

## Power Tools of Savvy Homeowners

Power Tools of Savvy Homeowners (by David Newby)

For centuries, the prevailing wisdom regarding your home mortgage has been to “pay it off as soon as possible.” With 9 out of 10 Americans retiring broke in the richest country on Earth, it may be time to rethink that strategy. Here are 3 Reasons you should consider mortgaging your house to the hilt if you want to have a comfortable retirement.

Reason #1- Safety. Home equity isn't always safe. Hurricane Katrina taught us this lesson very vividly with thousands of homeowners being paid less than their homes were worth by their insurance companies. You may trust your insurance company to pay you what your home is worth in case something happens to it, but why take the chance? At your current saving rate, how many years would it take you to replace \$30,000 or \$50,000 of lost equity? Another experience that can “steal” your home equity is a real estate slump. If your equity is taken out of your property, you can use it even in a down market. Plus you can use your equity to earn you more money. More on that in Reason #3.

Reason #2- Access. Your home equity is your money. You should always have access to it, even when you don't need it. Everyone runs into a financial emergency from time to time, and if you wait until you need to get access to your home equity (in case of job loss or other emergency) you can't get it! In the Katrina example above, if a natural disaster hit your house you could use the liquid equity to simply move to another house. This is a much more appealing alternative than waiting 3-6 months or up to a year to get YOUR OWN MONEY paid to you by your homeowners' insurance policy. Have access to your home equity even if you don't need it at the moment. \*don't get a Home Equity Line of Credit unless it's one that can be converted to a second mortgage at your discretion. It looks like a credit card on your personal credit report, and when you use more than half of the available money your credit score will drop quickly.

Reason #3- Return on Investment. Let me ask you a question: if I offered you an investment that earns 0%/yr. interest, that you have to contribute to every month, and that you have to ask permission to get out of, would you invest in that investment? If you answered no, then you basically just said you don't believe in paying your house off. That precisely describes home equity- it earns 0% and you have to ask the bank for permission to use it if you're paying your house off. Whether a home appreciates or not has to do with the real estate market it is in; it has nothing to do with whether you're paying it off or not. As such, you should refinance your house to 100% if possible with an interest only loan and invest your equity prudently at an attractive rate of return.

Where to invest your equity? There are several options, and it depends on how willing you are to exercise your “risk muscle.” I have clients who routinely earn anywhere from 9% up to 18% or more on their home equity. This simply “repositioning” of home equity can put an extra \$1 million in your pocket over your lifetime, and give you greater safety and access to your own money along the way. Don't be overwhelmed by this concept. If you're paying your house off or it's paid off now, seriously consider mortgaging your house to the hilt with an interest only loan tomorrow.

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Learn outside-the-box strategies that the wealthy use and that your CPA and financial planner likely don't even know in David Newby's book “Why Didn't Anyone Teach Me This?” at <http://www.FinancialPlanning202.com>

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## About the Author

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