

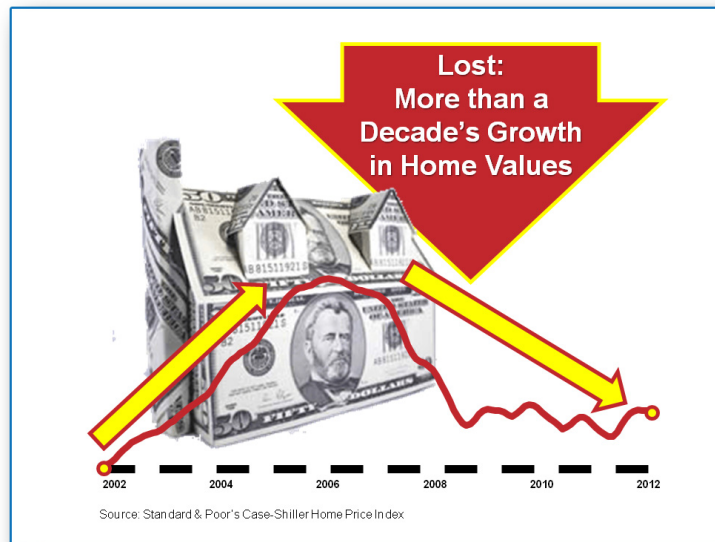


Is Your Home an Asset or a Liability?

We were taught we could count on the equity in our homes to be a major part of our retirement and wealth building plan. Not long ago, home equity was the biggest chunk of most nest eggs. Many of us even made extra mortgage payments or refinanced with fifteen-year loans so we could have the security of knowing our homes would be paid off in full when we retired. This chart is a snapshot of how well the strategy of plowing money into our homes that we *could* have put into our savings instead has worked out in recent years:

From January 2002 to the peak of the housing market bubble in June 2006, home values skyrocketed by 71 percent. But by March 2012, they had plunged to a level barely 10 percent above where they were a decade earlier.

From January 2002 to January 2013, housing prices increased by less than a measly 2 percent per year. However, we had 30 percent inflation during that period, *which more than wiped out any real gains in home values*. And that ignores the pain and suffering experienced by millions of people who lost their homes or are under water on their mortgage.



The real estate bubble laid bare the fiction that housing prices only go up. Real estate is subject to the same volatility and unpredictability as any other investment.

And the financial crisis and credit lockdown have made it painfully clear how little control you have over the equity in your home. Home equity lines of credit have been slashed or frozen without warning, and many refinancing options dried up *even* for people with good credit.



Many people were unpleasantly surprised to discover how difficult it can be to *sell* your real estate to get at your equity. Much like trying to predict the stock market, you can't guarantee the real estate market will be up when you're ready to (or need to) sell, and you have no way of knowing how long it will take to sell.



Even if a crash of the magnitude of 2007 proves to be a one-time disaster, is building up equity in your home a reliable wealth-building strategy? **Home values in the U.S. have outpaced inflation by only about 1% per year over the long term.** That's not even close to the growth rate you really need for your nest egg, is it? And the days of using a house as a piggy bank or an ATM machine are gone.

As a 2011 opinion piece titled "The Housing Illusion" in the *Wall Street Journal* noted, "A home's main economic purpose is—or should be—shelter. During the mania of the last decade, housing too often became an investment out of proportion to any sensible contributions to national wealth and wellbeing."

As you ponder whether to pay off your mortgage, think about this:

- Payments of principal you make into your home do *not* earn interest or make you any money
- The equity in your home is *not* liquid
- The equity in your home is not guaranteed—a fact which came as a shock to many when the real estate market crashed
- There is absolutely *no* tax benefit to having equity in your home



Not feeling so warm and fuzzy, is it? Unfortunately, many people don't think about these downsides until it's too late!

One couple's story: He begged his ex-wife not to use her divorce settlement to pay off the mortgage on the home they used to share. But her overriding concern was valuing the feeling of security that comes with not having any mortgage payments.

Shortly after she paid off the mortgage, the real estate market plunged, she lost her job and became disabled. She desperately needed money, but now all her money was locked up in her home, with no way to get at it. It's a heart-breaking story of the dangers of following the conventional wisdom.

Having a mortgage is one situation in which using bank financing *can* make sense.
(Remember, you can use banks for *your* convenience, not for theirs!)

Rather than trying to pay down your mortgage with every spare buck you can find, if you put those dollars into a Bank On Yourself-type policy, you'll have all the benefits that are *missing*



from building home equity: That money will grow by a guaranteed amount each year. It's liquid, and you can borrow against your policy's equity make major purchases. So if you *really* want to feel more secure, where should you be building up equity?

Another family decided that instead of attempting to *pay off* their home, they would refinance it with a new thirty-year fixed rate mortgage, taking advantage of historically low rates, while still getting a tax deduction for the interest they pay. That made more sense to them than trying to pay down their mortgage faster. The dollars they save are going into their Bank On Yourself policies.

A strategy like this may give you the *option* to pay off your mortgage *in full* if you should ever choose to. But, like many policy holders, you may discover that having all that money in your policies gives you *far* more peace of mind and security than paying off your mortgage and *leaving all that money locked up in your home where you might not be able to get to it when you want or need it.*