

# ANSWERS TO YOUR QUESTIONS



*I would like to help my children buy a home. What are some of my options?*



In addition to providing a sense of stability, owning a home can be a good way for your children to begin to build net worth. Buying now will also give them an opportunity to lock in favorable financing for the long term. Among your options are:

**1.** Assist with the down payment. You can give up to \$11,000 per year to as many people as you would like without incurring a gift tax. If you are married, you and your

spouse can gift up to \$22,000 to each child and an additional \$22,000 to their spouse. To increase that even more, give them \$44,000 towards the end of the year and the same amount at the beginning of the next for a nice \$88,000 down payment.

**2.** Loan your children money to purchase the house. Put both the house and the mortgage in their names, so neither will be included in your estate. To keep the IRS from considering your loan a taxable gift, you need to use the applicable federal rate. Your children will benefit from a low interest rate and tax-deductible mortgage interest and you will have a return on your investment potentially in excess of certificate of deposit rates.

**3.** To combine an investment with a home for your children, consider purchasing an apartment building, a duplex, or other multi-family

dwelling where your child could live in one unit while the other units provide rental income. Your child could earn equity in the building by handling management and maintenance of the property.

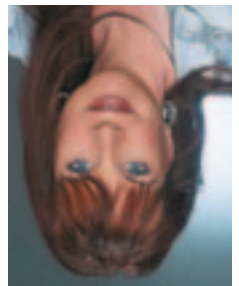
**4.** If your children are five years or more from the age when they will want to have their own home, consider funding an Individual Retirement Account for them each year based on their earned income. Up to \$10,000 can be withdrawn from an IRA tax free for first-time home buyers to purchase a principal residence. Contributions are limited to \$3,000 in 2005, increasing to \$4,000 in 2006. Talk to your financial adviser about how to best structure this option.

To help your children purchase a home now and take advantage of today's low interest rates, give me a call and let's look at what's available!

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For more information on topics covered in this newsletter or on buying and selling homes in general, call me for assistance.

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## To ARM or Not

In today's low-interest rate environment, if you plan on holding onto a property long-term - either as your residence or a rental property - a fixed-rate loan is usually best. You can lock in today's low rates for years to come.

If, on the other hand, you anticipate moving on in a few years or flipping the property for another home or investment, it's worth investigating an Adjustable Rate Mortgage (ARM). Just as it sounds, the interest rate on an adjustable mortgage is periodically adjusted to reflect current rates based on an index used by the lender. If rates go up, the lender can adjust the rate on your ARM upward. If they go down, your interest rate adjusts downward.

The main reason to consider an ARM is because the interest rate is typically lower than a fixed-rate loan. That in turn has two benefits. (1) Given the same loan amount, ARM payments are initially lower than a fixed-rate loan. You can save the difference or apply it to your loan to pay it off faster. (2) You can qualify for a larger loan amount.

Some of the most popular ARMs are the 1/1, 3/1 and 5/1. With a 1/1 mortgage, the interest rate is fixed for the first year and then changes yearly after that based on an established index, such as the Prime Rate, for the remaining term of the loan. A 5/1 has a fixed rate for five years and then adjusts yearly.

ARMs offer a lower interest rate because the borrower, rather than

## 12 Reasons to Use a Listing Contract

Thinking about marketing your home "For Sale by Owner" rather than hiring a professional Realtor®? It's easy to look at the money you could potentially save and forget to also look at what your Realtor does to earn that commission. Unless you are accustomed to buying and selling real estate on your own, the listing contract is a great bargain.

When you contract with an experienced Realtor to sell your home, you benefit from:

1. The knowledge and expertise of

someone who sells real estate for a living and who has spent years learning to make deals happen through effective marketing programs, personal sales, negotiating skills, and more. Deals happen faster as a result of our experience.



2. Knowledge of competing properties. We know what's on the market

and what buyers are looking for. That helps us price and market your home to sell on a timely basis and at a closing price that works for you.

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# The Walk-Through - Your Best Chance to Get it Right

For many home buyers, the appeal of purchasing a brand new home is to have everything right from the start and to not worry about unanticipated repairs. But as any new home buyer can tell you, the process doesn't always go as smoothly as you might wish. That's why it makes sense to involve your Realtor in the purchase of a new home.

A Realtor can help you find quality new home developments, understand the value of builder upgrades or premium features, assist you in selecting colors, floor coverings and decorator finishes that have the widest appeal when it comes time to move on to a new home and walk through the final inspection before you close.

The walk-through or pre-settlement inspection is used by good builders to introduce new home owners to their house. Appliances are explained. The new owners are shown where the water shut off and electrical breakers are located, how to care for surfaces and a host of other facts about the house.

It's also an opportunity for the builder, buyer and Realtor to give the house a final once-over in search of flaws, both large and small, that could later become financial problems or nagging irritants that detract from your enjoyment of your new home. This is the point at which you have the greatest leverage with the builder and your best opportunity to have problems corrected at the builder's expense. As you take your walk through, check the following:

**Doors** – Open and close all

doors to make certain all six sides are finished properly. Do locks work without binding? Are hinges clean of paint and finishes?

**Windows** – Open all windows to determine that latches work properly, tracks don't bind, screens are in place and there is no cracked or broken glass.

**Trim and Finish** – Walk the perimeter of each room looking for uniform trim fit and finish, gaps that need caulking, protruding nail heads, etc.

**Walls** – Examine all wall surfaces for irregularities,

visible seams and buckling and paint coverage. Make certain all wall outlets and switches work properly. Test light fixtures.

