SPECIAL FREE REPORT

DON'T PAY OFF YOUR MORTGAGE!

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This report is not designed for everyone. In fact, the information I am about to share with you may seem completely foreign and go against every financial principle you believe. Most Americans have simply never heard the truths contained in the paragraphs below. For some, this will change the way you think about your finances forever and you will want to correct your situation immediately. For others, you will hear this information but procrastinate and never act on it. Either way, my conscience is clear. If you read this report in its entirety, you will have heard the truth about using the equity in your home to work FOR you, and not AGAINST you.

Before we get started, I'd like to share a few statistics with you that might be startling. I call this the 100 MAN STORY.

According to the National Bureau of Labor Statistics, out of 100 people born, by age 65:

- 29 of them are dead and 71 are alive
- Of the 71 that are still living, they are comprised of the following:
  - 52 are directly dependent upon the Government. They are either without, or homeless.
  - 14 are still working and always will be because they don't have family.
  - 3 are financially independent. They don't need any support from anyone. Their wealth continues to grow as they receive a comfortable income off of their assets.
  - 2 are wealthy. Wealthy is defined as a net worth of $5 million plus.

So what does the 100 MAN STORY teach us? Out of the 71 Americans still alive at age 65, only 5 or 7% (5 out of 71 living) reach true Financial Independence. That leaves a disturbing fact…the mainstream, or 93%, are not financially successful.

My question to you is this: If the majority of financial strategies being taught to Americans today were correct, wouldn't the majority be rich? And this leads to two more questions:

1. Where do you see yourself right now, in the 7% or in the 93%?
2. If you see yourself in the 93%, would you like to stay there or make the changes necessary to get to the 7%?

The information that I am about to share with you, if acted upon, can move you out of the 93% and into true Financial Independence. If this is your goal, then I encourage you to read on.

PAY OFF THAT MORTGAGE?

Why is it that the number one financial goal of most Americans is to pay off their mortgage? Is it something that we've been taught from our parents, or is it a result of the incessant

rambling of any number of "talking heads" on television and radio who preach "pay off your mortgage and get out of debt"?

I believe the reason for such a widespread desire to own a home free and clear is actually a lack of financial education for most Americans. You see, no one teaches us why paying off a mortgage may be one of the biggest financial mistakes we can make. You certainly won't hear it in schools or universities…or even from many so-called "financial advisors".

Every day as I meet with clients for the first time, like clockwork one of the first things they proudly tell me is that they are very close to having their home paid off. Not wanting to scare them too soon, I smile and nod. Eventually I will let them in on a little-known financial secret…paying off their mortgage, in most cases, is a huge mistake!

OUTDATED FINANCIAL CONCEPTS JUST DON'T WORK ANYMORE.

Unfortunately, many Americans are still clinging to outdated financial rationale, the kind of thinking that our parents and grandparents subscribed to. Let's take just a moment to understand why this just doesn't make sense in today's world.

Our parents and grandparents grew up in a different era. Owing money to anyone else was considered a weakness, and a mortgage was no different…it was a necessary evil. For the most part, they planned on living in the same house for 30 or more years, working at the same job for 30 or more years, and retiring with a guaranteed pension at age 65.

Life is very different for most Americans today. We live in a home, on average, for only 7 years. According to Fannie Mae, the average American only holds their mortgage for 4.2 years. People are re-financing to get better interest rates, restructure debts, remodel the house, or pull out money for vacations or educations.

Employment is another huge difference. Today, most graduates will change jobs 7 or more times during their career. Retirement has changed too. Full retirement age gets closer to 70 each year. Eventually this will be the norm. As individuals live longer, they will need to work longer to ensure that their nest eggs don't run dry.

And let's not forget about the concept of pensions. For most Americans, these are a thing of the past. It's up to us to save wisely for our retirement, as this bucket of money will need to last us 20 to 30 years during our "golden years."

Given these drastic differences in our way of life compared to earlier generations, don't you agree that we might need to adjust our financial strategies to fit?

Let's get down to the real question at hand. Why do Americans have such a fear of mortgages? I believe that most Americans have been taught to fear mortgages based on experiences that our parents and grandparents had. If we look back to the 1920's, loan agreements often contained a clause that gave banks the right to insist on a full repayment of a loan at any time. This clause spelled disaster for millions of Americans during the Great Depression. In 1929, when the stock market plummeted, investors who had purchased stocks on margin

were scrambling to find cash to cover their margin calls. The first place they went for this cash was the bank. This caused many banks to run out of cash and they began calling in loans from hard-working clients who had been diligently making their mortgage payments each month. This, combined with a poor housing market, resulted in home values dropping. During this time, more than half of our country's banks failed and millions of homeowners who were unable to repay their loans lost their homes.

