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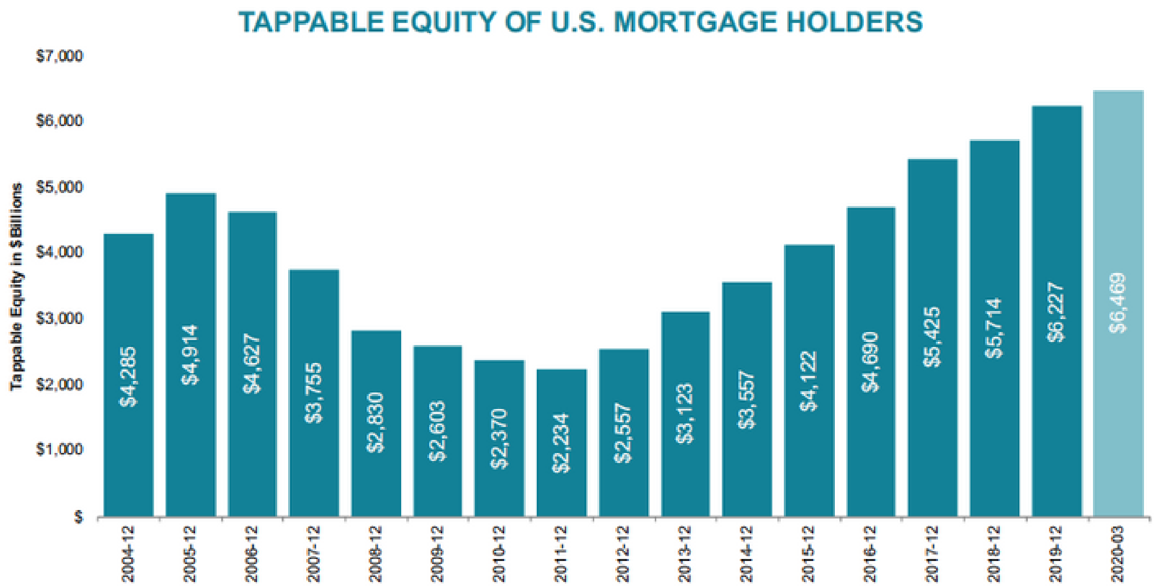
THE QUARTERLY ADVISOR

Aligning Financial Goals with Mortgage Strategies

Market Fact:

Tappable Equity: The amount available to homeowners with mortgages to borrow against before reaching a maximum combined Loan-To-Value ration of 80% - rose 8% annually in Q1 2020 to an all-time high of $6.5 trillion

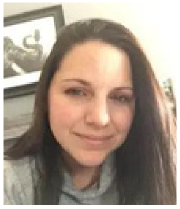
-Black Knight



Tappable Equity: Equity available on all residential properties with an existing mortgage before reaching a current CLTV of 80%

It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for. – Robert Kiyosaki

Team Member Spotlight



As the Loan Coordinator for Team Swanson, Morgan's responsibility is to prepare our client's file by gathering and reviewing all documents necessary for underwriting.

Morgan has been assisting the team for the past three years from her home in Tucson, Arizona. Her husband, three children and 4 dogs love the fact that she combine's remote work with life at home so that she is more accessible. She and her family love the desert life!

Mortgage Planning Results

This Quarter:

Cash Flow Savings:	$411,948
New/Retained Money:	$15,322,871
30yr Wealth Impact:	$17,914,471

What's inside:

MARKET FACT: TAPPABLE EQUITY

TEAM MEMBER SPOTLIGHT

MORTGAGE PLANNING RESULTS

15-YEAR VS. 30-YEAR MORTGAGE *(AND INVEST THE DIFFERENCE)*

15-Year vs. 30-Year Mortgage (and invest the difference)

All financial transactions have an opportunity cost. Clients often express an interest in going with a 15-year fixed rate mortgage in order to pay their house off faster in hopes of going into retirement without a mortgage. The opportunity cost of doing that is the lost option to invest the difference in cash flow, thus potentially losing out on liquidity and compound growth.

In this example, I compare a 15-year fixed rate mortgage against a 30-year fixed rate mortgage and invest the difference in payment. One of the key things to note is that the 15-year fixed has a payment that is nearly 50% higher than the minimum required payment on the 30-year fixed, a difference of $1,238 dollars a month. I use a difference of three-eighths percent, because the typical rate spread between a 15- & 30-year mortgage is three-eighths to a half a percent.

Monthly Payment Impact – Does This Make Sense Monthly?

