

HOW SHOULD YOU PAY OFF YOUR HOUSE?

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We need a house to live in. How it's paid off makes a world of difference in long term net worth. Conventional wisdom says, "Get out of debt; give as much money to the bank as possible, and build equity in your house."

It is proper to build equity, but not always in the house. Don't just look at the interest you pay. A fair analysis will also look at what you can earn. The goal is for equity to grow as efficiently as possible.

Here is an example how to position equity. Person A (conventional wisdom) put equity into his house ASAP. Person B did it differently and gained over a quarter of a million dollars without reducing lifestyle.

Person A

Receives a \$300,000 windfall. Original mortgage was \$150,000 30yr at 5.75%. Payment is \$875 monthly. We're 10 years in, and the remaining debt is \$124,680. Goal is to get out of debt and to increase personal cash flows by \$875 monthly.

Snapshot in year 20: Investment value is \$1,350,000 to \$2,510,000. Median value is \$2,260,000 million. House is paid for. Lifestyle has been improved.

Person B

Same situation as Person A, except that they continue payments (from investment systematic withdrawals.) They could pull the trigger at any point and pay off the debt in a lump sum if they chose to do so. They also increase personal lifestyle by \$875 monthly.

Snapshot in year 20: Investment value is \$1,630,000 to \$3,260,000. Median value is \$2,980,000. House is paid for (and could have been paid for at any point if so chosen). Lifestyle has been improved.

There is no right way to pay off a house. The key to finances is the right mix of liquidity, use and control of money. Opinions, knowledge and beliefs will shape how you choose to pay off your house.

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