

SECTION 1: UNDERSTANDING YOUR FINANCIAL GOALS

In the process of buying your home, you learned the importance of money management to achieve your goal of homeownership. Financial management is just as important now to help you maintain homeownership over the long term. Managing your money wisely will help you make your mortgage payments on time, protect your credit rating and continue the habit of saving for emergencies, home maintenance and other financial goals.

While your **mortgage** is a long-term debt that could last for decades, homeownership comes with benefits. Your home is a financial **asset** that can serve as a foundation for your economic security. With careful financial planning, your home can help you build wealth through home **equity**. The difference between what your house is worth and the amount you owe is your home equity. In other words, equity is your ownership interest in the property, which you may be able to borrow against or convert into cash by selling your home. There are two main ways to build equity. First, as you continue to live in your home and make mortgage payments, your loan balance decreases and you build equity. Second, if the value of your home increases either because of home prices rising in your area or improvements you make to it, you may build equity.

In order to enjoy the benefits of your home as a financial asset, you must preserve and protect your investment by performing routine home maintenance and ongoing financial management. Financial management involves planning how to spend and save your money. As an owner, your home represents a significant obligation as well as an opportunity for managing your money. Luckily, you have options for how you handle the obligation of making your mortgage payments through refinancing your loan for a better rate or different terms. In addition, you may have opportunities to convert some of your home equity into cash you need for other purposes.

Over time, your financial needs may change and you may need to make adjustments to your spending plan. Because mortgage rates and household finances change, you may find that your mortgage financing no longer matches your current needs. One option for you might be to modify your mortgage payments by **refinancing** for different loan terms. Even if your financial needs have not changed, you may want to consider refinancing to take advantage of lower **interest rates**. That way you can reduce your monthly mortgage payments to free up cash for other purposes. Another option might be to borrow against your home equity to get extra cash. If you have built enough equity in your home, you can take cash out to use toward other financial goals, like making home improvements, starting a business, paying for education or saving for retirement. You can also save your equity and build wealth over the long term.

Making financial decisions can be difficult. How do you know whether you should refinance for different rates or terms, or tap into your home equity? There are many options with various trade-offs

for either decision — refinancing for different terms or borrowing against your home equity. Making the right choices for you depends on your finances, goals and values.

Determining Your Financial Goals

The first step in deciding whether to refinance your existing mortgage loan for different terms or to borrow against your home equity is to consider your financial goals as they relate to your home as a financial asset. Goals state what you want to do or achieve. Setting specific financial goals helps you decide how best to use your resources. Since setting goals and allocating resources to meet those goals often require compromise among family members, it is best to involve everyone in the household in the planning process.

Start by discussing your goals as a family. Ask everyone in the household to make a separate list of financial goals. Then compare the goals and combine them into one list, deciding which ones are personal and which ones are for the household. Sample goals are:

- Reducing expenses to have more money left over each month.
- Paying off **debt**.
- Accumulating reserves in a savings account for life crises.
- Buying a car.
- Saving for retirement.
- Saving for education for yourself .
- Saving for education for your children.
- Purchasing big-ticket items, such as a boat.
- Going on a vacation.
- Starting a business.
- Making **home improvements**, remodeling or building an addition.
- Increasing your net worth.

Be specific and realistic about your goals. Being clear about what you are trying to accomplish can motivate you to change your spending habits. Consider how much money and time are needed to reach each goal. Some goals are short-term and can be reached within one year. Buying a car and saving for a family vacation may be short-term goals. Long-term goals that take more than a year to accomplish might be saving for your children's education or your retirement. After you have listed your short- and long-term goals, prioritize them. Try to get everyone in the household to agree on the most important goals you plan to accomplish together.

Understanding Your Options: Mortgage Refinance and Home-Equity Loans

Because your money and assets are limited resources, it may be difficult to satisfy all of your financial goals at once. Setting goals often requires trade-offs, where you have to choose to give up something in order to get something you want more. For example, if you have equity in your home and you choose to borrow against it to go on vacation, you slow down the opportunity to build wealth through your home equity. Setting the right goals and allocating the right resources for you depends on your money, assets, liabilities and values. If your goal is to buy a big-ticket item, borrowing against your home equity is one option. Another option would be leave your home equity alone. Instead, you could save a certain amount of money over a period of time until you have enough set aside to make the purchase. Or you may be able to get a consumer loan to buy the item sooner. If your goal is to reduce your regular expenses, refinancing to change your mortgage terms is one option. Or you might opt to alter your spending habits to trim other expenditures. When it comes to refinancing your loan for different terms or borrowing against your home equity, you will likely face temptations to treat it like easy money. Think carefully about all of your options before proceeding. As already mentioned, there may be other ways to achieve your financial goals

If you are considering either refinancing your loan for different terms or borrowing against your home equity, this guide helps you understand some of the important considerations. Making trade-offs is difficult. Ultimately, you have to make financial choices for yourself based on what you want now and what you think you may want in the future. Take the time to weigh all of your options carefully. Making smart mortgage financing decisions today and throughout your life will protect your investment and help you build wealth.

