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***How to Avoid the Most
Common and costly Mistakes
When Getting a Mortgage
(and more valuable
information)***

Are you thinking of buying a new home or refinancing your current mortgage? Don't do anything until you read this report!!

Introduction

When it comes to mortgages, there are countless misconceptions people have, such as where to go for a mortgage, how much to pay, is a higher rate with lower fees better than higher fees with a lower rate, "locks," how much lower does a rate need to be for a refinance to make sense, is an A.R.M. or Fixed Rate mortgage right for me, and how long of a term should the mortgage be (15, 20, 30 years, etc.). There are many "rules of thumb" about each of these elements. Adhering to these "rules of thumb" may cost you thousands of dollars either in up-front costs or in interest over the term of the loan. ***The fact is that everyone's situation is different.*** The best solution is to formulate a strategy with a mortgage professional.

This report will provide you with some useful knowledge that will help you save thousands of dollars. Depending on the size of the mortgage, it is very possible to save tens of thousands or more. Most borrowers would agree that this kind of savings would be great for their retirement as opposed to paying it to their lender!!

If you have any questions about any of the material in this report, please feel free to call Jed Wunderli at (702) 812-1214 or Richard Rodarte at (702) 349-9629.

The Three Biggest Determinants of the Amount of Money You will Pay for Your Mortgage

Closing costs are the most insignificant portion of your mortgage. What you pay in principal and interest comprises about 98.50% of everything you will pay over the life of your loan, including closing costs. How much you pay in principal and interest is determined by three things: 1) what your principal is (how much you owe on your mortgage(s)), 2) what your interest rate is and 3) the length / term of your mortgage. For purchases, the **principal** amount is the purchase price minus your down payment (however, this will vary on FHA and VA loans because of the funding fee). If you are refinancing, your new mortgage may or may not include closing costs. It depends, in part, on your interest rate, the appraised value of your home, and the payoff amount of

your existing mortgage. The interest rate you lock in based on the loan program and term you choose can either save or cost you lots of money now or over the life of the loan! Here's how: consider a \$150,000 mortgage over thirty years at 6.500% - the principal and interest payment would be \$948.10. Fifteen year mortgage rates are usually about .25% - .375% less than a thirty year mortgage, so at 6.125% over fifteen years your payment would be \$1,275.94. You are paying \$327.84 more each month but you are cutting your mortgage term in half! The total savings would be \$111,646.80! This is very significant. However, beware of cash flow concerns and Time-Value-of-Money issues that we will discuss later! If you take the cash-flow savings on the 30-year mortgage and invest it properly, you can actually end up far ahead of where you would be if you choose a 15-year mortgage.

When you choose your interest rate and loan program, look for a lender who is reasonably priced, but **beware of very low quotes** since the cost for most lenders is about the same nationally (as with most anything you buy, you usually get what you pay for). Quotes are subject to a constantly changing bond market and quotes significantly below the market may well be adjusted to significantly above the market before closing if the loan officer doesn't have high ethics. **The consumer's only protection is the integrity of their loan representative and broker / banker.** It should be noted that there are only 3-5 major purchasers of loans on the secondary market with FNMA (Fannie Mae) and FHLMC (Freddie Mac) being the two largest. Since all brokers and bankers end up selling to the same place, it makes sense that the interest rates they have to offer should be very similar.

Another way to get a lower rate is to buy it down. It usually costs about half a percent (0.5%) of the loan amount to buy the rate down 1/8 of a percent (.125% ie. \$500 - \$625 on a \$100,000 loan amount) which would mean one point typically buys it down .25% and two points might buy it down .5% on average. This means that for a \$150,000 loan, it would usually cost between \$1,500 and \$1,875 to buy the rate down .25% from 6.500% to 6.250%. Remember that your principal and interest payment at 6.500% is \$948.10. Buying the rate down to 6.250% gives you a principal and interest payment of \$923.58, a savings of \$24.52 per month. To find out how long you would need to keep your mortgage in order to make it worth your while to buy the rate down, simply divide the cost of buying the rate down by the monthly savings. Assume the cost is 1.125% or \$1,687.50. It would take 68.82 months or 5 years and 9 months to break even (this scenario does not take into consideration the interest that you could earn on the \$1,687.50 if you put it into a savings or investment account as opposed to buying the rate down. The money you earn in interest means that it would take a little longer to break even.). Every month thereafter is pure savings in your pocket. Whether or not you buy the rate down, however, requires some forethought. You need to consider how long you are likely to be in the house or, more specifically, how long you will keep the mortgage. In this case, if you are planning to keep the mortgage for more than 5 years and 9 months, it would pay for you to buy the rate down.