I believe it was from this devastating situation that the concept of holding a mortgage came to have such a negative connotation. What do we constantly hear? Pay off your mortgage as soon as possible. If everything else falls to pieces, at least you will have your home and the bank won't be able to take it from you.

What most people don't realize, however, is that since the Great Depression numerous laws have been enacted that make it illegal for banks to call your loan due prematurely. If banks are running short on cash, they cannot force you to pay off your loan early. Also, the Fed is quick to infuse money into the system if there is a run on banks. We saw this happen in 1987, 2000, and in 2001. Additionally, the FDIC has been created to give an added layer of protection to the banking industry. Nonetheless, the fear of losing your home has become ingrained in the hearts and minds of the American people.

WHY DO WE HATE OUR MORTGAGE?

Today most people hate their mortgage because they know that over a 30 year time period, they will actually pay more money in interest than the house originally cost them in the first place. This is why many lending institutions have been able to convince consumers that it makes sense to move from a 30 year mortgage to a 15 year mortgage. The idea is to either make a bigger down payment, extra principal payments, or shorten the loan in order to pay off the debt faster. But by focusing on paying off the mortgage first and saving for retirement second, most Americans aren't taking advantage of their mortgage the right way. You see, every dollar we give the bank towards paying off the mortgage is a dollar that is not being invested for our retirement. **While paying off your mortgage saves you interest, it denies you the opportunity to earn interest with that money.**

Here are some interesting statistics:

- Self-made millionaires make up less than 2% of our population.
- 100% of this group have the ability to own their own home without a mortgage.
  - 83% of these self-made millionaires carry a mortgage anyway.
- 100% have the ability to send extra money each month along with their monthly payments to eliminate the mortgage ahead of schedule.
  - Only 10% choose to do so.

Clearly these financially successful people are not afraid to carry a mortgage. Now, compare yourself to them. If your primary financial goal is to pay off your mortgage, you are clearly trying to do something that financially successful people do not do. What do they know that you don't?

2 RULES – *NEVER BREAK THEM*

Financially successful people know and understand the two most important rules pertaining to money. They know that to reach true financial independence, these rules must be followed diligently, and never broken.

What are the 2 Rules?

1. ***Control your cash flow***
2. ***Protect your cash reserves***

Any financial decision that you make can be evaluated with this question – "does this decision allow me more control of my cash flow and does it protect my cash reserves?" If not, don't do it.

When you apply these two rules to the concept of paying off your mortgage, how does it stack up? It doesn't. Managing the equity in your home properly, however, will increase your liquidity (cash flow), protect your cash reserves, and offer you better rates of return and tax deductions.

LET'S TAKE A QUICK QUIZ…

True or False?

1. A large down payment will save you more money on your mortgage over time than a small down payment.
2. A 15-year mortgage will save more money over time than a 30-year mortgage.
3. Making extra principal payments saves you money.
4. The interest rate is the main factor in determining the cost of a mortgage.
5. You are more secure having your home paid off than financed 100%.

The answer to these questions? **ALL FALSE**

Most Americans believe that paying extra monthly premiums towards your principal is the best way to pay off the mortgage early. They also believe that a 15 year note saves you money by lowering the amount of interest you pay. Neither of these ideas is correct. Let's do the math.

15 year note	30 year note
3.0% APR	3.75% APR
Loan Amount $300,000	Loan Amount $300,000
Monthly Payment $2,071.74	Monthly Payment $1,389.35
A monthly difference of $682.39 invested at various rates, allows us to pay off our mortgage early, in:	
2%	10.83 Years
4%	10.5 Years
5%	10.33 Years
7%	9.91 Years

As you can see, taking the difference between the 15 year payment and the 30 year payment, and investing that difference each month, will allow you to pay off your mortgage much faster…even if your investment only yields you a 2% APR each year!

EQUITY SEPARATION

So why would someone want to separate their equity from their house?

Here are three primary reasons:

1. **Increased liquidity**
2. **Safety**
3. **Rate of return**

Let's explore each of these reasons in more detail.

INCREASED LIQUIDITY

To begin, let's be clear, home equity is not the same as cash in the bank. Only cash in the bank is the same as cash in the bank. It is dangerous to be house rich and cash poor. Having access to the equity in your home and not needing it is better than needing it and not being able to get it.

