

March 2010 Archive

Homebuyers' top questions about the tax credit

WASHINGTON – March 30, 2010 – The Florida Open House Weekend, April 10-11, is the last, best opportunity to secure up to \$8,000 in tax credits for first-time homebuyers (up to \$6,500 for move-up buyers).

According to the National Association of Home Builders, the following are top questions asked by prospective homebuyers. In all cases, buyers should check with the IRS or a qualified financial advisor for specific personal advice.

How does a homebuyer claim the tax credit?

The credit is claimed when the homebuyer files or amends his or her federal income taxes. For qualifying homes purchased in 2009 or 2010, the taxpayer must complete IRS Form 5405 and attach a copy of the settlement statement. In most cases, the settlement statement is a properly executed Form HUD-1.

In circumstances where a HUD-1 is not provided, such as purchasing a mobile home or a newly constructed home, the IRS will accept an executed retail sales contract (mobile homes) or a copy of the certificate of occupancy (new homes).

Does the homebuyer have to sell their current home in order to qualify for the \$6,500 repeat homebuyer tax credit?

No – a homebuyer does not need to sell their current home in order to be eligible for the repeat buyer credit. They can continue to own both homes and rent or use the former home for something else providing it no longer serves as their principal residence. The taxpayer is required to use the new home as their principal residence and live in it for at least 36 months; otherwise, they must repay the credit.

Do married couples both have to meet the eligibility requirements in order to claim the credit – even if they file taxes separately?

Both spouses must fully meet all the eligibility requirements for either the \$8,000 first-time homebuyer tax credit or the \$6,500 repeat buyer tax credit, regardless of whether they file joint or separate tax returns. However, if an unmarried couple purchases a home and only one person qualifies, the eligible person may claim the full credit.

Do all home purchases need to be completed by April 30, 2010, in order to be eligible for the credit?

There are two exceptions to the April 30 deadline. If the buyer enters into a binding contract by the deadline, they have until June 30, 2010, to complete the purchase. The deadline has been extended a year, to April 30, 2011, for members of the uniformed services, Foreign Service or employees of the intelligence community who have been on qualified extended duty outside the United States for at least 90 days between Jan. 1, 2009, and April 30, 2010.

For more information on the tax credit and the Florida Open House Weekend, visit Florida Realtors website at: <http://www.floridarealtors.org/AboutFar/OpenHouse/index.cfm>

Redrawn FEMA maps cause abrupt changes in flood insurance costs

MINNEAPOLIS – March 22, 2010 – Across the United States, thousands of property owners will soon be forced to buy flood insurance because new federal flood-risk maps suddenly put them in flood zones.

The revisions have unleashed outcries as some dispute the reality of the new boundaries and the true risk of flood damage. The changes, made by the Federal Emergency Management Agency, or FEMA, can cost a property owner from hundreds to thousands of dollars each year.

“It’s a bad thing for the building,” said Andrew Gittleman, vice president of Gittleman Management. His firm manages the 53-unit Great Northern Lofts in St. Paul’s Lowertown, one of four historic buildings newly included in the map.

“It’s like Tuesday you’re not in a flood plain, and on Wednesday you are,” he said. “There’s no way it’s in a flood plain.” The new designation means a \$10,000 yearly insurance policy, which will be spread across the condo owners, Gittleman said.

Redefining how far floodwaters reach has broad implications for property and business owners, local governments, developers and others. The maps are used to determine insurance rates, who is required to buy insurance, and to guide local governments with flood plain and development policies. That’s why FEMA embarked on a \$1 billion effort in 2004 to update old maps using new technology. The maps are being updated county by county across the country.

It’s a mixed blessing.

“There’s going to be more people finding out they need flood insurance,” said Ceil Strauss, flood plain manager for the Minnesota Department of Natural Resources. “There’s actually quite a few that are finding out they won’t need it any more, or that they’re not in the flood plain.”

The map revisions have been a mixed bag. Some communities have complained about inaccurate maps. Others howled when FEMA said flood-protection systems weren’t up to snuff and redrew maps ignoring them, putting thousands of properties in hazard areas that had previously been considered protected.

Elsewhere, property owners rejoiced because the revised maps showed their properties weren’t at risk and ended the need for insurance.

