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The Paper Source

The Voice of the Note Business

Where Are Your 1098s?

Not every note holder has to file a 1098. Learn the rules, exceptions, and real-world examples that clarify when IRS reporting is required.

By Roger J. McClure

Do you know whether or not you must file a Form 1098 with the IRS and provide one to your note payors?

There are general rules to follow:

1) If you or your company, corporation, partnership or trust are in a trade or business and you receive mortgage interest incident to your trade or business, and you or the entity receive interest payments from individuals and any individual paid you more than $600 in interest in a calendar year, you must provide a Form 1098 by January 31 of each year to each individual who paid you at least $600 of mortgage interest in the last year. You list on the 1098 all the interest received and send a copy to the IRS. You must also file Form 1098 and 1096 with the IRS by February 28.

2) If you or your entity meet the qualifications under #1, you do not have to report to the IRS or the payor any interest paid by a corporation, trust, company, estate or other entity which is not an individual.

3) If you meet the qualifications under #1, you only report individuals whose mortgage interest payments generate more than $600 per mortgage in one calendar year.

4) If you or your entity are not in a trade or business or your receipt of mortgage interest is not incident to a trade or business, then you do not have to send in Form 1098 to the IRS or your borrowers.

Example 1. You buy, hold and sell mortgages from time to time. You usually have only about three or four mortgages during the year that you hold in your name. You report your interest income on Schedule B and your interest and other expenses on Schedule A. This amount of activity does not rise to a trade or business but is an investment activity.

Example 2. You formed a corporation, licensed it as a mortgage lender, and set up an office in your home. Your spouse works, and the lending corporation is your main source of income. You make about 100 loans a year and borrow a large part of your capital. This constitutes being in a trade or business, and you must provide 1098s to your qualifying non-corporate borrowers and to the IRS.

Example 3. The same facts as Example 2, but five of the mortgages you hold each paid less than $600 in mortgage interest. You report none of the payors who paid less than $600 of mortgage interest in the last calendar year.

Example 4. Your corporation's pension fund buys and holds to maturity about 10 mortgages and continues to buy more as the pension fund grows. The pension fund is a passive investor, not intending to be in a trade or business. The pension fund provides no 1098s to anyone.

Example 5. You have a small loan company, which you conduct as a side business from your regular job. It is not incorporated, and you report its income and expenses on a Schedule C.

Example 6. You buy, sell or hold about 10 to 15 mortgages a year. You want to be viewed by the IRS as in a trade or business so that you can deduct the expenses of conducting your loan business on a Schedule C. Because you want to be treated for all purposes as conducting a trade or business, you provide 1098s to your qualifying non-corporate borrowers and the IRS.

The critical elements in mortgage interest reporting are that you or your entity must be engaged in a trade or business and your receipt of mortgage interest is incident to that trade or business. You or your entity does not have to be in the trade or business of mortgage lending. The loan servicer who has sufficient information to report mortgage interest subject to the Section 6050H reporting requirement must report it.

If you do not make the required 1098 reports, you can be subject to a fine of $50 per form up to $100,000. In general, if you cannot determine whether you are or are not receiving mortgage interest incident to a trade or business, it is best to file the reports to avoid the penalties and to add further support to your claim for the deduction of your lending business expenses.

Roger J. McClure is a note and real estate investor and an estate and tax attorney in the Washington, D.C. area. He served 10 years in the Virginia legislature, has been a radio talk show host, and received a Bronze Star for service in Vietnam. His book on real estate syndication was published was published by Prentice-Hall.

How Our Tax System Works

Suppose that every day ten men go out for dinner and the bill for all ten comes to $100. If they pay their bill the way we pay our taxes, it would go something like this:

The first four men (the poorest) would pay nothing.

The fifth would pay $1.

The sixth would pay $3.

The seventh would pay $7.

The eighth would pay $12.

The ninth would pay $18.

The tenth man (the richest) would pay $59.

So that's what they decide to do.

One day the restaurant owner says, "Since you are all such good customers, I'm going to cut the cost of your daily meal by $20." Dinner for the ten will now cost just $80. The group still wants to pay their bill the way we pay our taxes, so the first four men still eat for free. But how should the other six divide the $20 savings so that everyone gets his 'fair share?'

$20 divided by six is $3.33. But if they subtract that from everybody's share, then the fifth and sixth man would be paid to eat their meal. So the restaurant owner suggests that it would be fair to reduce each man's bill by roughly the same amount, and he proceeds to work out the amounts each should pay. And so:

The fifth man, like the first four, now pays nothing (100% savings).

The sixth now pays $2 instead of $3 (33% savings).

The seventh now pays $5 instead of $7 (28% savings).

The eighth now pays $9 instead of $12 (25% savings).

The ninth now pays $14 instead of $18 (22% savings).

The tenth now pays $49 instead of $59 (16% savings)

Each of the six is better off than before. And the first four continue to eat for free. But once outside the restaurant, the men compare their savings.

"I only got a dollar out of the $20," declares the sixth man. He points to the tenth man, "but he got $10!"

"I only saved a lousy dollar, too," exclaims the fifth man. "It's unfair that he got ten times more than me."

"Why should he get $10 back when I got only $2?" shouts the seventh man. "The rich get all the breaks!"

