PLATINUM MORTGAGE COMPANY BOOKS

BENEFITS OF HOMEOWNERSHIP

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Platinum Mortgage Company Home Buyer's Guide™

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Benefits of Homeownership

One of the greatest accomplishments that we make in our lifetime is becoming a homeowner. It is also one of the largest purchases that we make. You will need to be fully committed to the responsibility and ensure that your finances are in order when making this decision. We wanted to simplify the benefits of homeownership to allow you to make a sound financial decision.

Renting - vs - Buying

The first step in any decision making process is weighing out the pros and cons. If you have been considering buying a home, let's look at the advantages and disadvantages of these options.

Pros of Homeownership

1. Building Equity: Tax Free Gain
2. Tax Benefits
3. Property appreciates in value over time
4. Sense of pride
5. More Stability and Control
6. Family Home
7. Forced Savings
8. Freedom to decorate/upgrade home

Cons of Renting

1. Not Building Equity: Paying someone else's mortgage.
2. No Tax Benefits
3. No control over rent increases
4. Often the same costs or more than a mortgage payment
5. Less sense of ownership/pride
6. Less sense of stability

When considering homeownership, it is important not to overlook expenses like the down payment, closing costs, mortgage interest, insurance, maintenance, association fees and property taxes. Renters do not incur any of these costs. It is also important to note that, more often than not, the financial benefits of homeownership outweigh that of renting.

One drawback of owning a home is that you will have less flexibility to move or relocate if you were to relocate for a new job, get married, have children or need more space. It is best to know that you will be living in the home for at least a minimum of three years or more.

Renting may be the best option if you are uncertain of the future of your employment or if you are in the process of clearing up your credit and finances. Another reason someone may continue to rent is if their

utilities are included or you are receiving a reduced rent in lieu of work that you may have agreed to do for the property or the owner.

You can get an idea of whether or not homeownership would be more beneficial for you than renting by doing a 'Rent vs. Buy Analysis' using an online calculator.

Years	Rent Payment	Mortgage Payment	Monthly Difference	After Tax Savings	Yearly Difference	After Tax Savings
1	800	1000	-200	-50	-2400	-600
2	840	1000	-160	-10	-1920	-120
3	882	1000	-118	+32	-1416	+384
4	926	1000	-74	+76	-888	+912
5	972	1000	-28	+122	-336	+1464
6	1021	1000	+21	+171	+252	+2052
7	1072	1000	+72	+222	+864	+2664
8-30			*Savings increase every year*			

Long Term, Buying Is Cheaper than Renting

Instead of paying off your landlord's home or building, pay off your own. Over time, as the interest portion of your mortgage payment decreases, the interest that you pay will eventually be lower than the rent you would have been paying. Most importantly, you will have to live someplace so you might as well own your own home.

Not all markets are the same. For high cost markets such as San Francisco the average median price of a home is about $1,100,000 or in Manhattan at a high of $1,800,000. Owning a home would be preferred, but renting may be a lesser expensive option. Having a larger down payment saved will make homeownership more affordable.

What It Takes To Be a Homeowner

Do you have what it takes to be a homeowner? Now that you've made the decision to buy, you should first make sure you're prepared for the loan application process.

- Do you have a stable source of income that be documented with 2 years of filed tax returns?
- Do you have 2+ years of employment history?
- Do you have a record of paying bills on time?
- Do you have money saved or can you get a gift of your down payment and closing costs?
- Have the funds been seasoned for 60 days or longer in a bank account?
- Do you have the ability to pay a mortgage payment every month, plus additional expenses?

If you've answered yes to these questions, you are well on your way. If it is a savings you are lacking, there is no shame in starting now. It is recommended that you create a budget for your household (if you haven't already) and determine how much you can afford to save each month.

