

All the Facts to Getting Mortgage Free

Dear Friend,

When you close your eyes, do you picture a life without debt – without even a mortgage? For many people, owning a home is a lifelong dream. For others, having a low interest rate mortgage is a reward in itself, something that frees them up financially to invest their money elsewhere. There's no single right answer for everyone, but if you want it and make it a financial priority, a mortgage free life is attainable.

For my Client Appreciation Program I am sending you information about prepaying your mortgage. Every month, I send Items of Value, in the hope that you may find them useful. This month I have provided some information describing reasons for and against paying off your mortgage early, as well as some criteria for determining whether prepayment is the right plan for you.

On the reverse side of this month's Item of Value are tips on what to pay down before considering prepaying your mortgage. If you decide you are ready to do this, there are also helpful tips on how and when to make extra payments. By following these tips you can be on your way to freeing yourself from that mortgage several years early!

Sincerely,

Oh, by the way™...if you know of someone who would appreciate the level of service I provide, please call me with their name and business number and I will be happy to follow-up and take great care of them.

THE PAY- DOWN PAY- BACK

Prepaying your mortgage can save you thousands of dollars in interest. But could you save more by investing elsewhere?

The decision to prepay on a mortgage is both a financial and emotional one, and both elements can be confusing. Many financial planners advise that there are better places to invest your cash than in paying off your mortgage early, and they've got a point. Do you have debt in high-interest credit cards? Pay that off first. Do you have cash set aside in an emergency fund? Make that another priority. Are you contributing to your 401(k) plan up to your employer's match rate? Consider making the most of those tax-advantaged plans as well. Whether you should prepay your mortgage depends on your financial picture as a whole.

So to prepay, or not to prepay? Consider the following when making your decision:

WHY?

Guaranteed Returns – If you have a fixed-interest mortgage, you can always count on the return of your prepayment investment to remain constant. If you have the extra funds to spare, but think the market is too risky, it may be worthwhile to apply that money to your mortgage.

Cancel Your Private Mortgage Insurance (PMI) If you had to borrow more than 80% of your home's appraised value for your mortgage, then you're probably paying private mortgage insurance, an extra fee that could cost you as much as \$100 a month. By making extra payments, you can obtain the required 20% equity in your home and convince your lender to drop the PMI.

Peace of Mind – Paying off a mortgage is a long-term financial goal for some homeowners, and for them, that peace of mind carries an enormous emotional value. Just make sure that your high-interest debt and retirement savings are taken care of, too.

Retirement Beckons – Paying off your mortgage early can mean a big reduction in living expenses after you're retired. And because you won't be forced to tap into your retirement savings in order to make monthly housing payments, you might be able to live a little larger, or retire a little earlier.

WHY NOT?

Market Return – If you can get a better return, and you're willing to take a long-term ride on the market, it may be more profitable to invest in an index fund. As an example, with a 7% 30-year mortgage, and taking advantage of tax deductions, any investment that earns more than 5.1% will provide a better return.

Interest Tax Deduction – While making extra payments reduces the principal on your mortgage, it also reduces the amount of interest you can claim as a tax deduction. If you're in a high tax bracket, being able to use this deduction to lower your taxes might be motivation to invest your extra cash elsewhere.

Prepayment Penalties – Before increasing your monthly payment amount, make sure your mortgage does not have any prepayment penalties. While most fixed-rate mortgages don't carry such penalties, they may be attached to adjustable rate mortgages. Talk to your lender for details.



WHAT TO PAY BEFORE YOU PAY DOWN:

High Interest Credit Cards

If your mortgage rate is 7%, but your maxed-out VISA accrues interest at 18%, put your money toward eliminating the credit card debt first.

Emergency Fund

Set aside three to six months of living expenses (a money-market account is a good place for this) so that you'll be prepared in a worst-case situation.

Build Your Retirement Savings

Take advantage of tax-advantaged plans, like a 401(k) or an IRA, before tackling the mortgage.

Other Goals

Once your debt, emergency fund and retirement savings are taken care of, set aside money for your other financial goals, such as creating a college fund for your children, or starting your own business.

STRATEGIES FOR MAKING THAT EXTRA PAYMENT

Switch to a Bi-weekly Plan

With a bi-weekly plan, your monthly mortgage payment is split in half and paid every other week. Over 52 weeks, that means you'll make 26 half, or 13 full payments – a full extra payment a year. There are quite a few companies that offer to "convert" your mortgage to a bi-weekly, but with a caveat: they'll charge you an up-front fee, plus additional smaller service fees each month. With a little self-discipline, you don't have to cough up these fees. Read on...

Make One Additional Payment Each Year

Pay yourself. Transfer your bi-weekly payment into a separate account, and then withdraw your monthly payment from that account. Gradually, the additional full payment will accrue, and you'll also gain interest on the account.

Add to Your Monthly Payment

Pay an extra 1/12 of your monthly payment each month. For example, if your monthly mortgage payment is \$900, divide that by 12, and add that amount to your payment. In this case, you'd pay an additional \$75 each month, or \$975 total. After twelve months, you'll have made the equivalent of an additional payment.

Use Your Refund, Work Bonus, etc.

You can always send a large check over to your lender when you've got the cash, such as after you get your year-end bonus. Just make sure that you specify on the check that the money is for paying down principal, not for future payments.

Pay What You Can

Consider this: pay only an additional \$20 each month on a \$100,000 mortgage with 6.5% interest and you'll save over \$13,000 in interest over the life of your loan.

Disclaimer: Our goal in presenting this information is to provide a forum for personal finance and investment ideas. This article should not be construed as investment advice – you should always consult your financial advisor before making major financial decisions.

REDUCE WHAT YOU OWE



Do The NUMBERS

Plan on retiring in 10 years, and want to free yourself of your mortgage before the big day? Or would you just like to know how much of a difference adding \$25 a month to your mortgage payment would make in the long run? Check out one of these online mortgage calculators to answer these burning questions.

<http://www.bankrate.com/brm/mortgage-calculator.asp>

<http://www.mortgageinterest.com/content/calculators/additionalpayment.asp>

<http://www.calcbuilder.com/cgi-bin/calcs/HOM16.cgi/themotleyfool>