"Wait a minute," the first four men yell. "We didn't get anything back at all. The system exploits the poor!"

The nine men beat up the tenth man.

The next night the tenth man doesn't show up for dinner, so the nine sit down and eat without him. But when it comes time to pay the bill, they discover they don't have enough money between all of them for even half of the bill!

And that is how our tax system works. The people who pay the highest taxes get the most benefit from a tax reduction. It's called mathematics. Tax them too much, attack them for being wealthy, and they just may not show up anymore.

In fact, they just might find a place where the atmosphere is friendlier.

Trump Announces Plan to Bar Large Firms From Buying Single-Family Homes

By Amelia Benavides-Colón
Published by [NOTUS]

"People live in homes, not corporations," he said.

President Donald Trump said earlier this month that he wants to bar large corporations from purchasing single-family housing stock as part of his new affordable housing agenda.

"I am immediately taking steps to ban large institutional investors from buying more single-family homes, and I will be calling on Congress to codify it," Trump said in a lengthy Truth Social post. "People live in homes, not corporations."

Republican Sen. Bernie Moreno, a member of the Senate Banking, Housing, and Urban Affairs Committee, wasted no time in announcing his plans to introduce legislation in response to the Trump administration's proposal.

"Millions of young Americans have been locked out of the American Dream. @realDonaldTrump is finally fighting back," Moreno posted to X in response to Trump's post. "I will introduce legislation in the Senate to codify this into law."

In the House, Republican Rep. Riley Moore, a member of the Appropriations Committee, praised the announcement.

"This is huge. Owning a home is the cornerstone of the American dream," Moore posted to X. "Big institutional investors are now driving young people out of the housing market. Without the ability to buy a home, young people delay getting married, having a family, and plugging into their community."

The White House did not give any details about how such a ban would go into effect.

Stock market prices for real estate and investment companies immediately fell in response to the announcement, according to reporting by CNBC. Shares of Invitation Homes, the largest renter of single-family homes in the country, fell 7%, while shares of Blackstone, an investing firm that owns and rents single-family homes and is a major supporter of Trump, dropped 4%. Shares of other major real estate institutional investors also fell on Wednesday, including Apollo Global Management and BlackRock.

In response to the president's proposal, several Democrats pointed out the similarities between Trump's single-family home ban and previous legislation introduced by Democrats.

Sen. Elizabeth Warren, ranking member of the Senate Housing Committee, said, "I've been advocating for years to limit Wall Street from buying up America's homes."

"Enough talk — Trump should start with getting his own party in the House to support a bipartisan bill to bring down housing costs that passed the Senate unanimously," Warren continued. "And Congress should work on legislation to stop corporate investors from buying up homes."

Senate Minority Leader Chuck Schumer concurred in a post to social media.

"Senate Democrats tried to do this last year. Republicans blocked it," Schumer posted to X.

"BREAKING: Trump backs major Democratic policy position," Rep. Debbie Wasserman Schultz posted to

X. “This is good news. Now, Trump has to follow through and avoid yet another broken promise.”

Trump is expected to announce a host of other housing proposals at a speech at the World Economic Forum in Davos, Switzerland, later this month. In a televised address on Dec. 17, Trump teased, “In the new year, I will announce some of the most aggressive housing reform plans in American history.”

These Florida Real Estate Hucksters Promised Financial Freedom. Now $100 Million Is Missing

By Brandon Kochkodin
Published by FORBES.com

RAD Diversified REIT investors allege payments stopped, redemptions are frozen and more than $100 million is missing. State and federal probes are ongoing.

In January 2023, Brad Carr joined RAD Diversified, a Tampa-based real estate investment business, just after retiring from 27 years in the U.S. Army, having served at Fort Bragg in Fayetteville, North Carolina and U.S. Special Operations Command in Tampa, Florida. Hired as RAD's director of strategic initiatives, Carr says he served as the de facto head of strategy. A West Point graduate, Carr, 51, spent much of his service in military police before moving into so-called "PSYOPs", a unit tasked with using information and propaganda with foreign locals to achieve the military's goals.

Using live seminars and digital marketing techniques, RAD Diversified was already offering a wide mix of investment programs to its hundreds of investors. Its main offering was a non-traded real estate investment trust (REIT), which touted that it bought single-family homes in Los Angeles, Houston, Philadelphia and Tampa. But RAD also claimed to have Opportunity Zone funds, which get tax breaks for investing in real estate in distressed areas, a crypto fund that invested mostly in NFTs and an exclusive investment club called Inner Circle RAD, which cost $50,000 for the chance to participate in real estate joint ventures. Equity wasn't RAD's only game; it also gave its investors the opportunity to participate in loans, offering lenders 10% plus yields. All told, the company touted that its real estate portfolio amounted to $250 million.

Two weeks into his new job, Carr, who reluctantly responded to Forbes' persistent inquiries, received a surprising request from RAD chief executive Brandon "Dutch" Mendenhall. His boss wanted him to research details on how the world's largest Ponzi scheme artist, so Carr, without questioning the odd request, rewatched the series and built a presentation for leadership. His takeaway: Madoff stayed undetected because he kept the details out of view and no one wanted to spoil the magical returns by asking questions.