The worksheet on the next pages can help you set your financial goals, analyze your existing resources, and help you make the best choice to reach your goals based on available resources, your values and each of your option's trade-offs.

Financial Goals Decision-Making Worksheet

1. What are your values?

Review each statement, and check the column that best describes how you feel about it.

Statement	Strongly Agree	Agree	Disagree	Strongly Disagree
I want to be totally debt free as soon as possible.				
I plan to use my home to pay for my children's education and other expenses.				
I believe there is a difference between "good" debt and "bad" debt.				
I see my home as part of my overall financial portfolio.				
I see my home primarily as the place I live, not an investment.				

2. What are your financial goals? Rank in priority order, using 1 as the top priority and 14 as the lowest. Then circle your top three priorities.

- ___ Reduce expenses to have more money left over each month
- ___ Pay off debt
- ___ Accumulate reserves in a savings account for life crises
- ___ Buy a car
- ___ Save for retirement
- ___ Save for education for myself
- ___ Save for education for my children
- ___ Purchase a big-ticket item, such as a boat
- ___ Go on a vacation
- ___ Start a business
- ___ Make home improvements, remodel or build an addition
- ___ Buy a second home
- ___ Increase my net worth
- ___ Other: _____

Understanding Your Options: Mortgage Refinance and Home-Equity Loans

3. What are the estimated costs of your top three financial goals?

Priority	Estimated Total Cost
1.	\$ _____
2.	\$ _____
3.	\$ _____

4. Which of the following financial assets and liabilities do you have now? *Check all that apply.*

Monthly Income

- Salary and wages: \$ _____
 - Tips, overtime, etc.: \$ _____
 - Public assistance: \$ _____
 - Social security: \$ _____
 - Investment income: \$ _____
 - Other: \$ _____
- Total: \$ _____

Monthly Expenses

- Mortgage: \$ _____
(Add in taxes and insurance if not included)
 - Food and eating out: \$ _____
 - Utilities: \$ _____
 - Car and/or transportation: \$ _____
 - Credit cards: \$ _____
 - Other: _____
- Total: \$ _____

Which is larger? Income Expenses

Which do you expect to increase faster? Income Expenses

Savings and Assets

- I have a savings account (passbook, certificate of deposit or money market), valued at \$ _____ .
 This is at least three times my monthly expenses.

Understanding Your Options: Mortgage Refinance and Home-Equity Loans

- I have home equity, valued at \$ _____ .
- How much do you think your home would sell for on the market today? \$ _____
 - How much do you still owe on your mortgage? \$ _____
 - How long do you plan to stay in this home? _____ years
- I have other assets (investments, annuities, savings bonds or retirement accounts), valued at \$ _____ .
- These are assets I do not plan to access for at least 10 years.

5. What are the trade-offs for each relevant option to meet your financial goals in relation to your resources? *Review the different ways to reach your financial goals listed below, and consider the impact of each option. Circle the trade-offs for each relevant option. Skip any options that are not applicable. For instance, if you were to refinance at a lower rate, would your new payment make your monthly expenses better or worse, or would there be no change in your monthly expenses?*

Ratings: Better ↑ No change — Worse ↓

	Monthly expenses	Net home equity	Savings	My spare time
Refinance at lower rate	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Refinance to convert one loan type to another	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Refinance to lengthen term	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Refinance to shorten term	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Obtain a cash-out refinance loan	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Obtain a home-equity loan	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Obtain a home-equity line of credit	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Obtain a reverse mortgage (for senior citizens)	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Spend “cash” savings	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Spend or borrow against retirement savings	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Sell investments	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Get an unsecured personal loan	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓
Use a credit card	↑ — ↓	↑ — ↓	↑ — ↓	↑ — ↓

Understanding Your Options: Mortgage Refinance and Home-Equity Loans

6. What is the best option for you to meet your financial goals?

Look at the top three priorities you circled in question #1, the costs of your top three financial goals estimated in #2, your financial resources listed in #3, and then your responses for each of your relevant options in #4 to answer the following questions.

How do these choices feel to you? Hard Easy Confusing

Why? _____

Are these good trade-offs for you? Yes No

Why? _____

Do they match your values now?

Priority 1: _____ Yes No

Priority 2: _____ Yes No

Priority 3: _____ Yes No

Do you think this will be a good decision in one year? Yes No Unsure

Why? _____

Do you think this will be a good decision in five years? Yes No Unsure

Why? _____

Do you think this will be a good decision in 20 years? Yes No Unsure

Why? _____