By having cash readily available for emergencies, investment opportunities, and unexpect-

ed repairs, most Americans are better off than having their cash tied up in their house. Borrowing against your home is easy when you are gainfully employed and healthy. However if an unexpected illness occurs, or you suddenly find yourself out of work, obtaining a loan can become very expensive or even worse, impossible.

Here's a question. If you added $500 to your monthly mortgage payment in order to reduce the principal, how liquid is the $500? It's not liquid at all! Once the bank has accepted the funds, you can't just call them and ask them to send it back. In fact, in order to get your $500 back, you'll have to apply for a loan, refinance the house, or sell it!

SAFETY

As millions of Americans came to understand during the Great Recession of 2008 & 2009, real estate equity is just as volatile as an investment in the stock market. Home values can go up, and home values can go down. Uncontrollable circumstances can cause the housing market to plummet as they have so many times in history.

Do you remember what happened in the city of Houston in the early 1980's? When oil prices fell, thousands of workers in the Houston area suddenly found themselves unemployed. When they could no longer afford to make their mortgage payments, houses were put on the market. With a huge supply of homes for sale and little demand from buyers, prices dropped drastically. Thousands of homeowners had to walk away from their homes. Ironically, many of these same individuals had been diligently paying extra principal payments prior to the real estate crash. Remember, just because you've made additional payments in the past, doesn't mean that the bank will let you slide on your minimum payments in the future.

If these same homeowners had known about the two rules we discussed above, they would have understood that paying down their mortgage reduced their liquidity and did not protect their cash reserves.

Another way that separating the equity from you home increases your safety is by reducing the risk of foreclosure. Most Americans believe that paying down their mortgage faster reduces the risk of foreclosure…but the exact opposite is actually true.

Think about it this way. When your mortgage balance is high the bank is assuming the majority of the risk. As you pay the loan down, however, you are transferring that risk to yourself. The lower the mortgage, the higher the risk you have. Why is that?

With a low loan balance, the bank is sitting in a great position. If you default on the loan, your banker stands to make a hefty profit from the sale of your home. The difference between the selling price and the defaulted loan amount is pure profit. If, however, the opposite were true and the mortgage was large, the bank's odds of profiting from the foreclosure and sale of your home is minimal, and sometimes the transaction actually causes the bank to lose money.

Think about it from the bank's perspective. If you were going to foreclose on a homeowner, who would you target first? The borrowers with the lowest balances of course! This means huge profits to the bank. This is why many banks offer "assistance" programs to homeowners who have large loan balances. They know that foreclosing on these individuals will probably be a losing proposition.

Here's a great question. If you owned a $200,000 home in New Orleans during Hurricane Katrina (and you didn't carry flood insurance), would you have preferred to have your equity separated from the house? If it was in a safe, side investment account you would have had access to it during a time of need. If it was all wrapped up in the home, however, you would have lost it along with the house.

RATE OF RETURN

What is the true rate of return on your home equity? Does it matter what part of the country you're in? Do home equities in New York have a better rate of return than those in Minnesota?

The answer is simple. Regardless of where they are, home equities offer a ZERO rate of return.

Home values will fluctuate depending on location and market conditions, but remember, home values have NO relation to the equity in the home.

Consider the following example.

Assume you own a home worth $200,000. You have no mortgage, it is owned free and clear. Fortunately for you, real estate prices in your area are on the rise and your home increases in value by 5%. You now own an asset worth $210,000.

Now, assume you had separated the equity from your home. Your $200,000 had been invested in a safe account with a competitive rate of return, but no risk of loss. This investment earned 7% for the year, bringing your side capital account value to $214,000. You still own the home worth $210,000, but by separating the equity from it, you created a new asset that was able to earn a rate of return. You earned $14,000 more than if you had left the money sitting in the home.

To be fair, in the second scenario you would still be required to make a mortgage payment that you didn't have to before. So let's assume that you have a 30 year note with a 4% interest rate. That leaves a positive spread of 3% (7% earned on the investment less 4% paid for the mortgage loan). But wait, there's more! Because 100% of the interest paid on the loan is tax deductible, the net cost of the money is actually closer to 3%. This makes your positive spread 4%!

Over time, using the power of compounding interest with your new asset, your earnings will grow faster while the loan debt rate stays constant. This means an even greater positive spread! Just as importantly, you now have a liquid capital account where you can access funds anytime you need them.