Soon after, Carr had a new assignment from the CEO: to build a growth plan and prepare materials for potential family-office investors. Critical to this task was the data Carr needed to back up the 150% four-year return claims RAD was touting to investors. Over the same time period, beginning in 2019, Vanguard's $64 billion Real Estate Index Fund had gained a mere 18%. The numbers he received from RAD's then-Chief Financial Officer Andrew Nonis shifted from one version to the next. Different parts of the business didn't line up. By June 2023, six months after he joined RAD, Carr decided he couldn't do the job he was hired to do and quit.

In the months after Carr left, investors say income distributions from RAD's funds began to slow, then stop without any explanation. Payments to REIT investors were missed. Interest payments on loans they gave to RAD went unpaid. The company blamed the cash crunch on the broader downturn in home sales, according to investors. In late 2023, mortgage rates were climbing toward 8%, so many investors believed RAD's story.

Things got worse in February 2024. On the same day the Securities and Exchange Commission halted RAD Diversified REIT's ability to raise new funds by declaring its offering statement abandoned, the company froze investor redemptions. Joint-venture investors say their monthly payments stopped around the same time. Money owed from loans didn't arrive either. Communication became scarce. In some joint ventures, properties were sold without notice to the partners who owned them.

Then, in July 2025, with redemptions still frozen, Florida Attorney General James Uthmeier announced subpoenas after receiving complaints that RAD wasn't using investor money as advertised. In a public statement, Uthmeier said, "This appears to be a Ponzi scheme." RAD disputed the claim in its initial response to the court. The company argued the Florida Attorney General's Department of Legal Affairs lacked jurisdiction and that the records it was requesting should be obtained from the Securities & Exchange Commission, which, RAD's owners let investors know, was also investigating. During this revelation, RAD claimed it had already provided the SEC with over one million pages of company documents.

According to one investor, who spent time on RAD's board with access to its books during the summer of 2025, there were numerous foreclosures in its real estate portfolio, and assets were missing, amounting to an estimated $100 million.

With lawsuits flying and investigators combing through its books and records, RAD Diversified is currently at the center of one of South Florida's biggest scandals. It is yet another example of opportunistic promoters taking advantage of the 2012 JOBS Act, using provisions known as Regulation D and Regulation A+, which has allowed companies to quietly raise millions without going through the IPO process, with little disclosures and loose marketing rules.

Private REITs have been a fertile area for JOBs Act entrepreneurs. Unlike public REITs, which trade on stock exchanges, file regular reports with the SEC and whose share prices are easily obtained, non-traded REITs limit redemptions, provide far less ongoing disclosure and often have high fees. According to data from Blue Vault, a research firm that tracks alternative investments, non-traded REIT assets grew from $78 billion in the early 2010s to $178 billion in 2025.

RAD Diversified is named for its founders: Randle Bowling, who left in 2020; Brandon "Dutch" Mendenhall and Amy Vaughn. Mendenhall, 46, grew up in Iowa, played baseball and later coached at the University of San Francisco before moving into real estate. According to company filings, he began his business career as an executive recruiter focused on commercial real estate and banking, then launched a real estate education business known as Tax Auction Investors during the foreclosure wave that followed the 2008 crisis.

Amy Vaughn, 46, is a Philadelphia native who moved to Florida in 2001 at age 21, according to her LinkedIn profile, where she says she obtained real estate and insurance licenses (she also claims that she was running a multi-million-dollar company that same year). Her online presence is heavy on motivational language and imagery, with inspirational quotes and frequent references to grit, ambition and perseverance

as well as highlighting her philanthropic work with Joshua House, a Tampa nonprofit that supports abused and neglected children. Former employees say Vaughn was the sales engine behind Mendenhall's real estate seminars.

Former employees say the group first worked on distressed properties and short sales before shifting into the real estate seminar business. They handled marketing, sales and back-office operations for well-known industry figures, including Canadian tax-lien coach Dustin Hahn. Mendenhall, in a 2024 podcast interview, says he decided to jump on stage and sell his own wisdom because many of the gurus he was promoting weren't personally investing in real estate or they were teaching outdated techniques. Mendenhall, per his telling, has said students began asking to invest alongside him rather than simply pay for coaching, prompting the launch of three real estate funds in 2015 that focused on single-family homes.

Those early funds, former employees say, were relatively small (a 2018 filing showed one of the funds owned 46 single-family residences and had $5.8 million in total assets) and constrained by fundraising limits. By 2017, the group formed RAD Diversified REIT, using Regulation A and Regulation D offerings to raise larger sums from a broader pool of investors. RAD, including Vaughn and Mendenhall, did not respond to multiple requests for comment for this story.

Over time, the business shifted from hosting high-priced seminars to finding and investing in its own real-estate deals. People who worked there say the founders believed they could do what their clients were doing. More money could be made than by merely running seminars. At first, they focused on creating small joint ventures for real estate purchases. These grew into structured investment programs, and a single fund led to several. As the company expanded, Mendenhall and Vaughn even launched the Alternative Investment Association, a membership group charging at least $5,000 a year.

