

## Open House: Weighing the costs of special property tax

by *Jim\_Woodard*

In an effort to beef up tax revenues, an increasing number of government entities are reviving the old technique of imposing a special tax on all property transfers. It seldom works in areas where many residents actively express their negative feelings about such a tax - but does work in other areas.

Real estate transfer taxes are state and local taxes assessed on real property, including homes, when ownership is transferred between parties. In some cases, these tax monies are used to fund programs designed to preserve depleting open spaces in commercial or residential areas, and to fund housing programs for low-income residents.

These are worthy investments in communities. But collecting the needed funds by imposing a real estate transfer tax creates a real problem for home buyers and sellers - especially in cases where first-time buyers are barely able to come up with needed cash to cover the required down payment and basic closing costs.

Most real estate organizations vehemently oppose such a tax. The National Association of Realtors, for example, opposes transfer taxes or fees under any condition, whether as a general or earmarked revenue source.

"Transfer taxes are a burden to buyers and sellers, particularly at time of closing," the association stated in a report. It noted several specific problems created by the imposed taxes, such as the following:

- The taxes have a negative impact on housing costs and economic development.
  
- They reduce housing opportunities across the income spectrum.
  
- They are a particularly poor revenue source for the general operating budgets of state and local governments because of their extreme volatility.

In communities where transfer taxes currently exist, the association urges its repeal and opposition to any increases. To lessen their impact on local housing costs, the association suggests the redirection of this revenue source to be used for one-time capital acquisitions that relate to housing improvement. The association also urges exemptions to transfer taxes for first-time home buyers and for home buyers from low- and moderate-income households.

Another even more devious tax collecting plan is targeted at home builders. They have long been charged fees by local governments and agencies to cover costs of roads, schools, parks and other community assets in areas where residential developments are planned - costs that are passed on to buyers.

When those fees became so large they couldn't be further increased, a new plan was implemented in some areas. Builders must attach a transfer fee requirement to the deed of each sold home. It mandates that every time the home is sold for a specified number of years, a transfer fee must be paid - typically 1 to 2 percent of the sales price.

This simply passes on the tax burden to future home buyers, making it more difficult for sellers to sell, and buyers to afford, the home. This could continue for decades and generations.

Q: What are the benefits of a subprime mortgage?

A: There's been a lot of negative news in recent months about problems related to subprime mortgages; it has eclipsed the positive benefits of such loans. Subprime mortgages are designed for individuals and families with no credit or poor credit history. They have made it possible for millions of Americans to purchase a home who otherwise would be unable to do so.

Without the availability of a subprime mortgage many families would likely remain as renters for years to come, being unable to attain their dream of homeownership.

"Almost 81 percent of subprime borrowers are making timely payments and are building a sound credit rating," said John Robbins, chairman of Mortgage Bankers Association. "They are helping strengthen the communities in which they buy homes.

"However, potential new laws now being discussed by some legislators and regulators may result in tightening access to credit, robbing prospective home buyers of the benefits of subprime loans as well as closing the door to current subprime borrowers wishing to refinance."

Robbins noted that MBA is in the process of establishing foreclosure intervention programs in cities at high risk by helping to train and certify more foreclosure counselors.

Q: When will traditional mortgages return to the market?

A: This may be the year when the home mortgage market returns to more traditional loan products, according to a survey released by the National Association of Mortgage Brokers. It was announced that the survey findings represent the first results in what will be an ongoing effort by the association to investigate trends and practices in the mortgage industry.

Prime loans made up the largest sector of the mortgage lending marketplace, the survey results indicated. More than 60 percent of all loans originated by brokers were at prime, where customers had a FICO credit score of 650 or greater.

Fixed-rate mortgage also gained in frequency. Last year, fixed-rate products accounted for less than half of the loans originated by brokers. This year, nearly 54 percent of new loans feature fixed interest rates.

"The research shows that mortgage brokers react quickly to changes in the marketplace," said David Olson, president of Wholesale Access, a research firm that conducted the survey.

"Brokers have moved away from high-risk subprime mortgages toward more fixed-rate loans requiring higher down payments and higher FICO scores."

Q: Is mortgage fraud really a serious problem?

A: An ominous report on the increasing frequency of mortgage fraud cases was recently released by the Mortgage Asset Research Institute LLC.

"Fraud against mortgage lenders is a growing concern to all who have a stake in our industry, said John Robbins, chairman of Mortgage Bankers Association. "While we continue to try to get our arms around the full scope of the problem, the association report significantly helps the industry better understand where we need to focus efforts in defending companies and communities against mortgage fraud as it increases in frequency across the nation."

The most common types of fraud found in mortgage originations over the past year are in areas of employment history and claimed income, according to the report.

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