

FREEP.COM CHAT WITH EXPERTS

How to handle economic crisis



Freep.com held a Web chat Friday with financial adviser Dan Casey of Retirement Advocacy Group Corp. in Mt. Clemens and Troy and mortgage broker Nick Di Legge of Interactive Financial Corp. in Troy. Here are some of the questions and answers. Read more of them at freep.com.

QUESTION: What is the possibility of selling my home as a short sale in today's market? Would I have to put it on the market for what I owe on the mortgage first? Or could I try a short sale first?

ANSWER: You're not allowed to list it on the market until you've consulted with your lender and they give you an OK to work on a short sale. So you can't just go and list your house for a dollar. In most cases you would work with a real estate agent and an attorney. They would contact the lender. Right now, most banks are willing to consider a short sale.

Q: I currently have three properties all with separate mortgages but with the same lender. If I were unable to continue paying on all three and decided to give the deed on one of the properties back to the lender, but continued to remain current on payments on the other two, would the lender be able to foreclose on either of the two remaining? Would my ownership of the two remaining be jeopardized in any way?

A: No, it should not be. They're being held with secured notes on the property itself. They can't go after additional assets to try to satisfy what's owed. But foreclosing means your credit is going to be affected. That won't affect you until you try to obtain new financing or change your financing. But it will not affect you if you continue making your payments on all your other bills.

Q: I just read on the Fannie Mae Web site that they have introduced a program that will allow "underwater" borrowers to refinance without having to pay the difference between what they owe and what their home is worth. When I contacted my lender, they said they had not received any information on this program yet. Are any of you familiar with the program?

A: The banks have the ability to do it, but it doesn't mean they have to. The program is out there, but it



From left, Scott Mazzella, Frank Masiello and Robert Levites watch at the New York Stock Exchange as the bailout bill passes the House. The Dow fell 157.47, or 1.5%, to 10,325.38, reflecting woes the economy still faces. It was up 310 as the vote began.

depends on the lender. There are lenders that are willing to do it, but it's not common practice.

Q: My mortgage broker called today and said now is the time to refinance and mortgage rates are at their lowest in years. He said he could get his appraiser to give me whatever value I need and not to worry about my low equity. Do you think now is the time to refinance my house?

A: I'm surprised there are still people in our industry that are around and still doing that. It's one of the strong reasons we're in the position we're in, in the real estate market. [The appraisal] would probably get shot down from the bank. Be cautious of this broker.

Q: I am carrying about \$60,000 of credit card debt. I have cut up the cards but can't seem to get ahead of the curve in paying these off (about nine accounts). I have about \$130,000 in a 401(k). Should I tap the 401(k) to pay off these?

A: My initial answer is never do that. With any financial issue, there's the emotional side to it. If you can't sleep at night, maybe take a small part out of your 401(k) or borrow against it. The penalty to withdraw from your 401(k) is 10%. Whatever you take out will also be

added to your income tax bracket. Try to renegotiate with your credit card company. Reexamine your budget. Make sure you're living under your means.

Q: My parents have about \$60,000 in tax sheltered annuities. What is your advice? Move it?

A: I would say for the most part, no, it's not necessary to move these funds. I think AIG was an anomaly and they had more of the toxic funds.

Q: Currently my adjustable mortgage rate is 4.125%. It is a 5-year adjustable rate mortgage that adjusts May 1. By reading my mortgage paperwork, I understand that the adjustment rate is based on the 1 Year Constant Maturity Treasury Rate, which is currently at 1.91% + 2.75%. So if it were May 1 right now my new rate would be 4.66%. It also states our rate will never increase/decrease more than 2 points than we were previously paying the past 12 months. My question is, is now the time to move to a fixed rate? Or should I wait, considering next year's increase will still be lower than a 30-year fixed?

A: To judge where rates are going to be at is impossible. Where the

guidelines are at right now might allow them to make the changes now and be seamless. The way things are changing right now nobody's really sure where the guidelines might be. Make sure that you read the fine print fully. A lot of the adjustable rate mortgages have an initial adjustment cap, as well as a yearly adjustment cap. In most cases, the initial adjustment cap is about 5%. The annual cap is usually 1% or 2%. It all depends on what the value of your home is, what you currently owe on your house. Have it looked at by a professional.

Q: I have an 80/20 interest-only loan that changes to principal plus interest in seven years on the 80 and the balloon is owed on the 20 in seven years. I currently am in year two of the payments and my initial plan was to refinance after a couple years to combine the two. With the sharp decline in the market my home value has dropped drastically. So what options do I have? Am I better to wait it out and see where I stand after 4-5 years?

