Your REALTOR:

Dennis Kuty

April 2024

Real Estate Update™

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Are There Tax Advantages of Buying a Home?

If you're thinking about becoming a homeowner any time soon, there are tax benefits to buying. In particular, tax deductions are one way to reduce your tax bill and income.

Mortgage Interest Deduction: Homeowners can deduct interest on their home mortgage for the first $750,000 of mortgage debt. That limit is $375,000 if you're married and filing separately. If you bought your home prior to December 16, 2017, an old limit of $1 million applies, and $500,000 if you're married but filing separately.

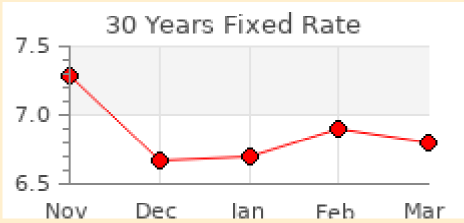
In January, at the tax year's end, a lender sends you Form 1098. This details the interest you paid over the previous year. You should include the interest you paid as part of the closing too.

Mortgage Points Deduction: If you paid mortgage points to a lender as part of your loan or refinancing, then each point you buy will generally cost 1% of the total loan. They lower your interest rate by 0.25% each. If you paid, let's say, $300,000 for your home, every point equals $3,000. If your interest rate is 4% in this example, the one point will lower your rate to 3.75% for the rest of your loan. You would get a deduction if you gave your lender money for your discount points.

Tax Credits: You could qualify for a mortgage credit if you received a mortgage credit certificate or MCC from a state or local government agency under a qualified mortgage credit certification program. You can also see if your state offers rebates, tax credits, or incentives for making improvements to your home to make it more energy efficient.

Mortgage Rates
U.S. averages as of April 2024:

30 yr. fixed: 6.79%
15 yr. fixed: 6.11%
5/1 yr. adj: 6.46%



What Are Cash Reserves and Why Do You Need Them?

Cash reserves are funds left over after the closing has taken place. This means some extra, liquid cash on hand available to you.

Cash reserves aren't really a charge, you'll keep the money in your bank account but lenders still ask that you have them. How much? Reserves are typically grouped into a month or two of mortgage payments. These payments include not just the principal and interest charges but also a monthly amount for the annual property tax and homeowner's insurance tab. If the principal and interest payment is $2,000 and 1/12th of the property tax bill is $200 and insurance $100, then the total payment is then $2,300. If a lender's loan guidelines ask for two months of reserves, there needs to be about $4,600 left over.

Why? Primarily because lenders don't want you to go flat broke after a closing. Lenders know you can't wait to start decorating your house with your new stuff so there needs to be some funds left. Cash reserves aren't an out-of-pocket expense, but you do need to show that you have them.

How To Choose The Best Refi: It's Not Just About The Rates

If you're thinking about looking into a new loan, here are some other things to consider.

How much is it going to cost you? Estimate your break-even period: the time it takes for the accumulated monthly savings to exceed the loan fees.For example, if you pay $3,600 in fees to save $100 a month, it will take 36 months to break even ($3,600 divided by $100 equals 36). If you believe you'll stay in the house beyond the break-even period, it might be worthwhile to refinance.

Think about the terms. One of the lesser known refinancing options is called an FHA streamline. The benefit of this type of refinance is that you don't have to jump through many of the typical lender hoops.

How's the service? On the service side, getting your questions answered in a timely and accurate way is an important element of the process. Having a single, reliable point of contact for your questions can make the difference between a smooth, easy process and a tough experience.

A conventional loan isn't your only option. The FHA Streamline is a 'low-doc' refinance with limited paperwork required; the lender doesn't have to verify your income or credit, and there's no home appraisal. That means a Streamline Refinance closes faster than other loans and has slightly cheaper closing costs.

Did you get a second opinion? Even if you go back to your current mortgage lender for your refinance, shop at least a couple of other lenders to see how interest rates and terms compare.

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Inspection vs. Appraisal: How Do They Compare?
By Ashley Sutphin

When you're buying a home, you'll need two types of inspections—one is the actual inspection, and the other is the appraisal. They seem similar at first glance because both, as you might guess, involve a walkthrough of the property. They have different purposes, however. The information obtained is also reported to different parties.

What is a Home Inspection?

An inspection is thorough and is done by a professional, qualified home inspector. The inspector will look at the safety elements of a home and the integrity of the structure.

The systems and structural elements an inspector looks at include the plumbing, electrical, and HVAC systems, roofing, and siding.

A home inspection takes a few hours. Then, when it's done, the inspector reports to the buyer.

If you're the buyer, you can use the inspection information to decide whether or not buying the home is a suitable investment for you.

When you sign a contract with a seller, one of the first things you'll do is schedule an inspection. If you're in a competitive market, you might hire an inspector before you make an offer.

It's up to you to choose a good, reputable inspector.