Tom Nagy, a 57-year-old retired business owner from the Philadelphia suburbs, says he put money into RAD's joint ventures after joining the company's Inner Circle. In two months, he committed about $330,000 across four housing joint ventures (he invested in three homes in Pennsylvania and one in Big Bear, California), a $100,000 loan to RAD and a 1% stake in a golf course, the Wentworth Club outside of Tampa, which was owned by another RAD related business called Omnico Golf that, according to its website, planned to acquire six courses by September 2025.

Nagy says the sales pitch took on a personal tone when he traveled to Idaho for a RAD investor retreat in October 2023. Early in the trip, he sat through a presentation that showed a property he already owned as if it were still for sale. When he asked about it, he was told the system "had not been updated." Communication became more difficult after that. He expected rent payments from his joint ventures and interest from his loan. None came. Statements listed fees and repair costs he couldn't verify. When he asked for invoices, he says none arrived. By late 2023, he was told that all four joint-venture properties had been sold. One showed a small profit he never received; two were losses; and the fourth, he says, left him owing the company $40,000 for renovations he never saw. So far, he has recovered a mere $1,900 of the $330,000 he invested.

Lonnie Phillips, a 61-year-old former paramedic from Virginia, had a similar experience. He joined RAD's Inner Circle in October 2021 after being told the joint-venture deals were true 50/50 partnerships, with RAD investing alongside him. That mattered, he says, because he wanted RAD to have real "skin in the game."

He invested in two properties, including a lakefront home in Tampa that sits on 31 acres along Half Moon Lake, with a pool, guest apartment and roughly 160 feet of waterfront. Zillow currently estimates its value at about $1.6 million. Phillips says he believed he and RAD each owned half of the property. Instead, he later learned that RAD had sold most of its stake to another RAD investor, leaving the company with only about a

10% interest. Phillips says the change happened without his knowledge and undercut the very incentive structure he thought he was buying into. The property was later sold, he says, and neither investor received any proceeds. The other investor ultimately sued RAD in Florida and won a default judgment.

Adding to his frustration, Phillips also says one of his JV properties was presented during a RAD investor Zoom call as a profitable REIT asset, even though the REIT didn't own it. When he raised the issue, he says he was brushed off. Aside from a small amount of REIT distributions tied to an earlier redemption, Phillips, who invested about $300,000 in total with RAD, says he has not been paid on either of his joint-venture deals.

If Nagy and Phillips wondered where the money went, Jeff Thomas says he came closer to the answer. Thomas, a 66-year-old mobile-home and RV-park investor, owned about 5% of the REIT's outstanding shares, making him the largest outside shareholder. He also appeared on a company podcast and promoted RAD to new investors. He first invested in 2018 and ultimately put $1.5 million into RAD's programs. He received REIT distributions, joint-venture proceeds and interest on the loan he made to RAD until early 2024, when payments stopped. He was told it was a short-term cash-flow issue.

By the summer of 2025, Thomas was pressing for transparency. In July, he was added to the REIT's board. Other new board candidates, he says, stayed off because RAD couldn't secure directors-and-officers insurance due to ongoing lawsuits. (Among them is a civil RICO suit filed by conservative talk-radio host Buck Sexton, who invested "over $100,000" and says RAD misled him and failed to provide the "direct access to undervalued real estate investments" that he was promised. RAD has moved to dismiss, calling the claims defective and outside federal jurisdiction.) Thomas obtained his own coverage and joined the board.

Once on the board, Thomas gained access to RAD's bank accounts and began reviewing transfers and balances. What he saw raised immediate concerns about how money moved between RAD entities. In mid-October, he met with Mendenhall and Vaughn at the Wentworth golf course outside of Tampa (through a different company, Mendenhall and Vaughn owned the course and were, as of the summer of 2025 still actively recruiting new investors for that project). Over several days, he says he pushed management to step aside and allow investors to try to salvage the company. Thomas believed they had reached an agreement. The next day, he says, Mendenhall and Vaughn reversed course and offered to hand over only the REIT. Days later, he was removed from the board and locked out of the accounts.

In late October, Thomas sent a letter to investors summarizing what he had found. He wrote that the REIT was "broke," that rent collections had fallen from about $300,000 in January to roughly $180,000 in September and that properties were in foreclosure. Taxes and insurance had not been paid. Some tenants were withholding rent. Farms had been sold. The bank account showed a balance of just $2.36 million. He also wrote that many joint-venture properties had been sold or refinanced without notifying investors and that "monies may not have been disbursed to the JV partner." He estimated that RAD companies held about $90 million in property and at least $90 million in debt. Several RAD entities, he warned, were black boxes that he couldn't pry open even as a director.

Some investors say that feeling extended outside the company. They point to RAD's ties to accountant Charles Dombek, who promoted tax strategies at RAD events. On his LinkedIn, the accountant touts that he's a "film finance expert" who has secured more than $300 million in bridge loans for independent film projects. He also seems to specialize in tax strategies for dentists. Dombek says on LinkedIn he's worked with over a thousand dentists, cutting their taxes by 30% or more, while advising on more than "100 successful dental practice sales."

But in October 2024, Dombek agreed to a permanent injunction with the U.S. Department of Justice. The

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order bars him from promoting certain strategies, including what the government described as sham management entities, improper income shifting and abusive captive-insurance arrangements. The injunction was entered with his consent but does not constitute an admission of wrongdoing. Dombek didn't respond to requests for comment.

