

# VALLEY BAY MORTGAGE

OCTOBER 2004

NEWSLETTER

It's fall again and the start of another school year. For many of you, that means thinking ahead toward college and financing your children's education. Now is a great time to take a look at your family's entire financial picture, including your home equity and other investments, and how that may affect your financial aid picture.

## **General Financial Aid Strategies**

In general, it's never too early to start planning; when you apply for financial aid, colleges will look at the previous year's tax return. Generally, colleges will weigh the student's assets more heavily than the parents', so be careful about what assets are in your child's name. Also, be aware that most colleges won't consider your retirement savings, home equity (see important caveats below), or non-liquid assets such as automobiles when determining financial aid.

Some strategies for maximizing financial aid potential are:

- Pay down the mortgage, credit cards and other debt
- Purchase those big-ticket items you've been planning on before trying to qualify for aid
- Convert debt to a form that will benefit you in the federal methodology; e.g., home equity and mortgage loans
- Prepay self-employment taxes immediately before applying for aid

## **Home Equity and Financial Aid**

Families are generally expected to put 5% of home equity toward tuition; however, many schools cap the home's value at 2.4 times the household's income. For example, the parents' home may be worth \$1,000,000, but if the parents' combined income is \$100,000, the home value is capped at \$240,000.

No matter how you approach financing college, be sure to have at least 6 months' liquid assets to cover unexpected medical expenses, job layoffs, etc. If you are currently employed, you might want to think about opening a home equity line of credit now, even though you might not tap into it immediately; qualifying with a job is obviously a lot easier than qualifying when you're unemployed. Valley Bay offers no-cost home equity lines of credit and loans if you're interested!

## **Savings Are Priority Above All Else**

Remember that a large part of financial aid may be in the form of student loans, so you should make college savings a priority no matter what. When planning your college savings:

- UGMA and UTMA accounts put assets in the child's name and should be avoided
- Coverdells are treated as parental assets and can also be used toward private elementary or high school; these plans are especially favorable for parents of younger children
- 529 plans are a good bet for parents whose kids will use most of the funds before 2011, or wealthy parents/grandparents who plan to make large lump-sum contributions

Be sure to consult your financial and/or tax advisor regarding your college savings strategies; laws and rules change frequently.

## **Financial Aid Resources**

<http://www.ed.gov/finaid/landing.jhtml?src=ln>

<http://www.fafsa.ed.gov/>

<http://www.finaid.org/>

<http://fastweb.monster.com/>

## **Call or Email for More Information**

If you are thinking about pulling equity from your home or buying a new home, please call 877-861-9514 or email us at [info@valleybay.com](mailto:info@valleybay.com). We'll be happy to provide you with free, detailed quotes that will help you shop for the best rates and programs.

We're more than just mortgage brokers - we're committed to helping improve your family's financial outlook. Give us a call.



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