

## **Dispelling the Myths: Mold Your Mortgage to Match Your Life**

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A home is typically the largest financial asset in an individual's life. Yet, effectively managing and capitalizing on this significant investment is often marred by common misconceptions that may leave homebuyers and homeowners alike feeling confused, hesitant and intimidated. To ease the confusion, here are a few tips that can help borrowers better manage their home loans as they do other financial assets.

### **Myth #1: It's always best to stick with the same mortgage until the loan term ends.**

Although we value "stick-to-itiveness," it's not always the best approach when it comes to a home loan. Whether refinancing to a lower interest rate, or moving from an adjustable rate mortgage to a fixed rate loan, change can be good in many situations. Realizing that change is often beneficial can alleviate some of the pressure in obtaining a loan—because what may make sense initially may not continue to be the best choice as your circumstances change over the years. So, take comfort in knowing that changing your loan type or term to meet your current needs is often possible and beneficial.

### **Myth #2: The stability of a 30-year fixed loan is the right choice for any borrower.**

"One size fits all" doesn't even work for jeans, so it certainly shouldn't apply when choosing a mortgage. Decades ago, it was not uncommon for loan choices to come down to two scenarios: either you fit a size 30-year fixed rate loan, or you didn't get a loan at all. But times have changed and just as jeans today come in a range of colors, shapes and sizes, your mortgage options do too, so now you can choose the home loan program which best fits your needs.

### **Myth #3: Adjustable rate mortgages are too risky because the monthly payments will eventually skyrocket out of control.**

While it's true that the interest rate can increase on an Adjustable Rate Mortgage (ARM) and cause monthly payments to go up, it's equally true that the interest rate has the potential to decrease to lower monthly payments. Most ARM programs have "caps,"

which put a ceiling on how high the interest rate may increase when the loan “adjusts.” There are also lifetime caps on the maximum the interest rate may increase during the full term of the loan. Although ARMs may not be right for everyone, they may be a smart choice for qualified borrowers who want to take advantage of potentially lower interest rates in the near term, such as those who plan to sell their home in a few years.

Alternatively, a fixed period ARM—also known as a hybrid ARM—blends the benefits of an ARM’s generally lower initial interest rate with the security of a fixed payment for a period of time (often for three, five, seven or 10 years depending on the type of loan chosen). After the fixed rate period expires, the interest rate typically adjusts annually for the remainder of the loan.

**Myth #4: Paying a mortgage can drain your funds for other investments.**

Actually, in the appropriate circumstances, some borrowers obtain an ARM or an interest only home loan in order to minimize their monthly mortgage payment and free up funds to put towards other financial interests. For example, interest only programs allow homeowners to make payments (generally for the first 10 years) towards only the interest assessed on the loan balance each month. And in appropriate situations, these homeowners can then apply the “extra” funds—which otherwise would be used to pay down the principal loan balance—towards potentially higher-yield investments.

**The #1 move: mortgage management**

Like stocks, bonds, retirement accounts and other financial assets, a mortgage may be managed to produce the best financial results. Here are a few key considerations for effectively managing your mortgage.

- **Tell Your Timing.** Determine how long you plan to stay in the home, then choose a mortgage that makes the most sense for your planned stay. For example, if you purchase a starter home with plans to sell in a few years to buy a larger home, a loan with low initial payments for a fixed period of time may meet your needs better than a 30-year fixed rate loan with stable, but higher monthly payments.

- **Rank the Risk.** For an ARM assess your comfort level with the potential of an interest rate increase and your ability to absorb possibly higher monthly payments.
- **Stake Out Your Stage.** Consider your stage in life when making decisions about your mortgage. Loan options exist that can help you whether you are planning for a baby or anticipating retirement, and most situations in between.
- **Question the Caps.** Be sure to ask your lender about rate caps on any adjustable rate mortgage you consider. Understand how much the rate can increase periodically and how much it can increase over the entire loan term.
- **Unlock a HELOC.** Consider a home equity line of credit (commonly known as a HELOC) to pay off higher-interest loans such as credit card debt, to make home improvements that could increase your home's value or just to have available for unexpected expenses.

Turn to a trusted home loan consultant to empower you with the information and tools needed to help you manage your mortgage as an important part of your overall financial picture. A seasoned mortgage professional can help you understand the various loan terms and features available and offer a number of loan options to meet your unique financial situation, your stage in life, and your near-term and long-term goals.

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