

Turning Smart Debt into Stupid Debt

There are many reasons why taking on a mortgage when buying a home is a smart decision. For most of us, it would be extremely difficult to save enough money to pay cash for our first home. Taking on a mortgage is our entry into homeownership, and entering into the housing market is one of most secure ways to hedge the effects of inflation.

If you stay in the home you buy for the rest of your life, the base of your housing costs will never again rise. And in 30 years, your housing costs will fall dramatically with no more mortgage. That's the way the generations before us did it. And even when they changed homes, it was often to a home of similar value.

But debt related to your home isn't always wise. Here are nine reasons your housing debt might be stupid:

1. You buy the absolute biggest home your broker tells you that you'll qualify for.
2. You use a home equity mortgage to pay off all your credit cards (thinking that's smart because then its tax deductible.)
3. You refinance your mortgage that you only had 14 years left on because the rates are so low now, but take on a 16 more years by making the new loan a 30 year loan.

4. You buy a home without putting 20% down, because you can, even though you know you shouldn't.

5. You don't look at what your new spending plan will be before you take out a mortgage; you just have a sense it will all work out.

6. You use a home equity mortgage to put in a swimming pool, rather than treating the expense as something to save for.

7. You make a hasty decision to jump into the housing market because if you don't, you fear you'll be "priced out of the housing market.

8. You use your home as collateral on an SBA loan for your startup business.

9. You buy a home when you know you're going to moving in less than two years. (zillow has a great resource for this that we should include...how long it takes in each city for buying to be better than renting.)

As with making smart buying decisions, be sure you're making good borrowing decisions. Choose a mortgage broker that is concerned about your overall financial health. Check in with your financial planner. Take a hard look at how your new mortgage will impact your financial future.