



Managing GOD's Money

Today I will address some mortgage pitfalls. Low interest rates, no down payment, aggressive marketing by financial institutions have contributed to a rapid rise in home ownership. But many folks don't know their housing cost commitments, and rising interest rates' likely effects. Folks need to understand these three mortgage-related matters:

1. The makeup of the mortgage
2. Zero or small down payment's effects
3. Home equity loans' effects

Do you know the difference between repaying a **nonmortgage** and a **mortgage** loan? One dollar paid against the nonmortgage loan lowers it by one dollar; but only a part of that dollar lowers the mortgage—the other part is interest. What's more, in the early years, most of the mortgage payment is interest. Here is a simplistic example:

\$ 1000 Mortgage @ 10% "Amortized" over 5 Years				
Years	Starting Balance	Regular Payments	Interest Part @10%	Principal Part
	\$	\$	\$	\$
1	1000	263.80	100.00	163.80
5	239.8	263.80	23.98	239.82

Notice column four: **\$ 100 interest in year one**, going down to **\$ 23.98** in year five.

Getting the flexibility in your mortgage agreement to pay amounts above your regular payment is a great idea because extra payments go direct against the principal or mortgage balance, like a nonmortgage loan. This allows you to repay your mortgage faster, lowers interest costs, and produces more funds for God's Kingdom work.

Additionally, to control your mortgage costs, you need to know some basic terms before you apply for or renew a mortgage:

1. **Amortization period:** Period over which the financial institution calculates your repayment - 20 years. **The longer the period, the more interest you will pay.**

2. **Mortgage Term:** Mortgage agreement's life—six months, five years. **You renegotiate the mortgage without penalty after this time.**
3. **Open mortgage:** You can repay all or some principal anytime without penalty
4. **Closed mortgage:** You pay a penalty if you repay before the mortgage term ends

Let's look at the **second important mortgage-related matter**, zero or low down payment. If you don't have a down payment leading to an *affordable* mortgage, you can't afford home ownership. Be patient! Quickly, zero and low down payments can feel like renting but with the costs, not the benefits, of owning a home. Look at this simplistic example:

- Assume your house costs \$ 200,000
- One year later you owe \$ 195,000
- The housing market falls so the market value is \$175,000
- Loss if you sell: \$ 175,000 - \$ 195,000 = \$ 20,000

Suppose you start having difficulty paying repair costs, insurance, or mortgage, so you want to sell the house. You can't, because you will owe \$ 20,000 if you did, and you won't own a home!

Do you see this? Beware, interest rates will rise and the housing market could be peaking! So before buying a home get a deposit that fits your budget.

We get a similar result from the **third mortgage-related matter**, home equity loans. Some folks lowered their mortgages, built equity, then took loans with this equity to buy consumer items, or to consolidate debt, but they don't realize the full effects.

Earlier I said dollars paid against a nonmortgage loan goes against the loan, unlike the mortgage where the financial institution splits the payment between interest and principal. Keep this in mind when you think about a home equity loan, which merely adds a loan to your mortgage for an item with a life much shorter than the life of your mortgage. Normally you will use up the item you bought before you repay the loan as part of your mortgage. When you need to replace this item, still you are paying interest on the first loan?

Jesus has assured us in **Matthew 6:24-33** He will supply our **needs**; but note financial institutions usually will supply funds for our **wants**! Did you get that? Think about it as you mull over Jesus' words in **Luke 16:10**: *whoever can be trusted with very little can also be trusted with much...* Do you trust Jesus to supply your needs?

God bless and remember Jesus loves you.