Keeping Your Home - Protect your investment

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. This brochure covers the financial responsibilities of homeownership and how to manage them, how to maintain and protect your property, and how to build and preserve your home equity.

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.

Homeownership gives you and your family a sense of stability and security. By purchasing a home, you are making an investment in your future.

Although real estate prices go up and down, the value of housing usually appreciates in the long term. This means that if you decide to sell your home, you have a good chance of earning some profit on the sale.

Homeowners can itemize deductions for mortgage interest and property taxes. 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 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.

Budgeting

Too often, people think only about saving enough money for a down payment 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.

In addition to your mortgage payments, you face costs associated with 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 or a utility bill) and semi-annual or annual costs 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 buy. When you know exactly where your money goes, you'll be able to identify some expenses to do without or cut back on.

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 by making sure that small problems do not turn into more expensive issues.

Plan ahead to adjust your budget for upcoming maintenance and repairs. For example, if you know that your hot water heater is four years old and probably only has a year before it needs to be replaced, start saving for its replacement now. Keep a file or notebook with notes about the age 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.

Homeowner's 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 dead bolt locks, you might pay less. Removing trees that might fall on your residence can help save cash 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 5 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 save up to 12 percent on your premiums.

Mortgage payments

Most mortgage payments are due on the first day of each month, although most mortgages 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.
- The reset "cap," which limits sharp increases.

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

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 can stay the same or even go down.

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.

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 to lower your monthly payment, to consolidate first and second mortgages, or 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. 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.

Long-term homeownership

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

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