A buyer and their agent can attend an inspection, and it's worth the time and money to make sure the property you want to buy doesn't have any major, potentially expensive issues you should know about.

Sometimes, you might waive the inspection contingency, so you have a stronger offer, but you're taking a risk in doing so.

Most states require sellers to disclose issues in a home when they're selling it, but there's no guarantee there isn't a lurking issue that the seller simply isn't aware of.

What is an Appraisal?

An appraisal is something almost all lenders are going to require you to have to get a mortgage. The appraisal's purpose is to determine the estimated market value of a home. A third-party appraiser makes this determination based on factors like the home's location, the value of properties that are similar and recently sold in the area, and the condition of the house.

The appraisal process will include a walkthrough, but it's not as in-depth as an inspection. Then, the appraiser will research the comparables in the area and create a report.

The report will highlight the appraiser's determination of the market value of the home. The lender will then use the appraisal report when they decide to approve a loan amount.

A lender can't finance more than 97% of the home's appraised value in most cases. If there's an appraisal that comes back lower than the price you offer, then you have to pay the difference out of pocket, renegotiate, or leave the deal.

If the appraisal comes back and it's higher than your offer price, you already have more equity in your home.

How Do the Two Compare?

The following are some specific differences between an inspection and appraisal:

• A home appraisal is something required by your lender if you're buying a home, but a home inspection isn't needed.

• Your lender orders an appraisal. If you want an inspection, you arrange this yourself.

• An inspection doesn't affect your ability to get the loan amount you need, but an appraisal can.

• Appraisers only look at the surface features of a home, but an inspector looks for deeper issues.

• During an inspection, you're encouraged to walk with the inspector, but an appraiser usually goes through the process without anyone present.

• During an inspection, if you're there, the inspector will explain things to you as you go along. With an appraisal, you don't know anything until the report is complete.

• Inspections only consider the property's condition during the assessment, but an appraisal looks at local factors like crime rates in the area, lot size, and comparable home prices.

Overall, while there are differences, both an inspection and an appraisal are beneficial to a homeowner because they help you get the peace of mind of knowing that your home is worth what you're going to pay for it and that it's a safe place for you to live.

Also, both are completed by a third party, so you can feel more secure in your overall decision to buy a home.

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The Sweet Spot of Pricing Your Home
By Blanche Evans

When you and your REALTOR® sit down to price your home, you'll be looking at competitive homes that are the most similar in size, location and amenities as your home. You may find that prices can be thousands of dollars higher or lower. It's tempting to pick the highest price and say, "Let's list it here." But what if your home doesn't sell at that price?

High prices are a strategy that can work in an accelerating market, but it's risky. Your home can sit for months without selling and you'll end up marking the price down, perhaps lower than it should have sold for in the first place.

Pricing your home is a science. The science is choosing the right price at which your home will sell quickly. How do you do that? By analyzing your local market conditions and where your home fits in the spectrum.

The only way your home will sell at the highest price possible is if your buyer agrees to your home's value. To best determine market value, you have three important tools: CMAs, appraisals, and your REALTOR's®knowledge of the market.

The comparative market analysis

A comparative market analysis (CMA) is a side-by-side comparison of similar homes for sale as well as homes that have recently sold in your neighborhood. REALTORS® use CMAs to compare the features that make each home unique, including age, location, number of bedrooms, baths, room sizes, updates, condition, etc.

As a seller, you should be able to see where your home fits -- in the top or lower price range of similar homes. For example, if a similar home to yours has been recently renovated with a new kitchen, expect it to sell for more than your home if your home has not been improved.

The appraisal

An appraisal is a market analysis performed by a professional appraiser using a variety of sources, including multiple listing system data and conforming loan formulas.

Appraisers most often work for lenders to determine market values, so that lenders can weigh the risk of making a loan to a homebuyer. Appraisals come after an offer is made when the buyer applies for a loan. Even though the buyer pays for the appraisal, the lender uses it to determine whether or not to make the loan at the contract price.

Other market data

Your REALTOR® has access to data that may not be public through the Multiple Listing Service. This data is provided to broker members to track market trends over weeks, months and years. Some brokers pay data companies for specific markets that help them plan their business, such as the number of listings on hand, which zip codes are the hottest, and whether closings are trending up or down over last month or last year.

Your REALTOR® uses all this data to help you hit the sweet spot of pricing. That's high enough to reflect your home's value, but attractive enough to buyers to get it sold quickly.

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There Are Conditions, And Then There Are Conditions:
By David Reed

In all my years in the mortgage industry, and there are a lot of them, I don’t recall a single loan application I submitted to underwriting that didn’t come back with approval ‘conditions.’ What exactly does the term mean? Essentially, it means the loan may be approved based upon certain conditions. All loans have them, perhaps a few skate through but those are extremely rare. But there are two types of conditions, and one is more important than the other, although they all have to be met.

