

WOMEN & MONEY

Stash it, don't cash it

BY SUZE ORMAN

Special To Florida Weekly



By now you've heard that the latest economic stimulus package has passed both houses of Congress and was signed by President Bush. The rebate you're about to get should be saved, not spent. It should be used to pay down debt and build up an emergency savings account. What you need to focus on is not what your government wants you to do for the national economy, but what you can do for your personal financial security. Help yourself first.

If you listen to Washington and spend the rebate, and we still slide into a recession and you get laid off, don't count on extended unemployment benefits to help you weather the storm -- that provision didn't make it into the stimulus package.

Use your rebate to build your finances. If you've got credit card debt, this is your chance to put a big dent into that unpaid balance. Right now, the stock market is taking us all on a roller coaster ride, but if you pay off a credit card balance that's charging you 18 percent interest, you give yourself a guaranteed 18 percent return on your money. Even when stocks are on a bull run, it's hard to get that kind of a return.

Sock it away

Next up is an emergency cash fund. Seriously, if you haven't paid attention to this advice in the past, pay attention now. A weak economy and a volatile stock market make it all the more important to have some money socked away in a risk-free account.

Of course, with the Fed's rate cuts, interest rates on savings accounts are slipping. At the same time, however, banks are so starved for deposits that they're doing all they can to offer strong rates.

If you're convinced rates are going to be coming down even more, consider putting a portion of your savings in a six- or 12-month CD.

Make it work

If you already have an emergency cash fund in place and you don't have credit card debt, you still shouldn't spend the rebate. Invest it for the long term and you can easily increase the value of your rebate fivefold.

For instance, say you're married and have three children: If you meet the income cut-offs, you could be in line for a \$2,100 rebate, according to the stimulus plan. Invest that \$2,100 in a Roth IRA and in 35 years it'll be worth about \$34,000 — assuming an annualized average 8 percent return.

A jumbo change

Right now, mortgages for more than \$417,000 are considered to be jumbo loans.

The major government agencies that "guarantee" mortgages aren't allowed to touch loans over this threshold. That's had a chilling effect on mortgages amid the subprime fallout. Banks are finding it hard if not impossible to find anyone willing to buy jumbo mortgages in the secondary market.

But jumbos are about to get a lot cheaper sometime this month: Washington's package includes raising the amounts that qualify as conforming, non-jumbo loans. Fannie Mae and Freddie Mac could see their loan limits for 2008 raised to a maximum of \$729,750 in high-cost metro areas. Once the stimulus bill is in effect, plenty of people paying an expensive jumbo will be able to refinance at a lower rate.

But just because you can get a lower rate doesn't mean it'll automatically save you money in the long term.

Refinance rumples

What people never seem to focus on is what it will cost to refinance. First, you may be hit with fees that can easily add up to 2 percent or more of your mortgage amount. Even if those costs are rolled into a new mortgage, you're still paying for it -- and paying interest on it, too.

If you intend to stay put in the house for a few years, your monthly savings will eventually offset the cost of the refinance. Find out how long you need to stay in your house for the monthly savings of a refinance to offset what you pay in fees. And carefully read the fine print in your existing mortgage to find out if you're going to be hit with a prepayment penalty -- these fees became all too popular during the housing mania.

Timing is everything

The other big mistake people make is refinancing into a new 30-year mortgage even though they're already five, 10 or 20 years into paying off their existing mortgage. Even though you're paying a lower interest rate on the refinance, there's a good chance your total interest payments from what you've already paid on the existing loan and what you'll pay on the refinance loan will add up to a lot more than if you just stuck with the original mortgage.

Aim to refinance into a mortgage term that will keep your total payment period to 30 years or less. For example, if you've paid off five years of your existing mortgage, try to refinance into a 25-year mortgage, not a 30-year one. ■

— *Suze Orman is a best-selling author and Emmy award-winning TV host whose new book, "Women and Money," was published in March 2007. For details, please visit www.suzeorman.com.*

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