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Tips for Reducing Your Mortgage Debt

As the mortgage market continues to deteriorate in the current housing slump, many people are finding their mortgage payments more and more suffocating. It is no secret that foreclosure rates have skyrocketed during the past year, especially among subprime or poor credit borrowers. The spike has been a result of the many people who got into more expensive loans than they could afford, and others who jumped into adjustable rate mortgages they did not understand. If your mortgage is putting a stranglehold on your finances, or if you are looking to get into an affordable mortgage, consider the following suggestions.

Rework Your Financial Thinking
Reducing your mortgage burden involves changing your overall financial mindset. Americans by and large have a “buy now, pay later” way of thinking. In fact, during the years 2005 and 2006, the Commerce Department reported that Americans on the whole spent more then they earned. There seems to be a consensus that it is okay to mortgage the future to enjoy all the pleasures of today. While there is really no escaping the hefty debt of a mortgage if you want to be a homeowner, waiting and saving for other purchases can make mortgage debt more manageable. Mortgage lenders often use the 28/36 ratio to determine how much debt you should be carrying. Only 28 percent of your monthly salary should go toward your housing costs, while your total debt obligations, including mortgage payments, should not exceed 36 percent of your monthly income.

Take a look at the things you are currently paying for on credit. If it is a choice between keeping your house or those other things, like the new car, the big screen TV, etc., which would you choose? Often delaying some of your wants will free up the cash you need to more easily afford your mortgage.

Cut Down Your Mortgage Interest
So much of your monthly mortgage payment goes toward interest charges. While you cannot decrease the amount of principal required, you can reduce the amount of interest you have to pay. If you have the extra funds available each month, you could refinance into a shorter loan, say a 15 or 20-year fixed rate loan. This would raise your monthly payments but it would save you thousands of dollars in interest over the long run of your loan.

If you don’t have quite that much on hand, you could consider making an extra mortgage payment at least once a year. This will also help you cut out some of the interest charges and you won’t have to pay closing costs for the refinance.

Choose a Home Equity Loan over a Line of Credit
If absolutely do need more financial funds and you have equity built up in your home, consider going with a home equity loan rather than a home equity line of credit (HELOC.) Because of the stressed market conditions, home equity loans carry rates lower than HELOCs today, so you will pay less interest with an equity loan. Plus an equity loan gives you a lump sum with a predictable repayment schedule. A HELOC allows you to draw money as needed for a certain period of time, and it may tempt you to borrow more than you actually need.