Financing Knowledge: The Secret Weapon in the Home Sales War

Romancing Financing

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Richey Resources
“Romancing Financing”

I. Why You Need Financing Knowledge

II. The Raw Essentials You Need To Know

John Doe Tax Savings Form

Gross annual income $________________________
First year interest & taxes $________________________
Standard deduction from table - ________________
Total increased tax deduction = ________________

Increased tax deduction - ________________
Taxable net income = ________________

Check current Tax Tables for amounts and percentages

To figure after tax consequences tax:
Base tax of net income $______________
% of excess amount $______________
Total After Tax Fee $______________

To figure before tax consequences tax:
Base tax of gross income $______________
% of excess amount $______________
Total Before Tax Fee $______________

To calculate tax savings:
Total Before Tax Fee $______________
Total After Tax Fee - ________________
Yearly Tax Savings = ________________

Months in a Year ÷ 12
Actual Monthly Tax Savings = ________________

Monthly Mortgage Payment $______________
Monthly Tax Savings - ________________

Net Effective Monthly Payment ________________ = $______________
III. The Mortgage Lending Practice

IV. Basic Types Of Loans

1. Fixed Rate, Adjustable, Buy Downs, Interest Only, Hybrid Loans, Bridge Loans

If a buyer will be in the home 5 years or less, is a $20,000 discount better than a 2-1 buy down? Let’s see!

Your Home with a 2-1 Buy Down

- $300,000 – 6% interest – 5% down
  - Loan Amount - $285,000
  - Factor of $8.00 per $1,000 mortgaged
    - Year 1 – Factor of 6: $1,710
    - Year 2 – Factor of 7: $1,995
    - Year 3 – Factor of 8: $2,280
    - Year 4 – Factor of 8: $2,280
    - Year 5 – Factor of 8: $2,280
  - Total Payments in 5 years = $126,540

Builder X Offers Home with $20,000 Discount

- $300,000 - $20,000 discount = $280,000
  - 6% interest – 5% down
  - Loan Amount - $266,000
  - Factor of $8.00 per $1,000 mortgaged
    - Year 1 – Factor of 8: $2,128
    - Year 2 – Factor of 8: $2,128
    - Year 3 – Factor of 8: $2,128
    - Year 4 – Factor of 8: $2,128
    - Year 5 – Factor of 8: $2,128
  - Total Payments in 5 years = $127,680

Your 2-1 buy down purchase saves $1,140 in hard dollars!

(Note: After 5 years, the buy down becomes the more expensive option.)

2. Conventional vs. Government
V. **Types Of Financing**


2. FHA Financing – Ratios typically 33/45

3. VA Financing – Residual Income-Debt/Ratio

VI. **Helping Buyers Secure A Loan**

VII. **Tax Advantages**

VIII. **Renting vs. Owning**
### RENT VS. OWN WORKSHEET

Model: _________________________    Sales Price: __________________

#### Before Purchase (As Renter)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Income (Adjusted Gross Income)</td>
<td></td>
</tr>
<tr>
<td>Less Standard Deductions</td>
<td></td>
</tr>
<tr>
<td>Less personal Exemption</td>
<td></td>
</tr>
<tr>
<td>Taxable Income</td>
<td></td>
</tr>
<tr>
<td>Taxes paid (Est.)</td>
<td></td>
</tr>
</tbody>
</table>

#### After Purchase (As Owner)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Itemized Deductions:</td>
<td></td>
</tr>
<tr>
<td>- Homeowner Deductions (Taxes &amp; Interest)</td>
<td></td>
</tr>
<tr>
<td>- Average Itemized Deductions (First time purchaser may also deduct points paid to lender. MIP can be deducted under certain conditions)</td>
<td></td>
</tr>
<tr>
<td>Less Personal Exemption</td>
<td></td>
</tr>
<tr>
<td>Taxable Income</td>
<td></td>
</tr>
<tr>
<td>Taxes Paid:</td>
<td></td>
</tr>
<tr>
<td>Taxes Paid as Renter</td>
<td>$___________</td>
</tr>
<tr>
<td>Taxes Paid as Owner</td>
<td>$___________</td>
</tr>
</tbody>
</table>

First Year's Tax Savings

Monthly Tax Savings

Real Cost of Home

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“Give Yourself A Raise” Form
Tax Comparison Worksheet

*Given:*
Price of home: ________________  Down payment: ________________
Contract Balance: ________________  Monthly payment: ________________

(Use Factor)
Family Income: ________________  Family files as: ________________

Part I

Income taxes without interest and property tax deductions

Gross taxable income
From schedule: figure tax fee
• Tax Fee 1 (Base Tax)  $______________
• Tax Fee 2 (% Excess Tax)  + $______________
Total tax fee  $______________

Part II

Income taxes with deductible interest and property tax

Gross taxable income
Mortgage interest deduction
Property tax deduction  + $______________
Federal tax deduction  = $______________
Less standard deduction  - $10,900¹
Increased tax deduction  = $______________
Income less tax deduction
*Equals taxable income  = $______________

(Assume no other long form tax deductions)

