

DAILY JOURNAL

# Real Estate

Your guide to homes, property and apartments in Johnson County

## HOME OWNERSHIP

### Housing classes teach first-time buyers the ins and outs of homeownership

By DAVID BRADLEY  
ASSOCIATED PRESS

Former realtor Skip Petts is well aware of commission motives behind the housing search for would-be homeowners.

"When I was in real estate, I couldn't spend time looking for a home if the prospects weren't qualified," said Petts, who now teaches homeownership classes for aspiring owners. "Agents make money when they sell you a home, but do they always have the customer's best interest at heart?"

The answer to that question, among other concerns of potential homeowners, is central to Petts' classes at the Neighborhood Finance Corp. in Des Moines, Iowa. The nonprofit group is one of 245 local organizations in all 50 states aimed at educating consumers about the ins and outs and ups and downs of owning a home.

The groups are independent entities under an umbrella national organization known as NeighborWorks America.

The goal of NeighborWorks is to serve as an education resource for hundreds of thousands of consumers who would otherwise be left to their own devices to learn about buying a home. Such lessons are often painfully learned through the school of hard knocks.

"We want to help people buy a home they can afford and one they can keep," Petts said. "There aren't a lot of places to look for knowledge for the people we help."

NeighborWorks is partially funded by the U.S. government and has broadened well beyond its initial core mission of improved housing in distressed neighborhoods. More than 500,000 low- to moderate-income families have completed eight-week courses that cover homeownership, housing finance and repair of credit scores. More than 90,000 of those families have gone on to purchase a home, often in impoverished areas.



LIQUID LIBRARY PHOTO

Homeownership classes can help would-be buyers understand the home finance and closing process, as well as the ins and outs of responsible homeownership.

According to NeighborWorks CEO Ken Wade, only 15 percent of current first-time home buyers receive adequate counseling and education.

Wade said these underserved populations have much to learn.

Many must prop up credit scores or otherwise remain prone to lending at loan rates far beyond market rates for mortgages. Credit scores are typically used by lenders to gauge a borrower's ability to repay a loan. Credit scores range from a not-so-good 300 to a sterling score of 850. The magic number for reliable borrowers is 700. Wade said the credit scores of attendees climb an average of 50

points during classes.

The higher the credit score, the lower the loan interest rate. The kind of loan a consumer gets can make a big difference in what they end up paying for their home. For example, a house listed for \$175,000 with a 5 percent down payment would cost a good credit risk borrower about \$350,000 over the life of a 30-year loan at 5.5 percent. A borrower with a tarnished credit history would likely get a subprime loan at 8.5 percent and would pay nearly a half-million dollars over the same period.

Jesus Avila, a 28-year-old student of Petts, said the class was important as he tried to climb out of the cycle of rent checks.

"I've wanted to get a home, but I was intimidated by it," said Avila, who has one class remaining on the home closing process. "I wanted to go about it (buying a home) the right way because I know there are a lot of predators (lenders) out there."

Many reputable lenders create loan competitive rate loan funds in targeted communities. Bank of America, Citigroup and Wells Fargo are national partners in addition to community banks in various cities.

The classes appear to make a difference for borrowers and lenders. NeighborWorks officials report that borrowers who have received adequate counseling prior to a home purchase are half the default risk as consumers who have not taken classes.

Wade said the number of local organizations certified by NeighborWorks to offer classes is sure to grow, and the organization expects to triple the number of course teachers and counselors in an effort to reach more than 2 million consumers by the end of 2007.

Consumers can locate their local NeighborWorks organization at [www.nw.org](http://www.nw.org) or by calling (202) 220-2300.

## INVESTING

### Real estate flips sometimes flop

By KAY BELL  
BANKRATE.COM

If you're looking to turn a quick buck on a real estate transaction, accountant Bill Rucci has some words of warning: "It may be quick, but it also may not be as lucrative as you first thought."

With housing prices in many parts of the United States skyrocketing, flipping — buying a property and then quickly reselling it at a higher price — has become the hottest investment trend.

But if you're not careful with your real estate flips, your investment strategy could produce a sizeable payoff for an unintended partner: the Internal Revenue Service.

