# EQUITY MANAGEMENT

Maximize Your Financial Future

PreferredRate
Partnered with American Pacific Mortgage

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## Introduction

Saving for retirement is a key aspect of financial planning. Put simply, if you don't save, you won't have any savings to rely on when you need it, be it for uncovered medical expenses, the cost of living, future plans or uncertainties.

A great opportunity exists by managing the single greatest asset that the majority of Americans will ever own:

**the equity in their homes.**

Managed wisely, your home's equity could potentially yield returns far in excess of your property's market value. Plus, managing equity could shield a greater portion of your income against tax liability. But, this potential opportunity requires real financial discipline and professional know-how. Read on to learn if equity management is right for you.

## Working Equity

Home equity accumulates in four ways:

1. The money committed in the original down payment
2. Any appreciation in the local housing market over time
3. Physical improvements or renovations
4. Principal payments on the mortgage itself

Through these four avenues, cash value—or equity—steadily builds up in the property. While seemingly desirable on its face, this accumulation of wealth in the home also has three consequences.

First, the cash in your home is "buried." Not only is it unavailable in the event of a family emergency, it is vulnerable to loss due to periodic downturns in housing values, fire or natural disasters.

Second, cash trapped in property is earning zero interest year after year.

Third, as you pay down the principal on a standard mortgage, mortgage interest payments decline and a greater percentage of your family's income is exposed to taxation.

The impulse felt by most mortgage holders is to pay down their home loans quickly, so they can own their properties "free and clear." In doing so, however, they are opting not to take advantage of overhauls in consumer protection laws, financial regulations and government tax codes specifically designed to help homeowners generate and protect personal wealth.

In short, the range of mortgages available today—coupled with the growth and importance of investing into tax-exempt college savings plans or tax-deferred retirement or health savings plans—opens unprecedented equity investment opportunities for responsible homeowners who are committed to planning for their family's security, their children's education and their own retirements.

**But most Americans fail to explore the power of "working equity."**

# Securing Equity

Here's how to put equity management to work for you:

### *If You Are Buying a Home:*

Generally, the greater your income and assets—and the higher your credit rating—the more mortgage options there are available to you. If you qualify to make a smaller down payment on your home purchase, this creates immediate liquidity for investment and preserves the greatest possible income tax deductions on mortgage interest.

Then, instead of investing your cash in idle principal, you can be investing it in tax-free or tax-deferred interest-bearing funds whose rate of return could potentially outpace the interest rate paid on your mortgage, enabling you to effectively out earn your debt.

### *If You Own a Home:*

If you already have substantial equity in your home, it can be accessed through a "cash-out refinance" mortgage. It's important to consult with a qualified tax professional prior to pursuing this type of loan strategy to ensure that the interest payments are in fact deductible and to what extent.

With the money saved from a smaller down payment or a cash-out refinance, you should pursue the four steps to financial security in this order:

Maximize your retirement contributions.

Pay off your high interest and non-tax deductible consumer debts (i.e. credit cards, store loans and personal loans).

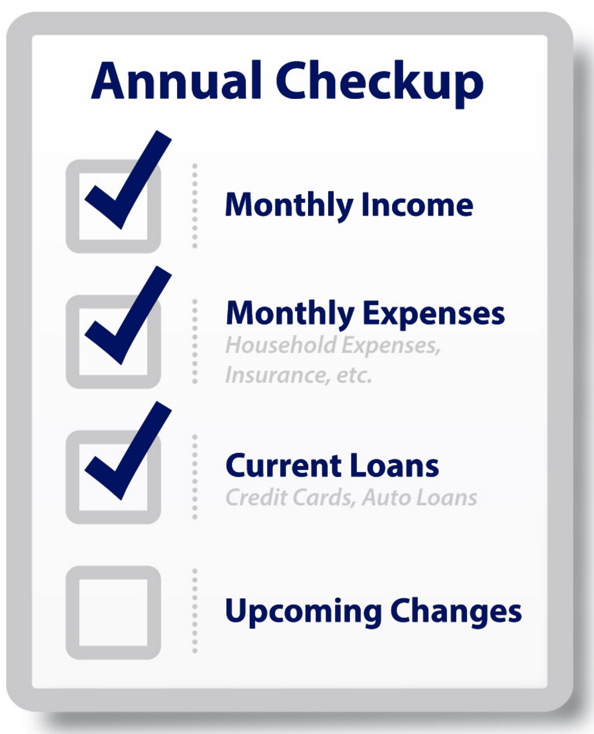
Build a 12-month liquid rainy day or emergency fund (via checking account, savings account or CDs).

Invest any leftover discretionary money into a highly diversified portfolio.

## Unlocking Earning Potential

The best mortgage loan originators are experts in the full spectrum of mortgages available today. A knowledgeable loan originator can help you find the perfect program based on your specific needs.

Moreover, your loan originator can provide an annual mortgage "checkup" to determine whether and when to refinance, or if there are any changes in your financial picture that would make it prudent to change any ways you are handling your money holistically.



# Decide Whether Equity Management Is Right for You

While equity management is a powerful financial strategy, it isn't suitable for everyone.

Creating the right investment plan has to be a tailored exercise. A trusted mortgage professional, investment professional and accountant should discuss your willingness to bear risk, your age, income level and any other investments you may currently own.

**There is no one-size-fits-all approach to equity management.**

But if done wisely, it may offer the best foundation for long-term financial well-being that most Americans will ever have.

# Equity Management

We hope you find this information useful. If you have any questions about putting equity management to work for you, please get in touch!

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