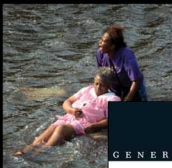


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GENERATIONS

Why Refi?

Taking equity out of your house can be a good move—but not always

By SALLY S. STICH

AFTER LIVING IN THEIR two-story, Mediterranean-style house in Orange County, Calif., for almost 18 years, Norm Bour, 51, and his wife Peggy, 57, are refinancing for the fourth time. Not only will they lower their house payments by \$200, but the Bours will also tap into their equity to the tune of \$135,000 to redo their wood floors, pay for Norm's Lexus (now that the lease is up) and pay off their time share in Maui. Their latest loan: a 30-year, \$350,000 adjustable-rate mortgage (ARM) for a home valued at slightly less than \$1 million.

Unlike most people in earlier generations, the Bours view the equity in their home as a smart source of cash for the lifestyle they intend to maintain. And they are far from alone. In 2004, Americans took almost \$400 billion in cash out of their homes in refinancing and home-equity loans, says David Le-reach, chief economist for the National Association of Realtors. People ages 45 to 59 are the most likely to refinance, according to Demos, a nonprofit public-policy organization in New York City. Is refinancing so close to retirement a smart financial move?

The answer depends on several factors, not least of which is the reason for doing it. **If refinancing reduces your monthly payments and frees**

money you can apply toward principal, thereby getting the house paid off faster, that makes sense, says Mark Brown, a certified financial planner and partner in Brown & Tedstrom Inc. in Denver. It also depends on your time horizon. Planning to stay in your house 10 years or more? Then taking the extra cash from refinancing and investing it in something that has a higher rate of return can really bolster your retirement portfolio.

That said, experts agree, you should "refi smart" by locking in the best rate for the time period you plan to live in the house. "Because your income will probably drop in retirement, don't be seduced by an ARM unless you'll be selling before the rates go up and your income goes down," says Brown. People who fail to factor in closing costs are making an expensive mistake. Smaller monthly payments may look sweet, but if you won't be in the house long enough to recoup those fees, you probably shouldn't be refinancing.

Where many boomers—as well as many Americans in general—are getting into trouble is in using their home as their personal ATM. "We're seeing more people get new mortgages in order to consolidate debt or buy a new car, for example," says Jim Nabors, president of the National Association of Mortgage Brokers. How do they intend to build equity? They are counting on escalating

home values—not a smart plan.

The real estate bubble will eventually burst, says Cary Silvers, vice president of New York City-based GJK NOP, a market-research company that in 2004 gathered information on boomers' attitudes toward refinancing. He predicts that there will be a great boomer sell-off in about 15 years and that the market will be glutted. If you need cash from your house for your golden years, it's better to sell now and downsize, applying the appreciation toward boosting your nest egg.

Ideally, refinancing makes sense only if you use the extra cash to add security rather than risk to your retirement assets. In a less happy scenario, it may also make sense if your other debts are so out of control that consolidating them into one lower-interest loan is the only way to crawl out from under. But, financial planners warn, if you're using your home to reduce debt, don't rack up more debt once everything is paid off.

For Norm Bour, the most recent refinancing with cash back has not only cut his monthly mortgage payments but also allowed him to trim the interest rate on three other loans, freeing a total of \$1,500 a month. He intends to put that \$1,500 toward principal, paying off his house by the time he's 62. "It's about having a plan," he says, "and with that comes peace of mind." ■

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