

Your Mortgage – So Much Money, So Little Time

By Anna M. Smith

Like many mortgage loan officers, many of the mortgages I have done in my career have been 30 year fixed rate loans. Many of the clients that I put in these loans have a rate of 5.5% or less. Back in 2003 and 2004, the last time interest rates were that low, it seemed logical to me – and to my clients – that this might be the last loan they would ever need.

Then in 2005 I attended a seminar. It forced me to look at every loan application with a new set of eyes: Did the lowest rate really matter if the client didn't have an emergency fund?

Where was the retirement savings? Why wasn't the property in a trust? Did it make sense to make extra payments towards principal when the clients were going to sell the house at retirement? Did it make sense to pay extra payments toward principal when lack of savings and retirement planning would force reverse mortgages – which is, in essence, a homeowner borrowing their own money back at high interest rates and fees?

My favorite quote is by Goethe, and it goes like this: *“Things which matter most must never be at the mercy of things that matter least.”* All too often I am seeing that when homeowners make being “mortgage free” their primary goal, saving for retirement suffers badly. Right now there's a popular bank with a stagecoach running a television ad that lists the 3 greatest days of a homeowner's life as, “buying the home, paying off the home, and getting a reverse mortgage.” Would the reverse mortgage even be necessary if there had been a proper mortgage debt strategy in place that safely maximized wealth creation in the critical years when compound interest had the chance to work its magic?

For many of us, these are the critical years: many of us will never be making more than we are right now; we'll never be healthier than we are right now; we're living longer; and we need to realize that the financial decisions we're making today – both good and bad - will affect us for years down the road. Like the annual wellness exam, doesn't it make sense to review both debts and assets yearly with qualified financial professionals to achieve safety, liquidity, increase savings, avert disasters, and keep you on track? Any realistic annual mortgage and equity review process takes the following into consideration: property valuation; review of the goal at the time of the most recent mortgage transaction; new short term goals, as well as a review of long term goals. When discussing these things with a professional mortgage advisor, also discuss the barriers to saving more; credit scores, credit



usage, credit health, rate of savings, and a review of life insurance policies. It is clear that the process of having an accountability partner in the financial arena is helping clients clarify their financial goals, sometimes for the very first time. At this time when the plethora of unsuitable mortgage loans have brought the housing and financial markets to its knees, isn't it time that we all stop trivializing this critical financial decision? I hope the answer is yes.

Anna M. Smith is a Registered Financial Consultant with Pacific Capital Private Client Services. For more information contact Anna at asmith@pcmort.com.