Cautions

• **Don't use your home as an ATM** for buying things you want but don't need. If you do decide to tap your home equity, make sure it is for important, long-term investments, like home improvements or college tuition.

• **If you are in financial trouble** and you can't pay your mortgage, call a housing counselor or your lender immediately to discuss your options.

• **Your home won't always grow in value.** Profit on the sale of your home is not guaranteed—depending on the economy, the length of time you own the home, and other factors, the value of your home could stay the same or even go down.

Refinancing means getting a new mortgage and using some or all of the proceeds to pay off the old mortgage. Some of the reasons to refinance are to take advantage of lower interest rates and lower your monthly payment, to consolidate first and second mortgages, and to convert an ARM to a fixed rate mortgage.

Before you pay off your loan early or refinance, make sure your loan doesn't carry a prepayment penalty, which could add greatly to your refinancing costs. If your loan does have a prepayment penalty, consider waiting until the prepayment penalty provision expires before you refinance.

You may also want to refinance to shorten the life of your loan. Be prepared: The monthly payments on a 15-year loan are considerably higher than on a 30-year loan.

Home equity

Some lenders will let you borrow more money on top of the balance of your original mortgage if you have built up equity in your home. Equity is the difference between your home's value and the amount of your mortgage. You can build equity as you pay down your mortgage or when your property value increases.

If your finances are stable and you have built substantial equity in your home, the equity can be tapped for many purposes—to start a business, save for college, prepare for retirement and create greater economic independence. In most cases the interest you pay on a home equity loan or line of credit is tax deductible.

A home equity line of credit (HELOC) can be set up in advance and used only when you need to borrow from it. If you fail to pay any loan that is secured by your home, it can lead to foreclosure.

Resources

HUD-certified housing counseling agencies provide one-on-one assistance, educational materials and, sometimes, classes on such subjects as first-time homebuyer preparation, successful homeownership, foreclosure prevention and reverse mortgages. To find a counselor near you, visit HUD online (www.hud.gov) and click on the "Homeowner Help" tab at the top of the page. You also can call 800-569-4287 (TDD: 800-877-8339).

Many non-profit credit counseling services are also HUD-certified housing counseling agencies. In addition to foreclosure prevention assistance, they can help analyze your finances, including bills and debt payments, and may be able to enroll you in an agency-administered debt management plan that could reduce your monthly payments to other creditors. Legitimate housing and credit counseling services are usually free or low-cost. Find a credit counseling agency at www.nfcc.org.

The Federal Trade Commission's Home Loans page provides links to information on a wide range of mortgage-related topics, including how to avoid home equity loan scams and high-rate, high-fee home loans. Visit http://www.consumer.ftc.gov/topics/home-loans.

Consumer Action

www.consumer-action.org

Contact our Hotline:
www.consumer-action.org/hotline/complaint_form

415-777-9635

Chinese, English and Spanish spoken

Housing Information website:

www.housing-information.org

MoneyWi$e website:

www.money-wise.org

Housing Information
A Consumer Action Project

Capital One

Consumer Action's Housing Information Project created this brochure in partnership with Capital One Services, Inc.

Keeping YOUR HOME

Protect YOUR investment

MoneyWI$E

A CONSUMER ACTION AND CAPITAL ONE PARTNERSHIP

You've planned and saved to get your home, but the planning and saving doesn't stop when the movers leave. There's more work to be done to keep your home.

Too often, people think only about saving enough money for a downpayment to buy a home. They don't realize that the expense of homeownership can be greater than the cost of renting. Managing your money well will help you stay in your home until you wish to sell it.

Today many homebuyers move—"trade up" or downsize—before they have paid off a 30-year mortgage. These are good reasons to leave a home—foreclosure is not.

People who plan, budget and save for successful homeownership have a much better chance of keeping a roof over their heads and building wealth as property values increase over the years.

Budgeting

In addition to your mortgage payments, you face costs such as property taxes, insurance, maintenance, emergency repairs and, in some cases, homeowners association fees. To manage the demands on your money, create a budget.

A budget is a pledge you make to yourself to organize and control your finances over a period of time. It's a tool to help you plan out, prioritize, and manage your money and spending. Sometimes getting control of your finances can be as simple as writing down what you spend and what bills you have to pay.

