New Construction by the Numbers (in Oregon)

Call Dawn

So, you're buying a brand new home that's never been slept in? Congratulations! This exciting journey involves some unique considerations compared to purchasing an existing property. If the extensive details on this page feel overwhelming, here are the key takeaways:

- **Expect an Additional Title Insurance Premium**: At closing, you may need to pay an extra title insurance premium, approximately $2 per $1,000 of your loan amount.
- **Property Tax Estimates**: We will provide an estimate for your property taxes, which usually come close to the actual amount. However, the true tax amount won't be known until the assessor sends the bill in October.
- **Monthly Payment Adjustments**: Since we estimate taxes, the portion of your monthly payment allocated for taxes will also be an estimate. This estimate will be adjusted—typically in January—after the tax bill arrives. If you receive a refund check and a significant reduction in your monthly payment next January, contact us. You may want to save that refund and consider setting aside extra funds each month to prepare for any potential increase in your monthly payment the following year.

For those curious about the details, let's dive deeper into some essential topics:

Title Insurance

Understanding Construction Liens: In Oregon, lien laws offer robust protection for contractors and suppliers. If a contractor or supplier is not compensated for their work or materials delivered, they have a 75-day window to file a lien against the property. If your new home is completed at least 75 days before your closing date, as indicated by a recorded "completion notice," check your title report for any liens—your builder will cover these at closing.

However, if less than 75 days have passed, both you and your lender may not be assured that all suppliers and contractors have been paid, leaving the risk of future liens. Unfortunately, any liens attached to the home will become your responsibility once you close.

Protection Through Title Insurance: Title companies offer "early issue" title insurance as a safeguard. This service involves researching the builder's financial standing and reputation, possibly even requesting lien waivers from subcontractors. If satisfied, they will issue a title policy that protects you and your lender from any unrecorded construction liens.

Dawn Robbins
Senior Loan Officer, nmls 432345
dawnrobbins.com
(503) 805-7878
dawn@dawnrobbinsgroup.com

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DAWN ROBBINS GROUP

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Do You Need It, and What's the Cost?

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Your escrow officer can inform you about the date the "completion notice" was filed and the cost of early issue title insurance if required. A general estimate for this insurance is about $2.00 per $1,000 of your loan amount. While this may seem pricey, consider the peace of mind it provides—imagine unpacking your boxes only to receive a lien notice and bill from a contractor who worked on your home.

Property Taxes

What does the Realtor's listing show for your new home's property taxes? Is it listed as zero or an improbably low amount? Unfortunately, the tax assessor is likely to assess a significantly higher amount.

Understanding Measure 50 and Property Taxes in Oregon

To estimate your property taxes on a new home, we need to revisit **Measure 50**, which was passed by Oregon voters in 1996. Prior to this measure, county assessors in Oregon determined a "real market value" for each property—essentially the tax assessor's estimate of the actual property value—and levied taxes based on that amount. Measure 50 changed this approach by decoupling market values from assessed values, resulting in what we now refer to as the "tax assessed value."

Each year, county assessors still calculate the real market value for every property as of January 1st. However, this value is no longer the basis for taxes owed. Under Measure 50, the initial tax assessed value for each property was set at 90% of its 1995 real market value. Moving forward, the increase in tax assessed value is capped at no more than 3% per year, provided there are no changes to the property.

Changed Property Ratio Explained

So, what happens with new or altered properties like yours? The 3% cap will apply to your new home's tax assessed value in the future, but how is the initial tax assessed value determined? Since there's no 1995 real market value to reference, the assessor must create a tax assessed value from scratch using a specific formula. This is where the annually calculated "changed property ratio" comes into play.

Dawn Robbins
Senior Loan Officer, nmls 432345
dawnrobbins.com
(503) 805-7878
dawn@dawnrobbinsgroup.com

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The calculation for tax assessed value is as follows:

Real Market Value×Changed Property Ratio=Tax Assessed Value\text {Real Market Value} \times \text{Changed Property Ratio} = \text {Tax Assessed Value}Real Market Value×Changed Property Ratio=Tax Assessed Value

Although we won't know the exact real market value assigned to your home until your property tax bill arrives in October, your purchase price can serve as a useful estimate. In practice, assessors often assign a market value slightly lower than the purchase price, which can ultimately reduce your tax bill—so it's not a bad thing!

Millage Rate: The Key to Your Property Tax Calculation

The amount of property taxes owed on your home is calculated by multiplying the tax assessed value by the tax rate, known as the **millage rate**. This rate comprises various components, including permanent rates, pension levies, gap bonds, local option levies, and bond levies, all of which contribute to funding essential government services like schools, libraries, and emergency services. The millage rate is expressed in dollars per $1,000 of assessed value. For instance, a millage rate of $25 would result in $2,500 in taxes on a property valued at $100,000; this is close to the 2017/2018 millage rate for Multnomah County.