The following illustrates the impact that loan amount and interest rate have on your monthly principal and interest payment. The above example shows that the principal and interest payment on a 30-year mortgage at 6.500% for \$150,000 is \$948.10. Each

increase / decrease of \$1,000 will translate into approximately a \$6.32 increase / decrease to the monthly payment. On the other hand, at \$150,000, a change to the rate of .125 (1/8) translates into a change in monthly payment of approximately \$12.37.

It may not always be feasible to get the lowest rate because of the increased closing costs that are associated with lower interest rate mortgages (i.e. buying the rate down). You can still build equity in your home very fast (relative to a 30 year mortgage) by either choosing a 15 year mortgage, using a bi-weekly payment plan, or by disciplining yourself to pay an extra \$50-100 a month (or whatever you feel comfortable with) towards the principal (however, you will see in a later section that this may not be the most fiscally intelligent choice when you consider cash flow issues, time-value-of-money and dead equity). Almost all lenders allow for this, even on loans with prepayment penalties (these loans may restrict you to no more than 20% of the principal in any one year). It is important to learn the correct submission procedure for your principal reduction payment; they vary from lender to lender.

Fees, Fees, and More Fees!!

As mentioned previously, closing costs are a relatively minor portion of the total mortgage payback. While this is true, closing costs can still be significant. The purpose in this section is to provide you with an understanding of the costs of a loan.

The Loan Origination (line 801 on the GFE and HUD-1) is the fee that the broker / banker charges you for the cost of doing the loan. This fee is paid in part by you and is often subsidized by the lender; this fee directly impacts what the rate will be. In cases where you are planning on being in the home for a long time (4 years or more), it is prudent to pay more of this fee and get a lower rate from the lender. In situations where it is likely that you may only be in the home for a short time (2-3 years), you are usually better off accepting a higher interest rate and paying a smaller portion of this fee. The portion of the fee that the lender pays is known as Yield Spread Premium (YSP) and is denoted as such on the Good Faith Estimate (GFE) and the HUD-1 Settlement Statement. The loan origination fee, as a percentage, is likely to be higher for loans significantly less than \$100,000 and for borrowers whose loans are harder to do ("B / C" or non-conforming borrowers). For these situations, 4-10.00% is a more likely fee (depending on loan size and / or type of credit).

The Loan Discount (line 802) is a fee charged to you in exchange for a lower interest rate. Like the origination fee, by paying a loan discount fee, you are absorbing a greater portion of the broker's / banker's fee, relative to what the lender would pay, in exchange for a lower interest rate and, therefore, lower payments (remember that each .25% in rate reduction usually costs between 1%-1.25% of the loan). ***By paying a discount fee to lower the interest rate, you shift the timing of interest payments (you pay a little more interest up front in order to pay less over the long-term).*** Whether or not this is worthwhile depends on how long you intend on having your new mortgage. A mortgage consultant will help you determine if this is beneficial for you.

The Appraisal Fee (line 803) covers the cost of having a licensed appraiser (usually an independent third party) appraise the home to determine its value. An appraisal is a necessary element to do almost any mortgage; the fee will usually be about \$350.00 (\$450 or so for FHA appraisals). Appraisals for custom homes or unique homes will usually cost more and appraisals for income properties are usually about \$150 to \$300 more depending on the exact type of appraisal required by the loan program.. The check is usually made payable to the appraiser when he / she comes to your home to do the appraisal; sometimes, however, your broker / banker may pick up a check from you for the appraisal and credit report at the time the application is taken. Your broker should get a "conditional approval" before he / she orders the appraisal; this gives you some assurance that you won't be spending \$350.00 on an appraisal for a loan that may just be turned down!

