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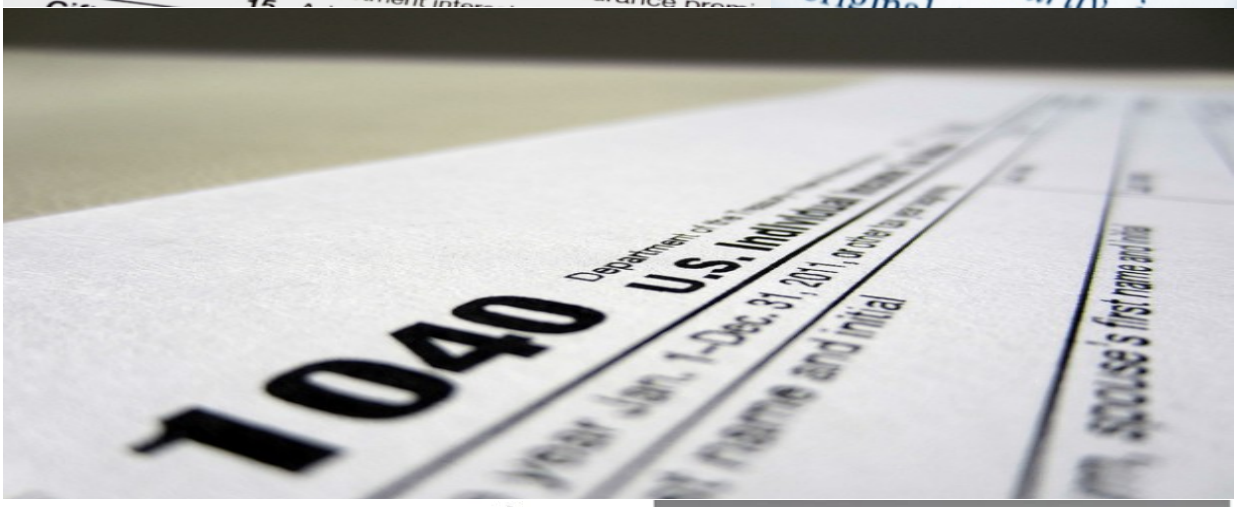
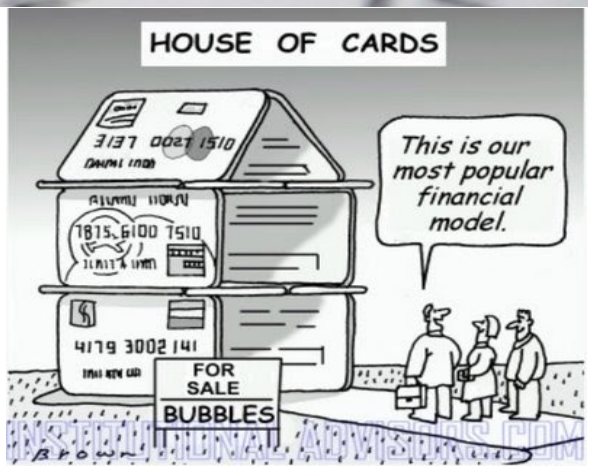
The Doctrine of Religiosity: Objective Standard

Refinancing a Home Mortgage to Pay off Debt





The Doctrine of Religiosity: Objective Standard

Refinancing a Mortgage to Pay off Debt – The Doctrine of Religiosity: Objective Standard

Refinancing a mortgage in order to pay off debt is a common strategy. Many homeowners use the equity in their homes to pay down other debts. This can be a smart move, but it also can be a financial disaster if done incorrectly or without discipline. The homeowner needs to be aware of the risks and understand the pros and cons of consolidating debt with a mortgage refinance.

Pros

There are some good points to paying off other debt by refinancing a mortgage. One is that usually a mortgage has a lower interest rate than other debt. If you have a car loan or credit card debt, the interest rates could easily be twice that of your mortgage rate. By refinancing and consolidating debt, you will see immediate monthly savings in your payments. Another pro is that you will eliminate multiple bills. It can be confusing trying to pay several credit cards and car loans that are all due on a different day of the month. If you consolidate, you will need to pay only one bill every month, which is your mortgage. **One of the biggest pros is the tax benefit. Mortgage interest is tax deductible.** So are certain fees involved with the closing, like prepaid points. *By consolidating your debt, you are taking mounds of debt that are not tax deductible and rolling them into a debt that is tax deductible.* **You will see significant savings in your tax returns**, especially if you have a large amount of debt.

