

Leverage Your Mortgage for Money Management

In general, how can a mortgage be used as a financial management tool?

Overview

- The large array of loan programs available enables prospective homebuyers *and* homeowners to mold their mortgage to fit their lifestyle and financial situation.
- A home is the largest investment in most people's life, so it makes sense to manage and maximize its wealth-building potential as you would with any other investment.
- First step is to identify your needs, capabilities and opportunities.

How can homebuyers make the most of their new mortgage?

4 Steps for Homebuyers

- There are four initial steps that potential homebuyers can take to help them find a mortgage that will enhance their financial picture:
 1. Evaluate Earnings
 2. Factor in Fluctuations
 3. Estimate Equity
 4. Assess Your Savvy
- Step 1. Beyond determining your true current income, it's important to also realistically evaluate your future earning potential.
 - ARMs with low initial interest rates may make sense if you foresee a rise in income that can accommodate future monthly mortgage payment increases.
 - Fixed period ARMs are another alternative: low initial interest rates plus security of fixed payments for a period of time (often 3-10 years depending on loan type).
 - Caveat: Low payments early on could mean higher amounts later, so be realistic about your income prospects to cover any increases.
- Step 2. Take into account any income fluctuations from commission-based or self-employment, and supplemental income like alimony or quarterly dividends.
 - Loans with payment option features like interest-only or option ARM may allow flexibility to pay minimum required in leaner months and fully-amortized payments during windfall months.
 - Caveat: Rising interest rates or re-amortizing of option ARM and interest-only loans lead to higher payments, so carefully analyze your ability to absorb these costs.

- Step 3. Consider how quickly you hope to build equity in your new home.
 - 15-year fixed rate mortgages typically decrease the loan balance the fastest. Other fixed-rate loan terms are 20, 25, 30 and even 40 years.
 - ARMs with payment options may offer accelerated payment choices, including interest accrued, principal, plus extra principal for paying down the loan faster without prepayment penalties.
 - Caveat: Manage your expectations—property values can decrease, so never rely on increased equity to help with affording loan payments.
- Step 4. Be sure you understand the details of this significant transaction and are ready to take on the responsibility.
 - Know all of the terms and feature of the program you are considering.
 - Honestly assess your knowledge about managing finances and take the time to learn about the available financing options as they relate to your own situation.

How can homeowners make the most of their existing mortgage?

5-Options for Homeowners

- Homeowners can begin by considering 5 key options for maximizing their home’s financial-management potential:
 1. Consider Cash-Out
 2. Unlock the HELOC Opportunity
 3. Investigate Interest
 4. Aim for Another
 5. Reflect on Reverse Mortgages
- Option 1. A cash-out refinance can leverage equity to generate extra funds needed to meet personal and financial goals, including home upgrades that may add to your property’s value in the long run.
- Option 2. Home equity lines of credit (or HELOCs) tap equity to provide funds for everything from vacations to debt consolidation, and everything in between.
 - Interest-paid is often tax deductible (consult your tax advisor).
 - Interest rates and monthly payments are generally lower than on credit card or installment loans.
 - Interest-only payments usually can be made on amounts drawn for the first 5-10 years, depending on type of HELOC.

- No payments are usually due until funds are accessed, so unused funds provide a safety net for emergencies.
- Option 3. Obtaining a new loan may be a smart move if you have an adjustable interest rate that is rising outside of your comfort level.
 - Consider loans with a lower rate, a fixed payment, a different loan term or other features that match your current financial situation.
 - Determine possible long-run versus short-term savings to meet your needs.
- Option 4. Using equity from your first home can help you springboard into a second home or other investment property, which can significantly build your assets.
- Option 5. If you are at least 62 years old, a reverse mortgage may be a secure and simple ways to access home equity and obtain additional funds for everything from daily expenses and medical bills to maintaining a leisurely retirement lifestyle.
 - No restrictions usually on how loan funds are used.
 - Funds often can be obtained as lump sum, monthly payment, line of credit or other payment structure and are often tax-free (consult tax advisor).
 - Seniors can remain in homes for as long as they wish.
 - Borrowers, their heirs, or their estate typically will not owe more than the appraised market value of the home at time of loan maturity, regardless of loan balance.

To learn more tips and tools for managing a mortgage, home buyers and homeowners can call 800-570-9888.

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