The Credit Report (line 804) provides the lender with necessary information regarding payment histories on mortgages, installment loans and revolving accounts. It also shows collection accounts, credit inquiries and "public record" information such as tax liens, bankruptcies, and judgments. A full Residential Mortgage Credit Report (RMCR) is usually between \$50 and \$75.

A Mortgage Broker Fee (synonymous with "Processing Fee," line 808) of between \$500.00 and \$700.00 covers the cost of processing your loan in order to prepare it for delivery to the lender / investor (The fee varies depending on the broker / lender and the loan type.).

The Tax Related Service Fee (line 809) covers the cost of tax servicing over the course of the loan. The final lender charges this fee to cover the cost of employing a third party to make sure that the property taxes are being paid when they come due. This service protects both you and the lender.

The lender who ultimately funds your loan has fees that are in the range of \$600-1,000 for conforming loans and up to \$1,500 or so for non-conforming (sub-prime) loans. These fees are usually referred to as the Underwriting Fee (line 811). The underwriting fee often includes the Tax Related Service Fee, as well as the Flood Certification Fee, and the Document Preparation Fee.

The Wire Transfer Fee (line 812) is usually about \$15-50 and covers the cost of wire transfers between the lender and the title company and / or the cost of over-nighting documents from the lender to the title company and the payoff check to the old mortgage company.

All of the above costs are referred to as non-recurring closing costs. There are a few more that will be discussed shortly; however, in keeping with the order of the GFE and HUD-1, the next items to be discussed are the prepaid and reserve items. Prepaid interest (line 901) is the interest that you pay on your loan from the funding date through the end of the month. For example, if your loan (purchase or refinance) funds on June

15, your first payment would not come due until August 1, 45 days from the funding date (the day the lender advances the money). In order to keep all of your payments the same, you prepay the 15 days of interest from June 15 through June 30 at the time of your loan. Be aware of low dollar amounts here when a lender provides a GFE. They are only required to show one day's interest. However, if you close early in the month as opposed to the end of the month, you may need significantly more money to close than you had originally planned. In the case of a refinance, the sooner you close the better; you want interest to be accruing at the lower rate as soon as possible!

Mortgage insurance (line 902) is a monthly fee you pay as part of your mortgage payment if the amount of your loan exceeds 80% of your home's value (usually only on conforming loans) to insure against default. You have a choice when it comes to mortgage insurance and paying monthly (as opposed to paying it up front in one lump sum) is by far the better option! Call for an explanation of the differences between monthly mortgage insurance and "tax-advantaged" mortgage insurance (702-812-1214).

Hazard insurance (line 903) is your homeowners insurance. Most lenders require that you pay a year's premium in advance and then they collect money each month via your escrow payment in order to make the payment when the policy renews a year from the funding date.

Tax and Assessment (line 904) is for the property taxes that have accrued on your property since the last time they were paid.

The VA Funding Fee (line 905) is a fee equal to between 1.50% and 3.30% of the loan amount (most cases). It is an up-front fee and usually financed. This fee pays for all of the mortgage insurance that enables the VA loan to be offered devoid of a monthly mortgage insurance component.

Section 1000 contains the reserve items deposited with the lender. If your mortgage is going to have an impound / escrow account where the lender pays the property taxes, homeowners insurance and mortgage insurance when they come due, then there will be a dollar amount on each of the line items 1001, 1002, and 1003. In addition to collecting a full year's insurance premium on line 903, the lender will usually collect 2 months worth of premiums (line 1001); this funds the hazard insurance portion of your escrow / impound account through your first payment date. If you have month-to-month mortgage insurance, the lender will collect enough to pay the premium at least through your first payment due date, but nothing should be collected for line 902. Finally, the amount that will accrue for property taxes from the funding date until your first payment due date will be collected on line 1004. These are known as recurring closing costs because you pay property taxes at least yearly (quarterly in Nevada), homeowners insurance yearly, and mortgage insurance monthly.

