 1099 showing the gross receipts from the sale divided by three, which was about $48,000 for each. The net receipt was $11,367, which my daughter kept.

I know she does not have to pay taxes on it because she made less than $250,000 profit, but do my ex and I have any liability in this? Do we have to show a third of the profit on our taxes? Do we have to do anything? –John

DEAR JOHN: I am not an accountant, so I don't know exactly how you should handle this. I do know, however, that since neither you nor your ex-wife were on title, neither of you made a profit and thus do not have to pay any tax.

However, because you both received a Form 1099 and those forms go to the Internal Revenue Service, you need to file an explanation when you complete your 2008 tax return.

Perhaps the best approach would be to get a copy of the deed to your daughter's house, which would clearly indicate that she was the sole owner. Attach a copy of that deed to your income tax return, with a brief explanation that although you received Form 1099, neither you nor your ex were on title.

You may also go back to the settlement company/attorney that sent you the form, and ask them to issue a correction.

DEAR BENNY: Recently, you addressed the issue of combining the gain from a sale made under the old rollover rule with the gain on a home being sold under the new $500,000 exemption rule. The article raised two questions:

1. If I had a gain on a sale in 2000 of $250,000 and a gain of $300,000 on a sale in 2008, and all the residency criteria were met, would I owe tax on $50,000 gain ($250,000 + $300,000 - $500,000 = $50,000)?

2. If I have, over the course of years, sold several homes under the rollover rule, and now sell my current home, do I need to add the gains from each sale to determine the total gain before applying the $500,000 exemption?

I read your column and cannot remember ever seeing the issue of "accumulated gains" being explained. –Frank

DEAR FRANK: May 6, 1997, is the target date. For sales that took place after that date, you are eligible to exclude up to $500,000 of your gain if you are married and file a joint income tax return (or up to $250,000 of gain if you file a separate tax return).

You can take the exclusion every two years, although you are eligible only if you have owned and lived in the house for two out of the five years before it is sold. This is called the "use and ownership" tests.

Thus, the answer to your first question is that you would owe no tax. The sales took place after the target date, and since you meet the use and ownership tests -- and you file a joint income tax return with your spouse -- you can exclude the profit from both houses.

The answer to your second question is more complicated. Let's take this example: In 1990, you bought a house for $100,000, and sold it in 1992 for $200,000. In that same year, you bought a second house for $300,000. However, since you were able to take advantage of the old rollover rules, the $100,000 profit was deferred; although you paid $300,000 for the new house, your basis for tax purposes became $200,000 ($300,000 - $100,000).

In 1996, you sold the second home for $500,000 and bought a new one for $600,000. Although it would appear on paper that you made a profit of $200,000 on this sale, because the rollover reduced the tax basis, in fact you made a profit for tax purposes of $300,000 ($500,000 - $200,000).

NOTE: For purposes of this discussion, I am ignoring any improvements that would increase your tax basis, as well as any costs that you paid associated with your purchase and sale, such as closing costs and real estate commissions.

So, in our example, your third house (that you paid $600,000) now has a tax basis of $300,000 ($600,000 - $300,000).

We are no longer using the rollover. If you subsequently sell the current house for $800,000 or less (and if you file a joint tax return and meet the use and ownership tests), you will not have to pay any profit. However, once the sales price exceeds $800,000, you will have to pay a capital gains tax on that difference -- and the current federal rate is 15 percent.

This example clearly shows the value -- and the benefits -- of keeping accurate records of all improvements that you have made over the years. Every dollar of capital improvements will add a dollar to your tax basis. This also makes it clear that you should keep all of your settlement statements (HUD-1), because some of the items on those documents can be used to reduce your tax liability.

Benny L. Kass is a practicing attorney in Washington, D.C., and Maryland. No legal relationship is created by this column.

Phil McCollum

REALTOR®
BRC Realty
700 S. Flower St
Los Angeles, CA 90017
562.225.5234
phil@philipmccollum.com
http://www.philipmccollum.com

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