MORTGAGEPLANNER®

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All Together Now

Use Your Home Equity to Get Out of Debt

by Dave Muti

Would you pay 16% or more for your mortgage? Of course not! If you carry credit card debt you are probably paying at least this much and your payments are not tax deductible. Christmas 2007 alone, we as a society spent record amounts again on gifts for friends and relatives who really did not need them with money that we really didn't have. The average homeowner is living paycheck to paycheck in the shadow

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of growing credit card bills when suddenly life gets in the way. You need new tires, the refrigerator is on the fritz, the hot water heater blows or one of your children needs braces. This causes you to miss a mortgage payment. As a result your credit score goes down and the interest rate on your credit cards go up. This, in turn, increases your minimum payment and you can see how many people can get into trouble. Even if you are able to make the minimum payments, you will never be able to get ahead. You could end up paying as much as five times the cost of the item over time than if you simply paid in cash or paid off the credit card in full when you received your first statement.

Planning for Life

How can you avoid this too common scenario? Each month you have three major spending categories: your mortgage, your credit card bills and your retirement accounts. When times get tough, one will get squeezed out. Can you guess which one? Why? Carrying debt prevents you from saving. You will struggle all year to get your credit cards paid off and then the holidays hit again and the cycle starts all over. Homeowners have another choice. It may make fiscal sense to tap the equity built up in your home over the years to consolidate your debts into one payment. This approach often reduces your monthly obligations while increasing your tax deductions. A strategic refinance to consolidate your debts can also free up cash to actually invest toward your retirement.

Now, you might be thinking you are simply borrowing from Peter to pay Paul and that you are actually extending the overall cost of the credit card debt. But the reality shows a different story. Here is an example of a couple in their 50s (we will call them Mary and Paul) we helped out of this exact situation.

Mary and Paul had run up some significant debt on several credit cards and they were recommended to us by their accountant. Like many of us, life had gotten in the way and over the years they amassed $35,000 in credit card debt in addition to three mortgages. They had no retirement savings. As you can imagine, the minimum payments were killing them as the average interest rate was 23% on their cards. We were able to structure a program that reduced their overall monthly payments by $1,260 — over $15,000 per year. These homeowners now have positive cash every month, and a methodical contribution plan using half of the monthly savings for their retirement planning. The other half of the savings is going into an emergency fund to pay for sudden expenses that come up in life. They are able to enjoy life again knowing they are not drowning in debt and that their retirement planning is now on track to attain their goals.

In the above situation we did increase the size of their mortgage and, yes, we also increased the time frame for them to pay it off. But the positives are that they now have a mortgage plan that enables them to save for both short and long term goals. If they had not taken this approach, they would have continued to struggle and most likely would have never gotten out of debt. They would not have been able to create the retirement funds nor would they have been able to meet their monthly obligations — a problem that can cause good people to lose their homes. If you are in a similar situation — or if you just don't have a good mortgage plan — sitting down with a Mortgage Planner to design a solution that is right for your circumstances would be a good first step to getting it all together and saving a lot of money on credit card interest. ■

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One of the greatest compliments I can receive is a personal referral to one of your friends who may benefit from professional mortgage planning services.