

MORTGAGE advisor™

● ISSUE 5



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10 Great Reasons to Carry a Big Long-Term Mortgage

By Ric Edelman, NY Times Best Selling Author of "Ordinary People, Extraordinary Wealth"

I know you don't want a mortgage. What you want is a house, but to get it, you must obtain a mortgage. If you're like most folks, you hate your mortgage and you'd love to get rid of it as soon as possible. You grimace at every monthly payment and you know that, over 30 years, you'll pay more in interest than you paid to buy the house in the first place. Your parents taught you that you should never have a mortgage and the key to the American Dream is to own your home outright.

Yet, a Big 30-Year Mortgage Is Best

Although your parents' advice once made sense, today it is completely wrong. In today's economic environment, a big, 30-year mortgage is the best thing you can have. (Now, don't confuse the idea of a big mortgage with that of owning a big house; I am not endorsing the idea of buying as expensive a house as you possibly can. Instead, you should buy the least expensive home

that paying off the mortgage early will save you huge amounts in interest charges. Although that's true, you need to turn that coin over, because there's another side you have overlooked. To help you understand why paying off the mortgage is a bad idea, let's explore my Ten Great Reasons Why You Should Carry a Big, Long Mortgage.

Reason #1: Your mortgage doesn't affect your home's value.

You're buying your home because you think it will rise in value over time (Admit it: If you were certain it would fall in value, you wouldn't buy it – you'd rent instead). Yet, the eventual rise (or fall) in value will occur whether you have a mortgage or not. So, go ahead and get a mortgage: Your house's value will be unaffected.

Reason #2: You're going to build equity anyway.

Many homeowners try to build equity in their house by paying off the mortgage. But that produces weak results when compared to the equity you'll build simply by watching the house appreciate in value. So go ahead – keep the mortgage. You'll build plenty of equity anyway.

Reason #3: A mortgage is cheap money.

There's no way you can avoid debt in today's society. Cars and college – let alone big screen televisions – virtually require you to have loans. And you'll find that mortgages offer you perhaps the cheapest way to borrow.

Reason #4: Mortgage interest is tax-deductible.

Not only are mortgage loans low cost, the interest you pay is tax-deductible. You can save as much as 35 cents in taxes for every dollar you pay in interest. That means a 6 percent mortgage loan really costs as little as 3.9 percent. Why carry non-tax deductible 18 percent credit cards, when you can instead carry a six-percent mortgage with interest that is tax-deductible? Your mortgage is probably the cheapest money you can borrow, so it makes sense to get as much of it as you can.

Reason #5: Mortgage interest is tax-favorable.

Assume you have both a 6 percent mortgage and

Would you rather invest

\$250,000

or

\$1,664 ?

per month

	Smart Sam	Nervous Nick
Monthly payment:	\$1,580	\$1,770
Interest portion:	88%	64%
After-tax cost:	\$1,234	\$1,489

Sam's payment is \$255 less per month than Nick's

you are willing to own — and then borrow as much as you can, and for as long as you can.)

So: Never pay off the mortgage. Reject 15-year loans, never make extra payments and forget about those bi-weekly mortgage payment plans.

Before you dismiss all this, read on — because I'm about to show you how your mortgage can help you make incredible amounts of money. You know

a 6 percent profit on your investments. The mortgage is deductible at your top tax bracket, but the investments are taxed as low as 15 percent. For someone in the 25 percent tax bracket, that means the mortgage costs them 4.5 percent while the investment nets them 5.1 percent after taxes. In other words, tax law makes it beneficial for you to maintain your mortgage.

Reason #6: Mortgage payments get easier over time.

You might be struggling to make your mortgage payment at first, but over time you can expect your payments to become cheaper relative to your income – especially if yours is a fixed-rate loan. That way, your payment never rises, but your income does.

Reason #7: Mortgages let you sell without selling.

In time, you may well find that your home has grown substantially in value and you may worry that you might lose that equity if there's a decline in real estate values. You don't want to sell the house, which is the obvious way you can capture the value, but there is another answer: get a new, larger mortgage. By cashing out some of the equity, you essentially collect the value of the house in cash without actually having to sell the house.

Reason #8: Large mortgages let you invest more money more quickly.

Assume you own a house and want to buy a larger home. So, you sell your old house and net \$300,000. Now you're ready to purchase a new, \$500,000 home. How much should you put down? Should you make a 10 percent down payment of \$50,000? Or should you put down the entire \$300,000 proceeds from the sale of the old house?