Try to start saving a minimum of 20% of each paycheck in a separate savings account. If you make $4,000/month, that would be $800/month in savings. You will need funds to cover a variety of things when buying a home, including a down payment of some kind, unless you use the VA or FHA loan programs. You will also encounter closing costs and moving expenses. These days, some mortgage lenders are requiring additional cash reserves beyond the down payment. The sooner you start saving money; the better off you will be in the long run.

Forced Savings Benefits

One very important benefit of buying a home, but commonly overlooked is the forced savings benefit. Paying your mortgage payment every month and reducing the amount of your principal is a long term forced savings plan. As you make mortgage payments over time, you will also accumulate "equity", which is the term used to refer to your net financial interest in the property. It is the difference between the amount still owed on the mortgage loan and the fair market value

of the property. Each month you are building up more valuable equity in your home along with the appreciation in the value.

Appreciation of Your Investment

Property will increase in value over time, which is referred to as "appreciation". This will depend on a few variables, including the property's age and location. This may not always be guaranteed. Economy or deterioration in the property or location can also be a negative effect on the value of the home. Any increased worth is equity you may be able to borrow against or take as profit upon the sale of the property.

Tax Benefits

The tax deductions that you are eligible to take will greatly increase the financial benefits of homeownership. When you file your income taxes and itemize deductions, you will be able to deduct mortgage interest, property taxes and even private mortgage insurance.

Here is how it works:

Assume:

$9,877 = Mortgage Interest Paid

(A loan of $150,000 for 30 years, at 7 percent, using year-five interest)

$2,700 = Property taxes (at 1.5 percent on $180,000 assessed value)

$12,577 = **Total Deduction**

Then, multiply your total deduction by your tax rate.

For example, at a 28 percent tax rate: 12,577 x 0.28 = **$3,521.56**

You can deduct the interest on up to one million dollars of home mortgage debt, whether it is used to purchase a first, second home or rental property. If you have a home based business you may be able to write off additional deductions. You can check the IRS website to see what deductions are available.

Fixed Housing Expense

Owning a home provides a sense of financial security. Unlike rent, which can increase annually, most mortgage loans have fixed or capped monthly payments. Knowing what the payment will be allows you to have a peace of mind to budget your expenses each month and year over year. Keep in mind that there may be a slight increase in the hazard insurance or property taxes.

Customizing Your Environment

Everyone has a desire to have a place they can call home. Besides the sense of security, homeownership will allow you the opportunity to customize your home to your individual tastes and needs. It is assumed that there will be other responsibilities such as utility costs, the cost of repairs and maintenance on the property. There will be no landlord to maintain the property or take care of any problems, but you will have control over those decisions.

Deducting Origination and Discount Points or Fees

After purchasing or refinancing you can also write off any loan origination or discount fees for buying the interest rate down whether they are paid by you or the seller. Always request for seller credit to be used towards closing costs and prepaid fees when making an offer. Worst thing they can say is no. The average seller credit given is 3%.

Deducting Home Equity Lines of Credit Mortgage Interest

Another savvy tax deduction is to deduct the interest on up to $100,000 of home equity debt, even if you don't use the money for home improvements. This allows you to shift your credit card debts to your home equity loan, pay a lower interest rate than the horrendously exorbitant credit card interest rates, and get a deduction on the interest as well.

Capital Gains

Thanks to the Taxpayer Relief Act of 1997 law, if you buy a home to live in as your primary residence for more than two years then you will qualify for the capital gains exclusion. When you sell your home, you can keep profits up to $250,000 if you are single, or $500,000 if you are married, and not owe any capital gains taxes. There's no limit on the number of times you can use the home-sale exemption provided that you owned and occupied it as a principal residence for an aggregate of at least two years in the five-year period ending on the date of sale. There is a two year waiting period if you claimed another sale within the previous two years.

The 1031 Exchange

The 1031 exchange allows an investor to trade real estate held for investment for other investment real estate and incur no immediate tax liabilities. Under Section 1031, if you exchange business or investment property solely for business or investment property of a like kind, no gain or loss is recognized until the newly acquired property is sold. Keep in mind that Section 1031 does not apply to exchanges of inventory, stocks, bonds, notes, evidence of indebtedness and certain other assets. There are 1031 exchange servicing companies that can help you handle this transaction.

