



WASHINGTON'S FIRST AND ONLY NONPROFIT MORTGAGE COMPANY

Annual Mortgage and Homeownership Checkup 2009

Homeowners need to do a check-up at least annually to assure 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. Some people buy homes with mortgages they do not understand and which they cannot afford. They discover they need to develop a family budget to work through their financial challenges. Homeowners find their home's taxable assessment and property tax bill are more than doubling for unknown reasons. An owner in a small ten-unit condominium learns the building's insurance is not being paid and there are no reserves for repairs because many owners are not paying their condo fees. Homeowners call us in shock when they find out just before their refinance settlement that their low- or no-payment 2nd and 3rd mortgages must be paid off and financed into their new mortgage, thus raising their payment way above what they can afford!

Family Budget: Following a family budget is the key to successful homeownership. To find assistance in preparing a new family budget click on the Counseling Agencies link on the home page of the www.mannamortgage.org website. 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. Not only are penalties added to the past due tax bill but the home may be sold at DC's annual tax sale. Taking one's home back from tax sale can be costly. Check every six months by



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going to the DC Office of Tax & Revenue (OTR) website at https://www.taxpayerservicecenter.com/RP_Search.jsp?search_type=Assessment and then enter your home's lot and square or street address to review your tax assessment and tax payment history to assure you are recorded as current. Be sure that as an owner-occupant you are receiving the homestead deduction (saving \$574 in FY 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%. 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% 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: For a house, ask your insurance agent annually to assure your insurance coverage is adequate to fully pay for 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 2 to 20 units or so, it is also important that you assure the condominium has an adequate master insurance policy.

Terms of Your First and Subordinate Mortgages: Assure you understand your loan terms, especially if you have a non-fixed mortgage. 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 adjustable rate mortgage (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



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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 10, 15, 20 or even 30 year period. Homeowners with such covenants must fully understand how they affect their homeownership.

How Condominiums Work: Understand fully 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 heating, electrical, plumbing, roofing or window 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 in Washington, D.C., 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, assure your condominium association maintains an adequate termite control contract.



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Income Tax Credits and Deductions: Assure you receive, if eligible, the \$8000 first time homebuyer tax credit for settlements through November 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 (Mortgages) for each first, second, third, etc. , mortgage. These documents also 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 non-profit HUD-approved housing counselor. **Buyer beware!** What seems too good to be true often is.

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