Rucci, a CPA and partner in the Boston-based accounting firm Rucci, Bardaro and Barrett, said that many of today's real estate investors go into the transactions completely uninformed.

"There is a huge misconception on the part of some people who think they can buy a residential home, not necessarily their personal residence, fix it up and then sell it and then get what we used to call the old rollover provisions where you used the money you made to buy another piece of property for more than what you sold," said Rucci.

But, said Rucci, there are two problems with that approach. "One, that rule existed for personal residences only. And two, it doesn't exist anymore."

The rollover rule was replaced in 1997 by current law that allows, in many cases, for the tax-free sale of a personal property. This is a great tax break if you're selling your primary residence after having lived in it for several years, but it does nothing for you tax-wise if you're selling a house that you never lived in.

"The biggest issue with the real estate market, with the boom and prices rising very quickly, is that people want to capitalize on their gains, to take the money and run so to speak," said Lonnie Davis, a CPA with the Philadelphia office of CBIZ Accounting, Tax and Advisory Services.

Instead of running, a tax-smart flipper could benefit from a slightly slower investment pace.

Investment profit, regardless of

whether it comes from sale of stocks or real estate, is considered capital gain and is taxed at two levels. The tax rates depend on how long you own the property.

Hold an asset for a year or less and you'll face short-term gains that are taxed at ordinary income tax rates. This could be as high as 35 percent. If your investment timetable is lengthier, federal tax laws reward you. By holding an asset for more than a year, you'll face the long-term capital gains rate that maxes out, in most instances, at 15 percent.

But continual property flipping could create additional tax problems. When you complete several real estate transactions in a short time, don't be surprised to learn that the IRS might consider your property transactions as a business or trade rather than as an investment strategy, said Davis. In that case, there's no way to get out of paying the higher ordinary income tax rates.

But there are ways to pay less tax on a property flip profit. The easiest is the aforementioned capital gains technique. Simply hang onto the property for more than a year and you'll pay long-term capital gains taxes instead of higher ordinary rates.

Want to avoid taxes altogether? Move into the investment property and turn it into your primary residence. As long as you live there for two years (or a total of 730 days and the occupation time doesn't have to be sequential) out of the last five, said Davis, the IRS will accept that it was your home. Then when you sell it, up to \$250,000 (twice that if you're married and file jointly with your spouse) of your profit is excluded from taxation.

You also can defer tax on your real estate gain by exchanging it for another property, known as a like-kind or Section 1031 exchange.

"The parameters here basically can be pretty broad as long as you trade an investment property or business property for a similar one," said Davis. "For instance, you can swap undeveloped land for developed land or vice versa. You can swap a residential rental home for a commercial property. The only restriction: The exchanged property can't be a personal asset. It has to be an income-producing asset."

### Office space



An organized workspace is essential in a home office. Computer components, including printers, scanners and digital cameras, take up valuable space, making storage a major concern. One way to add storage to your immediate work area is to add a wall-mounted storage unit to your desk.

PHOTO BY HOME & GARDEN TELEVISION



Read the  
DAILY JOURNAL  
Real Estate section  
every Saturday



Someday, your dream home will become a reality.

*Someday starts today*

You will be **FLOORed** by our stylish new **PLANS**

#### Columbus

**Shadow Creek Farms**  
SR 11 south to Columbus to CR 200 S., west to entry  
Low \$100's  
(812) 342-4105

#### Franklin Schools

**Branigin Woods**  
Stop 18 Rd., west of US 31 on left.  
Low \$100's  
(317) 738-3556

#### Greenwood

**Barton Lakes**  
Stop 18 Rd. 1 mile west of US 31, on left  
Low \$100's  
(317) 887-9383

#### Villages of Grassy Creek

Stop 18 Rd. east of US 31, on left  
Low \$120's  
(317) 887-1555

#### Copperfield South

Stop 18 Rd. 3/4 mile east of US 31, on right  
Mid \$120's  
(317) 889-4283

#### Perry Twp.

**Arapaho Ridge at Southern Dunes**  
Just west of SR 37 on Southport Rd.  
Low \$160's  
(317) 865-1578



Homes from the...



... \$100's to the \$160's