Cons

There are cons to refinancing your mortgage in order to pay off debt. One is the possibility of overspending. If you have large amounts of credit card debt because of buying things you can't afford, then you will likely pay the cards off in the refinance and charge them back up down the road. You will feel that you are no longer in debt, when in reality, you just transferred the debt to another loan. So you must have discipline in order to prevent this situation. Another downside to consolidating your debt is that you are spreading the debt out over 30 years. A typical mortgage is 30 years long, and when you add that debt to your mortgage, you will be paying those credit cards for 30 years to come. This means that in the end, you will have paid more than if you paid each credit card on its own. And lastly, a big negative to consolidating debt into a mortgage is the possibility of a foreclosure. If you increase your loan amount, you may be unable to afford the new payment. You have now tied your debt to your home, which could have a bad outcome in the future. http://www.mortgage101.com/article/refinancing-a-mortgage-to-pay-off-debt

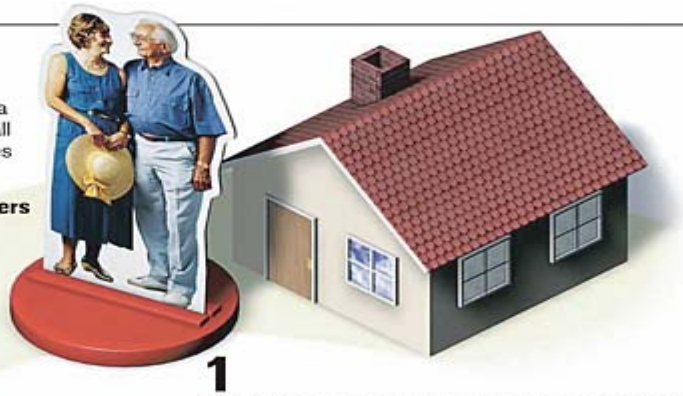
Religiosity, in its broadest sense, is a comprehensive sociological term used to refer to the numerous aspects of religious activity, dedication, and belief (religious doctrine). Another term that would work equally well, though less often used, is *religiousness*.

In its narrowest sense, religiosity deals more with how religious a person is, and less with how a person is religious (in practicing certain rituals, retelling certain stories, revering certain symbols, or accepting certain doctrines about deities and afterlife).

Numerous studies have explored the different components of human religiosity (Brink, 1993; Hill & Hood 1999). What most have found is that there are multiple dimensions (they often employ factor analysis). For instance, Cornwall, Albrecht, Cunningham and Pitcher (1986) identify six dimensions of religiosity based on the understanding that there are at least three components to religious behavior: knowing (cognition in the mind), feeling (affect to the spirit), and doing (behavior of the body). http://en.wikipedia.org/wiki/Religiosity

Securitization

At the heart of the cheap credit binge was a process known as securitization, where Wall Street began to buy up subprime mortgages and package them as mortgage-backed securities to sell to investors.



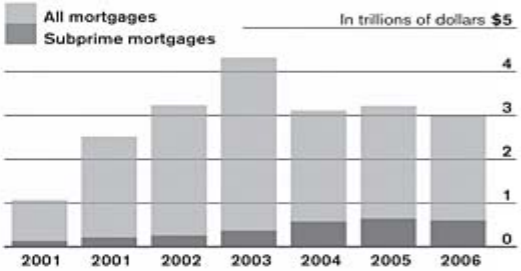
1

Borrowers, many first-time homebuyers or individuals wanting to refinance, turned to subprime loans.

2

More **mortgage brokers** jumped into the subprime business, many of them earning six-figure incomes on high fees paid for by homeowners' subprime loans.

New mortgage loans by year



3

Big companies offering subprime mortgages solicited loans nationwide using Wall Street money. After making a home loan, they quickly sold it to packagers, such as investment banks, for more profits.

4

Wall Street investment banks began pooling risky, subprime loans that did not meet the standards of government-sponsored agencies such as Fannie Mae and sold them as "private label" securities.

Pool of subprime loans

Structured finance

A financial innovation called structured finance provided Wall Street a way to divide subprime mortgage-backed securities into tranches (French for slices.) The tranches allowed the risk of a loan pool to be parceled out to various investors. Investors who purchased bonds in the securities received a portion of the mortgage payments in the pool.

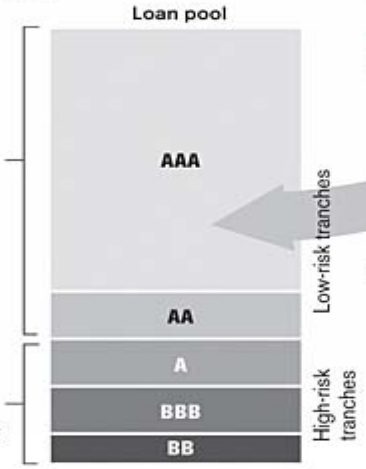
Rating agency

5

Rating agencies such as Standard & Poor's helped investment banks structure the mortgage-backed securities to get the best possible bond ratings, earning healthy fees in the process, and making them attractive to investors, including mutual and pension funds.

Top-level tranches contain the highest-quality, but lowest-paying, bonds. Even though a mortgage-backed security may be funded from a pool containing subprime loans, the top tranches can have investment-grade status of triple-A rated bonds because they are paid first from the pool.

The lowest-level tranches contain the riskiest, highest-paying bonds. They get a low rating and are paid off after the double- and triple-A rated bonds are paid.



Mortgage-backed security

Investor

6

Investors worldwide gobbled up the securities.

Sources: Mortgage Bankers Association; HSH Associates; Federal Housing Finance Board; LoanPerformance, a First American Co.

The Denver Post