News of Dombek's troubles only deepened investor fears that their money would never be returned. Public filings show he registered a Florida LLC for Vaughn's son using RAD's corporate address and Vaughn's RAD email. This behind the scenes maneuvering by Vaughn's clever tax accountant, only added to investor unease.

In the meantime, pressure is mounting for RAD and its promoters. Besides Florida's attorney general's ongoing investigation, the court in Hillsborough County, where RAD is headquartered, has issued 18 default judgments totaling $9.5 million against RAD entities so far this year. Default judgments are typically issued when the defendants fail to respond to court proceedings. For investors, they carry little weight if there is no money left to collect.

Rising Home Insurance Costs Push Housing Finance to A Breaking Point

By Jennifer Castenson
Published by FORBES.com

As housing faces more climate threats that result in more losses, the insurance program that it sits on is teetering on the brink of collapse. Yet, the home insurance market has three distinct stakeholders that have competing priorities, and today, there is no motivation for a collaborative solution.

Understanding how to strengthen and protect the current structure requires looking at the cost burdens along with the risk for each of those parties.

During The Extreme Climate, Housing and Finance Leadership Summit hosted by Toni Moss and Americatalyst, Andy Davidson, the founder and CEO at Andrew Davidson & Co. shared his analysis of this critical situation.

“We really have three players, the ‘three-body problem’– the insurer, the homeowner, and the lender,” he said.

First, there is the homeowner, who has a mortgage and, through the lending process, has to also get homeowner’s insurance. The homeowner has the asset, which is a house with land and property value, and interacts with both the mortgage lenders and the insurance providers.

The homeowner takes on several risks. They typically do not have enough money to buy the house without a loan, so they secure a mortgage, hopefully at a fixed rate to lock in the cost. So, their first risk is anything that would cause the interest rate to change, and the second risk is anything that would cause a decline in the value of the home, such as a climate event.

In the last year, the industry has become more transparent with these risks, with online property listing sites displaying a home’s unique climate risk. This previously wasn’t an interest because home insurance was a stable cost, but now rates are doubling and tripling in some cases, so homeowners want to know. Zillow originally was part of displaying those climate risks, but recently took them down after backlash from the real estate community.

The second player in this collapsing system is the mortgage lender. The lender takes on the risk that the borrower stops making payments.

The third player is the insurance company. The insurer wants to get more in premiums than it pays out in claims on an annual basis. Insurance companies can manage risk by using a complicated claims process, which is formulated so that insurance gets more in than it pays out. If that formula breaks and insurance cannot take enough in, it will exit the market, which is its risk management.

“The borrower has the most to lose,” said Ted Tozer, president and CEO at Ginnie Mae, a federal entity that guarantees timely principal and interest payments on mortgage-backed securities. “If they cannot get insurance, they are on the hook for whatever damage occurs. The lenders have to ensure that the borrower will have enough to cover the mortgage. If they violate that and the borrower doesn’t have enough insurance, then the lender is on the hook. The insurance has all the net worth of the borrower and the lender in front of them, so doesn’t have as much to risk. It’s so tough to get things done because everyone has a different level of exposure.”

Not only are the risks different for each of these three players, but so are the timelines of their structures. The homeowner wants a long-term, stable investment. The mortgage provider also is in long term with financing typically at 15 to 30 years, whereas insurance is on a year-by-year basis allowing it to determine if the risk reward can be managed in each market or if it should exit certain markets.

“You can start to see there’s a gap here,” Davidson said. “Let’s say there’s a climate event that occurs and there’s a lack of insurance. Well, the insurance company would pay if the homeowner is insured. But, If they’re not insured and there’s some climate event that affects the value of the house and the borrower can’t make their loan payments, what does the lender do? The lender will foreclose. There is no mechanism to repair the damage to the home without insurance.”

Many homeowners are now at risk because, without insurance, we don’t have a player that will step up to fix the home.

“This is where we’ve gotten to where everyone says it’s not my problem, because each person has shielded themselves from other risks, and they’re saying, I’m not taking on that risk,” Davidson continued.

The homeowner is protected by the fact that their equity is limited, and they think they have insurance or they’ll get insurance. The insurer is protected because they can exit a market, and the mortgage market says if a homeowner doesn’t have insurance, they cannot get a mortgage.

Home Insurance By The Numbers

Sources estimate the total value of residential real estate is about $42 trillion, and Davidson estimates that about half of that, or $21 trillion, has a mortgage, with the total amount of loans of about $13 trillion. That puts mortgage payments on $13 trillion at about $650 billion per year assuming a 30-year mortgage rate of 5%. Of that amount, the annual guarantee fees that go to Fannie Mae, Freddie Mac, Ginnie Mae, and other parties who are taking on some degree of credit risk, add up to $60 billion.

Property losses also are estimated to range between $60 and $100 billion annually in the U.S. That means that the insurance risk ends up about the same dollar value as the credit risk component.

To understand how this could impact an individual borrower, imagine a homeowner who makes $65,000 annually and who has purchased a home for $350,000, and the structure of the home represents about 70% of the value. Assume the owner has a loan to value ratio of 90%, so their equity is $35,000. After the down payment, the mortgage on this house is $315,000. With a 5.5% rate, the homeowner pays about $20,000 per year, with interest being about $17,000 of that. The credit component is about the same order of magnitude as the insurance payment.