To create a budget, begin by identifying and listing monthly income and expenses, remembering the fixed expenses (such as your mortgage or car payment), variable expenses (like groceries and utility bills), and semi-annual or annual expenses like insurance payments. To make your budget as accurate as possible, try to anticipate some of your spending. For example, you may spend more in August for school clothing if you have children, or more in December and January for heat.

A filing system is a simple but effective budgeting tool. Label file folders for your bills and receipts to keep track of how much you owe and when your payments are due.

Dieters sometimes write down what they eat to track calories. This works for budgeting too. Carry a small notepad for a month and write down everything you spend. When you know exactly where your money goes, you'll be able to identify some expenses to reduce or eliminate.

Building a reserve fund

Following a realistic budget every month will help you pay your mortgage and build a reserve fund for emergencies, maintenance and major repairs.

Proper home maintenance protects your property's value and saves you money in the long run by making sure that small problems do not turn into more expensive issues.

Plan ahead to adjust your budget for anticipated maintenance and repairs. For example, if you know that your hot water heater is 15 years old and probably only has a year or two before it needs to be replaced, start saving for its replacement now. Keep a file or notebook with notes about the ages of your appliances, heating and cooling systems, septic system and well, if any, and roof and decks. This will help you avoid unpleasant, and expensive, surprises.

Putting an extra $30-$50 every month in an emergency savings account might make the difference between staying in your home and being forced to leave because you can't afford your mortgage payment. Consider setting up automatic transfers from your checking account to your savings account on paydays.

Homeowners insurance

Most lenders require that you purchase homeowners insurance when you get a mortgage. Homeowners insurance policies protect your home and your possessions. Make sure your policy covers the amount you would need to rebuild your home—as well as any contents you would need to start over with—if it were destroyed by fire or another covered catastrophe. (Homeowners insurance does not cover flooding—you should purchase federal flood insurance if you live in a flood zone.)

There are lots of ways to save on your homeowners insurance "premiums" (payments). For example, if your home is equipped with safety features like an alarm system, smoke detectors and deadbolt locks, you might pay less. Removing trees that could fall on your residence can help save money in the long run. Your insurance company may charge more if you use the home for business or if you rent part of the house. Planning wisely could cut your premiums by five to 15 percent.

Shop around when you are considering buying homeowners insurance. Ask family and friends about their experiences with different companies. Purchasing your home and auto insurance from the same company may reduce your costs. Raising your deductible is another way to save on your insurance. Most policies have a standard $250 deductible—increasing that by just $250 could shave up to 12 percent off your premiums.

Mortgage payments

Most mortgage payments are due on the first day of each month, although most lenders don't assess a late fee until after the 15th of the month. Pay your mortgage on time—late payments can seriously hurt your credit rating, which could increase the costs you pay for other credit and insurance.

Many lenders offer a service that will automatically withdraw your mortgage payment from your bank account on a certain day each month. Make sure you have enough in your account on that day to cover the entire payment so you don't get hit with a bounced check fee from your bank.

Each month, you can pay as much extra money as you want to reduce your mortgage's principal balance. If you do this, check your statements to make sure the money is being allocated properly to reduce the principal rather than pay next month's interest.

If you have a fixed rate mortgage, your basic payment (consisting of principal and interest) will remain the same until your mortgage is fully paid off or refinanced.

Variable, or adjustable, rate loans have interest rates that change periodically. These loans sometimes offer a lower initial interest rate for a period of two to 10 years before they change, or "reset."

If you have an ARM (adjustable rate mortgage), be aware of these features:

- the specific dates on which your loan will reset;
- the "index," such as the one-year Treasury security or the prime rate;
- the "margin," an amount added to the index at reset; and
- the reset "cap," which limits sharp increases.

All of the above information can be obtained in your loan documents or from your lender.

Homeowners can deduct mortgage interest and property taxes from taxable income when filing their tax returns. In the early years of a loan, most of your monthly payment is interest, so this can really add up.

By Jan. 31 of each year, your lender will send you a Form 1098 showing the interest and, if you have an escrow account, the property taxes you paid during the previous year. Save the form to give to your tax preparer or to use if you prepare your tax return yourself.

Refinancing

If you have an ARM that increases and you are having trouble making the payments, talk to your lender about refinancing to a fixed-rate loan, especially if you plan to stay in your home for a long time.