There are two title fees that are also a necessary part of a mortgage loan. The biggest title fee is usually for Title Insurance (line 1108). However, it depends on whether the mortgage is a purchase or a refinance, a first or a second, and, if it is a refinance, how

old the current title insurance is (you will often get a discount on title insurance if it is less than three years old). When the title company conducts the closing (line 1101), they will charge a fee for their work in preparing the HUD-1 settlement statement and for the time involved for signing the documents and handling the escrows.

The Document Preparation Fee (line 1105) is a fee charged by the ultimate lender (most cases) and is often included in the underwriting fee (line 811). There are a fair number of companies whose job it is to prepare mortgage documents so some lenders outsource this item.

The Deed of Trust gets recorded at the county recorder's office. For this, you pay a recording fee.

These fees constitute the charges to the various parties who play some integral part in the mortgage process. The actual fees that you may pay (both amount and type) may vary depending on the type of loan you get and who you procure it through. If you are only going to be in the house for a relatively short time (less than five years), you may consider taking a higher rate and paying less in closing costs. In fact, if you take a high enough rate, you may be able to get the lender to pay most if not all of the costs (at the very least, some of the most significant costs could be offset). For example, if a broker is quoting 7.125% on a thirty year term with normal closing costs, you might consider a rate of 7.625% (just 1/2 percent higher) where the lender would pay the origination and some of the other fees. The difference in the monthly payment would be \$51.11 on a loan amount of \$150,000. If you would like a more detailed scenario with current rates, please call (702) 812-1214 and ask for Jed.

One Size Does NOT Fit All!!

There are no bad loan programs, just bad matches between programs and clients. The more programs a broker / banker has, the more good matches he /she is likely to be able to create for his / her clients! Because Home Loan Consultants are paid on commission, they have a vested interest in providing a loan that is acceptable to you and that will close in a timely manner. Bankers have the advantage of working for the same company as the underwriters, loan documentation drawers, and funders which means they have much more control over the entire process and can usually close much more quickly. It is to your advantage to have someone who is motivated (i.e. only gets paid if they close your loan) working in your corner.

It's important to choose a mortgage professional who can look at your mortgage as a piece of your complete financial picture. Additionally, by using a Certified Mortgage Planner, you get the benefit of someone who understands tax strategies as they relate to mortgages including things like the 2-in-5 Home Sale gain exclusion, Acquisition Indebtedness, and 1031 exchanges. A Certified Mortgage Planner should also understand wealth creation strategies and the time-value of money as well as estate planning principals. The ultimate situation is when you are working with a competent

CMP who has established relationships with a team of financial professionals to be able to refer you to in order to handle your needs. To the contrary, if you get a quote from a loan officer that shows obvious incompetence, fire that person immediately. There are too many things that can go wrong throughout the process to trust such an important transaction to anyone less than a complete professional who understands finance, underwriting guidelines, the market and the economy.

Refinancing

There are many things to consider when refinancing your current mortgage. Reducing your interest rate is a big factor, but you should also consider how long you are planning on being in the home (the longer you will be in your home, the smaller the reduction in rate can be and still make sense to refinance). Pulling cash out for home improvements or to consolidate debts are other good reasons to refinance.

If you have a "sub-prime" loan (A-, B, C, or D paper), you may have a pre-payment penalty. The decision to refinance a loan that has a pre-payment penalty depends on what interest rates are doing (where they are in the interest rate cycle as well as relative to your current rate), how long your pre-payment penalty is, how much the pre-payment penalty is, and how much you would reduce your rate / payment. There are so many variables to consider that it is impossible to anticipate them all in this report. Please call (702) 812-1214 to discuss your specific situation to see if refinancing makes sense. We will provide you with a loan analysis with options to help you make an informed decision.

Loan Choices

Loan programs come and go depending on market conditions. There have been a few constants including FHA, VA, Conforming and Jumbo loans including both fixed rate and adjustable rate options. For people who want their payments amortized over thirty years, but who are relatively sure that they are only going to be in the home for 3, 5, or 7 years, there are programs where the rate is fixed for the first 3, 5, or 7 (even up to 10) years and then becomes adjustable. The start rate is usually about .375% to .1.25% lower than a 30-year term, depending on the length of the fixed portion. This is a great way to pay the lowest amount of interest possible when you are confident that you won't be in your home or mortgage for the full thirty years!! For those who want a straight term mortgage, there are loan amortizations of 5, 10, 15, 20, 25, and 30 years. Remember, the shorter the term, the lower the rate (most cases)! Balloon loans are similar to A.R.M.s, however, instead of the rate adjusting after a fixed period of time, the note becomes due (which calls for a payoff either through a refinance, the sale of the home or a lump sum cash payment without a sale or refinance).

