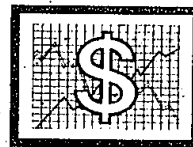


Business

Barry Jensen editor/591-2300



Thursday, January 20, 1984 O&E

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2nd mortgage can unlock cash in your home

In recent years, we have frequently discovered that our financial planning clients have substantial locked-up equity in their homes.

The situation is comparable to carrying a large balance in a non-interest-paying checking account. In many of these cases, borrowing against the equity in the home with a second mortgage can be the solution to the problem.

As a general rule, many homeowners shy away from the idea of a second mortgage, which would require the making of monthly payments to two lenders to retain ownership of one piece of property.

STILL, if your home is worth \$100,000, \$200,000, or more in today's



finances and you

Sid Mittra

market and has only a low-interest \$10,000 mortgage remaining on it, your equity is considerable.

A growing number of banks and financial services companies will give you cash for a large part (up to 75 percent) of that equity without providing collateral, or waiting weeks for approval.

Lenders who promote their loans as an easy way to obtain money for pur-

chases, expenses and investments may call this second mortgage a home equity loan or a junior loan.

BASICALLY, MORE people are seeing how sensible it is to take some of the cash value that built up in their homes over the last decade and put it to use. If you are paying off an 8-percent mortgage, adding a new one that carries an interest rate of 15 percent or

so can still leave you with an average rate of only about 10 percent. And the interest charges on the loan are deductible, so the net after-tax interest cost would be substantially lower than the 10-percent rate.

A second mortgage might involve several options, depending on regulations in Michigan and how eager local lenders are to give you money. You may be able to choose a lump-sum loan or a revolving line-of-credit arrangement that lets you draw out various amounts as you need the money.

A LUMP-SUM deal can carry a fixed rate of interest, probably for a maximum of 15 years, or you may be offered a variable-rate loan with pay-

ments over 25 or 30 years. Or the mortgage might call for monthly payments based on a 25-year schedule with a "balloon" requiring you to pay the balance in full after 10 or 15 years.

Typically, you will pay a point or two more for the second mortgage and get a shorter pay back period than if you were taking out a first mortgage. The reason is simple. A second lender assumes a higher risk.

If you default, the holder of the first mortgage gets the property to sell and recoup his loan; any excess proceeds go to the second lender.

So if you have substantial equity in your home, it is time for you to give second mortgage a serious thought.

SEMINAR: The Observer and Eccentric Newspapers and I will conduct our next financial planning seminar from 8-10 p.m. at the Michigan State University Management Education Center, Troy. Subjects may include: Budget analysis, children's education, tax shelter, stocks and bond investments, wills and trusts, financial independence, inflation problems, interest rates, mutual funds, and estate planning. The seminar is free, but registration is required. For more details, call 643-8888.

Sid Mittra is president of Coordinated Financial Planning, Inc., in Troy and a professor of management at Oakland University in Rochester.

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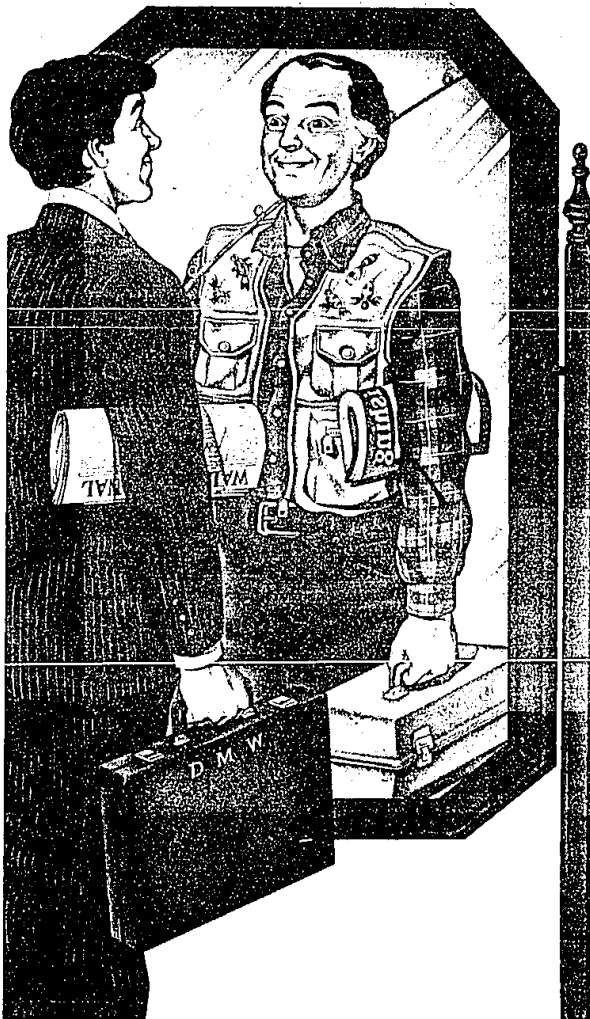
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