**Floors** – Tile and vinyl flooring should be clean and free of chips and cracks. Make sure molding is installed and properly finished. Walk carpet areas looking for loose fit and squeaky floors. If a floor doesn't appear level, roll a marble across the surface.

**Mechanical** – Have the builder explain how the house's mechanical systems work, including the furnace, water heater, thermostat and air conditioner. Learn where the water shutoffs are.

**Kitchen** – Check for scratches and abrasions to cabinets and countertops. Cabinets and appliances should be level and properly anchored to the walls or countertops. Drawers and doors should open without binding. Wall cover-

ings should be straight with tight seams.

**Bathrooms** – Look for scratches and nicks in the tub, shower enclosure and sink. Is the toilet securely fastened to the floor and the toilet paper dispenser at the right distance and height? Are walls and other surfaces acceptable?

**Basement and attic** – Check the basement walls for cracks and water damage. Find out how the water pump works. With crawl spaces, ask where the vents are located. Know how the attic ventilation system works. If you plan to use the attic for storage, find out if there are any weight restrictions.

**Outside** – Check the exterior paint for adequate coverage including the lower edge of the siding. Make certain doors and windows are caulked properly. Does the ground gradually slope away from the house? Are there cracks in the driveway and garage floors?

Take at least two hours on the final walk-through and spend longer if you need to.

Does your builder have to fix the problems you notice? It all depends on the builder and your contract. If you find too many things wrong, you don't have to close until the flaws are corrected. Because cash flow is critical to builders, you have the most power to get problems fixed prior to closing. On the other hand, the builder could threaten to sell the house to someone else or sue.

In the end, you need to sit down with your Realtor and discuss what you can live with and what will be a constant irritation, detracting from your enjoyment of your new home. Buying a home is an incredibly important decision in your life. It never hurts to have experience on your side when you make that decision. 🏠



## 12 Reasons to Use a Listing Contract

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3. A widely recognized FOR SALE sign that gives your home credibility with Realtors and their buyers.
4. Exposure to thousands of Realtors and buyers through the Multiple Listing Service. There is no quicker way to bring your home to the attention of potential buyers.
5. Financially pre-qualified prospects who are serious buyers. We don't want to waste your time, or our own, with buyers who are looking outside of their price range, unable to qualify for financing, or ill suited to your home.
6. 24-hour telephone access, seven days a week.
7. Timely updates on market and financing conditions.

8. A guide through the maze of legal documents involved in selling your home.

9. Careful and knowledgeable review of all contract offers, including explanation of your obligations under the contract.

10. Expert preparation of contracts, counterproposals, addendums and extension agreements.

11. Comparable sales research for the appraisal.

12. Time. Until you've been through a For Sale By Owner, you have no concept of how much of your time will be consumed by phone calls, answering questions, showing your home to potential buyers who may not be qualified, waiting for prospects who fail to show up for appointments and wading through legal requirements and documents. 🏠

## There's More to Glass than Meets the Eye!

Windows were once a home's greatest source of heat loss in the winter and heat gain in the summer, but times have changed, along with glass technology. Today's glass is stronger, safer and more energy-efficient than ever. In fact new glass is being developed all the time.

**Low-emission glass (Low-E)** is a clear glass with a microscopically thin coating of metal oxide that allows the sun's heat and light to pass through the glass into the building. At the same time, it blocks heat from leaving the room, considerably reducing heat loss.

Hate to clean windows? For a price, you can install **self-cleaning glass** with a special photocatalytic coating that reacts to the sun's ultraviolet rays to gradually and continuously break down organic dirt. This type of glass also has hydrophilic properties, which means that rain flows down the pane as a sheet, washing away the dirt.

**Electrochromic glass** changes color to control the amount of heat and light entering a room. By passing a low voltage across microscopically thin coatings on the glass surface, a tungsten-bearing electro-chromic layer is activated which changes color.

**Anti-reflective glass** uses multi-layer metal oxide and nitride coatings which reflect a very low percent of light, offering maximum transparency and optical clarity.

**Alarm glass** is a special laminated glass embedded with a very thin wire. The wire forms an electrical circuit which activates an alarm when the glass is forced. 🏠



## Mortgage Lending

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the bank, assumes the risk of rising interest rates. Generally, the shorter the period before interest rates can adjust, the lower the initial rate. Before you opt for an ARM, however, you need to understand what risks you are assuming and make certain you give yourself as much flexibility as possible.

The potential for increasing interest rates, which will in turn increase your payments, is the primary risk of using an ARM.

To manage your risk, look for ARMs with a **Conversion Clause**: This will permit you to convert to a fixed-rate loan at the time of the first adjustment. If you can get this clause free upfront and only pay for it if you decide to use it, it can be a good deal.

Avoid any **Prepayment Clause**: You want the flexibility to pay the loan back at your convenience without paying 1-3% of the original loan

amount as a prepayment penalty.

The biggest risk is the **Negative Amortization Clause**. Negative amortization typically happens when you have a Periodic Payment Cap that limits how much your payments can go up with each adjustment, without a Periodic Interest Rate Cap to limit interest rate increases. For example, suppose your ARM guarantees that your payment will not increase more than 2% a year, but your interest rate increases 3%. With negative amortization, the difference in interest is added into your mortgage balance. Now instead of paying down your loan, the loan balance increases each month even though you make every payment.

Negative amortization is one of the biggest reasons to read the Loan Disclosure Letter when you apply for the loan and the Adjustable Rate Note before you sign the note.

There is no one-mortgage-fits-all in today's lending market, so take some time to explore your options with your lender before you close. 🏠