“A central part of our commitment to protect lives and property is to ensure that people are aware of the natural hazards and risks that exist in their communities,” said FEMA spokeswoman Cat Langel. “FEMA works closely with local communities during this collaborative process to ensure that any verifiable data that will strengthen the flood maps is included and incorporated.”

The maps, called Flood Insurance Rate Maps, or FIRMS, depict areas at various risks of flooding, with special attention on special hazard areas that would be affected by floods that have a 1 percent chance every year of happening, or 100-year floods.

Floods are the most common natural disaster and have caused about \$24 billion in damage across the United States over the past decade. Congress established the National Flood Insurance Program in 1968 as a way to offer protection to property owners in exchange for local governments taking actions to reduce the risks of damage to property. Those actions include

limiting development in highly flood-prone areas.

The government backs the insurance program, but people purchase policies from private agents. Standard homeowner insurance policies don't cover flood losses. Cost of insurance depends mainly on a property's potential for flooding and the amount of coverage. Homeowners who don't live in a flood plain can insure their house (\$250,000) and its contents (\$100,000) for an annual premium of \$388. For some structures in high-risk areas, the cost can range up to thousands of dollars.

Any property owner living in a community in the program can buy flood insurance, but structures in the 100-year flood plain having federally regulated mortgages – the vast majority of them are required to have it. According to FEMA, structures located in the flood plain have a 26 percent chance of sustaining flood damage during the term of a 30-year mortgage.

After FEMA makes revisions, local governments must adopt them into flood plain-management ordinances if they want to remain in the program. If a community chooses not to participate, then insurance is no longer available.

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Years after loan default, homeowners may still owe

SACRAMENTO, Calif. – March 19, 2010 – Homeowners defaulting on mortgages today may be surprised to learn years from now that they still owe thousands of dollars – and a collection agency is coming after them to get it. That's because lenders have been quietly selling second mortgages and home equity lines left unpaid after foreclosures and short sales. The buyers: collection agencies, which in some states have years to make a claim.

If they win court judgments, these collectors could have years to pursue borrowers with repayment plans, and even garnish their wages, said Scott CoBen, a Sacramento bankruptcy attorney.

"The only relief a consumer will have is entering into a debt negotiating plan or filing for bankruptcy," said Sylvia Alayon, a vice president with the New York-based Consumer Mortgage Audit Center. The firm provides mortgage analysis to lenders, advocacy groups and attorneys.

The phenomenon suggests an ominous, looming echo of today's real estate meltdown. As debt collectors surely seek at least partial repayment of millions of dollars in unpaid home loans, some say renewed financial stresses on tens of thousands of local consumers could dampen the economic recovery.

"I think there will be a lot of unhappy people when it hits," said CoBen. "We saw this in the '90s. This is not really new. Just when you think you're back on your feet, you're making money and the economy's good, they hit you with this."

Alayon said most people are so stressed out and exhausted by trying to save their homes today that they are unaware they could face another hit later. And many who are losing homes don't get the advice necessary to prevent future fallout, say nonprofit loan counselors.

"You've got tens of thousands of people in California who have this hanging over their heads who don't even know it," said Scott Thompson, principal at for-profit Mortgage Resolution Services in Carmichael, Calif. He fears a new wave of bankruptcies might flatten people just starting to recover from losing their homes.

"So many of these are people with 750 or 800 credit scores who made a bad decision," said Thompson. "Or they're people who suffered income cuts. These are people, in terms of the economy, whom we need to participate."

But an entire industry is gearing up to buy their debt at deep discounts and collect what they can, Alayon said. "It's a big business and investors are coming out of the woodwork. It's a very lucrative business," she said.

Real estate insiders and financial players know it as "scratch and dent." One of the biggest players in the business, Texas-based Real Time Resolutions, did not respond to an inquiry on the subject from McClatchy Newspapers. Neither did Bank of America, which holds many defaulted loans made by its Countrywide affiliate during the real estate boom.

Regionally, no one knows for sure how much unpaid debt is on the line. CoBen said people who used their borrowings for a traditional loan on a house in which they lived generally have little to worry about. But borrowers may be vulnerable in years ahead – generally, those who defaulted not only on their first mortgage but also on a home equity loan or second mortgage.

