

# The First National Bank of "You"! Should You Use Your Home Equity!

By Mark Charnet



So many people have the belief that debt of any kind is intolerable. Others believe "play today, pay tomorrow" is the best option. Then there are some folks that insist on paying off their mortgage as quickly as possible, thinking it's a good idea and yet there are others that purchased a home with nothing down, in some cases financing 100% and getting back money at closing too. The sub-prime lending problem we face today is a result of the banking industry lending to unqualified applicants and now the repercussions are such that the Federal Reserve Board Chairman, Ben Bernake, felt pressured into lowering the federal funds and discount rate .5% on September 18, to help the banking industry with liquidity issues and home mortgage holders with adjustable rates from further exacerbating the already record high foreclosure rate. This might prove to be disastrous as our currency has fallen in value against the rest of the world nations to unprecedented low levels hurting foreign investment in US debt obligations. Inflation will return with a vengeance; you will definitely notice price increases at the register over

the next few months when you go grocery shopping.

Credit Card debt is also at record high levels and Americans work a longer work week than any other developed nation. Cars are basically no longer sold for a stated purchase price, instead they are sold based on a monthly finance or lease payment. American citizen and debt go together like peanut butter and jelly. But what kind of debt is acceptable from this financial planner's point of view? We would all like to be mortgage free before 30 years, but is that really what we want? It's true that during our retirement we do not want to be burdened with a mortgage payment; however, being mortgage-free might not be a good idea, especially at today's level of low interest rates.

My home is the National Bank of Mark Charnet and your home is the National Bank of "your name". It is perfectly ok to borrow from this bank, in essence, to leverage your home **to purchase another appreciating asset**. It is unwise to borrow from the National Bank of You to purchase anything else, with just one exception. Home improvements will accelerate the appreciation or at least

maintain the appreciation potential of your home, therefore making it an acceptable loan. Using the equity in your home to purchase a vacation home, another appreciating asset, is an acceptable use of home equity. Using home equity to finance an education is an acceptable, perhaps not the most efficient, but, an acceptable use of home equity since the students earning power will appreciate as a result of their advanced education. Using home equity for a vacation, the purchase of jewelry, a car purchase, to pay off credit cards that will not be cancelled are all potentially unwise uses of home equity if other alternatives are available. I mentioned one exception. That is, if I have to invade my IRA or other retirement assets that have the potential to earn more than the cost of the equity loan to purchase that car for example, the equity loan might be the better option and it comes with a tax deduction for most people.

Your home equity is a tool that should be used to advance your financial situation. Let me present another use for home equity. Let's assume I have a couple, both age 70, mortgage free and in relatively good

health. They have adequate income to afford a \$1,000 monthly mortgage payment without interfering with their standard of living. A 30 year mortgage @ 6.5% could be put in place with a \$1000 monthly payment creating a \$158,210 lump sum. This sum could then be used to purchase a life insurance policy that is guaranteed to have no further premiums and will be guaranteed to pay when both the husband and wife have passed, even if they both lived to 110 years old, an income and estate tax free benefit of **\$682,785** when owned by a properly written Trust. This particular example is certainly an acceptable use of home equity in that we now have provided two assets to leave to this couples heirs instead of just the house. Equally as important, the life insurance was **triple tax-free**. No capital gains tax, no income tax and no estate tax; and you know what, a portion of the \$1,000 monthly payments were tax deductible too!

As you can now see, not to leverage the equity in this couple's home would have been a \$682,785 tax-free loss to their beneficiaries, a mistake your kids

wouldn't want you to make, I can assure you.

If you have a question about enhancing your particular financial situation, please send me an email or call with no cost, no obligation, no kidding! To learn more, check out our website: [www.1APG.com](http://www.1APG.com)

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