Dynamic Chiropractic

YOUR PRACTICE / BUSINESS

Good Questions

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In America today, typical households have net assets of $71,700, and most of that equity is tied up in their homes. This is based on research results from the Consumer Federation of America. The net financial assets in a typical household are just $9,850. That the majority of those surveyed live paycheck-to-paycheck.

What's your situation? Are you depending on the equity in your home to:

1. pay for the educational expenses for your children?
2. be there in case of any emergencies?
3. take care of you and your spouse at retirement?

Do you think the equity in your home can do some or all of those things? At what cost?

For some reason, many people believe that you need to pay off a home mortgage as soon as possible. A mortgage is debt, and debt is a "four-letter word." Bad! I see people plowing as much as they can toward their mortgage to liquidate it as fast as they can. Is this smart? Let's take a closer look.

To begin, let's see what mortgage money costs. That may sound very strange to you, but believe me when I say that you are definitely "buying" money when you get a mortgage. How expensive is that money you are buying? We will use an example of someone who is "buying" money for an eight-percent mortgage. How much does that money cost? You would probably say it cost eight percent, and you would be partially correct. That is the "gross" cost for that money. Since home mortgage interest is still deductible, you need to take this one step further to see the "net" cost of that money. If we assume that the borrower in this example is in a combined tax rate of 40% (30% federal and 10% state and local), then the "net" cost for that money is just 4.8%. That is cheap money, considering the prime rate and the fact that you can have this rate for 30 years. Even with a combined tax rate of just 30%, the net is only 5.6%.

Now you can see why I say that mortgage money is the "cheapest" money you will ever buy. No doubt about it. Even at the "gross" rate, it is still cheaper than any money around. Your credit cards cost at least 9.9 percent, and that figure will go up. Leasing money is far from the cheapest money you will ever buy. By now you should be able to see and understand that mortgage money is cheap.

What about using the equity build-up as a sheltered cash fund that could be used to fund educational expenses and a retirement? Let's take a look. Homes for the most part in this country have an average appreciation rate at a little less than four percent. That puts it below the inflation rate. I know there are some areas that are really hot, and the prices for their homes are going up faster, but that is not the norm, and probably will change in the future. With that in mind, would you be happy with a less than four percent growth on your money? If not, you need to rethink the idea of using your home as a great place to allow your money to grow.

That brings us to the cost of that money when you need it. As you know, to get your money out of a house, you must "borrow" it at whatever interest rate is at that time. Rates are pretty low now, but I can remember when they were double-digit figures. In other words, you must pay whatever the rate is to get to your money, no matter what your original mortgage rate was. Yes, the interest rate on a home equity is deductible, but it could still be expensive.

There is one other thing to consider: What if your home does not appreciate in value? What if it depreciates? That can and has happened all over the country, and it will continue to happen. Will it happen to you?

Other questions to ask yourself:

- If mortgage money is the cheapest money that you could buy, why would you want to pay that money off early?

- If the interest rate to get to "your" money in your home could go up, why are you still planning to use that money to cover educational expenses and also fund your retirement?

- If the value of a home could depreciate, why would you want to put all of your cash into your home and sit back and watch it shrink in value?

- Now that you are aware of all of this, why are you still not seeking other ways to accumulate your money where it is safe and secure, and where you can get to it without paying a high interest rate?

- A year from now, will you still be pondering this and other questions that have mystified humans since the beginning of time?

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