One loan program that isn't currently available is the combo loan which consists of an 80% first mortgage with a 10% or 15% piggyback second mortgage. The second mortgage carries a higher interest rate than the first, but it is more than offset by the lack of a mortgage insurance component in the monthly payment. As of this update – 03/24/2009 – second mortgages are quite rare and mortgage insurance has a renewed life. The best loans for low-down payment situations are FHA and VA (for those who are eligible).

Interest Only

The “interest-only” loan is a great loan for people who want to maximize cash flow while maximizing their tax deduction. For instance, a \$200,000 mortgage on a 5/1 ARM at 6.000% will yield an interest only payment of \$1,000 per month – all interest and all tax-deductible (most cases – consult your CPA for your specific scenario). The same loan with a fully amortizing option would yield a monthly payment of \$1,199.10. Because the principal is being paid down every month, the interest you pay will also decrease, which means your tax deduction is decreasing. Additionally, you have a positive cash flow of \$199.10 with the interest only option versus the fully amortizing option. This frees up money for investing purposes (or any other purpose) and allows you to pay less tax. Considering that a mortgage amortized for 30 years pays so little in principal anyway, it might make sense, again depending on your specific situation, to have an interest only payment and allow your equity to increase through appreciation while giving you the opportunity to invest the monthly payment savings and having that grow as well.

For people who are buying a home, a Pre-Approval is the way to go!

If you are in the market to buy a home, having a pre-approved loan will give you more negotiating power with the seller. When you make an offer to a seller and are approved for a loan, you can often get the seller to accept an amount lower than he would have otherwise accepted. Your offer, since it is pre-approved, is virtually a cash offer! You have removed the uncertainty of whether or not you can qualify and your pre-approval letter will serve as proof! If the seller accepts an offer from a buyer, his property is tied up and the seller's hands are tied until either the loan closes or it is rejected (this is what makes an offer with a pre-approval so strong). By being pre-qualified, you can usually close your loan much faster, which is another benefit to the seller because they often want their money as fast as possible for their next housing transaction!

As of this update – 03/24/2009 – it is more important than ever to not only have a pre-approval but to have verified income and assets and get any questionable items signed-

off by the underwriter so that the only thing left is the fully-executed offer and acceptance, preliminary title report and an appraisal that supports the purchase price of the home.

Choosing the Right Realtor

Perhaps as important as choosing the right mortgage, selecting a realtor who is competent is extremely important. A good realtor (as opposed to an average or no realtor) can save you thousands of dollars just like a Certified Mortgage Planner helping you implement the right strategies can save (or make) you thousands. A good realtor will negotiate for you to get the best price and terms from the seller. Additionally, a good realtor can also protect your interests by making sure that the contract doesn't waive any of your rights as a consumer: you need to be protected from construction defects and other problems that may be unforeseen until you have lived in the house for a while. Furthermore, a good realtor will work in conjunction with the broker to know what loan program has been chosen and will then negotiate the transaction to maximize the benefits of that loan program. For instance, many loan programs allow for the seller to pay for some of the buyers closing costs. Why don't more realtors take advantage of this? The goal of a good team (Loan Officer and Realtor) should be to save their client as much money as possible while getting that client the right mortgage and the right house. By doing this, the team creates a relationship that allows for referrals and repeat business which then allows the team to keep their marketing costs down while allowing extra time for their clients.

When should you "lock" your loan?

This is an area of mortgage lending that many people do not understand! The longer the lock is, the more it costs to get a given rate. A 15 day lock is the least expensive lock available. Normally called the immediate delivery rate, most lenders require the loan to be fully approved and ready to close before locking for such a short time. This means that for the two to three weeks that the loan is in process before having a complete package, your rate is subject to market fluctuations. In a stable or declining market this isn't a very big concern. However, in a volatile or rising market, this could pose a problem. Either way, nobody ever really knows what rates are going to do in the future (this is the very reason why a 30-day lock costs more than a 15-day lock).

