NJMoneyHelp.com
smart advice. every day.

July 27, 2017

Creative Financing for a Shore House?

Q. My sister had a family vacation at the beach and she now wants us to go partners on a shore house. I don't think I can afford it but I love the idea. Are there creative ways to finance something like this?
-- Interested

A. If you need to think of creative ways to pay for something, the answer is probably that you can't afford it.

The purchase of a vacation home has two primary financial obligations that need to be considered, said Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge.

First, you'd need a down payment to secure the property, and second, you have to think about the ongoing cost of the home. That would probably include the mortgage payment, property taxes, utilities and other maintenance costs.

"Even if these ongoing expenses are to be shared with another family member, it is essential to understand how these commitments would impact your current budget and available cash flow," Mott said.

Assuming the money for the down payment isn't readily available, she said there are possible sources that could be tapped, but all come at a price.

For example, Mott said, you might take out a home equity line against your primary residence, but you've now added the payment to your monthly bills.
"Interest rates on HELOCs are usually variable which could work against you in a rising interest rate environment," she said.

You could consider refinancing your current mortgage and cashing out some of the equity to come up with the down payment, but the interest rate may be less attractive than what you are paying now, you pay closing costs and perhaps extend the mortgage term -- all of which adds up to money out of your pocket, she said.

"Under no circumstances should you consider using retirement funds as a resource," she said. "Early withdrawals can come with penalties and are treated as taxable income. All too frequently the account is never replenished over time."

One option you may consider is renting the house in order to help it pay for itself, Mott said.

"If you are looking to use the house frequently, the IRS limits an owner's use to 14 days or 10 percent of the time it is rented," she said. "This may put a crimp in your beach-going plans."

You'll need to understand the cash flow that the house may generate in terms of rental income as compared to the all-in costs, which could include a rental agent, a property manager, a cleaning service and potentially increased maintenance, Mott said. Also, it will be important to discuss the tax-related details with an accountant to understand how a rental would work for both of you as it may affect how the property is purchased, titled and who pays ongoing expenses.

Purchasing a property with a family member may come with risks both financially and logistically, she said.

"If one of you can't meet the financial obligation it will fall on the shoulders of the other to assume a burden greater than what may be affordable," she said. "If the property is owned jointly, consider what will happen when one or the other of you passes away, especially if children may inherit a parent's share."

Email your questions to ask@njmoneyhelp.com