The insurance company calculates the replacement value of this home to be around $250,000. The homeowner pays a 1% insurance premium, or $2,500. If a climate event occurred that did significant damage to the home and required a 15% claim, or about $37,500, it would wipe out the homeowner’s equity if they didn’t have insurance. With insurance, they collect on the claim and restore the property.

If the home was not insured, the borrower may not be able to maintain the house and would default. In that case, the outcome for the lender and the borrower would be worse. Due to the costs of foreclosure, the cost to the lender would probably be 25% or an $80,000 loss on the loan.

When this disaster hits, the lender forecloses on the home, leaving a house that is not insurable and that needs a $37,500 remodeling project.

“What we have to have is a resetting of home prices,” Tozer said. “If you are in certain geographic areas, if you are having losses because of insurance, home prices are going to fall. There has to be an adjustment to follow the cost of living in those areas. We have to pass on those costs. It might be a 25 to 30% drop in home prices. Because people will have to pay more for insurance at $100 per month, you can’t pay as much for the house. If you cannot get insurance, you have to cut the price.”

In addition to that, the local community has taxes in place to raise revenue, but if home prices fall, then the community needs to keep raising taxes, creating a doom loop. The hardest-hit communities will have the highest taxes, and it will drive people away.

Those communities will have to proactively add taxes to mitigate risk by building out resiliency projects and better infrastructure.

This misalignment of numbers and priorities makes collaboration for a solution difficult.

Fixing Home Insurance Misalignment

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Now, some homes are declining in value because of the high cost of insurance or the lack of insurance coverage, plus there are uninsured losses that could cause delinquencies or increase default severity.

Issuers of Ginnie Mae, the servicers, are working to make sure that homeowners continue to have their insurance, using forced-placed insurance, and if the homeowner can't afford the new insurance, there will be delinquencies and foreclosures.

Another complication is the reinsurers in the mortgage credit market. As the credit risk transfer (CRT) market was developed, reinsurance companies got involved because mortgage credit risk was not related to the other risks they reinsure. When the reinsurance companies start being impacted by climate risk and property and casualty risk, it's possible they will be less interested in mortgage credit risk, which could increase the cost of credit.

Home Insurance Tomorrow

"We need solutions," Davidson said. "Just taking all your money to pay that money towards insurance is not helping. If what we're doing is covering the cost of losses, that's just money that's going into rebuilding something that's not good. We want to get ahead of the game, and we want solutions that are community-based. They need to be nationally diversified because these risks are large. And the horizons need to be on the order of years to decades, not on the order of one year at a time."

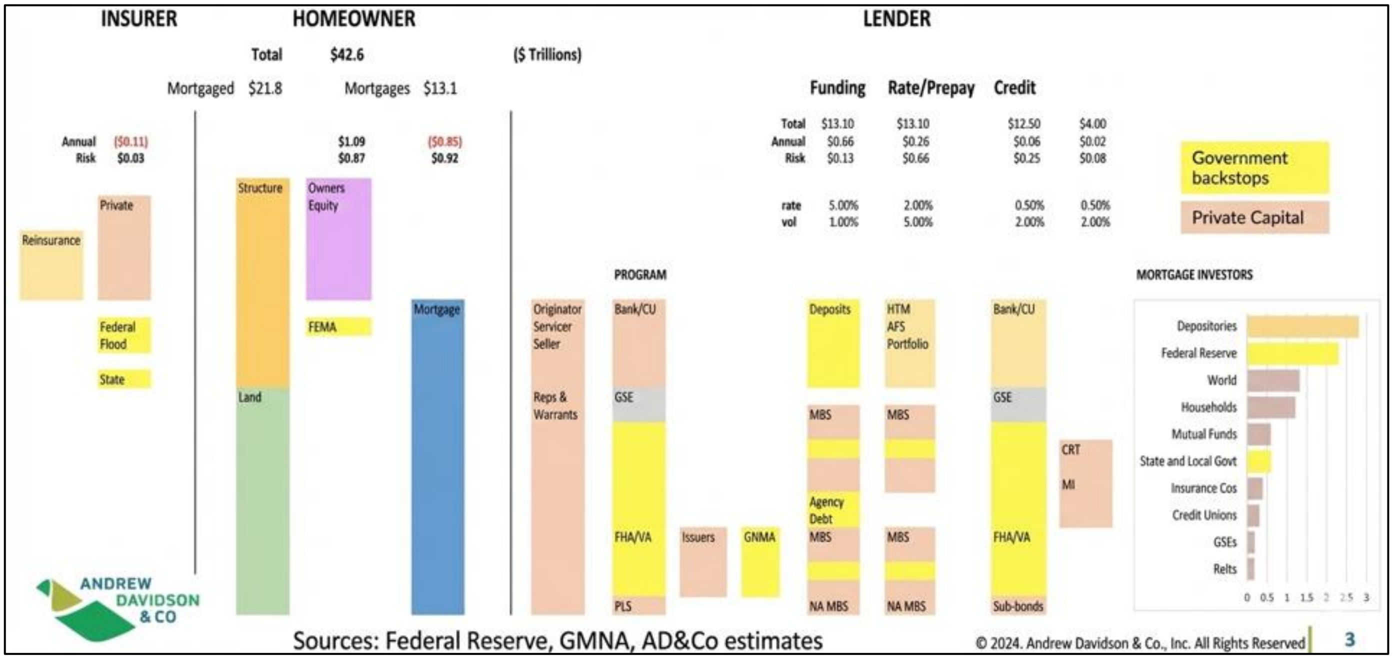
We also need to continue to improve the measurement and forecasting of climate risk throughout the housing finance system, while adding transparency in the process.

