



Creative Lending

Home lending options can create cash flow

By Amanda N. Wegner

Sometimes, you have to get a little creative, especially with money, which is a lesson Madison's Liz Shimon learned well last fall. With a little more debt (of the credit and loan variety) than she was comfortable with, Liz went back to her mortgage officer, Micha Petersen, vice president of home lending at Monona State Bank, to learn her options. Upon meeting with Micha, Liz had a solution to her problem.

"Things had to change," recalls Liz, an orthopedic physician's assistant with Dean. "I had several options, and the one that worked best was refinancing my home." Liz refinanced her home for a bit more than its value; she then used that money to pay a high-interest credit card and high-interest loan. With a lower interest rate (and a shorter loan term), her new mortgage payment is comparable to what she had been paying before for the mortgage and two payments combined. She closed just before Thanksgiving 2009. "I had no idea that was even an option," says Liz. "I thought I would have to do a second mortgage or take out a loan against the mortgage, but the refi was much simpler."

While Liz's situation worked out, individual situations vary, cautions mortgage broker Christian Gridley, president of American Home Bank-Madison Branch. But "the least you can do is ask," says Liz. "I sat for eight months, worrying, watching paycheck to paycheck, but when I went in and talked to her, everything was solved within a month. Everybody is going to have different options based on their financial situation, but at least find out what they are."

RULES OF THUMB

Given the events of the last 18 months, the home lending industry has become

increasingly stringent. But that doesn't mean you don't have options. Christian offers these pieces of advice if you're considering your own creative home financing options.

Look for payback. Refinancing or a second mortgage can be a great tool to pay down high-interest debt if you're comfortable spreading the debt over the term of the mortgage. But know how long you plan to stay in the home to cover your costs.

"Most financial planners recommend that you should be committed to the home for at least one to two years," says Christian. Why? If the refinance saves you \$100 monthly, but closing costs were \$1,500, it will take 15 months to pay back that investment.

Rate reduction? A general rule of thumb for a refi, notes Christian, is to lower the rate 0.5 percent to one percent, but "don't go on percent alone. Let the numbers for your personal situation be the guide."

HOW DO YOU RATE?

Each year you can request a free copy of your credit report from each of the three major credit reporting agencies: Experian, Equifax and TransUnion. Go to annualcreditreport.com to request a copy.

Know your values. Home values have fluctuated in recent months, as have peoples' personal worth, with pay reductions, furloughs and layoffs, so it's important to know both. To refinance or get a second mortgage, the home must have more value than what is currently owed.

If the home values in your neighborhood are down, that value might not be there.

Check your credit score by contacting any of the three credit bureaus for a free report annually. Anytime a creditor inquires about your credit score, it takes a ding, so get your own report first. Generally speaking, says Christian, a credit score of 640 or higher is best for traditional financing or 620 for FHA lending, "though that's not to say you couldn't do something if your score was lower."

A caring and thoughtful mortgage professional will help you work through the available options to ensure you're getting an affordable, comfortable solution. "If it achieves your financial goals, these lending options can be excellent tools for freeing up cash flow, and those dollars can be reallocated to investing or other higher-interest debt. But you do have to be careful and cognizant of your goals — and your ability to pay." **mb**

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