Unlocking HOMEOWNERSHIP

PLANNING FOR THE FUTURE

Owning a home is a long-term asset. Over time, you could gain significant equity in your home. Equity is the difference between the current amount you owe on your mortgage and what your home is worth. When you sell your home, your home equity is realized (or becomes real) and contributes to your wealth.

However, just like we develop habits to improve our health, we should also develop habits to improve and build our wealth. Developing these habits now will protect you and your family financially. The decisions you make now will have an impact on the legacy you leave behind.

Reduce Homeowner Expenses

As a homeowner, you know there are many necessary expenses, like property taxes, homeowner's insurance or maintenance expenses, to factor into your budget. Most of these expenses are unavoidable, but you can work to reduce these expenses whenever possible.

- **Property Tax Exemptions.** You might be able to lower or eliminate your property tax bill if you are a veteran, senior citizen or have a disability. Most homeowners using their home as their primary residence will qualify for a homestead exemption, reducing the amount owed in property taxes.
- **Homeowner's Insurance.** You might consider raising your deductible or finding ways to make your home more secure. Consider shopping around for insurance providers that offer lower rates.
- **Home Maintenance.** Regular maintenance on your home could save you money in the long run by avoiding expensive repairs and replacements.
- **Energy Expenses.** You can also save money on energy expenses by finding ways to "go green" within your home, like switching incandescent bulbs out for CFL bulbs.

Grow Your Savings

Having ample savings will improve your overall financial status and is a critical step to building wealth. It will allow you to handle emergencies and help you reach your goals. As a homeowner, it is important to be financially prepared for the unexpected to protect your home in an emergency.

Develop a financial plan to determine how much you can save each month and pay yourself first! Starting off small and saving a little at a time is okay. You can always increase the amount you are saving when possible. Stay consistent and build the habit of saving something each month.

Once you have developed good saving habits, the next step is learning how to earn interest on the money you are saving by investing it or keeping your money in interest-bearing — the money that a financial institution pays you for placing your money with them — accounts.

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These financial tools allow you to earn more interest:

- **Short-term Goals**
  - **Certificate of Deposit (CD).** This savings account offers a higher interest rate, and it is a fixed rate (unlike High-Yield Savings or Money Market Accounts), which means the rate will stay the same for a set period, known as a term. Standard CD terms start at three months and go up to five years. If you withdraw money from the account before the end of the term, also known as the maturity date, you will likely pay a penalty. Longer-term CDs, four-year and longer terms, usually offer higher interest rates. These make great options for short-term or long-term saving goals. These accounts are also FDIC-insured.
  - **High-Yield Interest Savings Accounts.** These differ slightly from a traditional savings account because they offer higher Annual Percentage Yields (APYs) than traditional savings accounts. Since the APYs are usually variable and can change at any time, these accounts are usually best for short-term saving goals or use as an emergency fund. These accounts aren't designed for your regular banking needs, so you are limited to six withdrawals monthly. However, you can access your savings without penalty when you are ready to withdraw it. A minimum deposit might be needed to begin earning interest, and monthly fees may be associated with this type of account. These accounts are typically FDIC-insured, but always verify this so you can invest your money safely.
  - **Money Market Deposit Accounts.** These accounts are closely related to High-Yield Savings Accounts with their variable interest rates and a limited number of withdrawals permitted per month. These accounts also typically offer a higher APY and are FDIC-insured. The difference is that a money market account allows you to write checks on the account, while high-yield account withdrawals are typically done electronically with ATM cards or via a branch visit.
  - **Treasury Bonds.** Treasury bonds are the longest-term U.S. debt security with either 20 or 30-year maturities. Also known as T-bonds, Treasury bonds pay a fixed rate of interest every six months. While Treasury bonds could yield lower returns on average than a higher-growth investment such as stocks, T-bonds offer stability and liquidity. In other words, their returns are more reliable and can help cushion the effects of stocks in your portfolio. And in a pinch, they're easy to sell and turn into cash.
  - **U.S. Savings Bonds.** When you purchase a U.S. Savings Bond, you effectively lend money to the U.S. Government, promising they will pay you back, plus interest once the bond matures. Though the interest rates are not as high as some other investment options, this is a safer way to invest your money because the U.S. Government backs it. These are typically considered long-term investments since the interest-earning term is 30 years, though you may withdraw penalty-free after five years. There are two different types of bonds, and each earns interest differently.
    - The Series EE bond guarantees a return of double the value if you keep it for 20 years.
    - A Series I bond has a fixed rate adjusted for inflation twice a year, which protects your money from inflation (the rising price of goods and services).

- **Long-term Goals**
  - **Retirement Accounts (401K, IRA, etc.)** Many retirement account options exist, and some, like 401Ks, are offered by employers. With these retirement accounts, the employee will contribute a percentage of their salary, and the employer could match that contribution. Whether offered by an employer or opened by you, these accounts all serve a similar purpose. They are investment accounts that allow you to save for retirement and have tax benefits. This means the amount you contribute annually to your retirement account is deducted from your income; thus, you are not taxed on the contributed amount. Most retirement accounts do not allow you to withdraw before age 59.5 and will penalize you a great deal (about 10%) if you decide to do so. Once you reach a certain age (usually in your early 70s), you must withdraw a minimum amount from your account each year.
  - **Individual Retirement Accounts (IRAs).** These accounts are typically opened by an individual instead of an employer. IRAs typically have a lower maximum contribution amount, meaning you can't invest as much into it each year as you can with a 401K. Still, some IRAs, such as Roth IRAs, will offer tax-free withdrawals in retirement. 401K accounts are not FDIC-insured, but certain IRAs are. Any mutual funds, EFTs or individual stocks are also not protected. You will bear all the risk if the securities lose value, even if the account is established and trades were placed through an FDIC-insured institution.