Tozer believes there is a lack of ownership from the federal government that he hopes can be reestablished. But, at the same time, if the government takes on the majority of the risk, then homeowners will have less stake in the game and purchase homes in high-risk areas, which is further evidence that risks aren't being priced into the system right.

The government entities like Fannie Mae, Freddie Mac, and the Federal Housing Administration put the risk back on lenders, which leaves the lenders with the residual risk.

"The issue is simply that there is so much risk added to the whole system, it's completely overwhelmed the historical system we had with home insurance with reinsurance outlets," Tozer said. "But the risk level now is so high that the system is not working. The problem comes down to who is going to hold the risk, and it's landing on the homeowners. Without being able to get insurance, it indicates that the whole system is tipping over."

Now he suggests we consider removing the risk from these three players, or adding another player to take the risk out.



Not only for insurance, but for sustainability and wellness features, the mortgage market could improve the system by calculating in the total ownership costs. There should be a process to check the ability to absorb future insurance increases when a homeowner qualifies for a mortgage.

“Right now, a change in insurance rates or property taxes is exactly like having rising interest rates with an adjustable-rate mortgage. Unfortunately, people aren’t good at understanding risk or uncertainty,” Davidson said.

The future of a safe, secure housing market depends on solving these home insurance challenges. Davidson’s presentation brings to light these challenges, and now it’s time to dig in and solve them.

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Gen X and Millennials Will Inherit Trillions in Real Estate Over the Next Decade

By Katherine Clarke
Published by REALTOR.com

Baby boomers and older Americans have spent decades amassing one of the largest concentrations of private wealth in history. Now, that wealth is starting to be passed down to the next generation—and it's having a ripple effect across the high-end property market.

Over the next decade, roughly 1.2 million individuals with net worths of $5 million or more are projected to pass down more than $38 trillion globally, according to a new report from brokerage Coldwell Banker Global Luxury reviewed exclusively by *The Wall Street Journal*.

Real estate is poised to play a significant role in the great wealth transfer. Gen Xers and Millennials are set to inherit $4.6 trillion in global real estate over the next 10 years, according to the report, which incorporated data from research firms Altrata and Cerulli Associates. Nearly $2.4 trillion of that property is located in the U.S.

Real-estate brokers, attorneys and family offices say they are already seeing profound changes in who buys luxury homes and how purchases are structured. High-net-worth families are bringing children into conversations about inheritance earlier and making high-stakes real-estate decisions sooner.

Parents buying earlier—and bigger

It isn't a new phenomenon for well-off parents to give children a helping hand in securing a first home. But at the high end of the market, agents say more parents aren't waiting for kids to inherit their wealth; they are buying them luxury properties sooner. It's reshaping the definition of luxury real estate, as more sellers cater to the tastes and preferences of a younger generation of buyers.

In Manhattan, for instance, family money is accounting for an increasing share of major transactions.

"The price points have just gone wild," said Ian Slater, a Compass agent who works with ultra-wealthy families in New York. "I used to commonly see people buy $3 million to $5 million apartments for their 25- to 30-year-old kids. Now I see people buying $15 to $30 million apartments for their kids."

Local agents said the trend is most pronounced in neighborhoods such as Greenwich Village, the West Village and Tribeca, where younger buyers tend to gravitate. It's also concentrated on condos rather than co-ops.

"When you're buying for children, co-ops are a real no-no," since many co-op boards want the occupants of units to be financially independent, said luxury agent Clayton Orrigo. By contrast, condos offer flexibility, which is especially valuable for globally mobile heirs.

Condos are "much easier for parents buying for their children in an LLC or a family trust. If their kid is working at Google, but then next year they get transferred to London, the family can rent the apartment out," Orrigo said.

In many of those transactions, the children narrow down options based on taste, while parents and advisers weigh investment considerations. Family offices have become the main point of contact for agents after the initial home-scouting trips, Orrigo said.

Some ultra-luxury condo developers are responding with amenities aimed squarely at younger buyers. One downtown condo at 80 Clarkson Street has a studio for creating podcasts and social media content, Orrigo said.

The gravitational shift toward downtown is already having a cooling effect on traditionally upscale uptown markets. For years now, sellers in New York's most exclusive cooperatives on Park and Fifth Avenues—white-glove, doorman buildings that once symbolized old-money elegance and exclusivity—have struggled to command the same record-setting prices as their new downtown counterparts. Their price growth has lagged well behind condominiums.

Inheritance conversations early

Americans with a net worth of more than $5 million are expected to pass down about $17.3 trillion over the next decade. Centimillionaires—those worth more than $100 million—hold roughly 43% of that wealth, according to the Coldwell Banker report.

With so much at stake, many families are preparing their children by starting conversations early.