In California, banks can't collect from borrowers for primary, so-called "first-lien," loans that go unpaid. When a house is foreclosed or sold through a short sale, the lender of the first loan gets the house back or the proceeds from another buyer. But banks also made thousands of "second-lien" loans, including those used to finance 20 percent downpayments during the housing boom. A separate category of "seconds" includes home equity loans and home equity lines of credit.

Nationally, about 3.4 percent of those loans are currently delinquent, according to Foresight. Owners are generally, but not always, on the hook for the second loans left over from a foreclosure or short sale. Most investor mortgages, too, leave the borrower liable for potential unpaid debt. In many short sales, experienced real estate agents or attorneys can negotiate away debt obligations for the second-lien loan. But many inexperienced borrowers don't know that, and sign final-hour agreements giving lenders the right to pursue them later.

"Seek advice," counseled Doug Robinson, spokesman for national nonprofit mortgage counselor NeighborWorks America. He said nonprofit counselors can help. "Often when you work with a real estate agent, they're not really equipped to handle the repercussions. They're set up to make the sale," he said.

Government forces are already moving to limit potential damage to millions now struggling with home loans. A new Obama administration short sale program aims to prevent banks that hold second-lien loans from pursuing collections from homeowners after the short sale. It goes into effect April 5 and works this way: Sellers will receive notice that their servicer has steered part of the sales proceeds to secondary lien holders "in exchange for release and full satisfaction of their liens."

This release would apply only to short sales done through the administration's Home Affordable Foreclosure Alternatives program.

In California, Democratic state Sen. Ellen Corbett recently introduced SB 1178, which would expand California's protections for some people who refinance and take on a second mortgage. People who refinance, but use the funds to improve their homes or to stay in their homes with a better interest rate, would be protected. Lenders could not seek court judgments to collect from these borrowers in the event of foreclosure or short sales.

"If you refinance a property and aren't using the money for personal reasons, you shouldn't lose your personal protections," said California Association of Realtors lobbyist Alex Creel. He said the idea has been around for years but has become more urgent as thousands lose income and fall into mortgage trouble.

The bill would apply to all foreclosures or short sales that occur after it becomes law. It doesn't matter when the loan was made, Creel said. SB 1178 is still in the early stages of consideration. It must clear both houses of the Legislature and be signed by Gov. Arnold Schwarzenegger by Sept. 30 in order to take effect.

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Tax credit extended for active duty military

WASHINGTON – March 16, 2010 – U.S. servicemen out of the country for 90 days (since 2008) may have an extra year to get the tax credit, up to \$8,000, for buying a home.

The active-duty rule is not new. It's part of the current tax credit law, though its use is limited. The qualification must be for "official extended duty outside the United States for at least 90 days after 2008 and before May 1, 2010."

Should that be the case, however, the homebuyer has an extra year to buy a home. He or she has until April 30, 2011, to secure a binding contract, and until June 30, 2011 to close on the home. Other conditions such as a maximum \$8,000 for first-time buyers and \$6,500 for move-up buyers still apply.

For advice in any specific case, consult a qualified tax advisor. The applicable IRS publication is posted online (PDF format) at: <http://www.irs.gov/pub/irs-pdf/p3.pdf>

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Foreclosure rates up by smallest amount in 4 years

IRVINE, Calif. – March 11, 2010 – The foreclosure crisis isn't over, but the pace of growth may finally be slowing down.

RealtyTrac Inc. said Thursday that the number of U.S. households facing foreclosure in February grew 6 percent from the year-ago level, the smallest annual increase in four years.

More than 308,000 households, or one in every 418 homes, received a foreclosure-related notice, the Irvine, Calif.-based foreclosure listings company reported. That was down more than 2 percent from January

Still, fears remain about the hundreds of thousands of homeowners who are still being evaluated for help under loan modification programs. Many analysts say most of those borrowers will eventually lose their homes, sparking a new round of foreclosures later this year.

"It's premature to declare victory just yet," said Rick Sharga, a senior vice president for RealtyTrac. He did, however, allow that, "If this is the beginning of a slowdown in growth rates, that would be a good thing."

