Real Estate Matters: financial questions and answers

by Ilyce_Glink

Q: I found your web site and was very impressed with all the free information. I looked through all the FAQs in hope of finding an answer to the following question.Seven months ago, my niece and her husband put $10,000 down on a lease/option arrangement. Their payments were $2,000 per month. Of that, $1,350 went for the rent and $650 was put toward the down payment. Unfortunately, my niece passed away just before Christmas. Is her husband legally entitled to a refund of the option money and excess money paid toward a future down payment?My niece's husband was not the larger wage earner in this situation and has vacated the property because he could not afford the payments. A: First, my condolences on the loss of your niece.While I'm not an attorney, in the situation you've described, the renter would not typically be entitled to a refund of the option money unless the contract specifically said that renters were entitled to get this money back in the case of a default.Option money is usually non-refundable. You're buying an option, or the right to purchase a property for a specific amount of money at a specific time. If the contract is silent on the issue, then landlord generally keeps the cash.I will say that the option money your niece and her husband paid was extremely high. I would have never suggested taking an option for much more than $1,000 simply because you never know if you're going to want to walk away from the property.If your niece was the primary wage earner in the family, she should have bought life insurance to make sure her husband and any children they may have had were taken care of financially after her death. It sounds like she didn't have any, or enough, life insurance.You or your niece's husband may want to talk to a real estate attorney, who can look through the documents for the lease option and provide guidance on any legal options that exist.Q: My parents are having financial problems and want my brother and I to buy their home. They will continue to pay for everything and would buy the house back from us in a year or two.Are there other options to help my parents besides putting my good name on the line? Also, I'll be getting married later this year and my fiance and I want to buy a home of our own in two to three years. Will this hurt or hinder our chances of getting a mortgage?A: If you're going to buy your parents' house, then sell it back to then in a year or two, as long as you and your brother get a mortgage and make the payments, it should help your credit, not hurt it.However, what happens if your parents can't afford to buy back the home? Then, you'll have a large financial obligation on your credit history and it will impact your ability to buy a home for yourself, unless your husband can afford to buy a house for the two of you on his income alone.Please talk to a real estate attorney. If you're going to do this for your parents, you'll want a solidly-worded contract that protects you and your brother, not to mention your parents.Q: I don't have private mortgage insurance (PMI), nor does my lender require it for my house. However, I'm thinking maybe I should buy this insurance to protect me.I owe $150,000 on my home, which has been appraised at $225,000. I have a life insurance policy of $100,000 that I pay for so my heirs will have enough cash to bridge the gap between when I die and when the house can be sold.Now that PMI is deductible, I'm thinking about my options: Should I buy PMI and dump my life insurance, don't buy PMI and keep the insurance at $100,000, or perhaps increase my life insurance policy?I plan to stay in this house until 2017 when I'll be 66, if all goes well. Of course, I might move and buy a more expensive house by then. I guess what I'm asking is, is life insurance a better choice than PMI?A: Don't get rid of your life insurance policy just yet. I believe you may not fully understand what PMI is for and how it can help some people.First, private mortgage insurance doesn't protect you, the homeowner. It's there for the sole benefit of the mortgage lender. If you default on your mortgage, the house will be sold, and if there are any losses, PMI kicks in to reimburse the lender - not you.It's not surprising that you're confused by this. It would be natural to think that because you're paying the premiums, PMI protects you. It doesn't.Also, the new rules state that for PMI to be deductible, you must get a new loan in 2007, and your adjusted gross income must be below $100,000. Also, if you have more than 20 percent in equity, you wouldn't get PMI. You'd have to take out a much larger mortgage loan.In short, life insurance is a much better option. If you can afford more life insurance, and if you need it, you should buy term insurance and purchase it online from one of the big insurance Web sites, like www.insure.com.