Fully Tax-Free Exchange

Certain conditions are required in order to take advantage of tax-free 1031 exchange:

- Both properties must be *"like kind"* **-** same nature or character, even if they differ in grade or quality.
- The exchanged property must be held for productive business or investment use and traded for the same use.
- The new property that you intend to receive in exchange for your existing property must be identified in writing within 45 days of the first transfer.

- The like-kind property must be received by one of these two dates (whichever comes sooner): within the 180 day period following the property transfer, *or* by your tax return due date (including extensions) for the year in which you transferred the property.

The Six Types of 1031 Exchanges

1. **Delayed -** After the relinquished 1031 property has closed, the replacement property must be identified within the first 45 days and purchased within 180 days.
2. **Simultaneous -** When both the relinquished and the replacement properties close escrow on the same day.
3. **Reverse -** Allow the purchase of the 1031 exchange replacement property to close ***prior*** to the closing of the relinquished property. The relinquished property must be identified within 45 days after escrow has closed on the purchase property and the sale must close escrow no later than 180 days.
4. **Hybrid -** Combining both the delayed and reverse 1031 exchanges involving multiple properties.
5. **Build To Suit** - Allows the taxpayer to construct improvements on the replacement property during the course of the exchange.
6. **Personal Property –** A 1031 Exchange involving personal property to be used for investment or the productive use in a trade or business.

Partially Tax-Free Exchange

To be completely tax free, the exchange must be solely an exchange of like-kind property. Finding a property with the same trade value is ideal for the 1031 exchange, but it is difficult to find an equal exchange. In many cases, one party ends up kicking in some extra cash to make the deal fair. This additional property or cash received is known as "boot", and this gain is taxed up to the amount of the boot received. When there are mortgages on both properties, the mortgages are netted. The party that is giving up the larger mortgage and getting the smaller mortgage treats the excess as boot.

Rules and Regulations

Exchanging U.S. real estate for real estate in another country will not qualify for tax-free exchange status. Trades involving property used for personal purposes will not receive the tax-free treatment afforded under Section 1031 such as exchanging a personal residence for a rental property. If either party subsequently disposes of the exchanged property within a two-year period, the exchanged property will become subject to tax.

It is important to understand that for tax reporting purposes, the basis of the old property is carried over to the new property and the taxes due are not forgiven; they are simply postponed until the sale of the new property. In order to record the Section 1031 exchange with the Internal Revenue Service, you will need to file Form 8824 Like Kind Exchange with your tax return for the year of that the "like-kind" exchange was completed. A tax-free exchange is not recommended if the transaction will result in a loss, since losses cannot be deducted in tax-free exchanges. In these cases, you may be better off selling the asset and using the proceeds to buy the new property.

The Conclusion

Many people have taken advantage of the favorable tax treatment from the federal government with the increased number of real estate sales. As a result, however, a tremendous amount of tax revenue has been lost. New regulations that would make some serious changes to the tax advantages currently available on real estate gains are already circulating in Congress. If you have been thinking about selling your home, before Congress decides to make any changes, it might be a good idea to take advantage of Section 1031 before it is too late.

Myths about Home Buying

There are a few myths floating around regarding homeownership. Let's clarify some of them:

*1) **Myth:** Homeownership is only for the wealthy.*

This is a myth brought about by a lack of knowledge. The truth is that renting can often be more expensive than homeownership in the long run. Rental prices are steady on the rise especially in metropolitan areas. With the recent housing crisis, renting became more popular, meaning the rental supply decreased and the rental prices rose even more. Also, when you rent, you aren't gaining any equity; instead, you're helping your landlord gain equity. The benefits of renting are far fewer.