Believe it or not, you're actually better off burying money in your backyard than paying off your mortgage. The money in your backyard (assuming you remembered where you buried it) is liquid and safe (assuming your neighbor doesn't find it).

HOW MUCH WOULD YOU DEPOSIT IN THE FOLLOWING INVESTMENT ACCOUNT?

- You determine the amount and length of time for monthly contributions to continue.
- You can pay more than the minimum monthly contributions, but never less.
- If you attempt to pay less, the financial institution keeps all your previous contributions.
- The money deposited in your account is not safe from loss of principal.
- Each contribution made to your account results in less safety.
- The money in your account is not liquid.
- The money in your account earns a 0% rate of return.
- Your income tax liability increases with each and every contribution.
- When your plan is fully funded, there is no income available to be paid out.

Hopefully ZERO! But millions of Americans invest in these types of accounts every year.

To wrap things up, I'd like to share a story with you. This is the "Tale of Two Brothers", adapted from the book, *The New Rules of Money by Ric Edleman*. In his book, Ric tells the story of two brothers with very opposite mortgage philosophies. After 30 years of following these brothers, the results of their mortgage decisions have produced vastly different outcomes. I'm confident the results will surprise you.

These brothers are similar in almost ever way, except for their mortgage strategies. Each brother earns $150,000 per year and has $100,000 put away in savings and investments. Both are looking at purchasing a $500,000 home.

Brother A believes in the old way of paying off a mortgage, which is as soon as possible. Brother A bites the bullet and secures a 15-year, fixed mortgage at a 3.5% APR and shells out all $100,000 of his savings as a 20% down payment, leaving him zero dollars to invest. The monthly payment on his 15-year mortgage is $2,859. Since he has a combined federal and state income tax rate of 33 % , he is left with an average monthly net after-tax cost of $2,649. Also, in an effort to eliminate his mortgage sooner, Brother A sends an extra $200 to his lender every month.

Brother B, in contrast, subscribes to the new way of mortgage planning, choosing instead to carry a big, long-term mortgage. He secures a 30-year, fixed interest loan at 3.99% . He puts down only 10% or $50,000 and invests the remaining $50,000 in a safe, money-making side account. His monthly payment is $2,145, 100% of which is tax deductible, leaving him a monthly net after-tax cost of $1,848. Because he has extra money to invest each month he adds an additional $200 to his investment. This is added to $801 plus the $1,293 he's saved from his lower mortgage payment. His investment account earns on average a conservative 7% rate of return.

"A Tale of Two Brothers"

Adapted from the book, The New Rules of Money, by Ric Edelman

Our story follows two brothers, each earning $150,00 a year. They each have $100,000 in savings and both are buying $500,000 homes

Brother "A" Believes in "The Old Way" - paying off the mortgage as soon as possible	**Brother "B"** Believes in "The New Way"-carrying a big, long mortgage and never paying it off
+**15-year mortage** at 3.5%	+**30-year mortage** at 3.99%
+**$100,000 big down payment**	+**$50,000 small down payment**
+**$0** left to invest	+**$50,000** remaining to invest
+**$2,859** monthly payment	+**$2,145** monthly payment
+**$2,649** average monthly net after-tax cost[2]	+**$1,848** average monthly net after-tax cost[3]
+Has **$0** left to make extra monthly payments.	+Sends **$200** monthly to investments, plus **$801** saved from lower mortgage payment.

WHO MADE THE RIGHT DECISION?

RESULTS AFTER JUST 5 YEARS

+Received **$20,046** in tax savings[2]	+Received **$28,279** in tax savings[2]
+Has **$0** in savings and investments	+Has **$131,791** in savings and investments[4]

WHAT IF BOTH BROTHERS SUDDENLY LOSE THEIR JOBS?

+Has no savings to get through the crisis	+Has **$131,791** to tide him over[4]
+Can't get a loan - even though he has more in equity than his brother -because he has no job	+Doesn't need a loan.
+Must sell his home or face foreclosure because he can't make payments	+Can easily make his mortgage payment even if he's unemployed for **years**.
+At this point, it's a fire sale, so he must sell at a discount, then pay real estate comissions (3-7%)	+Has no reason to panic since he's still in control - remember ... **Cash is King!**

RESULTS AFTER 30 YEARS

+Received **$37,856** in tax savings[2]	+Received **$106,417** in tax savings[2]
+Has **$1,104,906** in savings and investments[4]	+Has **$1,527,918** in savings and investments[2]
+Owns home outright	+Owns home outright

Remember ... Cash is King and Brother "B" now has more than $1.5 million in savings and investments! People who understand how money works choose to carry a big, long mortgage and never pay it off.

