

Acceleration

MONEY MANAGEMENT FOR LIFE



VERSION 3.1

To Refinance or Not to Refinance: That is the Question

If you are one of the fortunate homeowners whose employment status and home value are favorable for a refinance of your current mortgage, it seems like a no-brainer that, when interest rates go down, refinancing is the thing to do. Whether you want to lower your monthly payment and long-term interest payout, increase your monthly cash flow, or transform your home equity into cash to pay for other debts, there is no question that refinancing can be a terrific financial tool.



But it is still a decision with consequences.

First, there are additional expenses when you refinance. Among other costs, you'll have to pay closing costs, so make certain it's worthwhile. Suppose your closing costs are \$2,400 and your new monthly mortgage payment, after refinancing, is \$100 less than your current mortgage payment. You would need to live in the house for at least two years to recoup the money you spent to refinance. Second, working with an unscrupulous lender can have devastating effects. If you are considering refinancing, make certain to find a solid, trustworthy institution.

For these reasons and more, Accel counselors recommend taking the time to think it all through before making the decision to pay for one mortgage with another.

If you refinance, you can:

- **Take advantage of lower interest rates:** You'll have a lower monthly mortgage payment and increased cash flow. You can use the extra cash to pay down debt or build your "rainy day" fund.
- **Transform equity into cash:** If you are planning to take cash out of the new mortgage, Accel recommends you plan its use wisely. Two of the most common reasons people take cash out of their mortgages are home improvements and paying off debts. Some home improvements can be a good investment because they can increase the market value of your home. If you're not selling, the improvements are still good investments, adding to your quality of life.

If you plan to pay off unsecured credit card debt with cash taken from a refinance, be aware that you will likely pay a lot more for the debt over the course of your mortgage than you would if you were paying the balance off faster, the traditional way. Consumers should also be aware of their spending behaviors before they make this move. Some people pay off their debts only to drive up card balances again. If that is likely, you'd be better off using the increased cash flow from your lower monthly mortgage payment to pay more down on your credit card debt each month.

- **Gain peace of mind:** Sometimes it's worth refinancing even if you won't see an immediate change in your monthly payment. Many homeowners prefer, for instance, the stability of a fixed-rate mortgage to the insecurity of an adjustable rate, or balloon, mortgage. Sometimes a higher interest rate is worth paying, just to reduce risk.

There are a lot of different strategies and possibilities with refinancing – some that could have a positive effect on your bottom line and some that could have a tragic effect. Be sure to sit down and evaluate your goals and options, and determine how refinancing may benefit your life going forward. If you need help making the decision, call a Accel housing counselor before you sign. We'll be delighted to help.

Quarterly Budget Check-Ins for Financial Wellness

It's early in the year and you've promised yourself that, if you can help it, 2009 will be financially brighter than 2008. Accel recommends quarterly budget check-ins as a vital financial tool in your endeavor. It starts with asking a lot of questions, continues with making some adjustments, and ends with cost savings that can help you balance the budget.

Check your expenses against your budgeted amounts. Are you on track? Over budget or under?

Consider your budgeted amounts. Can they – or should they – be adjusted? Where can you save? Is the savings needed in another

category or can you assign it to a "rainy day" account?

Revisit categories that may be able to be adjusted, like insurance premiums (can you live with a higher deductible or less insurance?), cable television and cell phone packages (can you save by bundling services?), and entertainment spending.

Setting new budget goals and making sure you're on track is a household project. Include your family and get their buy-in for success.





The Co-signing Dilemma

Of course, you want to be helpful! When your nephew asks you to co-sign a student loan, or a close family friend asks you to co-sign on a personal or auto loan, your first instinct is to say “Yes, of course I’ll help you.” But it may hurt you in the long run.

As a co-signer, you agree to be a second party to a debt, guaranteeing that it will be paid – whether the other party pays or not. It is critical that you determine your risk.

Questions to ask yourself:

- How will the person you are co-signing for pay the debt?
- What will happen if their employment situation changes?
- If they cannot make the payment, can you make the payment without putting your quality of life and other necessary payments in jeopardy?
- Are you all right with taking a negative hit to your own credit score/credit report if the person you

co-sign for stops paying before you find out the responsibility is yours?

- Why does this person need a co-signer? Lenders usually require a co-signer when they lack faith in the person’s ability to repay the funds.
- Are you applying for a loan soon? If so, will this additional debt on your credit report make you appear overextended?
- Considering all of the risks, is this the best financial decision for both you and the person you are signing for?

While some people view co-signing as a formality that can help someone get a loan, it is much more than that, as many have learned the hard way. Knowing what you are getting into – and considering alternate ways to help out – are critical steps in the process of making your decision. Think it through and take the step that’s best for you, your credit and your family-and-friend relationships in the long run!

Get S.M.A.R.T. About Determining Individual or Household Goals

Understanding the difference between a dream and a goal is important. If you say that you want to visit Hawaii one day, then you have a dream. But, if you say that you have to attend your cousin’s wedding across the country in three months and will need to save \$1,200 dollars to pay for the trip, then you have a goal.

What is the difference between the two? One answers some specific questions and the answers give you a map to follow: How much do you need to save? When do you need the money? How many pay periods occur during that time? How much is available to be saved?

When you have the answers, you have a goal that meets the “SMART” test. It is:

- Specific – The target is clear, rather than vague and elusive.
- Measurable – Benchmarks show how much progress is being made toward the goal.
- Attainable – The goal should be within reach.
- Realistic – An unrealistic goal sets you up for failure.
- Timely – Working with stated deadlines creates an urgency that is hard to avoid.



Use the S.M.A.R.T. test to prioritize your goals and get agreement on them from your family or financial partners. It will be easier to see which adjustments and sacrifices are needed to achieve those goals. Good luck!

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