Yes, it is ideal that you have a good amount of savings before you buy a home, but really you should have a savings whether you're buying or renting. There are lots of programs to help first-time home buyers (or those who haven't owned a home in three or more years). Regardless, you don't always need to make a large down payment. There are many loan programs and down payment assistance programs that are available with as little as 0.5% down.

Finally, your down payment and/or closing costs can be 'gifted' to you. There are, of course, a few guidelines for this as well.

***Myth:** If I have the money, homeownership is a simple process.*

On the contrary, some people mistakenly believe that the process of buying a home is simple, especially if you have the money. In actuality, the process takes time, whether you are financially prepared or not. After the housing crisis, mortgage lenders' guidelines and requirements became much more rigid. Your risk analysis prior to approval is a bit more extensive as is the necessary documentation.

If you are financially prepared, there are specific requirements that lenders will need for proving the assets are yours (in order to prove you are capable of consistently making your loan payments on time over the course of your loan). Also, there are guidelines you must meet for income verification.

Despite all this, the mortgage process can be made a lot simpler and less cryptic if you work with a competent agent. It is best to find an agent with a few years of experience with the same

broker and someone who is knowledgeable about the neighborhood you are wanting to buy a home in. This is why it is important to pick the right agent to assist you in taking this important step.

Myth: *It is a bad time to buy a house.*

Mortgage rates are still at historical lows, which creates stable payments and long-term savings for today's home buyers. Home values have been going back up but are still low in value after the falling of many foreclosures in recent years. The combination of these factors generally equals greater affordability, and makes now a good time for many to consider homeownership.

2) **Myth**: *Buying a house is just too risky; I'll end up in foreclosure.*

After the recent market downfall and the subsequent foreclosures in the US, home buying is understandably frightening. Certainly if you are experiencing financial hardship such as a losing your job, enduring a divorce, or suffer a medical illness, you may have a challenge paying your mortgage, or rent for that matter. Many people don't plan well enough when purchasing a home and end up building additional debt. While you can't always plan for the unexpected twists and turns of life, good budgeting and responsible credit practices can decrease the likelihood of a foreclosure during hardship.

3) ***Myth****: If you are not a U.S. citizen, you can't buy a home in the U.S.*

You can purchase a home in the U.S. if you're a permanent or non-permanent resident alien. You just need to prove that you are a permanent resident alien with a valid USCIS card or a "Green Card" and Social Security number. If you are a temporary resident alien with a valid work permit and Social Security number and have been in the United States continuously for the last two years, with steady employment and good credit history, you may also qualify for a loan.

4) ***Myth****: In order to qualify for a mortgage loan you must have a bank account or credit cards.*

It is always best to have a bank account, which can help you establish credit, but you can still get approved for a home loan even if you don't have a bank account or credit cards. The lender may require a 12 month history of non-traditional credit for rent, utilities, medical, insurance and possibly car payments. Lenders require bank statement to source where the funds for the down payment are coming from and also to source any fixed income deposits such as social security, pensions/retirement, child support or alimony.

5) ***Myth**: When you apply for a home loan, the lender will share your personal financial information with other companies.*

By law, banks and other financial institutions are restricted in their uses and disclosures of information about you. In some situations, you may choose to restrict the disclosure of your information if you don't want it to be shared by signing an opt-out form.

***Myth**: If you miss a payment or are more than 30 days late on your mortgage payment, you will lose your house.*

Contact the lender immediately and let them know about your financial hardship, including loss of a job, the death of your spouse or a medical emergency. It is possible to keep your home and get back on track if you contact your lender's loss mitigation department and they will let you know about your options such a forbearance agreement. The lender wants you to be able to stay in your home and will do the best to help you.

6) ***Myth**: The lender won't approve your home loan if you've changed jobs several times in the last few years.*

You can change jobs several times and still get a loan to buy a home, but lenders are mostly concerned that you have been in the same line of work for 2 years or longer and show stability. Lenders understand that people change jobs. If there are gaps in between job changes a letter of explanation will be required. If you received unemployment during the gap you will need a letter from unemployment showing the weeks claimed. If the gap was longer than 3 months, an

exception will be required. FHA does offer a "Back to Work" program (Mortgagee Letter 2013-26). A paper trail of incident will be required and most lenders will require a housing counseling certificate, which can be obtained from an online course such as Back To Work.

