Extension News Column

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Our home is the most expensive purchase that most of us ever make. We need a home, and there are significant tax breaks associated with purchasing. So are there any savings to be had here?

There are savings to be had and they start at the purchase. If you are in the market for a new house, start by exploring your options. Check out competing rates by different banks, credit unions, and even on the internet. Find out what interest rates each offers and what kind of terms.

Know the type of mortgage you are interested in. Whether it is a 15 year or a 30 year mortgage makes a big difference in what you pay. Investigate the type of mortgage that works best for you. You'll have to look into your crystal ball to figure that one out.

Think about how long you will probably live in the house, what stage of life you are in (young marrieds need a different house from empty nesters), and what your income is. None of us know what the future will bring, but use your best guess here. Take some time to figure what will fit your life best. Empty nesters may opt for a 15 year mortgage to clear a note before retirement, while a young married couple may need the lower cost of a 30 year mortgage.

Know whether you are interested in a conventional or an Adjustable rate mortgage (ARM). Adjustable rate mortgages have gotten a black eye over the last few years, but they do make sense for some borrowers (and some economic conditions). So know what fits your position in life.

The rate you are offered has much to do with the type of mortgage, the payoff time, and your credit score. They lower the credit score, the higher your interest rate. Now would be a good time to check your credit score and repair any damage before you go to the bank.

If you've been paying on your note a few years as I have, there are still ways to save. Look at what you are paying for. Are you paying mortgage insurance? That may or may not be a good buy. Mortgage insurance will pay the balance of your mortgage if you should die. If you have paid off at least 20% of the original loan, you may be able to drop the mortgage insurance. This will save you money, but remember that you want to make sure that you have other insurance that will protect your investment.

If you are paying a higher interest, consider refinancing your loan. But run the figures before committing to a new loan. A lower interest rate will save you money, but don't forget to consider the cost of the refinance. A drop of 1 to 2% could make a considerable difference over the life of the loan. Remember that refinance will increase the payoff time as well.

My favorite way to save on my mortgage is to pay more. I pay additional money each money on the principle of my note. If you consider a $200,000 house at 6% for 30 years will mean a payment of approximately $1200 each month. By paying an additional $100 each month on this note, you will cut 6 1/2 years off the life of the loan and save $79,200.

Another way to decrease your payoff is to divide the payment in half and pay every two weeks. Many mortgage companies offer this option as a way to shave time off the payoff. By switching to a half payment twice a month, you can pay off your mortgage 4 years earlier and save thousands of dollars.

A house is your largest investment. Make sure you make your money count in paying for it.