Zero-Down Loans Making a Comeback

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Your buyers may soon be able to bring less to closing. They were blamed for precipitating the housing crisis years ago, but major lenders are giving no- and low-down payment loans another shot.

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Several major lenders are reportedly offering loans with just 1 percent down. Navy Federal, the nation's largest credit union, offers its members zero-down mortgages in amounts up to $1 million. NASA Federal Credit Union markets zero-down mortgages as well. Quicken Loans, the third highest volume lender, offers 1 percent down payment options, as does United Wholesale Mortgage. And the Department of Veterans Affairs has offered zero-down loans to eligible borrowers for many years.

Also, Movement Mortgage, a large national lender, has introduced a financing option that provides eligible first-time buyers with a nonrepayable grant of up to 3 percent. As such, applicants can qualify for a 97 percent loan-to-value ratio conventional mortgage, which is basically zero from the buyers and 3 percent from Movement. For example, on a $300,000 home purchase, a borrower could invest zero personal funds with Movement providing $9,000 down. The loan also allows sellers to contribute toward the buyer's closing costs.

So far, the delinquency rates on these low- to zero-down payment loans have been minimal, according to lenders. Quicken Loans says its 1 percent down loans have a delinquency rate of less than a one-quarter of 1 percent. United Wholesale Mortgages told The Washington Post that it has had zero delinquencies from the borrowers on its 1-percent down loan since debuting it last summer.

For Movement's new loan product, the lender will originate the loans and then sell them to Fannie Mae, which remains under federal conservatorship. Fannie officials released the following a statement: "(We're) committed to working with our customers to increase affordable, sustainable lending to creditworthy borrowers. We continue to work with a number of lenders to launch test-and-learn that require 97 percent loan-to-value ratio for all loans we acquire." They add that there "is no commitment beyond the pilots," which are "focused on reaching more low- to-moderate income borrowers through responsible yet creative solutions."

During the housing crisis, zero-down loans were among the biggest losses for lenders, investors, and borrowers. However, housing experts say the latest versions are different from years ago. Applicants must now demonstrate an ability to repay what's owed. They also must have stellar credit histories and scores, and lenders require a lot more documentation to prove borrowers are in good standing. Also, many of the programs are charging higher interest rates. For example, Movement's rate for its zero-down payment option in mid-June was 4.5 percent to 4.625 percent, compared with 4 percent for its standard fixed-rate mortgages.

Some critics say that the borrowers who really could benefit from such options aren't able to qualify for them. Paul Skeens, president of Colonial Mortgage Corp. in Waldorf, Md., told The Washington Post that "it seems like people without excellent credit scores and three months of [bank] reserves don't qualify."

Source: "No Down Payment? No Problem, Say Lenders Eager to Finance Home Purchases," The Washington Post (June 14, 2017)

Tax Changes for Small Businesses Could be Coming—Here's How to Prepare

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Tax season has arrived, and while most small business owners are working to itemize deductions and make sure their returns are filed on time, many are keeping a watchful eye on the potential shift in next year's tax bill as well. With new business policies and tax proposals on the table, tax changes for small businesses could be on the way and the potential for 2017 taxes to look very different from 2016 is high.

While changes to the tax code are likely to occur in the coming year, nobody knows for sure what those changes will be or how they will affect small businesses. Studying the current proposals can put business owners and tax professionals at an advantage for predicting how their tax bills might shake out in the future. Here's how five potential tax changes could affect your small business—and actions you can consider taking to reduce your tax liability.

Reduced pass-through business rates.

Some lawmakers have proposed reducing the business income tax rate of pass-through entities—such as S corporations, most LLCs and partnerships—to 15 percent. Most small businesses operate as "pass-through entities," which means they don't pay income taxes at the corporate level; instead, corporate income passes through to the owners, and income taxes are levied only at the individual owners' level, according to Joshua Wu, a tax partner at Greaves Wu, a tax law firm in Washington, D.C.

That 15 percent rate may sound lower than the current tax rate you're paying, but there has been talk of an "additional layer of tax" when business owners take money out of the business, although there's no exact information yet on how that would work, says Gail Rosen, CPA, a small business tax expert based in Martinsville, N.J. For business owners who would benefit from a reduced pass-through rate, it's important to keep an eye on any additional tax layers that could be added on.

Simplified individual tax brackets.

Currently, there are seven federal tax brackets for individuals, ranging from a tax rate of 10 percent to 39.6 percent. New tax proposals include condensing those seven tax brackets down to three brackets of 12 percent, 25 percent and 33 percent, Rosen says. If that simplification happens, business owners who operate their companies as pass-through entities could presumably pay lower tax rates on business income (as well as personal income).

Lower taxes on C corporations.

Another proposed change is to reduce the tax rates for C corporations "from the current top rate of 35 percent to 15 percent, and certain tax loopholes would be eliminated," Rosen says. In light of the potentially lower tax rates on pass-through entities and C corporations, some business owners are considering changing their business structure to benefit from lower taxes. However, experts recommend waiting to see what happens before taking such action.

“Because changing a business structure can be costly, from a tax and professional fee standpoint, most business planners seem to be holding off on modifying existing structures until we have more clarity,” Wu says. “For businesses starting now, depending on their circumstances, it might be advisable to organize as a pass-through entity because it is generally less costly to convert from a [pass-through entity] to a C Corp than vice versa.”

R&D tax credit.

Small businesses that are developing new products or solutions can now take advantage of the Research & Development Tax Credit, which was once used almost exclusively by large companies, says Jeff Haskett, president of Clarus R&D. “Small- to medium-sized startups that invest in new technology can receive similar financial benefits as the established companies by offsetting payroll taxes,” Haskett says.

The credit, which was expanded under the PATH Act of 2015, allows a company to offset its payroll taxes up to $250,000, earning a credit of up to 10 percent of the money it spends on technology and innovation. For instance, if your company invests $500,000 developing a new technology product or service, you would save $50,000 in taxes, Haskett says.

Moratorium on new regulations.

A recently signed executive order expands the review of all regulations on small businesses and aims to drastically reduce the number of federal regulations with which small businesses must comply. Over the coming months, as current regulations are reviewed and potentially slashed, many small businesses may see costs decrease. While that may increase your business cash flow, it could also increase your company’s taxable income, so keep that in mind as you plan for next year’s tax season.

But don’t ignore regulations, because small business will continue to be regulated. For instance, some employees may want to be classified as independent contractors to benefit from new corporate tax rates that could be lower than the individual income tax rates, Wu says. However, “this could create some challenges for small business owners because the penalties for misclassifying workers as independent contractors, rather than employees, are significant,” he says.

These proposals are all very much still up in the air, so it's important for small business owners to wait for more details about specific tax changes to make the best decisions for their businesses. For example, says Wu, "Some clients who are looking at business succession planning are hoping that tax reform will include a repeal of the estate tax. Thus, they are holding off on making taxable gifts of shares in their business in the event that the estate tax—and potentially the gift tax—are repealed."