You want to make sure when you lock your loan that you will be able to sign the loan documents (most lenders also require that the loan funds within the lock period as well) before the lock expires. If you are unable to close your loan before the lock expiration, the best rate you can hope for from that lender is the rate you locked at, so even if rates go down, the lender won't be able give you a better rate. Locking protects you to the upside but does not (generally speaking) allow you to benefit if rates go lower either. Of

course, if rates have gone up, the lender would be more than happy to re-lock your loan at the higher rate, which is exactly what will happen if the lock expires. The preferable way to lock a loan in a stable or declining rate environment is to let the interest rate float (hopefully downward) while your loan is being processed. Your loan officer should be familiar with the rates on a daily basis so that when your loan is fully processed, he can check with you about locking your loan. Because he would be in position to do a fifteen day lock with the completed loan file in hand, you can get the best rate available without paying more for it! However, keep in mind that nobody can time the market and fluctuations will occur. Often times it is better to be safe than sorry; if you have a rate that seems reasonable / good, the best thing to do may be to lock right then because nobody knows when a declining market will turn around! Usually, it doesn't cost anything extra to lock a loan up to 30-days; beyond that, each 15 days generally costs 1/8 of a point. Hence, a 45-day lock will often cost \$250 for a \$200,000 loan.

Should You Want to Pay Your Mortgage Off Early?

In the late 1920s and the early 1930s, the conception was that mortgages are a necessary evil that should be paid off as soon as possible. There was good reason for this line of reasoning. In those days, most mortgages had clauses in them that gave the bank the option of calling the note due and payable in full at any time and for any reason, even if you had made all of your payments on time! In the following example, keep in mind that the average price of a home back then was about \$5,000 and the average annual income was about \$1,434.

The historical facts are as follows. On October 29th of 1929, the stock market crashed. Many investors had purchased stock on margin (borrowed money). The margin requirement back then was 10%, which meant you could buy \$1,000 worth of stock for just a \$100 investment. However, when the market crashed reducing the typical portfolio by 30% in one day, that portfolio that was worth \$1,000 was now worth \$700. You may recall from above that many people had borrowed \$900 in the first place. This meant that stockbrokers were instituting "margin calls" which means they required their clients to bring in enough money to get their equity back to 10%. In this scenario, investors would be required to bring in about \$270 (\$200 for the deficiency between what their account was worth and what they had borrowed and \$70 to satisfy the 10% equity requirement of the current portfolio value.

The investors who had the money went to their bank to withdraw it to give it to their brokers (they had 24 hours to satisfy a margin call). The problem began when so many investors were required to withdraw significant sums of money in order to satisfy their margin calls and was exacerbated by the general depository public who, fearing the banks would run out of money, ran to the bank to cash out their deposits. The banks didn't have enough cash so they called the mortgages due in an effort to collect enough cash to satisfy the demand. In the meantime, the brokers whose margin calls were not being satisfied were forced to sell the stocks to recoup what they could and this plethora

of selling action drove the stock prices down even further, thereby exacerbating the margin calls. As you can see, this became a viscous cycle which led to the Great Depression.

In 1933, congress created the Federal Deposit Insurance Corporation (FDIC) in order to safeguard consumers against bank failures. Before 1933, consumers were unprotected if their bank went under due to bad lending practices (over half the banks failed during the great depression). Furthermore, margin requirements were changed to have an initial requirement of 50% and a maintenance requirement of 35%. For some speculative stock the requirements are even higher; some stocks aren't even marginable.

In addition to instituting such changes to prevent future depressions, there is historical proof of how our great nation has learned from the crash of 1929. On October 19, 1987, the first 1929-like crash since 1929, Alan Greenspan announced that the Federal Reserve would supply as much cash to the nation's banks as they needed. Mr. Greenspan's comments calmed so much of the panic on October 19 that his actions, more so than any other single action, are credited with averting another great depression.

