

## Is Paying Extra on Your Monthly Mortgage Always a Good Idea?

As Americans become more conscious about the damage debt can do to their finances, there's always a question of whether it makes sense to pay down first mortgages and home equity lines so they can direct more money to retirement or other goals.

Like so many questions in financial planning, the initial answer is always the same: It depends on your individual financial circumstances and goals. Enlisting the help of a qualified financial planner is a good first step because they have the tools to look over your entire financial situation – your overall debt, your household budgetary needs and your long-term financial objectives including retirement. From there, you can establish a plan to follow that fits you.

Here are some general questions you should ask first:

**Why do you think paying off this particular debt is a good idea?** Most of us would love to pay off a mortgage, but is it really a good idea for you at this time based on all your financial priorities? It might make you sleep better at night, but could it have an adverse effect on your tax situation because you would lose the ability to deduct the interest? Also, are there other obligations that should be addressed first? Do you have a plan for what you'd do with the money you'd save if you were finally free and clear of all debt? Owning a home free and clear is an attractive idea, but it's important to fully understand what this decision would mean for you.

**Do you have a budget?** Until you understand what you're spending – and what you can cut – you'll have no idea how to address this or any other financial issue. Work independently or with a planner to track your spending down to the penny and then plan your attack for spending, investing and savings issues from that point on. Basic budgeting tools are online – Mint.com is a good free resource. Generally, budgets are built this way:

- Set a time period (one or two months, just to get a baseline) of how long you will track every penny you spend.
- Review those results and determine which expenses are mandatory and optional.
- Once the optional expenses are identified, make cuts and determine where those savings will go – in most cases, that extra money needs to go toward higher-rate debt first, then eventually towards savings.
- Put the finalized budget in writing and check performance every month. At the one-year mark, re-evaluate and reset the budget, and then repeat the process.

**How's your "bad" debt?** During the economic downturn, many Americans have struggled with large balances in credit card debt as well as car loans and other borrowings where they're paying interest they can't deduct. Unless you're paying more than the minimum, these are the

toughest obligations to get rid of. Most planners advise you attack the highest-rate balances first and work your way down. First, get some face-to-face advice on the debt issues directly in front of you.

**What about advice?** As mentioned, a financial planner takes a global view of all your spending, saving, investing and tax issues. Tax and estate experts are also good people to have in your corner. Before you make a move to erase mortgage debt, make a phone call or visit and see what they think first.

**What about savings?** One of the problems with going it alone on financial planning is the “40-car pileup” effect. So many problems to solve, so little idea about the order in which they should be solved. If you have an attractive retirement plan at work – one that matches all or part of your contributions – keep that going. It’s also important to build some form of emergency fund. But generally, attack your most detrimental debt first and then based on your time to retirement or reaching other goals, then you can make a clearer path.

**Do you really need that property?** As people lose sleep over mortgage debt and other financial worries, people rarely ask whether they actually *need* such a big house, an expensive car or other possessions that lead to debt concerns. These are questions that are as individual as you are. Enlisting the help of a qualified financial planner shouldn’t be all about solving problems and addressing emergencies. Financial experts can help you set a worry-free lifestyle that makes sense for you.

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