Banks repossessed nearly 79,000 homes last month, down 10 percent from January but still up 6 percent from February 2009.

The RealtyTrac report follows an encouraging report last month from the Mortgage Bankers Association. It said the percentage of borrowers who had missed just one payment on their home loans fell to 3.6 percent in the October to December quarter, down from 3.8 percent in the third quarter.

While that was a surprising piece of positive news, foreclosures were still at record high levels. The number of borrowers who have either missed a payment or are in foreclosure was at 15 percent.

A record 2.8 million households were threatened with foreclosure last year, RealtyTrac said, and the number is expected to rise to more than 3 million homes this year.

The foreclosure crisis forced the federal government and several states to come up with plans to prolong the process so delinquent borrowers can try to find help. But those efforts have barely dented the problem. Case in point: The Obama administration's \$75 billion foreclosure prevention program has helped only 116,300 homeowners in the past year.

Foreclosed homes are typically sold at steep discounts, lowering the value of surrounding properties. Cities lose property tax dollars from homes that sit empty and lower property values.

Economic woes, such as unemployment or reduced income, are expected to be the main catalysts for foreclosures this year. Initially, lax lending standards were the culprit, but homeowners with good credit who took out conventional, fixed-rate loans are the fastest growing group of foreclosures.

Among states, Nevada posted the nation's highest foreclosure rate, though foreclosures there were down 7 percent from January and down more than 30 percent from a year earlier. It was followed by Arizona, Florida, California and Michigan. Rounding out the top 10 were Utah, Idaho, Illinois, Georgia and Maryland.

The metro area with the highest foreclosure rate in February was Las Vegas. Though one in every 90 homes there received a foreclosure filing, foreclosures were down 9 percent from a month earlier. Foreclosures in the No. 2 metropolitan area, the Cape Coral-Fort Myers area in Florida, were up 31 percent from a month earlier.

Also topping the list of foreclosure hot spots were the California metro areas of Modesto, Riverside-San Bernardino-Ontario and Stockton.

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Nine tips to sell your home in 2010

WASHINGTON – March 3, 2010 – Signs of a recovery in the real estate market indicate this may not be the "Winter of your Discount Tent." Home sales, value and mortgage applications have risen slightly as mortgage rates stand at a historic low.

This slight glimmer of positive news is offset by estimates that about 48 percent of all U.S. mortgages will be underwater by 2011. Foreclosures and short sales continue to plague the market, keeping a lid on home prices. As a result, 2010 will continue to be a buyer's market.

That doesn't mean, however, that all hope is lost of selling your home this year. Here are nine tips to sell your home in 2010.

1. Don't wait for a recovery

Home values aren't likely to rebound to previous highs for several years, perhaps even a decade. While you may face a loss by selling now, that negative figure may only be a paper loss, particularly if you've owned your home for some time.

2. Make improvements

If you have access to credit, invest in improving and repairing your home before placing it on the market, rather than trying to go for a quick as-is sale. Rehabs are more affordable now, thanks to the availability of low financing, reduced construction materials costs and lower contractor charges. Focus on upgrades to kitchens and bathrooms, especially counters and cabinets, as these yield the highest returns. Get three different estimates from contractors and add another 10 percent for unexpected costs.

4. Hire professionals

You need professionals, not friends or relatives, to repair, upgrade and sell the biggest investment you'll likely own. Ask for credentials, references and a history of recent performance. Your appraiser should have at least five years experience with an appropriate license or certification. The same applies to hiring a home inspector. Talk to at least two or three appraisers and inspectors before selecting one.

5. Get downpayment assistance

Federal and local governments offer several downpayment assistance programs for first-time home buyers. Look for other city, county and state programs that will piggyback on federal programs for assistance. Search for "downpayment assistance programs" with the name of your region.

6. Take Uncle Sam's help

The \$8,000 first-time homebuyer tax credit program that helped jump-start the real estate market in 2009 has been extended into 2010 and expanded. First-time homebuyers qualify if they sign a binding contract to buy a home by April 30 and close by June 30. The program's maximum income limits have jumped from \$75,000 to \$125,000 for individuals and from \$150,000 to \$225,000 for couples.

