

Your Real-Estate Problems Solved

See our advice on buying a second home, qualifying for a mortgage if you're self-employed and paying off your mortgage early.

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Real estate is a hot topic, given the subprime mortgage mess and housing downturn. So we get lots of questions about this topic. Here we tackle some questions about home buying and mortgages.

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Should I Buy a Second Home Now?

Desperation in the housing market can mean opportunity for you. In October, the National Association of Realtors reported that pending sales of previously owned homes had hit their lowest point since the data was first published in 2001. Moody's Investors Services expects the housing slump to last until 2009.

So why not buy a vacation home when there's blood in the streets? It makes sense if you know what you're looking for and where you want to buy, and you plan to own the house for at least five years. Then if you had to sell, you'd have a shot at recouping your buying expenses through price appreciation. "There's a margin of safety in buying a vacation home because building costs should continue to rise," says David Hehman, chief executive of EscapeHomes.com.

Be aware that you'll face tightened lending standards and higher interest rates on loans above \$417,000. If you're still undecided, at least scout the market, says Danielle Babb, co-author of *Finding Foreclosures: An Insider's Guide to Cashing In on This Hidden Market*. -- **Thomas M. Anderson**

Will I qualify for a mortgage if I'm self-employed?

With today's tighter lending standards, you'll need great credit plus a substantial down payment. Otherwise, you'll need documents to verify every penny you claim you earn.

And the process could take months instead of weeks, says mortgage broker Kara Deyerin. Deyerin recently helped Laura Opson, a registered nurse with a fledgling consulting business, finance a \$550,000 home in Seattle. To supplement her 2005 and 2006 tax returns, Opson got an audited profit-and-loss statement from her accountant for 2007. She boosted her credit score by redistributing credit-card debt so that she wasn't using more than half of her credit limit on any one card.

It helps to apply to a lender with whom you have a relationship. And Tim Wilson, of Wachovia Mortgage, says his company will accept minimal income documentation as long as you can meet four key criteria: a down payment of 20% or more, a good credit report (not just a good score), a highly marketable property (as determined by in-house appraisers who actually inspect it) and a transaction that doesn't strain credulity. "If someone is self-employed and has high revolving debt, no money in the bank and says he makes \$80,000 a month, that just doesn't make sense," says Wilson.

Option ARMs, which let you choose how much interest and principal you pay each month, got a bad rap when lenders qualified borrowers at unrealistically low introductory rates. But they're still a good deal for people whose income is variable, if you can qualify at the interest rate required to actually pay off the loan -- currently about 7%. -- **Anne Kates Smith**

Does It Make Sense to Pay off My Mortgage Early?

That depends on your interest rate and your timing. Paying down a 6% mortgage is the equivalent of earning a 6% taxable return on your money. You should be able to beat that return by investing your money elsewhere, especially when investing for the long term. "If you have a very low interest rate on your loan and know that you can earn a higher return with additional money you have to invest, it's okay to keep the mortgage," says Los Angeles CPA Michael Eisenberg.

Investing outside your mortgage also gives you easier access to your funds because you don't have to borrow against your home equity to get your money. Paying more toward your mortgage can reduce the total interest paid, and you might pay off your loan earlier. But it doesn't lower your payments, and if you're still in the early years of the loan, you might not see the difference for a decade or more.

Your priorities may be different, however, if you're nearing retirement and your mortgage is close to being paid off. In that case, making extra payments can speed up the payoff, lowering your expenses after you leave your job. In Eisenberg's experience, "most people don't want to have debt when they retire."

Paying off the mortgage early made sense for Myrna Oliver, 64, who worked at the *Los Angeles Times* for more than 30 years. When Oliver was in her mid fifties, many of her colleagues were getting buyout offers. She wasn't ready to retire yet, but she wanted to be able to jump at a good offer if one came her way. To do that she needed to cut her post-retirement expenses -- especially the mortgage on her condo in downtown Los Angeles. "I didn't want the mortgage payments to figure into my retirement spending," says Oliver.

So Oliver began making extra payments toward her 7.5% loan whenever she got a raise, a bonus or extra money from some other source. At age 60 she paid off the loan -- eight years early -- and shifted the money to her 401(k) plan to take advantage of catch-up provisions for contributors who are 50 or older. This year employees in that age range can kick in an extra \$5,000, on top of the \$15,500 that all workers may contribute.

When Oliver got a buyout offer last year, she had only three weeks to make a decision, but it was a no-brainer. "Having the mortgage paid off gave me the freedom to take early retirement," she says -- and to take a year off to travel. -- **Kimberly Lankford**

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