There are some other issues to ponder when weighing the option of paying off your mortgage or investing the money you would have otherwise used to pay off your mortgage. Here are some of them:

- 1) When you own your house, you are going to have the advantage of appreciation whether you have a mortgage or own it free and clear. Owning your home outright does not increase your appreciation. Conversely, you cannot achieve appreciation in investments unless you have money in them which begs the question: Why not put the money into investments (stocks, mutual funds, other real estate, private placement, etc.)? You also have the added benefit of liquidity if your money is invested in mutual funds or similar investments.
- 2) Consumers have only two types of interest that are tax-deductible: Mortgage interest and margin interest. The historical average for a 30-year fixed-rate mortgage is about 8.000%. The average homeowner's marginal tax rate is 28%. In this case, the tax-effective rate when considering the tax-deductibility of mortgage interest is 5.94%. If your interest rate is lower or your tax bracket is higher, your tax-effective interest rate is even lower than 5.94% (the tax-effective rate for someone in the 31% tax bracket with a 7.00% mortgage is 4.83%!!) . Since 1926, the stock market has had an average return of about 12%; that's roughly twice the return than you get from paying off your mortgage (of course, the difference is even greater if your interest rate is lower than the above example of 8.25% and / or you are in a higher tax bracket; additionally, you don't get a return from paying your mortgage off, you just save interest expense which the federal government subsidizes via the mortgage interest deduction)! Highly rated mutual funds typically return about 10% to 15% per year **over the long term**. Why would you want to put any extra money to pay your mortgage off at 5.94% when you could be

- investing that money and earning 10% to 15%, give or take? There are lots of private investment opportunities that can earn substantially higher returns.
- 3) Another issue to consider is timing. The time-value of money principal Rule of 72 says that if you divide the return on your investment into 72, you get the number of years it will take your investment to double. We will start with an investment of \$2,500 and a return of 12%. 72 divided by 12 (the anticipated % return on investment) is 6. This means that approximately every six years, the investment will double. Hence, a person who puts \$2,500 in a 12% investment at the age of 25 will have \$5,000 at 31; \$10,000 at 37; \$20,000 at 43; \$40,000 at 49; \$80,000 at 55; and \$160,000 at 61. If this same person had put the same deposit in the same investment at age 19 (six years or one doubling period sooner), the account balance would be \$320,000, a difference of \$160,000. If the return was 15%, then the doubling time is reduced to approximately 4.8 years (we'll round to five years). This means that the same \$2,500 initial investment at the age of 25 would be worth about \$320,000 at the age of 60. These scenarios should highlight three very important facts regarding investing:
- a) Invest as much money as possible,
 - b) Put it in as early as possible,
 - c) Put your money in the most aggressive investments as your comfort level will allow if your time-frame is long-term; remember that stocks and stock mutual funds will fluctuate up and down, but over a long period of time, minimum of five years, the trend is usually up.

These things seem like common sense, but if these are so simple and obvious, why do so many people put their "extra" money toward paying down / off their house where they save the 5.94% cost of money instead of putting it into a good mutual fund at 12-15% or better? Why do people procrastinate investing until their later years? You will notice that if you miss just one doubling period in the above scenarios you will miss out on \$80,000. If you procrastinate the day of your investing so that you miss two or more doubling periods you miss out on that much more; yet so many people want to pay off their house and then put money into investments. Consider that if you begin investing early and you continue investing on a regular basis because you have a mortgage that allows you the cash flow to do so, you can have enough money at the end of thirty years to not only pay off your house (the reason your house wouldn't be paid off yet is because you would have refinanced to access the equity for investing) but also have a significant portion remaining in your investment account.

- 4) The final glaring issue that you should consider is liquidity. What is the difference between having a \$200,000 house that is paid or having about \$400,000 in investments with a balance on your mortgage of about \$150,000 - \$200,000? The difference is liquidity. If you are working hard to pay off your mortgage quickly and you have allocated the better part of your resources to paying it off, then if you lose your job and need money, it is next to impossible to take money out of your house at that time. Conversely, if you

have a big fat investment account and you lose your job, you have plenty of money to make the mortgage payment and pay your other obligations. And as long as you stay employed and can meet your obligations through your income, the investment account can keep growing thereby enabling you to amass real wealth. ***When you retire (assuming you aspire to retire), it is going to matter how much money you have, not how much equity is in your home.*** Equity does not pay your bills, cash / liquid money does. Paying your house off so that you have the equity to pull out either via a regular mortgage or a reverse mortgage is not a good strategy for lots of reasons. Call Jed at 702-812-1214 or Richard at 702-349-9629 to discuss why.