Example Calculation

To illustrate how this works, let's run through a sample calculation:

- **Purchase Price (Real Market Value)**: $400,000
- **Changed Property Ratio**: 50.04% (the 2018 ratio for Multnomah County)
- **Estimated Tax Assessed Value**:
  400,000×0.5004=200,160400,000 \times 0.5004 = 200,160400,000×0.5004=200,160
- **Millage Rate**: $25 (or 0.025)
- **Estimated Property Taxes**:
  200,160×0.025=5,004200,160 \times 0.025 = 5,004200,160×0.025=5,004

If you missed some details in the previous sections, don't worry! We can easily find out the changed property ratio and the millage rate for your new home by contacting the county tax assessor's office. For a quick estimate in Multnomah County, you can simply multiply your purchase price by **1.25%**, which will provide a reliable ballpark figure for your property taxes.

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Senior Loan Officer, nmls 432345
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Understanding Property Tax Escrow for Your New Home

When purchasing a new home, property taxes and homeowners' insurance are typically included in your monthly mortgage payment. At closing, an escrow account is established to manage these expenses. Each month, when you make your mortgage payment, one-twelfth of your annual property tax and insurance costs is deposited into your escrow account. This means you don't have to worry about budgeting for these bills; when they come due, your lender handles the payments directly to the county and your insurance company.

Annual Escrow Analysis

In January of each year, you will receive an escrow statement detailing what you've contributed and what your lender has paid out of your escrow account. Like many costs, property taxes and insurance premiums generally increase over time. As a result, your lender will re-evaluate the tax and insurance portions of your monthly payment each year, adjusting it to ensure you're paying the correct amount for the upcoming year's expenses.

Unique Considerations for New Construction

With new construction, the first couple of years can be a bit unpredictable. We will estimate your property taxes and set up your escrow account at closing based on anticipated costs. However, when the property tax statement arrives in October, you may find the amount significantly lower than expected. You might think, "Great! My taxes are cheaper than I thought!" But when you receive your escrow statement in January, it may come with a refund check and a reduction in your monthly payment. It's a pleasant surprise, but before you spend that windfall, it's wise to give us a call.

Low Assessed Value in Year One

Remember that the county tax assessor assigns a real market value to your home each year as of January 1st. If your new home was still under construction on that date, the county would likely base the assessment solely on the value of the vacant lot or the construction site itself. Consequently, for your first year of ownership, you'll receive a tax bill reflecting only that lower value. Next year, however, you will be taxed on the full value of your completed home, making that initial low tax bill a rare opportunity.

While it's a nice break, it can complicate your escrow account. Your loan servicer

Dawn Robbins
Senior Loan Officer, nmls 432345
dawnrobbins.com
(503) 805-7878
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may not recognize that the first tax bill is an exception. Instead, they will see the lower taxes and refund you the excess funds in your escrow account while also reducing your monthly payment based on the assumption that the low tax rate will continue.

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Anticipate an Escrow Shortage in Year Two

The following year, when your actual, higher tax bill arrives, your lender will pay it for you. However, this could leave your escrow account with a negative balance, possibly by thousands of dollars. When the next January rolls around, your escrow statement will reflect this shortage, and you'll have two options to address it:

1. **Adjust Monthly Payments**: Your lender can increase your monthly payment to include an additional amount that will help cover the shortage over time.
2. **Pay the Shortage Upfront**: Alternatively, you can write a check to cover the shortage directly.

Choosing the first option can feel like a win against rising costs, as it allows you to spread the repayment over several months.

Managing Escrow Shortages: Options for Homeowners

When your lender pays your property taxes, they effectively lend you the funds to cover any escrow shortage. The great news is that you can repay this amount over time without penalties or interest. However, this can lead to an unexpected increase in your monthly payments. Not only will your payment be adjusted to account for repaying the shortage, but it will also include additional funds to save for next year's taxes. This means you could be facing a significant jump in your monthly payment. Ouch!

Choosing the Right Option for You

Since committing to a year of larger loan payments may not be appealing, you might find the second option more manageable. If you receive a refund check the following year, give us a call. We can help you estimate your anticipated escrow shortage (with an emphasis on "estimate"). If your refund is substantial enough, consider depositing it into savings. This way, you can enjoy a year of reduced mortgage payments while knowing you have funds set aside to cover any shortage.

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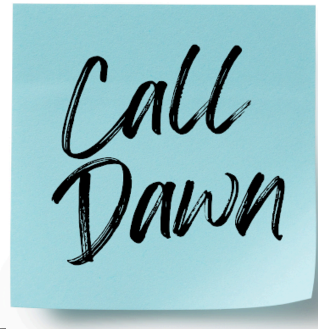
However, if your refund check falls short of the expected shortage, you'll have a clear understanding of how much to save over the year, giving you the chance to prepare during a period of lower-than-normal loan payments.



A Financial Strategy for the Savvy

For those financial enthusiasts who can't resist the allure of an interest-free loan, here's an additional strategy: deposit your refund check into a savings account and budget as if you're planning to write a check to cover your escrow shortage—but don't actually write it. Instead, let your lender adjust your monthly payment to account for the shortage. Then, each month, you can withdraw a portion of your accumulated savings to supplement your larger mortgage payment.

While you may not earn much interest with current rates (certainly not enough for a supersized meal at a drive-through), the real benefit for financial aficionados is the strategic approach to managing your cash flow without taking on additional debt.

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