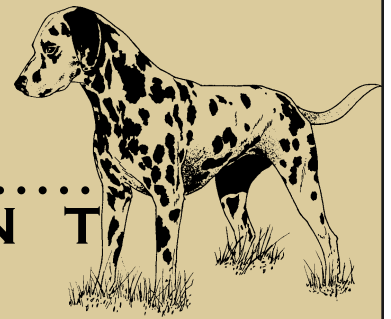


# JAY AGOADO'S HOME FRONT

JULY 1999



## Summer Is Here!



(Although sometimes you would never know it looking out the window.) Summer usually brings a fast and furious real estate market and this year is no different. You would think that with the increase in interest rates things would slow down. With rates up almost 1% this year the market is still booming! People must be realizing that if you look at history, rates are still very attractive.

If you remember a past newsletter of mine, it had mentioned that I would contribute \$50 per transaction to the Children's Hospital (up from \$25 per transaction). To this date, I have contributed \$800! If you calculate that number you will see that I have completed 16 transactions so far this year. I'm on track to complete 30+ transactions for the 3rd year in a row! A very special thanks to all who have referred new clients to me. Each year the percentage of my business originating from referrals is growing tremendously.

Thanks!

Jay

## When should I start to look for my new home?

When should you go out and look for your new home? A large part of how you answer this question will depend on your circumstances. If you're being transferred to another city, and your company is paying for your move and will put you up temporarily in your new location until you find a home, then you should start looking immediately. (You should also immediately put your home on the market.)

*continued on back*



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## Financing for Second Homes

Mortgage lenders make no bones about it: They are tougher on second-home loan applications than on primary-home loans. Why? Because the finances of a second-home buyer are, by definition, stretched thinner. The result is that second-home rates traditionally run one-quarter to one-half point higher than those for first residences. Ditto for origination points on vacation-home loans.

That said, however, the current environment for second-home lending is about as lenient as it has been in years. Banks are healthy again and a rebounding real estate market has them all rushing into the market at once. The result: is heightened competition -- especially in the second-home arena. "The typical profile of a second-home owner is someone more affluent than a single-home buyer," says David Totaro, chief marketing officer for Dime Savings Bank of New York. "That's the type of person we want to do business with."



for the entire amount. Plus, unlike mortgage interest, which is deductible on up to \$1 million of debt on your first and second homes combined, the home-equity cap is \$100,000. (You get a break on \$1.1 million total.)

Whatever you do, don't bank on starting with a home-equity loan and taking out a mortgage at a later date. A little-known IRS rule states that you have just 90 days from purchase to secure a mortgage against a principal or vacation residence, notes New York CPA Paul Kamke. Do it later and you can't deduct it at all.

### Landlording and Mortgages

Lenders are still sticky when it comes to renting out your second home. Some lenders won't even write those kinds of loans; they have a hard time selling mortgages on investment property in the secondary market. If you find a lender that will, expect it to scrutinize you more carefully than if you were not a landlord.

At a minimum it will want to see proof that you're actually going to generate a decent cash flow. Often, the lender will ask for a cash flow statement for a property showing its rental history. In condo communities, management companies often provide them. If one isn't available, you'll need to get a second appraisal, comparing the rents and occupancy rates at similar homes. This will run an extra \$300 to \$600.

And don't count on your bank to take all of a home's estimated rental income into consideration. Even for a property with a long rental history, most lenders will only consider 75% to 80% of it. Some even take 75% after netting out your costs.

If you don't need the rental income to meet the mortgage industry's ratios, you may not want to mention to your lender that you're thinking of renting. We're not suggesting that you lie on your mortgage application. That's a federal offense. But if you happen to change your mind, well, that's another story. "A lot of people go in under the guise of buying vacation property for personal use only to turn around and rent it out," says Keith Gumbinger, of mortgage researcher HSH Associates. "I have never heard of people getting caught."

## justthefacts

NWMLS Statistics for King, Pierce, & Snohomish counties for the month of June 1999

Number of Bedrooms	Number Sold	Average Sale Price	Average time on market
<b>homes</b>			
3	315	\$218,506	62 days
4	168	\$340,496	59 days
5 or more	26	\$317,812	48 days
<b>condos</b>			
1	17	\$132,608	31 days
2	65	\$166,042	46 days

\* If your home is currently on the market, this is not a solicitation

### Using a Home-Equity Loan

With interest rates still at relatively low levels, many lenders will encourage you to take out a home-equity line of credit on your primary residence to fund all or part of your second-home purchase. Watch your step here. Most home-equity lines of credit float a point or two higher than the prime rate, so you could end up repaying this piece at a much higher interest rate than if you had simply taken a mortgage

# When should I start to look for my new home?

If you're trading up and want to be in your new home in time for your children to start school, you should look, but realize that you may not make that self-imposed deadline. In some parts of the country, where strong seller's markets are in force, you may have no trouble selling your old home but great difficulty in finding a new one you'll be satisfied with. Sometimes you can look for a year or more and not find the right house.



Try this middle ground for size: Scout out new neighborhoods a couple of months before you list your home for sale. Visit open houses, perhaps even have your broker show you a few homes in your price range. Once you have a good idea of the general area in which you'd like to live—and the size and price of homes

that are available for sale—list your home. Once it's listed, and there is some activity, you can begin your house hunt in earnest. If you can, refrain from making an offer on a new house until you have begun negotiating an offer to sell your original home. Otherwise, you should include a contingency on your purchase offer that specifically states you have to sell your original home before you can close on the new home.

If you're purchasing new construction, the builder will tell you approximately how long it will take to build and when you will be able to close. That three-to-five-month time frame allows you a perfect window of time in which to sell your home. Just remember that new homes can take a few extra weeks to complete if the builder runs into bad weather, scarcity of materials,

poor workmanship, or a timing crunch. If you sell your original home too quickly and your new home isn't built yet, you may have to make an interim move or ask your buyers for extra time to stay in your original home.

If you have to put your home up for sale suddenly, with little or no advance warning, begin your search for a new home immediately. But wait until you have some real activity—or better yet, a good offer—before making an offer on a new home. There is nothing worse than feeling as if you have no home. Homes root us and give us a sense of stability. Barbara and Max started looking for a new home and found a few neighborhoods they liked. A few months later, they put their condo on the market and sold it. It took them about a year to find their new home. Even though they leased their condo back from the new owners during the gap, it was an unsettling period of time. Once they bought their new home, they closed within



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