When Bobby Castro, 58, began planning how his money would one day pass to his children, he said he was driven primarily by fear that the fortune he and his wife built would be squandered.

“I read there’s over a 70% chance Gen Two—meaning my children—will wind up blowing all the hard work that the creators of Gen One, my wife and I, did,” he said. “And that is a scary stat.”

As a result, he and his wife, Sofia Castro, 54, who live in a sprawling waterfront home with a private dock in Fort Lauderdale, Fla., began building what they call their “100-year legacy plan.” Bobby made his money by founding and later selling a financial-technology company called Bankers Healthcare Group and using the proceeds to amass a real-estate portfolio along the way. The family is now worth about $500 million, he said.

His family office purchased homes for both of his children and their spouses, placing them within minutes of each other in South Florida. Each of the children’s homes cost around $2 million to $3 million and was bought through family trusts, Bobby said.

“In a selfish way, Sofia and I wanted our children really close by, and our grandchildren,” Bobby said, noting that his kids are in their late twenties and thirties. “That’s my tribe.”

The family also owns a compound in the Florida Keys, where he and Sofia had intended to convene with their kids and grandkids on weekends. They are now listing it for about $15 million, according to listing agent Angel Nicolas of Serhant, because they want somewhere closer to home, since the grandkids play sports on weekends.

The family works with wealth managers, accountants and other advisers and holds off-site family meetings every three months, where they spend the morning going over their portfolio, then go skiing, golfing or to the beach. Spouses are included in the conversation. “It’s like a board-level meeting,” Bobby said.

The children also get one-on-one business coaching from the family’s wealth-management firm. The family belongs to R360, a network for centimillionaires, which offers a leadership program for heirs that covers everything from how to manage a real-estate portfolio to how to make sure friends aren’t interested in them purely for money.

Bobby said that formalizing the wealth-transfer process has made him calmer. Before enlisting professional help, “I was communicating from a place of paranoid urgency,” he said.

Structuring for taxes

Michael Cole, a founding partner at R360, said he sees members using structures such as limited liability companies or family limited partnerships that allow parents to split ownership with their children and transition control over time. The goal is that the future appreciation of real-estate assets be outside of the older generation’s taxable estate, limiting inheritance taxes upon the parents’ deaths.

David L. Smith, a New York real-estate attorney, said that in the last two years, he’s seen a huge surge in transactions where parents are buying homes for children through trusts.

“I’m sitting here at my desk with three contracts—two of which are parents either buying for or contributing to a purchase for their kids,” Smith, 72, said.

Smith and his wife made similar choices for their own family, contributing to the purchases of apartments for two of their adult children over the past year. They helped their daughter and her partner buy a $1.1 million four-bedroom apartment on the Upper West Side, and helped their son and his partner buy a roughly $750,000 apartment on the Lower East Side that required about $150,000 in renovations, according to Danielle Nazinitsky of Decode Real Estate, who was the agent who represented Smith’s children, who are both in their 30s.

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"I didn't want them to have to struggle," Smith said. "We're in a position where we could help them, and that means a lot. I'd rather see my money go to helping my kids today than not be here to see them enjoy the fruits of that money."

Family estates for sale

The great wealth transfer, as it has become known, is so significant because of how wealth has accumulated in the U.S., according to Chayce Horton, associate director at the research-and-consulting firm Cerulli Associates.

In the last decade, the wealthy have gotten nearly four times as rich, as they have nearly doubled their share of a pie which has itself doubled in size in the U.S., Horton said. That money is more concentrated among older households. People 60 and older held less than half of the wealth in the U.S. 10 years ago. Today, they hold almost two-thirds, he said.

As wealth transfers accelerate, some heirs are discovering that legacy properties are more than they want to take on. Large estates requiring significant maintenance and full-time staff are increasingly coming to market, brokers say.

For instance, in New York's Hudson Valley, a sprawling farm came on the market last year asking $90 million. Owner Daniel Slott, who worked at Bear Stearns and later had a junk-bond fund, said he is selling the property because he is getting older and his adult children don't want to deal with maintaining and operating it.

Many among the younger generations prefer more contemporary living arrangements or more liquid assets. Higher home prices and higher mortgage rates have also made it impractical for some heirs to buy out their siblings.

On more than 5 acres in California's San Mateo County, a grand home, once owned by the late singer Bing Crosby, sold for $25 million last year following the death of Crosby's second wife, actress Kathryn Grant. Crosby's son, Harry Crosby, told the Journal last year that selling the property after his mother's death was an "inevitable decision" because he and his siblings were spread around the country and had their own homes.

Similarly, a circa-1930s estate just a few houses from the Playboy Mansion in Los Angeles came on the market last year for $49.5 million. The longtime home of the inventor Ronald Katz and his wife, Madelyn Katz, the house was listed following Ronald's death in 2025. Their son Todd Katz said he and his brother have their own homes in the area, so it made sense to sell the property.

In cases where multiple siblings inherit one property, things can get complicated, particularly if a plan isn't put in place before a parent's death, Cole said.

"Kids have kids, spouses get involved, and complexity becomes more of an issue," he said. "One wants to keep it because there is sentimental value, one wants to sell it because they want the capital out. There's a lot to untangle."

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