7) ***Myth**: I can't buy a home, because I don't have enough money save up.*

Gifted funds from family, employer and first time home buyers programs can be used towards your down payment. You can also buy a home using upcoming payroll deposits, tax refunds and the sale of personal goods such as cars, jewelry, furniture, etc. The lender will require a bill of sale, funds must be in the form of a money order or cashier's check and a copy of the deposit and bank statement showing the credit of the exact amount. There may be down payment programs available to you. You can search online on Down Payment Resource.

8) ***Myth:** I just graduated from college and will have to wait several years to buy a home.*

If you landed a new job I the same line of studies as your degree, you will only need an executed offer letter from your employer, 30 days check stubs and a verification of employment to qualify based on your current salary for a FHA mortgage loan.

9) ***Myth:** Banks won't approve me after a foreclosure, bankruptcy or short sale.*

The waiting period to buy a home again is as follows:

Federal Housing Administration (FHA) Insured Loan

FHA Extenuating Circumstances: "Serious illness or death of a wage earner. Divorce and the inability to sell a property due to a job transfer or relocation **does not** qualify as an acceptable extenuating circumstance."

- Minimum Waiting Period Under The New FHA Back To Work Program - Under the new FHA "Back to Work – Extenuating Circumstances" Program, if you have had a foreclosure, short sale, deed-

in-lieu of foreclosure, or have filed bankruptcy you may qualify for a new home loan if you are back to work and can document the extenuating circumstances. You must have a 12 month record of on-time rental housing payments with no delinquencies and not have been 30 days late on more than one non-housing loan payment. If there are still any open collection or judgment accounts, then those will have to be factored into your debt calculations for the new loan.

- Foreclosure - 3 years from the date foreclosure completed and property transferred back to the bank. Less than 2 years, but not less than 12 months from the date foreclosure completed and property transferred back to the bank may be possible with acceptable "extenuating circumstances".
- Deed-in Lieu - Same as Foreclosure.
- Short Sale - 3 years from the date sale closed and transferred to the new owner. **No waiting period** if seller/borrower had no late payments on any mortgages and consumer debts within the 12 month period preceding the short sale AND seller/borrower was not taking advantage of declining market conditions.
- Bankruptcy (Chapter 7) - 2 years from date of bankruptcy discharge with re-established credit paid as agreed or no new credit obligations incurred. Less than 2 years, but not less than 12 months from the date of bankruptcy discharge may be possible with acceptable "extenuating circumstances" and the borrower has since exhibited a documented ability to manage financial affairs in a responsible manner. The lender will require a copy of the recorded bankruptcy discharge letter and scheduled of accounts.
- Bankruptcy (Chapter 13) - 1 year from the start date of the bankruptcy re-payment period has elapsed and the borrower's payment performance has been satisfactory and all required payments made on time.

Veterans Administration (VA) Guaranteed Loan

VA Extenuating Circumstances: "Unemployment, prolonged strikes medical bills not covered by insurance, etc. Divorce **is not** viewed as beyond the control of the borrower and/or spouse."

- Foreclosure - 2 years from the date foreclosure completed and property transferred back to the bank. Less than 2 years, but not less than 12 months from the date foreclosure completed and property transferred back to the bank may be possible if credit re-established and paid as agreed and with acceptable "extenuating circumstances".

- Deed-in Lieu - Same as Foreclosure.
- Short Sale - 2 years from the date sale closed and transferred to the new owner. **No waiting period** if seller/borrower had no late payments on any mortgages and consumer debts within the 12 month period preceding the short sale and seller/borrower was not taking advantage of declining market conditions.
- Bankruptcy (Chapter 7) - 2 years from date of bankruptcy discharge. Less than 2 years, but not less than 12 months from the date of bankruptcy discharge may be possible if credit re-established and paid as agreed and with acceptable "extenuating circumstances".
- Bankruptcy (Chapter 13) - 1 year from the start date of the bankruptcy re-payment period has elapsed and the borrower's payment performance has been satisfactory and all required payments made on time.