A: Weather the storm and allow the market to come back. If you have a few years' time, I would say hang on to it and keep making your payments.

Q: Looking at the housing market I would like to take advantage of the low prices. I have a good credit rating but I don't have much in the way of a down payment. Should I wait six or so months to see how much money I can save to put down, or should I still go ahead and try to purchase now? Are there still any programs to help with a down payment?

A: The property taxes are calculated over a 12-month span into the payment itself. Calculate what you can or can't afford. For an FHA loan, you will need at least 3% to put down on a house. As of the New Year, it will go to 3.5%. As for conventional financing, there are a lot of touchy areas. What you are going to have to put down will change from one situation to the next.

You'd be looking at 5% to 10%. If you get a gift from a direct family member and there would be no repayment structure on it, that could cover the down payment.

Q: Why are my high yield bonds in my fidelity mutual fund plunging so low right now? I thought that was a very conservative place to put my money.

A: High yield is always going to be more volatile. In this environment, there is nothing conservative. High yield is obviously going to be a lot riskier. As soon as the recession is over, or as we start to climb out of it, high yield bonds will do a lot better. These bonds are usually issued by smaller or midsize companies. They can act quicker than gigantic blue-chip companies. But with that, they're always more volatile, too.

Q: How difficult is it going to be to get a mortgage, especially for first-time buyers?

A: As long as your credit score is 580 on up, you should not have trouble getting financing for a purchase of a property. It all boils down to down payment, credit score and current job stability.

Q: Is it possible to take advantage of the low house prices by purchasing a new home and letting my current home, which is worth less than my current mortgage, go into foreclosure? What penalties would I face? ... Are there taxes I would be responsible for? Can my credit card interest rates go up?

A: As for credit cards, they shouldn't be affected until you seek new financing. The proper thing to do is to consult with an agent or an attorney and negotiate a short sale instead of just letting it go into default. A lot of that is going on right now.

Q: I bought a condo in December 2002 for \$178,000 that I tried selling in 2006 but didn't get any bites. Now the value fell to \$173,000 and I still owe \$166,000. I rented it out for \$250 less than what the mortgage is every month. My wife and I bought a house and now we have two mortgages. When the lease for the condo is up in June and if I cannot find renters or sell it, what are my options with this condo?

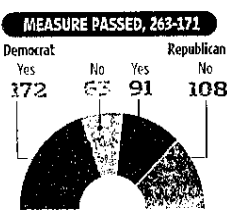
A: Talk to your lender about a short sale, if the renters move out. But try to keep the renter in there as long as you can. The lender has the ability to possibly keep it on the market and maybe talk with the agent to list the condo at a better price.

BAILOUT | 3 Mich. lawmakers reverse, vote yes

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going to need His help." By a vote of 263-171, the bill passed with wide support from both parties, overcoming the 12-vote gap in its loss Monday. The Michigan delegation supported the plan 9-6, the exact opposite of its vote Monday, with three lawmakers switching from no to yes — Rep. Carolyn Cheeks Kilpatrick, D-Detroit, Rep. Joe Knollenberg, R-Bloomfield Township, and Rep. Peter Hoekstra, R-Holland. Kilpatrick said that before Mazzella's vote will be of

How House split on Wall Street bailout



Michigan delegation VOTING IN FAVOR OF THE BAILOUT

Dave Camp, R-Midland
Carolyn Cheeks Kilpatrick, D-Detroit
Joe Knollenberg, R-Bloomfield Township



House Speaker Nancy Pelosi, D-Calif., signs the bailout, saying it would "begin to shape..."

Several lawmakers said they had heard from small-business owners who were having trouble getting credit, with some reporting layoffs. It wasn't just businesses; California Gov. Arnold Schwarzenegger warned the U.S. Treasury on Thursday that the state might need a \$7-billion short-term loan to keep running, according to a letter obtained by the Los Angeles Times. "The boy geniuses on Wall Street do not deserve to be rescued," said Rep. David Obey, D-Wis., "but if they fall off their perch on the top of the eco-

After the House rejected the rescue plan Monday, the Senate made additional alterations before passing it 74-25. The Senate increased insurance limits on bank and credit union deposits to \$250,000 from \$100,000. It also bound the plan to a long-fought series of tax breaks, including one that prevents the alternative minimum tax from hitting about 20 million people with unexpected tax increases. Another offers credits of up to \$7,500 for buyers of plug-in hybrid vehicles, a long-held goal for Detroit's automakers. The package could have...

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