Should unemployed single mother sell her house?

by Deanne Gage, thestar.com April 6

This week's Monday Makeover focuses on Clara, a 55-year-old mother of two who has had trouble finding a job and is dipping into savings to pay her bills.

Keith Beaty / Toronto Star Order this photo A financial planner advised Clara to consider using the equity in her home to give her additional mortgage lending options. Still, selling her house may be inevitable.
Photo by: Keith Beaty / Toronto Star Order this photo

Clara is at a financial crossroads. The 55-year-old divorced mother of two school-aged kids hasn't worked steadily for more than a year. Her contract as a college teacher wasn't renewed and, after applying for several jobs last year, she landed one interview, but not the position.

At Christmas she did seasonal work for a retail store but was let go after Boxing Day. Now as she continues her job search, she's running out of money.

Clara lives in Toronto and her only sources of income are $1,000 a month from a roommate, $300 a month in child support payments and another $200 to $300 a month from tutoring high school students or cleaning houses.

She was renting out a basement apartment to students, which brought in $700 a month. But during last summer's violent thunderstorms, those rooms were damaged by water. She borrowed against the insurance coverage to waterproof the area right away. But her hired contractors have not completed the job and since they were paid in advance, she has had difficulty getting them to return and finish the work.

The good news for Clara is that she owes only $126,000 on a home valued at $750,000. But she has an additional $36,500 in debt, including an $18,000 investment loan and line of credit.

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Clara has $87,000 in various forms of savings. This includes $50,000 in a registered retirement savings plan (RRSP), $20,000 in guaranteed investment certificates (GICs) and $17,000 in her tax-free savings account (TFSA). She is withdrawing up to $2,000 a month from these accounts to help pay her bills.

"I am very good at reducing costs, but at this point there is absolutely no fat to cut," Clara says of her living expenses totalling $3,400 a month. She has no car, pension or benefits.

Clara knows that this can't continue because it's a downward spiral, but wonders what to do. Should she continue to draw on her investments while looking for a job, or sell her home and rent? Clara doesn't want to sell now as the basement is in disrepair. She also worries about retirement and what she'll have to live on.

The Star asked Kevin Gebert, a Surrey, B.C.-based financial planner at Greenrock Financial Group and author of *Financial Fotographs*, to look at Clara's situation.

He says Clara shouldn't be thinking about retirement. She doesn't have a job and her home needs to be renovated.

Selling her house might be inevitable because even with a repaired basement and a tenant, she's still spending more than she has coming in, Gebert says.

“Without a consistent income she will continue to eat away at the equity she worked hard to build,” he says. “I always want to see clients own their home, but many times ‘home’ doesn’t mean the home that they are living in today.”

Clara can manage for another year, using her tax-free savings account and GICs to supplement her living expenses, but Gebert advises her to contact her mortgage broker now. Her mortgage is up for renewal in November and she pays $400 every two weeks. But Gebert says if she’s unable to find work by then, its better to know now what her options are going to be.

Clara may be able to use the equity in her home to give her some additional mortgage lending options, including lengthening her mortgage amortization. That could forestall the need to sell the house. If she does decide to sell, she has to weigh the benefits of renovating the basement first.

In Toronto’s hot housing market, it may not be necessary, but Clara should seek out opinions from various realtors.

Gebert notes that Clara has $12,000 in registered education savings plans (RESPs) for her children. He says she should stop those $50-a-month contributions until she’s able to find work. The same goes for her TFSA.

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“Tax-sheltered money is great, but if the moneys in her TFSA could be used for other needs, then her current needs should win out,” he says.

Gebert recommends that she not withdraw from her RRSP, but if she decides to do so, she should discuss the tax ramifications with an accountant.

“She still has most of 2014 to go and a decision like this should be done towards the end of the tax year,” he says. “You don’t want to pay unnecessary tax by not planning accordingly.”

Finally, Clara’s investments need to be reviewed regularly to make sure that the risk she is assuming jibes with when she may need to withdraw the money. If she needs the money in the next six to 12 months, for example, cashable term deposits or GICs may be her best bet, he says. “Although the rates are not high these days, your investments would not be subject to market risk," he notes.

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The client: Clara, 56

The problem: Despite an active job search, Clara hasn't worked steadily in a year. Her expenses exceed her income and she's eating into her savings to pay her bills. What should she do if her job status does not change? Sell her fixer-upper home or take in a tenant?

The advice: Use investments to pay off debt and help with living expenses. Leverage equity in home to help out if necessary. Possibly sell house and downsize.