



IS REFINANCING YOUR HOME TO PAY OFF CREDIT CARD DEBT ALWAYS A GOOD IDEA?

I was reading "Dr. Don" Taylor's (Ph.D., CPA) response to a consumer in his column on Bankrate.com. He makes so many of the same points that I stress when working with HomeOwnership Center customers that feel compelled to share his thoughts.

In the article the homeowner asks if she should borrow additional money to pay off her other debt while she is refinancing the mortgage. Dr. Don points out that while it can provide financial benefits to cash-out during a refinance in order to pay off other debt, it is not automatically a good idea. In fact, there are several serious reasons why you shouldn't make this choice:



The most important reason not to roll credit card debt into your new mortgage is a matter of security. If you should have any difficulties paying all your bills, you could simply stop paying your credit cards for now. They are unsecured debt, meaning the creditor cannot take anything back to resolve the debt. When you convert that unsecured debt to a mortgage the bank now has something they can take back if you cannot make your payments: your home!

Another reason to avoid rolling in the credit cards is that you may be taking short term debt and turning into a much longer term debt. By amortizing that credit card debt over 15 or 30 years you will pay a great deal more in interest and wipe out any savings you are seeing in lower interest rates and tax savings. Was it really in your plans to take 15 or 30 years to pay off your credit cards?

The third reason for not erasing your credit card debt with a mortgage is that you are not really paying off the debt, and yet it seems as though you did. Once that credit card bill comes back with a zero balance, many households succumb to the habit that got them into trouble in the first place. Isn't it better to have to face that debt every month so that you might do something about it? Otherwise you can easily end up with twice the debt!

On the other hand, I have met a couple of households who are on a regimented plan for paying off their credit card debt quickly, have a safety net of 3 to 6 month savings and feel that this truly is a good option for them. If you think this might be true for you consider asking yourself the following questions:

Have I truly given up the credit card habit? Wait, don't just answer; go back to the last six months of statements and see if you have charged new items. Have the balances been going down? If they are going up then you need to work on breaking your credit card habit first!

Am I committed to paying extra on the principal of this new mortgage so that credit card debt is paid off much sooner than the life of the mortgage?

Do I have a significant safety net if I lose my job, become temporarily disabled, etc? Refinancing unsecured debt with your home puts you at risk, take steps to mitigate this risk; do not assume it cannot happen to you!

Still have questions? Call your Homeownership Counselor and check out reliable consumer websites like Bankrate.com for additional advice.

— Janet L. Harvey-Coutrayer



HAPPY HOLIDAYS FROM THE HOMEOWNERSHIP CENTER!

IS A HOME EQUITY LOAN RIGHT FOR YOU? 9 QUESTIONS TO ASK YOURSELF BEFORE YOU BORROW

1. I always pay my bills on time.

Yes No

If you've declared bankruptcy within the last seven years, missed loan payments, or had other credit problems, your credit rating will probably only allow you to qualify for a loan with a higher interest rate and a higher monthly payment. A credit counselor can show you how you can eventually qualify for a lower-cost loan.

2. My equity in my home is bigger than the loan I want.

Yes No

Your home equity equals the market value of your house minus the principal you owe on your mortgage. If your home equity is bigger than the amount you want to borrow, you're less of a risk to your lender and you're more likely to qualify for a lower-cost loan. If you don't have much home equity, you may be better off waiting until you've built up more before you borrow.

3. The balances on my credit cards and other consumer debt are low.

Yes No

Lenders give the best terms to people who don't already have a lot of debt and can easily manage the debt they have. If you have a lot of credit card and other debt, pay down as much as you can before you apply for a home equity loan.

4. I've been working at the same place for at least one year.

Yes No

People who've had the same job for a long time usually get better loan terms. If you change jobs a lot or just started a new job, you can probably save money by holding off on your loan for awhile.

5. I've looked at my monthly income and expenses to see how big a loan payment I can afford.

Yes No

Use BorrowSmart's worksheet to compare your income with how much you spend every month. Be honest with yourself. If there isn't enough room in your budget for a loan payment, don't risk your home by getting a loan you can't afford.