From Schedule: figure tax fee
• Tax Fee 1 (Base Tax)  $______________
• Tax Fee 2 (% Excess Tax)  + $______________
Total tax fee  $______________

Part III

Savings to Home Buyer

Part 1 Total tax no deduction  $______________
Part II Total tax w/deduction  - $______________
Taxes saved  $______________
Divide by 12 (months)
Result is a monthly raise of  $______________

** Use this raise to help pay the mortgage.

¹ Standard deduction from 2008 U.S. Tax Tables
IX. *Counselling The Financing Analysis*

<table>
<thead>
<tr>
<th><strong>WORKSHEET TO CREATE FACTORS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of Home: $_________611,000</td>
</tr>
<tr>
<td>Jumbo Loan Limit: $417,000</td>
</tr>
<tr>
<td>Buyer Initial Investment: $_________194,000 (proceeds from sale of home)</td>
</tr>
</tbody>
</table>

**Factor A:**

$6.00 per thousand dollars mortgaged per month with an interest rate of 6% for principal and interest

$$ \frac{2,502}{417 \times 6 = 2,502} $$

**Factor B:**

$3.00 per thousand borrowed per month for taxes and insurance

$$ \frac{1,251}{417 \times 3 = 1,251} $$

**Plus**

$200 per month for Home Owner Association dues

**TOTAL**

$3,953.00 approximate initial investment.

The total factor is $9.00 per month for PITI plus $200 per month.
XI. Using Financing as a Closing Tool

1. LCD Close

2. “After Tax Cost of Housing”

Given: $200,000 sales price: 5% down payment, 6.5% 30 year fixed rate. Monthly payment (9 Factor) is $1,710. Family Income: $80,000 yearly.

To Arrive at Savings Using Tax Tables

Take the $80,000 income and subtract $5,050 increased tax deductions ($15,950 first year interest & taxes minus $10,900 standard deduction) and that equals $74,950 taxable income.

Go to tax tables, husband and wife filing jointly: Income is over $65,100 but not over $131,450.

<table>
<thead>
<tr>
<th>Married Individuals Filing Joint Returns</th>
<th>If Taxable Income is:</th>
<th>The Tax is: (Base + %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $16,050</td>
<td>10% of taxable income</td>
<td></td>
</tr>
<tr>
<td>Over $16,050 but not over $65,100</td>
<td>$1605 + 15% of excess over $16,050</td>
<td></td>
</tr>
<tr>
<td>Over $65,100 but not over $131,450</td>
<td>$8,962.50 + 25% of excess over $65,100</td>
<td></td>
</tr>
<tr>
<td>Over $131,450 but not over $200,300</td>
<td>$25,550 + 28% of excess over $131,450</td>
<td></td>
</tr>
<tr>
<td>Over $200,300 but not over $357,700</td>
<td>$44,828.00 + 33% of excess over $200,300</td>
<td></td>
</tr>
<tr>
<td>Over $357,700</td>
<td>$86,770 + 35% of excess over $357,700</td>
<td></td>
</tr>
</tbody>
</table>

To Calculate Tax Savings:

Subtract the after tax consequences tax from the before tax consequences tax. The difference is the yearly savings. Divide that number by 12 to get the monthly tax savings because of home ownership. Apply to debt service to lower monthly obligation.

Example:

Tax fee on $80,000 ($8,963 + $3,725) = $12,688
Subtract the ($74,950) total tax fee ($11,426) Yearly tax savings $1,262
Monthly tax savings ($1,262 ÷ 12) $105

Net effective monthly payment is $1,710 minus $105 equals $1,605.

Use the correct set up as a John Doe tax savings example to show to potential buyers. Construct several examples that match your buyer’s profiles. Put them in your Visualizer presentation book.
**XII. Overcoming “Home To Sell”**

If owning one home is good, owning two homes is better!

“Mr. and Mrs. Jones – In lieu of selling your present home, has anyone shown you how to put it into a workable Business Leasing Plan?”

They say, “No.”

You say, “Here’s how.”

1. Research **what comparable homes are leasing for** in the area.
2. Ascertain **owner’s debt service**; principal, interest, taxes, insurance, homeowner’s association fee.
3. Calculate the **tax savings from the interest and property tax deductions** off federal income taxes.
4. Factor in the five year **history of growth**.
5. Determine the **relative income or outgo**. If the outgo is considerable, how much does possible appreciation or tax write off from date of purchase influence the decision?
6. Find out **lending’s position** on the new home buyers having a business leasing plan (relative to qualifying for a loan on the new home).
7. Show that it might be better for the buyer to run negative for several months as a **business tax write off**. Also, that they may deduct the expenses of managing the home from their taxes.
8. And, if their income is under $100,000, does the up-to-$25,000 **investor’s tax deduction** rule apply to them?
9. Show that an **increase in Basis** (capital improvements to the property) lessens the tax consequence at resale time.
10. If the law is still in effect, they may get a primary residence **capital gains tax exemption** at resale time.

Use your financing knowledge to make a Business Leasing Plan work in a market where resales are slow.

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**XIII. How to Set in the Loan Officer**

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XIV. Neutralizing Power Phrases

XV. Summary