A separate \$6,500 tax credit has been added for those who have owned their homes for at least five years and want to upgrade. Homeowners drowning in their present real estate loans are eligible for a loan-modification program with their current mortgage company or loan service through the Making Home Affordable Program (<http://makinghomeaffordable.gov/>).

7. Price accordingly

Listings move when a property is appropriately priced. Others gather dust because the owners haven't adjusted their expectations to the present market. This doesn't mean, however, you should severely drop your price on a well-maintained home to avoid extended problems. Research your market and price accordingly.

8. Energy tax credits

Through Dec. 31, homeowners who buy and install specific energy-efficient windows, insulation, roofs, doors and heating and air-conditioning equipment can apply for a 30-percent tax credit of up to \$1,500 of their costs on each product.

Go one step further and earn a 30-percent tax credit through 2016 (without a spending limit) when you purchase such energy-saving products as solar energy systems, geothermal heat pumps, small wind systems, residential fuel cells and micro-turbine systems. Visit EnergyStar's Federal Tax Credits for Energy Efficiency (<http://www.energystar.gov/index.cfm?tax-credits.tx-index>) for a complete summary.

9. It's not personal

Buyers want to imagine themselves in your house for years to come. Excess decor and knick-knacks distract from this vision. Ask your Realtor's advice or hire a home stager to bring your house back to zero before beginning to show it. A general rule of thumb is to eliminate or store at least half the items in every room.

Don't get defensive about colors, design patterns or flooring you installed. Just grit your teeth and think of the closing check while your agent serves as a buffer. Remember the customer is always right, unless, of course, they're low-balling you.

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Termite swarming season is here

TALLAHASSEE, Fla. – March 3, 2010 – Termite swarming season gets under way in late February and early March as temperatures begin to warm. Swarming means the termites are leaving their colonies to search for new nesting sites. Florida Agriculture and Consumer Services Commissioner Charles H. Bronson is again warning Floridians to take steps to protect their home. Termites cause about \$750 million in property damage in the United States annually.

Termites are most abundant in the southwestern and southern U.S., with the Gulf Coast commonly known as "the termite belt." Since termites try to avoid light and open air spaces, the insects do their damage behind walls. Many homeowners don't realize they have a termite problem until swarming season when they see them flying around their homes.

The swarmers are winged, black insects about one-quarter-inch long and look a lot like flying ants. Termites can be categorized into two groups by their nesting sites. The earth-dwelling termites that make tunnels in the ground or build tubes above the earth are called subterranean termites. The second group, the wood-dwelling termites that have no contact with the earth, are called drywood termites.

Florida's climate makes it especially vulnerable to termites, and they are found throughout the state. Despite this, many homes in the state have no termite protection.

"Prevention is critical in avoiding termite destruction," Bronson says. "The insects can go undetected for long periods of time while they feed on the wood in a home." The Florida Department of Agriculture and Consumer Services regulates and licenses pest control companies and conducts regular inspections to ensure the businesses are adhering to the rules and regulations governing pesticides and pest control. Consumers can contact the department to find out whether a pest control company is properly licensed, to find out how many consumer complaints have been filed against a particular business and to learn about the various types of termite control contracts.

Licensed pest management professionals have the expertise to inspect buildings and treat them to prevent an infestation or provide treatment when the insects are found. Termite companies are now required to clearly tell customers if their contract covers both subterranean and drywood termites. Most pest control operations in Florida are licensed but it's important to check out a business before signing a contract.

Steps that consumers can take to protect their homes from termites include:

- Remove wood piles and other cellulose sources from under and next to homes.
- Have an annual inspection by a licensed professional pest control company.
- Direct water sources, such as air conditioner drip lines and roof downspouts, away from the structure foundation.
- When purchasing a home, carefully check its termite protection history.
- Obtain a termite protection contract and renew it annually.

Bronson said consumers should read a termite protection contract before signing it. Some contracts only require that the company re-treat a home if termites are found. Bronson says it is better to have a re-treat and repair contract that requires the pest control business to repair any damage caused by termites after a home has been inspected and treated.

For information, visit the department's web site at <http://www.FloridaTermiteHelp.org> or call (800) 435-7352.

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