

Open House: For some, vacation homeownership works out

by *Jim_Woodard*

We'll soon be in the vacation season, and many families will become motivated to purchase their own vacation (or second) home.

Considering today's prices of those second homes, a great deal of thought needs to focus on the financial aspects of making such a purchase. Making those added monthly payments may mean cutting back on other expenses - less money spent on such things as dining out.

There are some unique financial advantages of acquiring a second home, such as tax advantages not available to any other form of investment. If it's in a favorite vacation area, perhaps on a lake or ocean coast, the property can provide the owner family with a getaway home that's much more cost-effective than shelling out large chunks of money for expensive hotels or resorts.

The owner also has the option to rent the property to other vacationers. This can sometimes cover all the ownership costs, or more. That added income, coupled with the property's appreciation in value, can generate a substantial portion of the owner's retirement savings fund.

The Internal Revenue Service has some rather complex rules on renting properties on a short-term basis. Deductions depend on a variety of factors so that should be checked out and considered.

Some families have creative ways to maximize their second home's income-producing capability. For example, they might sell their primary home and move into their second home for at least two years before selling it. That will qualify it as the family's primary residence, so when it is sold the owner could qualify to take up to \$500,000 in tax-free profits (if it's jointly owned by a married couple), even though they took that same benefit when they sold their previous home.

Of course, a prospective buyer of a second home should consider downside factors like continuing maintenance and possible tenant problems. But an increasing number of families are deciding the personal and financial advantages of owning a second home outweigh the disadvantages.

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Q: Are mortgage interest rates going up or down?

A: At this writing, mortgage rates are dropping for the first time in six weeks, opening the door of opportunity a bit wider for marginal home buyers.

"Mortgage rates are slipping following the latest reports of moderation in inflation rates from the producer price and consumer price indexes," said Frank Nothaft, chief economist for Freddie Mac, a major government-sponsored buyer of home mortgage loans.

"Excluding food and energy, the inflation rate for consumer prices rose 2.5 percent over the past year - the smallest growth since May of last year. This helped calm markets and brought mortgage rates down. Low rates have prevailed so far in 2007 and have a stabilizing effect on the housing sector. Because of weather-induced fluctuations in housing statistics, we will have to see what the numbers show later in the spring to gauge whether the readings are indeed a signal of a market turnaround."

Frank Nothaft, Freddie Mac's chief economist, made this statement: "Recent economic data shows weaker existing home sales in March, coupled with lower consumer confidence in April, is causing the market to pause and reevaluate the potential growth of the economy this year. This is allowing all mortgage rates to decline."

Q: To what extent are home prices dropping?

A: Home prices will probably drop a bit this year for the first time in 38 years, according to a report from the National Association of Realtors. This is partially due to tighter lending standards being implemented by lenders and government agencies.

Median prices of existing homes are now projected to fall 0.7 percent this year before a 1.6 percent gain next year, NAR predicts. Since NAR began tracking prices of single-family existing homes in 1968, the smallest annual price gain was 2.0 percent in 2006. The average gain has been 6.5 percent.

The median sales price of new homes is expected to rise 0.4 percent this year, and 2 percent next year, NAR projects. "We still forecast this year to be the fourth highest year on record for existing-home sales, and housing remains a great long-term investment," Lereah said.

He urged people who are uncomfortable with the terms of their mortgage to refinance now before rates rise again. "Simply stated, a loan with the lowest monthly payment probably isn't in your best interests. Borrowers need to understand worst-case scenarios. If you're in a mortgage you aren't comfortable with, now is the time

to refinance, if you can, with historically low rates on safer conventional loans."

Lereah predicts the number of existing home sales to drop this year by 2.2 percent, and the number of new home sales to be down by 14.1 percent. New housing construction starts will be down by 18.4 percent, he noted.

Q: Is there a free source of counsel for homeowners who have problems with their mortgage payments?

A: Yes. There has been a substantial increase in the number of people calling The Homeownership Preservation Foundation hotline in recent weeks, seeking assistance in avoiding foreclosure of their homes. The hotline helps individuals and families who are behind on their mortgage payments. The foundation received more than 14,000 calls during the first quarter of this year - a 30 percent increase over the fourth quarter of last years. About 25,000 homeowners called the hotline in all of 2006, it was reported.

The Homeownership Preservation Foundation, working with mortgage lenders, nonprofit organizations and city government agencies, provides homeowners with counseling and resources to help them resolve their mortgage-related troubles. Homeowners who call the hot line number - 888-995-4673 - can receive free advice and counseling from HUD-certified organizations.

Send inquiries to Jim Woodard, P.O. Box 120190, San Diego, CA 92112-0190. Questions may be used in future columns; personal responses should not be expected.

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