Real Estate Matters: Financial questions and answers

by Ilyce_Glink

Q: I am at my wit's end. My adjustable rate mortgage (ARM) has reset and my mortgage has increased by $400. I also have a second mortgage and am unable to pay what I owe on my student loans each month.I know I need to sell my home, but I also need to put floors down before I sell it. I had the carpet removed shortly after buying the house and want to place down laminate floors on top of the plywood. Here's the problem: After I put in the floors, I don't think I can get what I paid for the house.Right now, I am current on my first and second mortgage, but I am running low on money. I am a medical professional, but I'm a single parent and there is not enough money go around.What exactly is a short sale? Do they work? How about a deed in lieu of foreclosure? How hard will that hit my credit and for how long? Can I ask the lenders to readjust the loan? I hope you have answers for me.A: You're in a difficult situation, and I'm not sure how much help is out there for you.First, you may have heard about the interest reset relief program that is starting up as of January 1, 2008. You must be current on your mortgage (which you are) and you must have less than 3 percent equity in your property (which it sounds like you might have). However, you must have a loan that will have an interest rate reset starting January 1, 2008. Because your loan has already reset, it's possible you won't qualify for this.Still, it's worth a shot, but you'll have to do the work. Call the Federal Government's toll-free mortgage crisis help line at (888) 995-HOPE to see if you qualify for assistance.If not, then you have to figure out next steps. Can you find a way either to bring in more cash (can you rent out a bedroom in your house?) or reduce expenses until you get through this crisis?I'd hate to see you do a short sale (where you sell the home for less than the loan amount), or a foreclosure (which will stay on your credit history for up to seven years), or even a deed-in-lieu of foreclosure (where the bank accepts the deed in lieu of you paying off the loan).You'd be better off trying to trim your expenses or bring in extra income to put down the flooring you need and wait out the current mortgage crisis. Staying in your home will be the least costly choice, both in terms of cash and your credit. I hope you can find a way to make it happen.No matter what, please talk to a housing counselor at the Department of Housing and Urban Development. You may qualify to refinance your mortgage at a lower rate through the new FHA Secure plan. Go online to www.fha.gov/about/fhasfact.cfm to get contact information or call toll-free (800) CALL-FHA for more information.Q: I am looking at a fairly major renovation of a home I have lived in since 1981. I paid $60,000 for the house, and there is no mortgage. If I put house on market (with some inexpensive curb-appeal type spiffing up) I think it would be listed in the area of $325,000.I'm guessing that the renovation costs would run about $300,000, and the house would then sell for $450,000. I plan on continuing to live there for at least another 10 years. Should I sell the house or should I stay and finance the renovation? Shall I get a construction loan followed by a 15-year mortgage? What about a home equity loan or line of credit? Does my age or income matter?A: Your numbers are interesting, if they're accurate. For simplicity's sake, let's assume they are.If you sell your house today for $325,000, you'll have a rough profit of $250,000, which you could keep tax-free. If you improve the property, the house would be worth $450,000, for a net profit of around $90,000.Why would you do all of this work for a much smaller profit? Wouldn't you be better selling your property, pocketing the cash and buying something else? If you sold your home, do you know how much you would have to pay for another home? Could you sell the home and buy another for less money? If you bought another home in the price range of $350,000 to $400,000, you'd have some price appreciation over the next few years, and you'd start the clock ticking on the next $250,000 in profits that you could keep tax-free.Ideally, at the end of 10 years, you'd have sheltered at least $500,000 in profits tax-free. That's a lot of cash.Now let's assume that despite the numbers, you still want to improve your property and then stay there for 10 years. How should you pay for your renovation?The cheapest thing to do is pay cash. Barring that, the next cheapest thing would be to do a cash-out refinance and get a new mortgage at today's reasonable interest rates. You can do a home equity loan, but for as much money as you're talking about, you'll have an easier time with a cash-out refinance and you'll be able to lock in the lower interest rate. As for a construction-to-permanent loan, you could do that, but the fees may be higher and you'll have more paperwork.I vote for a cash-out refinance, although you should still look into construction-to-permanent financing. If the company you work for has a credit union, you should start your search there because credit unions typically offer the best deals on home loans and auto loans.(Ilyce R. Glink's latest ebooks are "Credit Scoring Secrets" and "How to Find a Great Real Estate Agent." If you have questions, you can call her radio show toll-free (800-972-8255) any Sunday, from 11 am-1 pm EST. You can also write to Real Estate Matters Syndicate, PO Box 366, Glencoe, IL 60022 or contact her through her Web site, www.thinkglink.com.)

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