



# Annual Mortgage and Homeownership Checkup 2009

## Keeping On or Getting Back On Track

BY LEWIS SMITH AND FRANK DEMARAIS

**H**omeowners need to do a checkup at least annually to ensure that the essentials of their mortgage and homeownership are functioning smoothly. For some, the checkup will confirm that all is in order. For others, the checkup may reveal situations needing more serious attention. Keep the following in mind.

### Family Budget

Following a family budget is the key to successful homeownership. For assistance in preparing a new family budget, click on the “counseling agencies” link at [www.mannamortgage.org](http://www.mannamortgage.org). Budget to keep two months of housing costs and living expenses in your bank account at all times.

### Increases in Your Total Monthly Housing Payments

Housing payment increases must be managed. These can include the start of property tax payments after the five-year DC tax abatement ends and the start of payments after the first five years on a Home Purchase Assistance Program (HPAP) second mortgage. Property tax and insurance payments usually increase annually. If you have an adjustable rate mortgage (ARM), it is likely your mortgage payments also will grow. Plan ahead to handle such increases.

### Property Tax Payment

Homeowners court disaster if they get behind on their property tax payments. Penalties are added to the past-due tax bill, and the home could be sold at DC’s annual tax sale. Check your tax assessment and tax payment history every six months to ensure you are recorded as current by going to the DC Office of Tax & Revenue (OTR) website at [www.taxpayerservicecenter.com](http://www.taxpayerservicecenter.com). Be sure that as an owner-occupant you are receiving the homestead deduction (saving \$574 in fiscal year 2009) and, if over 65 and eligible by household income, that you are obtaining the senior

citizen or disabled citizen deduction which reduces total property tax by 50 percent. Applications for the homestead deduction and the senior citizen benefit are on the OTR website. As an owner-occupant, your “taxable assessment” currently can increase by no more than 10 percent annually and can be far less than your total value assessment. If your tax assessment increase appears too high, file an appeal by April 1 as explained in your annual DC tax assessment letter and on the OTR website. If you are in the five-year DC low-income tax abatement period, the DC government now states that it is the homeowner’s responsibility to notify the OTR in writing if you no longer occupy the property or no longer meet the low-income requirements.

### Property Insurance Coverage

Ask your insurance agent annually to ensure your insurance coverage is adequate to fully cover repairs from fire and windstorm. For a condominium, be sure that you have an individual owner’s policy, which covers items not included in the condominium’s “master policy.” These include your contents, added “built-ins” and rent payments to live elsewhere during repairs for a major loss. If you rent elsewhere temporarily, you must still pay your mortgage and condo fee. If you live in a small condominium from two to 20 units, it is also important that the condominium has an adequate master insurance policy.

### Terms of Your First and Subordinate Mortgages

Understand your loan terms. Know the first and the worst-case payment increases and the existence of negative amortization, a prepayment penalty or a balloon payment. You must know the worst-case payment on an “option ARM” and the highest payment increase on an interest-only loan when it converts to an ARM. With the exception of cash for essential repairs, if a homeowner with an HPAP second mortgage does a

refinance to take out cash for any purpose, the HPAP mortgage must be paid in full. Likewise, most government or “community” third and fourth mortgage loans with low or no payments must also be paid in full if you do a cash-out refinance. Then the formerly low or no-interest payments become payments at much higher market rates.

“Affordability covenants,” as part of your purchase, can significantly limit your sale price until you have owned for a specified period of time. Homeowners with such covenants must fully understand how they affect their homeownership.

### How Condominiums Work

Understand your condominium’s offering statement and the rules and regulations. Be sure your condominium board meets regularly. Owners must work together to keep their condominium healthy. Attend or at least read the minutes for each meeting. Be very alert to current problems. Your condominium must set aside funds out of every monthly condo fee to build reserves to allow timely repair and replacement of main systems to avoid costly special assessments, which owners must pay.

### Mortgage Insurance Terms

If you pay mortgage insurance with your monthly mortgage payment, learn when and on what conditions your mortgage insurance can be dropped. This would provide great savings for you.

### Credit Rating

If you suspect that you may have credit problems, check your credit rating no more than annually and work on improving it. Neglect of late accounts, collections and judgments can only hurt you. A good credit score will help you obtain the best mortgage rates and terms.

### Termite Protection

Termites can do serious and costly damage to houses very quickly, so

an annual termite inspection and a chemical treatment every seven years are highly advisable. For a condominium, if your unit is below the fourth floor, ensure your condominium association maintains an adequate termite control contract.

### Income Tax Credits and Deductions

Ensure you receive, if eligible, the \$8,000 first-time homebuyer tax credit for settlements through Nov. 30, 2009. Be sure you receive your annual tax deductions on your Federal tax return for mortgage interest and property taxes and deduction for “points” paid at your purchase settlement and at any subsequent refinance settlement.

### Purchase and Refinance Mortgage Records

Store records in one file or box in your home for easy access when questions arise. Include your HUD-1 settlement statement, deed of trust promissory notes and deeds of trust for each mortgage. These documents include all “riders” and addendums to deeds of trust and deeds of trust promissory notes, such as for ARM terms, balloon payments, prepay penalties, etc. Include also your extremely important title insurance policy, house location survey for houses, property value appraisal and structural and mechanical inspection reports.

### Finally, a Refinance Warning

Always beware of and guard against tempting promises for “cheap and easy” refinance money. Review any such proposals with an impartial nonprofit HUD-approved housing counselor. Buyer beware! What seems too good to be true often is.

*Manna Mortgage is located at 828 Evararts St. NE. Call 202-832-1845 for more information. ★*