Are you paying out more in mortgage interest than you should be?
Practical Tips to Enhance Your Fin ancial Freedom From The Desk Of Joe & Bonnie Tufo

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Are you paying principal payments, which could, alternatively, go into earning assets? This is what Alan Greenspan was referring to when he questioned the way the average American homeowner finances his/her home. Specifically, he was talking about the opportunity costs associated with financing a home with a 30-year fixed rate mortgage, instead of using an adjustable rate mort gage ("ARM").

When was the last time you were asked how long you plan to own your home? You might be surprised to learn that the average life of a mortgage in America is less than 6-1/2 years. So, if you have a 30-year fixed rate mort gage and plan to sell or refinance in the near term, you're paying a lot in unnecessary interest. For example, the interest savings on a 5/1 ARM versus a 30-year fixed rate mort gage can be 1% or more. On a $300,000 mortgage, that 1% difference could save you $15,000 in interest expense over five years, money which could be put to use in your investment portfolio. And, the 5/1 ARM product can be acquired on an interest-only basis, reducing your cash outlay over the five-year fixed period of the ARM by thousands of dollars more.

The financial press often raises the specter of higher payments on an ARM after the fixed interest rate period expires. Of course, that can be true. But what they often fail to mention is that the savings on the ARM loan during the fixed rate period can be used to mitigate any increase in the rate in later years. And it's really irrelevant what happens to interest rates after the fixed rate period of an ARM if you are planning on selling the property or taking out equity through a refinance within the five-year fixed rate period.

Another point to consider regarding the attraction of an intermediate term ARM (those with fixed interest rate periods of 3, 5, 7, or 10 years) is that, very often, the fixed rate period will allow you to set a low rate for a time span that covers an interest rate cycle. So, when the fixed rate period expires, rates may be low or even lower than they were when the ARM was originally taken out.

The spread today between ARMs and fixed rate mortgages is wide and offers you an opportunity to look like a hero to your loved ones.

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