6. I'm reasonably certain there won't be any big changes in my income or expenses while I have my loan.

Yes No

You need to be sure that you can afford to make monthly loan payments not only now, but as long as you have the loan. If your job situation seems uncertain or you think you might be hit by a major expense (like education expenses for a child or nursing care for an elderly relative) that will strain your budget, you should avoid taking on a loan that puts your house at risk.

Over



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Home Equity Borrowing DO'S And DON'TS

DO

- **Borrow for the right reasons.** Use a home equity loan to improve your life by paying for needed home improvements, financing a college education, starting your own business, or consolidating debts. Invest your home equity wisely – your financial future depends on it!
- **Shop around.** Don't rush into a loan. Call a few lenders and compare interest rates and other loan terms they're offering.
- **Make sure you understand all your loan's terms and conditions before you sign.** You should understand every part of your loan, from the interest rate to closing costs to the monthly payment. Don't sign anything until you're completely comfortable.
- **Get a second opinion.** Home equity loans can be confusing. A credit counselor, financial advisor or attorney can help you decide whether the loan you're considering is right for you.
- **Understand your legal rights.** Every home equity borrower has legal protections. Your lender must give you a good-faith estimate of closing costs and full disclosure of all loan terms at least three days before closing. Discrimination based on race, sex, religion or nationality is against the law. And you have three days after closing on your loan to change your mind, for any reason.

DON'T

- **Borrow more than you can afford.** Never take on a monthly loan payment that doesn't comfortably fit in your budget. Be honest with yourself about your monthly income and spending when you're thinking about how big a loan you can afford.
- **Borrow for the wrong reasons.** Don't risk your house to pay for an expensive car or vacation. If you're spending more than you make every month, a home equity loan won't solve your financial problems – it will eventually just make them worse. Finally, don't let friends or relatives pressure you into taking out a home equity loan for them. You're the one risking your house, not them.
- **Be pressured to take out a home equity loan.** If a lender, broker or home improvement contractor is pressuring you or trying to rush you into a home equity loan, walk away. A good lender is always willing to let you take your time.
- **Become the victim of a lending scam.** Most home equity lenders are reputable, but there are some crooks out there. Avoid door-to-door salesmen and loans through home improvement contractors. Deals that seem too good to be true probably are. If something doesn't feel right about the lender or the loan, follow your instincts and look somewhere else. Better safe than sorry.
- **Sign any blank documents or documents that you don't understand.** NEVER sign any papers that a lender or broker promises to fill out "later." You're almost certainly being set up as the victim of a lending scam.



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Watch Out For Lending Scams

Your home equity could make you the target of con artists posing as legitimate lenders. Be aware of unethical lending practices:

Flipping – This means repeatedly refinancing the loan so the lender or broker can charge fees again and again without any benefit to the borrower.

Withholding information – Some unethical lenders or brokers might try to hide unfavorable loan terms. A credit counselor can help you make sure you have all the information you need before you take out your loan.

Packing – This means including hidden fees and expenses in a loan. Make sure you understand exactly what every fee you're being charged includes.

Equity stripping – This is the practice of making a series of loans specifically designed to take away a borrower's equity in his or her house, and eventually to foreclose and take the house itself.

"Credit repair" – The only thing companies that want to charge you a fee to "repair" your credit rating will do for you is make you poorer. There are no quick fixes. See a credit counselor instead. For little or no fee, a credit counselor can help you put together a plan to restore your financial health.

Avoid scams by just saying "NO"!

- Say no to door-to-door salesmen, telemarketers and "junk mail" ads
- Say no to high-pressure salesmen
- Say no to loans through home-improvement contractors
- Say no to loans that pay money to someone else
- Say no to lenders or brokers who try to intimidate you
- Say no to lenders or brokers who try to get you to sign incomplete documents
- Say no to lenders or brokers who don't want you to get a second opinion
- Say no to deals that seem too good to be true
- Say no to loan deals and terms you don't understand
- Say no to deals that just don't feel right

DON'T BE A VICTIM!