

I Can Pay Cash – Why Finance?

Written by Gayle Machetta – Vice President, Loans

Summer, 2015

This week brought an unusual question from a customer about why he should bother to finance a house if he can pay cash. I must admit, it's not a common question, but one I think we might see as some folks in the baby boom generation start downsizing to accommodate different lifestyles.

If someone is fortunate enough to have acquired a good deal of equity in a home, or even be free of a mortgage at the time they sell one residence and start to purchase another, the temptation to simply write a check would be a logical one to make. I hope to be in a similar position by the time I'm ready to retire so that my savings supports a comfortable lifestyle.

The reality is that folks in the position of some wealth may want to consider a mortgage on their home. If one has been able to comfortably retire debt and live within their means, they may not have used credit in recent years. I have a few customers who literally have no reported credit or credit score when we pull a report from the bureau because they've paid cash for nearly everything they've purchased in recent history.

I can understand not wanting to pay interest and therefore not using even a credit card if the money is in the bank and you could simply swipe a debit card or write a check for your purchase of goods and services. However, in the current economy, credit is a necessity – even if you are capable of paying cash.

Many providers of utility services, insurance, and medical services, to name a few, pull a credit bureau report with new applications for service, even on long-term customer relationships. It's part of the process these days, and those reports yield a score, which we'll cover in more detail in future blogs. So if that score or the report doesn't indicate that the applicant is a credit-worthy risk, you can probably still obtain the service, but at a much higher cost or with a deposit until such time as your history with that provider is established.

One recent customer couldn't believe they wouldn't install a security system in his home without a large deposit because he had no recent credit, thus no score, and has paid cash for everything in the last ten years. His bank account had a healthy five-figure average balance with never an insufficient item and he offered to set up the payment through an automatic bank draft. He was able to obtain the service, but had to post a substantial deposit and secure a reference letter from the bank to do so.

An additional advantage to financing a home purchase is that your cash from the equity in your home may be invested or saved for other future expenses. If you're able to comfortably handle a payment and not sacrifice your lifestyle, it might pay to do so for a year or so, just to help re-establish credit if you've not had to use it in the recent past.

It's just another sign of the changing times – not necessarily a good one. “But those times, they are a changin'”and weren't we the generation that started that whole thing in the first place... So you can pay cash, and maybe you should, but you might want to discuss it with your banker and consider financing that home after all.