	15 year fixed	PROPOSED 30 year fixed
Rate Comparison		
Total Borrowing:	$500,000	$500,000
Rate:	3.125%	3.500%
Rate Difference:	0.000%	0.375%
Payment Comparison		
Interest Payment:	$1,302	$1,458
+ Principal Payment:	$2,181	$787
= Net Payment:	$3,483	$2,245
Payment Difference:	$0	$1,238

Both mortgages will use the same cash flow and will assume a $625,000 house with a $500,000 mortgage. After 15 years, the borrower with the 15-year fixed would have paid $626,949 in payments with $126,948 of that going to interest. The house would be paid off with no remaining balance.

Wealth Impact After 15 Years – Does This Make Sense Over Time?

Property Appreciation Rate: 0 % / After-Tax Savings Rate: 8 %

	15 year fixed	PROPOSED 30 year fixed
Fixed Payments:	$3,483	$3,483

Annual Comparison		
Interest Payments:	$126,948	$218,209
+ Principal Payments:	$500,000	$185,931
+ Savings Payments:	$1	$222,809
= Payments:	$626,949	$626,949

The borrower with the 30-year fixed mortgage would have made the same total dollar amount in payments, with $218,209 going to interest costs, $185,931 in principal, and investment contributions of $222,809. Assuming an 8% rate, the savings balance would be $428,335. If they lost their job, were involved in a lawsuit, or had health issues, they would have a large cushion to draw on; they are not going to lose their house. The 15-year mortgage borrower has no additional savings, nothing liquid, and could be forced to sell their home. The 15-year mortgage borrower has no additional savings, nothing liquid, and could be forced to sell their home. Netting out what was owed on the mortgage, minus savings balance, the borrower would end up $114,000 ahead. While they have paid more interest, they have also gained more in the account balance. Their net wealth impact would be $114,265 more as a result of this strategy.

House Value:	$625,000	$625,000
- Mortgage Liabilities:	$0	$314,069
+ Savings Balance:	$1	$428,335
= Equity:	$625,001	$739,266

This begs the question, isn't person with the 15-year mortgage who has their home free and clear, now able to save $3483 a month and catch up?

Equity - Payments =	$494,452	$608,717
Wealth Impact:	$0	$114,265

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With the home paid off, the first borrower would now be able to contribute $626,950 over the next 15 years, while the 30-year fixed borrower would double their contributions to a total of $445,618. However, due to the velocity of compound growth due to having started saving early, the savings will be greater at the 30-year mark resulting in an account balance of $1,844,807; an extra $639,535!

Wealth Impact After 30 Years – Does This Make Sense Over Time?

Property Appreciation Rate: 0 % / After-Tax Savings Rate: 8 %

	15 year fixed	PROPOSED 30 year fixed
Fixed Payments:	$3,483	$3,483
Annual Comparison		
Interest Payments:	$126,948	$308,280
+ Principal Payments:	$500,000	$500,000
+ Savings Payments:	$626,950	$445,618
= Payments:	$1,253,898	$1,253,898

House Value:	$625,000	$625,000
- Mortgage Liabilities:	$0	$0
+ Savings Balance:	$1,205,272	$1,844,807
= Equity:	$1,830,272	$2,469,807
Cash Needed To Close	($496,400)	($496,400)
Equity - Payments =	$1,072,774	$1,712,309
Wealth Impact:	$0	$639,535

How and why does this work? Well, part of why it works is home equity itself. Home equity doesn't get a rate of return; the house will go up or down in value based on the market, regardless of what is owed against it. Due to that, once that dollar of equity is in the house it doesn't change. It doesn't grow or produce income. Thus, with the 30-year mortgage, the power of compounding is allowed to work in the borrower's favor. The velocity of money achieved by saving early (and consistently) can far exceed the value of paying off the home.

Additionally, with the lower required payment, they have room for secondary needs to be addressed: insurance protections, umbrella liability, life, disability, and long-term care, as well as retirement funds, tax deductions & estate planning. Therefore, this mortgage planning strategy has three primary values: more assets at retirement, far more liquidity than they would have without this strategy, and the cash flow flexibility to afford the other protections that they ought to have.

With that said, this is not a one-size fits all strategy. There are some caveats. Someone who is not disciplined at saving or investing...this strategy isn't for them. If they can afford the 15-year fix, they may be better off going into retirement without a mortgage, just simply because their lack of thrift. An example is somebody that's a gambler. I have a client that I'm thinking of as I write this. I will not recommend this for him, because he wouldn't invest the money. He would end up spending it at the casinos.

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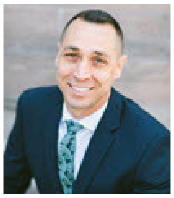

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What four questions should be answered when comparing a fixed-rate home loan vs. an adjustable-rate home loan?

https://famortgagehelp.com/2022/02/fixed-rate-mortgage-vs-arm/

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