In all my years in the mortgage industry, and there are a lot of them, I don’t recall a single loan application I submitted to underwriting that didn’t come back with approval ‘conditions.’ What exactly does the term mean? Essentially, it means the loan may be approved based upon certain conditions. All loans have them, perhaps a few skate through but those are extremely rare. But there are two types of conditions, and one is more important than the other, although they all have to be met.

The easy conditions are the ones that are pretty basic and primarily make sure the loan file is updated. For example, credit documents within a file must be within 30 days old. Paycheck stubs for instance, must fall within this 30 day window. So too are bank statements and others. These are pretty simple and many times these conditions can simply be brought to the settlement table or otherwise provided directly to the lender for review. These are referred to in the industry as ‘prior to funding’ and must be reviewed and approved before the lender will release the funds needed for the loan.

The other type of conditions, sometimes referred to as ‘prior to doc’ conditions, must be reviewed prior to the loan going any further into the approval process. This type of condition states that whatever is being asked for is presented and reviewed before loan documents can be produced. Whereas prior to funding conditions can be settled at the closing, prior to doc means you won’t get near that milestone without these. What are some prior to doc conditions?

One might be for the borrower to explain a drop in income from one period to the next. Did the applicant get temporarily laid off? Is he/she still employed? Was there an illness in the family that created a temporary employment pause? With these types of conditions, the lender just wants to make sure everything is good to go before going much further.

One final word, don’t freak out when the lender comes back with questions. There’s little chance of the loan approval being in jeopardy, it’s mainly to keep the loan file in compliance with approval guidelines.

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Is an ADU for You?
By Jaymi Naciri

Whether you call them granny flats, in-law units, tiny homes, or carriage houses, accessory dwelling units (ADU) aren't going anywhere. Except, possibly, in your (or your child's) backyard.

Is an ADU the answer to the dilemma of where you're going to live during your retirement years? Or where to move your parent who wants his or her own space close to you? That's the idea that's intriguing many across the country.

So, what do you need to know about ADUs? We're breaking it all down below.

Are they easy to build?

You would think so, given their small size and the fact that, presumably, they are being built on land you already own. States like California have passed laws to make them easier to build, resulting in tremendous growth. "At the start of 2017, a California state law went into effect that forced cities to relax their regulations on basement suites, garage apartments, and backyard cottages—known collectively as accessory dwelling units (ADUs)," said Sightline Institute. "Two years later, building permits for ADUs in Los Angeles have surged by a factor of 30—yes, 30!—comprising a whopping one fifth of permits issued for all homes."

However, not every state or municipality is quite so progressive. "Barriers to the growth of granny flats include municipal statutes, zoning laws, building restrictions, neighborhood covenants, and other regulations," said The Spruce. "New construction is more expensive as well, and homeowners may find it difficult to get financing. Connecting utilities can also be expensive. Some municipalities require that driveways and/or off-street parking be provided for the granny flat occupant, and that can add expense, or be completely unfeasible for certain properties."

Cost

Speaking of cost, part of the allure of an ADU is how affordable it is in comparison to a typical single-family residence. But it's still in investment. "A legal accessory dwelling unit which includes a kitchen and bathroom, costs typically start at $80,000 and quickly move up from there," said Maxable. "For a stand-alone accessory dwelling unit expect the cost to start at $150,000 and increase from there."

The cost of construction isn't all there is, however. "Homeowners are often shocked at the cost of permitting, which is why there are so many illegal accessory dwelling units out there. In some cities, where development and impact fees for this type of construction has not been waived, homeowners can expect to pay upwards of 20K in fees."

That includes impact fees, which cities charge homebuilders to assist in paying for things like schools, parks, and roads. "In Washington, for example, depending on what city you live in, so-called impact fees alone might total as much as $9,000," said Sightline Institute.

Another word on regulations

Regardless of the legality in certain areas, there are those other restrictions that may make it challenging to build an ADU on a specific property. Specifically, zoning restrictions can limit what you can do with your ADU, where you build it, and even who can live inside.

"Many cities and counties permit ADUs in one or more single-family zoning districts by right, subject to use-specific standards," said the American Planning Association (APA). "Common provisions include an owner-occupancy requirement (for one of the two dwellings), dimensional and design standards to ensure neighborhood compatibility, and off-street parking requirements. Other relatively common provisions include minimum lot sizes and limits on the number of occupants or bedrooms. While some codes also include occupancy restrictions that stipulate that ADUs can only house family members or domestic employees, this type of restriction can severely limit the potential for ADUs to address a shortage of rental housing."

Before you move ahead with plans for an ADU on your property, check with your state and local authorities. "In some states, localities must permit ADUs by right, under certain conditions. In some others, state laws preempt some aspects of local zoning for ADUs or actively encourage cities and counties to adopt permissive zoning regulations for ADUs."

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