Open House: Real estate brokerage industry in question

by Jim_Woodard

A recent report on the CBS television program "60 Minutes" has sparked quite a furor within the real estate brokerage industry.

Leslie Stahl interviewed a representative of the now-defunct eRealty and others. The consensus of their remarks included the assumption that the going commission rate is 6 percent and that the governing body for the industry is the National Association of Realtors. The interviewees also asserted that new rules threaten to block Internet discounters' access to multiple listing services.

After the program aired, NAR pointed out that all broker commissions are negotiable. The average rate today is not 6 percent, since an increasing number of Realtors are charging a lesser percentage rate in the wake of rising property values. The overall average rate is now close to 5 percent.

NAR is not a "governing body" for the real estate industry. It's a trade association - owner of the registered term, Realtor. Local boards of Realtors are member organizations of NAR, and most MLSs are owned and operated by local boards. Not all brokers are Realtors - only those who are members of local boards and NAR.

NAR pointed out that it does not block access to MLSs for discounters or any other brokers who are members of an MLS. However, there's no question that some Realtors within local boards and MLSs try to eliminate or reduce competition from so-called "discount brokers" through changes in MLS policies and legislative actions. As in most industries, business people try to reduce the negative impact of rising competition.

NAR has sent a strongly worded letter to CBS correcting some of the statements made on the "60 Minutes" broadcast and requesting the opportunity to provide a spokesman to correct the misrepresentations on a future program.

Prior to the airing, NAR offered to provide representatives to participate in the discussions, but CBS declined to accept their offer, according to NAR.

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Q: Does the fact that private mortgage insurance is now a deductible item on tax returns make it a more viable option for home buyers?

A: The new tax deductibility of private mortgage insurance premiums has produced a boost in sales for the PMI industry; however, many home buyers still go to great lengths to avoid the high cost of that insurance.

The coverage protects the mortgage lender not the borrower. It's often required when the mortgage loan exceeds 80 percent of the property's market value. A typical scenario is for a home buyer to pay 10 percent as down payment and obtain a 90 percent mortgage (with PMI coverage).

The insurance fees can be paid in several ways, depending on the company used. Borrowers can choose to pay the first-year premium at closing, then an annual renewal premium is collected monthly with the regularly mortgage payments. Or the borrower can pay no premium at closing, but add on a higher monthly premium charge to the principal, interest, tax and insurance payments.

Buyers who want to avoid paying for PMI at closing and not increase their monthly payments can finance a lump-sum PMI premium into their loan. There are various options available to the borrower, but all are expensive.

Costs vary, of course, with different insurers and plans offered. A highly leveraged, adjustable-rate mortgage would require the borrower to pay a higher premium to obtain coverage. Buyers with 5 percent down payment can expect to pay a premium of about 0.78 percent of the annual loan amount. But the premium would drop to about 0.52 percent if a 10 percent down payment were made on the purchase.

As mentioned, those PMI premiums are deductible cost items on this year's tax returns - at least partially so. That is if the home buyer and property qualify.

Borrowers can qualify for the write-off only if an itemized return is filed. And the deduction is limited to borrowers with adjusted gross incomes of $109,000 or less. The write-off applies only to a mortgage on a principal residence and one vacation (second) home held with certain personal use requirements. Investor mortgages are not eligible.

It applies to PMI premiums on refinance mortgages up to the original loan amount - not cash-out refinances. The deduction does not apply to lender-paid mortgage insurance where the premiums are built into the loan.

Making PMI premiums tax deductible for some borrowers certainly makes such coverage more affordable, but the net cost is still substantial and most prudent home buyers wisely try to avoid it. The best method is to simply hold off purchasing a home until at least a 20 percent down payment is tucked away in the home buying savings account.

Other methods include obtaining two "piggyback" loans - one for 80 percent of the home's purchase price and another for the needed remaining amount. In some cases, the home seller is willing to carry back a portion of the price.

Q: Is home remodeling activity increasing?

A: The number of homes being remodeled has declined a bit in recent months, according to a report from the National Association of Home Builders. However, the total dollar volume for remodeling is increasing. It's projected to reach $232 billion this year - up from $228 billion last year.

"Compared to the major up-and-down cycles of the new home market, remodeling activity remains fairly steady despite recent dips," said Mike Nagel, chairman of NAHB Remodelers. "A significant part of the remodeling market comes from work that homeowners cannot delay, like replacing a roof. This keeps the industry relatively stable during housing market downswings."

NAHB's report also profiled the operating heads of remodeling firms in today's market. More than half completed college (53 percent), with 12 percent earning an advance degree from graduate school. About 65 percent reported they have been in the remodeling business for 20 years or more.

About a quarter or 26 percent reported having 10 to 19 years of remodeling experience. Overall, 96 percent of remodeling firms are led by men, compared to 4 percent for women.

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