United States Department of Agriculture (USDA) Rural Housing Loan

Extenuating Circumstances: "Loss of job; delay or reduction in government benefits or other loss of income; increased expenses due to illness, death, etc. Circumstances surrounding the adverse information must have been temporary in nature, <u>and</u> beyond the applicant's control, <u>and</u> have been removed so their reoccurrence is unlikely or the adverse action or delinquency was the result of a refusal to make full payment because of defective goods or services or as a result of some other justifiable dispute relating to the goods or services purchased or contracted for."

- Foreclosure - 3 years from the date foreclosure completed and property transferred back to the bank. Less than 3 years from the date foreclosure completed and property transferred back to the bank may be possible with acceptable "extenuating circumstances".
- Deed-in Lieu - Same as Foreclosure.
- Short Sale - Same as Foreclosure.
- Bankruptcy (Chapter 7 or 11) - 3 years from date of bankruptcy discharge. Less than 3 years from the date of bankruptcy discharge may be possible with acceptable "extenuating circumstances".
- Bankruptcy (Chapter 13) - 1 year from date repayment was completed and bankruptcy discharge. Less than 1 year from the date of bankruptcy discharge may be possible with acceptable "extenuating circumstances".

Conventional Conforming Mortgage Loan (Fannie Mae (FNMA) and Freddie Mac (FHLMC) Loan Purchasing Guidelines)

Conventional Extenuating Circumstances: "Nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations."

- Foreclosure - 7 years from the date foreclosure completed and property transferred back to the bank if there are no acceptable "extenuating circumstances". 3 years from the date foreclosure completed and property transferred back to the bank with acceptable "extenuating circumstances" and at least 10% Down Payment. Primary home purchase and rate/term refinance only (non-owner occupied and second homes not allowed).
- Deed-in Lieu – New Rule = 2 years from completion of a DIL. Old Rule = 7 years from the date sale closed and transferred to the new owner or foreclosure completed and property transferred back to the bank with less than 10% Down Payment. 4 years from the date sale closed and transferred to the new owner or foreclosure completed and property transferred back to the bank with 10% Down Payment. 2 years from the date sale closed and transferred to the new owner or foreclosure completed and property transferred back to the bank with 20% Down Payment. 2 years from the date sale closed and transferred to the new owner or foreclosure completed and property transferred back to the bank with 10% Down Payment and acceptable "extenuating circumstances".
- Short Sale – New Rule = 2 years from completion of a short sale.
- Bankruptcy (Chapter 7 or 11) – New Rule = 2 years from date of bankruptcy discharge. Old rule= 4 years from date of bankruptcy discharge. 2 years from the date of bankruptcy discharge may be possible with acceptable "extenuating circumstances".
- Bankruptcy (Chapter 13) - 2 years from date of bankruptcy discharge. 4 years from date of bankruptcy dismissal.

Acknowledgment

We hope to inspire you into homeownership and the great rewards it will have for you and your family. Many families we have helped have overcome the challenges of the process and are extremely grateful that they accomplished it. We love helping people that never thought they could ever buy a home and we are extremely rewarded when we can help others save their home during a hardship. Homeownership is one of the greatest accomplishments we will complete in our lifetime. Everyone at Platinum Mortgage Company wishes you much success in your journey through homeownership.

Looking to get pre-approved or have a loan scenario question? If we can help you with your mortgage loan or real estate needs please contact. Platinum Mortgage Company offers Stated, Low Doc, Alt-A, Sub-Prime, Non-Prime and Bank Statement Home Loans. Call 800-385-3657 or email us at info@pmccanhelp.com.

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