For more information on these topics, please read the book "**Ordinary People, Extraordinary Wealth**" by Ric Edelman. You can buy it fairly cheap in paperback and it will provide you with a wealth of knowledge.

Jed Wunderli, the author of this report, has created the **Wealthbuilder Financial Analysis System** which will analyze your financial health with regard to your current situation and where you aspire to be. With the necessary information, we will make some mortgage recommendations to help you achieve your financial goals. We also work with many different financial planners (We do not make money on referrals or investments) who can assist you with developing a financial plan based on your time frame, risk tolerance, current portfolio value and financial goals.

In Conclusion

To summarize, it is important to hire somebody who has your best interest (no pun intended) at heart, someone who is motivated. That someone should have access to all of the Government and Conventional loan programs available in the market at any one time. This is necessary so that you can be assured the loan program you are getting has the right rates, terms and fees that fit your financial needs as opposed to making you fit the program. The mortgage loan professional that you hire should be able to help you strategize a prepayment plan and consult with you about your overall debt situation! Finally, the mortgage professional that you hire needs to be someone whom you feel comfortable with, someone you can trust.

Jed Wunderli (Mortgage Consultant) has prepared this report, without cost or obligation to you, in order to help you prevent making the most common and costly mistakes when getting a mortgage! If you are interested in refinancing or buying a home, call The W.E.A.L.T.H. Hotline at (702) 812-1214 for a free pre-approval and / or analysis to see about mortgage options to buy or refinance and, how much you can save and / or how much you can qualify for. As always, there is never any cost or obligation!

Jed and Richard can help you with all of your mortgage needs and will be able to provide you with analysis that **NO OTHER LOAN OFFICERS HAVE WITH THE WEALTHBUILDER FINANCIAL ANALYSIS SYSTEM.**

Mortgage Recommendations

The answers you provide to the questionnaire at the end of this report will help us to suggest recommendations for specific mortgage programs. Please fill in the appropriate information and fax it to (702) 947-2502 or mail it to 1000 E. Wigwam Pkwy., Henderson, NV 89074. If you have any questions while you are completing it, please feel free to call Jed at (702) 812-1214.

1. What is your name and phone number? _____
2. What is the desired loan amount? _____
3. What is the estimated value of the property? _____
4. How will you use the property?
 As a **primary residence**
 As a **second home**
 As a **rental or investment property**
5. What type of property is it?
 A **single family residence**
 A **condominium**
 A **townhome / twinhome**
 A **2-4 unit building**
6. What is the purpose of the loan?
 Purchase
 Refinance
7. Will you consider loans with a balloon payment? _____
8. Please estimate how long you plan to keep this loan: 1 year 3 years 5 years >
10 years
9. Which of the following statements do you agree with?
 I expect interest rates to remain stable with only a little inflation.
 I think we're entering a period of high inflation with rapidly rising interest rates.
 I think that interest rates will come down in the near future (a year or so).

10. In your other investments, what kind of average percentage returns are you receiving?

___ I generally earn less than 10%.

___ I usually earn between 10% and 15%.

___ My portfolio returns over 15% on a regular basis.

11. What is your marginal tax rate (i.e. what tax bracket are you in)? _____

12. I am currently working with a financial planner: YES NO

13. If yes on question 12, your financial planner's name is:

14. I have established a trust: YES NO

15. If yes on question 14, your estate planning attorney's name is:

16. I use a CPA to do my taxes: YES NO

17. If yes on question 16, your CPA's name is:

18. I have investment accounts such as a 401(k), IRA, or other type of account: YES
NO

19. I have taken inflation into account in my retirement planning: YES NO

20. I have a good idea how much income I will have in retirement: YES NO

21. I am familiar with self-directed IRAs and would like to learn more about setting one up and how to take advantage of them.

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The Wunderli Team, Henderson, NV – (702) 812-1214