

# Fixed-Rate Mortgages: The Inside Scoop!

For some, buying a house, especially the first one, can be a frightening experience. For those of you who find yourselves still anticipating the purchase of your first home, here's a brief rundown of what the experience is and what it isn't.

What it isn't will be the easiest to tell you about. It isn't like going to the store and buying what you want by swiping your credit card. It isn't even like buying a new car, although the new-car buying experience is a little bit closer. It's like looking at dozens of houses that you hate in order to find one that you love, only to learn that your "perfect" house is \$10,000 more than you really wanted to spend. So you make an offer and wait to see if the seller accepts your offer or sends back a counter-offer.

Once the game of offer/counter-offer is over you set up a closing date. At the closing you sit down and sign a whole lot of paperwork. Once that procedure is done, the house is yours and you are now in debt for 30 years. Sounds appealing doesn't it? Well, actually, it really is. *In fact, it just might be the wisest decision you can ever make!* But, before you get to the point where you get to sign your name literally dozens of times, you have to decide on *what kind of loan* will be best for you.

## Overview of a Fixed-Rate Mortgage

As the name might suggest, the fixed-rate mortgage is a loan that has constant payments. Constant doesn't only mean that the payment will be due every month (although it will), rather it refers to the fact that the payment will not change. If you get a fixed-rate mortgage and the payment is \$900 per month, for example, that payment will remain at \$900 per month for the duration of your loan. Nothing changes; it is literally set in stone, and you can set your clock by it—\$900 a month for 30 years.

## Benefits of a Fixed Rate Mortgage

There are a number of benefits to having a fixed-rate mortgage. Two major benefits to a fixed-rate mortgage are 1) the planning power that it gives, and 2) the financial liberty that you can take from it.

### Planning Power

To take on the responsibility of a \$150,000, \$200,000, or even a \$1 million dollar debt can be, as mentioned earlier, very scary for some. But, to know that all you will ever be required to pay is \$900 a month (or whatever your fixed-rate house payment ends up being) is a very comforting piece of knowledge. Simply because you can now *plan your budget* around that amount and make sure that you can always afford it. It really helps to have your house payment set in stone. Simply because it makes budgeting for that regular house payment a little easier.

### Financial Liberty

What exactly is meant by financial liberty? Imagine a young couple,

just out of college, just married, and brand new at the jobs in their respective careers. As many new couples do, they decide to take out a loan and buy a house. They, because of the salary restrictions that they are working with, can only comfortably afford, say, \$500 a month. They know that this won't get them the house they really want, so they decide to stretch a lot financially and get a house that will run them \$800 a month. They struggle making that house payment for awhile but then, say, after two years they both get promotions and their bills get easier to pay because while their house payment stays the same, they now have a little more money.

After another two years they both move into management and see their income rise again. Suddenly they find themselves in a position where they can actually *afford* to make \$900 a month payments, and later on perhaps they can make \$1200 a month payments, but *they don't have to*. All they are required to pay is \$800 per month *because* they have a fixed-rate mortgage.

So with the extra money they now have each month, they decide to do some improvements around their house. They might add a room here, or perhaps re-do the kitchen there. And remember, each improvement they make, increases the re-sale value of their home. Eventually they decide to sell their home, make a sizable profit (perhaps because of the improvements they did) and then apply that profit into buying a bigger and better home—in other words, their dream home.

## The End Game

For the young, first-time home buyer with a solid income, a fixed-rate mortgage is a pretty good option. It allows, as was stated earlier, for predictability and the possibility for earlier financial liberation. But then again, maybe a fixed-rate mortgage is not the best mortgage for you. In that case, there are other mortgages that might be better suited for your specific situation and needs. Contact your local mortgage lender today to learn more about those many other options.

As with all mortgage and real estate decisions, it is always best to sit down with a true professional who can assess your individual situation and come up with a house-buying plan that is just right for you.

*(If you already own your home, feel free to pass this literature on to someone who might be interested in joining the ranks of home ownership soon. Thanks.)*

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# Easing the Transition to Your New Home

Sticking to a budget can be difficult, but with so many demands on your finances you have to be extra cautious. TV ads are constantly bombarding the airwaves with messages that you need to buy this or you must have that. Usually, if you just wait a week or two, the urge to buy that new gadget will pass. But, what should you do if you have already spent more than you have? The following are several real world ideas that can help you save real dollars.

First of all, you might consider refinancing your high interest rate loans and credit cards. Obviously you would like to pay as little interest as possible. You can accomplish this by sitting down with your local lender and talking about taking out a home equity loan of credit. By doing so you can save hundreds of dollars. The goal, of course, is to get your debts paid down as quickly as possible.

Secondly, consider changing the deductible on your auto insurance to a higher rate (e.g., if your deductible is \$500, consider raising it to \$1000). This simple change can save you money on your insurance premiums. If you file a claim they are likely to raise your rates to make up the difference so you end up paying no matter what. It makes sense to cover the first \$500 or \$1,000 yourself and enjoy a lower monthly premium in the meantime.

Other ideas to help trim some small expenses: Get your haircut every 6 weeks. See if you can go 7 or 8 weeks instead. This will save you the cost of 1-2 haircuts per year. Consider checking out that book

from the library, instead of buying it. Try renting a video instead of going out to the movies. Consider purchasing a ready-made meal at the grocery store instead of going out to eat at a restaurant. Be creative and see what little expenses you can trim that will add up to big savings over time.

Other ideas include clipping coupons, taking your lunch to work, carpooling (or even walking, biking, or taking the bus). Consider stopping smoking, and finally just don't even open up that catalog. Toss them out immediately. If you peek inside you're bound to find something you like.

In order to make sure that you stay on track with your budget, it is important to know where you stand. See your financial advisor today and get some help.

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