Big mortgages mean small down payments. Small down payments mean you retain lots of cash that you can then invest.

Small mortgages are the opposite: Small mortgages require big down payments, which leave you with little to no cash left over for investing.

In the above example, the \$50,000 down payment (assuming a 7 percent mortgage rate), produces a monthly payment of \$2,994, while the \$300,000 down payment results in a monthly payment of \$1,330.

So, the small down payment lets you invest \$250,000 right now, while the big down payment costs \$1,664 less per month. That's money you can invest monthly.

So which would you rather do: Invest

\$250,000 today, or invest \$1,664 per-month for 30 years?

Without question, investing the larger lump-sum today produces far greater wealth than investing a small amount over long periods. Assuming both investments earn 6 percent, the account that started with \$250,000 will be worth \$265,419 in just 1 year, while the account that invested \$1,664 monthly would be worth only \$20,526. After 15 years, the lump-sum investor has \$613,523 -- \$129,601 more than the monthly investor. Clearly, the bigger mortgage leads to far greater wealth!

Reason #9: Long-term mortgages let you create more wealth.

Do you merely want to eliminate your debt, or do you want to truly build wealth? Please realize that the former does not automatically result in the latter. Indeed, many people who are debt-free are also dead broke.

So, the real goal is to create wealth. You do that by adding as much money as you can to your savings and investments. And the best way to do that is to lower your monthly expenses. That's why long-term loans are better than shorter-term loans: The longer the term, the lower your monthly payment. And the lower the payment, the more money you have left over that you can place into investments.

Reason #10: Mortgages give you greater liquidity and greater flexibility.

Let's look at Sam and Nick. They both earn \$75,000 a year. Both have \$50,000 in cash. Both buy a \$250,000 house. Nick wants to minimize his mortgage, so he uses his \$50,000 in savings as a down payment and he opts for a 15-year loan at 6.75 percent. His monthly payment is \$1,770 — but only 64 percent of that payment is tax-deductible interest; the rest is principal. Therefore, Nick's net after-tax cost for his mortgage is \$1,489. And to pay off his mortgage even quicker, Nick sends in an extra \$100 with every payment. Of course, these payments are devoted entirely to principal, and therefore provide no tax deduction.

Nick's decision to send extra payments to his lender is a critical point. You see, every time you send extra money to your mortgage company, you deny yourself the opportunity to invest that money elsewhere.

Sam understands this, and therefore, he obtains a 30-year mortgage at 7 percent (a bit

higher than Nick's rate). He puts down just \$12,500 and finances the rest. Even though Sam's mortgage balance is bigger than Nick's (\$237,500 compared to \$200,000), his monthly payment is lower (because it's a longer term). That's not all. A full 88 percent of Sam's payment is interest, meaning that Sam's after-tax cost is just \$1,234 a month — \$255 less than what Nick has to pay! Sam invests this savings of \$255 each month for five years, earning 8 percent after taxes per year. And, instead of sending an extra \$100 a month to his mortgage company, as Nick does, Sam adds it to his savings.

Over five years, Sam has about \$79,000 in savings and investments. Nick, however, has no cash whatsoever, because he's placed every available dollar into mortgage payments. So, when both men suddenly find themselves out of work, Sam is in excellent financial condition, but Nick is in real trouble. He has no savings to tide him over and he can't gain access to the \$100,000 worth of equity that's in his house because the bank turned down his loan application since he was out of work. Indeed, Nick has fallen victim to the biggest misconception in real estate: A mortgage is not a loan against the house; it's a loan against *your income*. Without an income, you cannot obtain a loan.

If Nick doesn't get a job real soon, he'll lose his house. How ironic! Nick, who never wanted a mortgage in the first place and did everything he could to eliminate his mortgage as quickly as possible, is now in serious financial jeopardy! Sam, though, is in much better shape. With \$79,000 in savings, he's easily able to make his payments each month. In fact, he can make mortgage payments for four years, giving himself plenty of time to find a new job!

And that's really my point. When you have a mortgage, you are required to make only that month's payment.

Okay, you're convinced. You agree that a big, long mortgage is best. But how do you act on this advice? It's simple. Go get a new mortgage! Either refinance, replacing your current loan with a new, bigger mortgage or get a second mortgage to supplement your existing loan. Which is best? It depends on whether you can get a new loan with better terms than your current loan. Talk to a Mortgage Planner to find out.

So, what are you waiting for? Get a big, long-term mortgage today! ■



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To arrange a mortgage planning consultation on strategies discussed in this article, please give me a call.