Scenario 1: Using equity to "buy-out" spouse's interests present and future

This is a ditty about Jack and Diane…

Jack and Diane own a home worth $575,000 and a $275,000 mortgage.

Jack owned the home before they were married and a forensic appraisal put the value of the home at the time of their marriage at $475,000 so they have agreed that Diane's portion of the equity is $50,000.

Jack is collecting social security, a pension from a public agency and also on an annuity that has a permanent disability rider that started paying the year before he was eligible for his pension payments. His total income is $7500 per month. Diane collects $2400 per month in social security and works part-time.

They have agreed on $700 per month for support payments from Jack to Diane.

Jack has recently been diagnosed with COPD.

Jack and Diane have agreed that Diane will take a one-time payout of S110,000 for her share of the equity and as a lump sum payment for the support payments—just over seven years' worth of payments. In exchange for the $110,000 Diane will quit claim any interest in the home and will make no future claims for support or other payments.

Jack refinances his home for $385,000 removing Diane from the current loan and obtaining the cash to pay Diane.

When all the dust settles Jack has completely severed his relationship Diane as there will be no monthly payments. Diane receives a large lump sum of cash that if properly utilized and managed will enable her to supplement her social security income as well protects her should Jack's COPD progress rapidly causing his death in the near future.

Questions/Issues:

- Is there enough equity for Jack to accomplish his objective?
- Does Jack qualify for the refinance mortgage?
- Are there tax consequences to either Jack or Diane with the extraction of equity?
- Can Diane purchase a new home? Does she want to?
- Should the value of the property be discounted when considering equity settlement to Diane?