Dynamic Chiropractic

Mortgage Questions

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In the United States of America, the typical household has net assets of around $75,000. Most of that equity is tied up in the house. The net financial assets in a typical household are under $15,000. Most people live paycheck to paycheck. Not a very pretty picture.

What is your situation? Are you depending on the equity in your home to do all of the following: 1) pay for the educational expenses of your children; 2) use in case of emergency; 3) take care of you and your spouse at retirement? What is your pick - number one, two or three? How about all three? Did you think of some I haven't even covered? Now, the next question is: Do you really think the equity in your home can cover some or all of those things? And the next question is: At what cost?

For some reason, many people believe you need to pay off a home mortgage as soon as possible. A mortgage is debt, and debt is bad. I see people plowing as much as they can toward their mortgage to liquidate it as fast as they can. The next question should be: Is this a smart thing to do? To answer this question, we must take a closer look.

To begin, let's see what mortgage money "costs." That might sound very strange to you, but believe me when I say you definitely are "buying" money when you get a mortgage. The question is how expensive is the money you are buying? We will use an example of someone who is "buying" money for a 6 percent mortgage. How much does that money cost? You would probably say it cost 6 percent and you are partially correct. That is the "gross" cost for that money. Since home mortgage interest still is deductible, you need to take this one step further to determine the net cost of that money. If we assume the borrower in this example is in a combined tax bracket of 30 percent (federal and state taxes), then the net cost for that money is just 4.20 percent. That is pretty cheap money, considering what the prime rate is and the fact that you can have this rate for 30 years.

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 still is cheaper than any money around. Your credit cards cost at least 9.9 percent, and that figure can and 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 also fund a retirement? Let's take a look at that. Homes, for the most part, have an average appreciation rate of less than 4 percent in this country. That puts it below the inflation rate. I know there are some really hot areas and the prices for those homes are going up faster than that. However, that is not the norm, and that can and probably will change in the future. With that in mind, would you be happy with a less than 4 percent growth on your money? If not, then 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 the current rate of interest 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 your money, no matter what your original mortgage rate was. Yes, the interest rate on a home equity is deductible, but it still could be expensive.

There is one other thing to consider. What if your home does not "appreciate" in value? What if it "depreciates" and goes down so that your value is "less" than what you have put into it? That has happened all over the country and will continue to happen. The question is: Will it happen to you? That brings me to some other questions that you should be asking yourself right now:

- If mortgage money is the cheapest money you can 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 and 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 then 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 rate of interest?
- 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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