The above hypothetical examples are for illustrative purposes only. Plans vary based on the needs and wants of the customer. Illustrated interest rates are based upon the monthly average interest rates compiled by Freddie Mac for April 2001.

[1]This example is based on Fannie Mae intrest First loan fixed at 6.11% APR. Interest only for15 years, then the first loan convers to a 15-year amortizing loan on the 15th anniversary with a mo. payment of $1753
[2]Assumes combined federal/state income tax rate of 32%
[3]Assumes combined federal/state income tax rate of 32%. Net after-tax cost shown is for years 1-15: average for years 16-30 is $1,470
[4]Assume 8% rate of return. Rate of return may vary based on type of investment

Which brother made the right decision? The answer can be found by looking into the future. After just five years, Brother A has received $20,046 in tax savings, however he made zero dollars in savings and investments (since he had zero investments after using all his savings as a down payment on the house). Brother B, on the other hand, has received $28,279 in tax and bank savings and his investment account has grown to $131,791. (Brother B started with $50,000 in his investment account, since he only put $50,000 down on the house. He's also been adding $1,001 per month to the investment account, which represents the extra $200 he is adding each month, plus the difference between his brother's after tax mortgage payment and his own lower mortgage payment).

Now, what if both brothers suddenly lose their jobs? The story here turns rather bleak for Brother A. Without any money in savings, he has no way to get through the crisis. Even though he has $210,000 of equity in his home, he can't get a loan because he doesn't have a job. With no job and no savings, he can't make his monthly payments and has no choice but to sell his home in order to avoid foreclosure.

Unfortunately, at this point it's a fire sale so he must sell at a discount and then pay real estate commissions.

Brother B, while not particularly happy at the prospect of searching for a new job, is not worried because he has $205,330 in savings to tide him over. He doesn't need a loan and can easily make his monthly payments, even if he is unemployed for years. He has no reason to panic as he is still in

control. ***Remember. .. Cash is King!***

Now, let's say neither brother lost his job. We'll check in on them after 15 years and evaluate the results of their financing strategies. Brother A has now received $37,856 in tax savings, but has zero in savings and investments. His home, however, is paid. Not too bad, right?

Now let's check on his brother. Brother B has received $74,754 in tax savings and has $436,833 in savings and investments! If he chooses to, he can pay off the remaining mortgage balance of $290,288 and still have $146,545 left over in savings, free and clear.

Let's evaluate each brother's situation at 30 years. Brother A has still received only $37,856 in tax savings (mortgage is paid off, so no additional tax deductions), his savings and investments have grown to $1,104,906 and he still owns his home outright.

Brother B, on the other hand, has received a whopping $106,417 in tax savings and has accumulated an incredible $1,527,918 in savings and investments. His home is paid off.

WHO MADE THE RIGHT DECISION?

Unfortunately, the majority of Americans follow the same path as Brother A, as it's the only path they know. Once the path of Brother B is revealed to them, a paradigm-shifting epiphany often occurs as they realize Brother B's path enables homeowners to pay their homes off sooner (if they choose to), while significantly increasing their net worth and maintaining the added benefits of liquidity and safety the entire way.

NEXT STEPS:

Earlier I posed a question…if the majority of financial strategies being taught to Americans today were correct, wouldn't the majority be rich?

Like it or not, we have all been programmed with certain beliefs about money, right or wrong. Learning a new philosophy isn't easy, and takes a great deal of courage. I believe, however, that we must overcome many of these beliefs if we are to move into that 7 percentile of Americans who are truly financially independent.

I also believe that numbers don't lie. You owe it to yourself and your family to sit down with an advisor who will use your own numbers to show you the difference in future outcomes, based on the strategies you are using today.

My experience has proven that regardless of your age, gender, race, or income level, financial independence is completely achievable. I encourage you not to procrastinate in planning for your future. Life moves fast, the earlier you begin with a solid plan based on sound financial principles, the better outcome you will be able to enjoy.

If you would like to have us run your numbers, we offer a no-obligation, no-pressure review. You can contact us to schedule an appointment by phone or email:

Phone: 1-888-619-0001

Email: info@wplanners.com

Thank you for your interest in our report, and we look forward to hearing from you soon.

WEALTH PLANNERS OF AMERICA