



THE LAMPPOST

*Mortgage News and
Good Stuff for Life*

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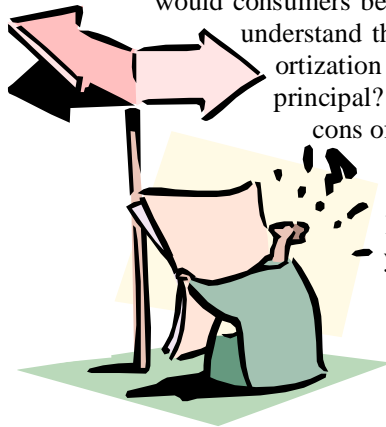


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Leverage Your Home or Pay It Down Rapidly?

There is a great debate within the inner-mortgage circles these days. Should we, as mortgage professionals, encourage clients to borrow as much money as possible? Or would consumers benefit more if we helped them understand the advantages of 15-year amortization schedules and pre-paying principal? Let's examine the pros and cons of both strategies.



Leveraging Your Property.

In order to understand why you'd want to borrow as much as possible for your home purchase, you must first grasp the concept that equity has a zero rate of return.

Here's an example: If Consumer "A" buys a home for \$300,000, and puts 20% down, then they have \$60,000 in equity. Over the next 5 years, the property appreciates \$100,000 in value. Consumer "A" now has \$160,000 in equity.

Consumer "B" buys a home for \$300,000, and puts no money down. At the end of 5 years, that same home is now worth \$400,000. Consumer "B" has \$100,000 in equity, which is the same appreciation as Consumer "A", a net \$100,000.

As you can see, your down payment has nothing to do with your rate of return. What becomes important is how you choose to manage the \$60,000 you didn't use as a down payment. If you use it for frivolous activities, such as buying toys or going to Las Vegas, it would be more prudent for you to use that money as a down payment.

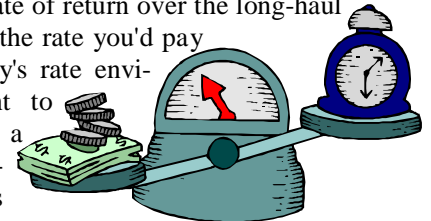
However, if you were to invest the \$60,000 in a vehicle that can out-earn the cost of that debt, then this could be a formula for success. This is why some lending professionals suggest putting as little down as you possibly can, maximizing your tax write-off, and investing the rest. This principle has been applied for many years in the life insurance game. The old saying goes, "Buy term and invest the

rest." The key component is taking the money you would have used as a down payment and creating an asset accumulation account. This account should earn a significant enough rate of return to enable you to pay your mortgage off entirely and achieve the ultimate goal of being debt-free.

Paying Your Home Down Rapidly. There are very few times over the course of my career that I have seen a client with zero debt and no financial difficulties. Choosing to pay off all of your debt can reduce stress and help you to gain freedom of cash flow for investment opportunities. A 15-year mortgage or a bi-weekly payment strategy provides structure. It can also put you on track to have your mortgage paid off within a set timeframe. Simply put, it contains built-in discipline.

It's important, however, to understand that regardless of how rapidly you pay your home off, you're not getting any greater rate of return on your investment than if you paid it off slowly.

Conclusion. So how does one determine which scenario is best? The choice depends entirely upon the individual. Savvy consumers who are disciplined, and are comfortable taking chances from an investment perspective, would do well with the first scenario. Over the course of time, it's been proven that your rate of return over the long-haul will be far greater than the rate you'd pay for a mortgage in today's rate environment. It's important to seek the advice of a skilled investment advisor to ensure success with this strategy.



The second scenario is best for those who have a difficult time managing their money or who'll sleep easier at night knowing they have a plan in place to pay their loan off more rapidly. Be sure that your budget can handle accelerated payments. When consumers "bite off more than they can chew" with a 15-year mortgage, they frequently end up having to refinance back into a 30-year schedule.

What is Going on Out There?!

NOTE: Typically I write about the lighter side of life, but, this month I felt compelled to write about a very serious subject that is very close to my heart.

“I am leaving my husband of twenty years because he’s too dangerous to our family” was the sad admission from a downtrodden wife. As I listened to her unfortunate plight, I was deeply saddened by what seems like an epidemic of eerily similar calls.

Within the last six to eight months I have received nearly a dozen calls from women who are leaving their husbands due to substance abuse and other complex issues. These are men who are in their 40s, 50s and 60s! What is going on out there, guys?

I want to preface what I am about to say with the fact that I know many of you are doing a stand up job. It’s just that I am sick at heart at the frequency from which I get calls from heartbroken wives needing to take out a new mortgage.

I understand we live in a difficult world. The financial, family, and cultural pressures we face seem to be more burdensome every year. Life is not easy. We face daily interpersonal issues with our family, co-workers, and neighbors. As our children get older life definitely gets more expensive. We are surrounded by what can seem like insurmountable obstacles and pressures.

Believe me, with 5 children (3 teenagers – two driving), attending children’s school events, games, concerts and practices nearly every night of the week, a grocery budget larger than my mortgage payment, marital communication issues we all deal with, two dogs, a home that constantly needs expensive repairs, I know intimately the family, financial, and cultural pressures we all face.

Men, we all ask ourselves, “How do I do this?” Sometimes we feel we can’t handle it. But reality is, no one else is going to do your job for you. You have been put on this earth for a reason. Your wife and children depend upon your leadership and steadfastness to be the man that God created you to be.

Even if you don’t believe in God, you still owe it to your wife, children and our culture to commit to setting a good example for them, provide for their physical, mental and emotional needs. Because your son will grow up emulating you. Your daughter will look for a husband that is just like you. Your wife

made a commitment to stand by you. You owe it to all of them to walk through life together and be a leader of your family.

If you are escaping from your responsibility as a husband and father through drugs, pornography, gambling, chasing after another woman (or man in some instances), a computer monitor, drinking or any other destructive habit... BE A REAL MAN. Stand up to your difficulties and work through them. Stop running away from your responsibilities as a husband and father. There are no hopeless situations, only ones that require your courage, perseverance and determination.

You made the decision to pick up that bottle, click on that website, go out with that woman, or use that drug. Nobody forced you to do it. You have the ability (and responsibility) to make the same decision to walk away from that self-destructive behavior that is not only destroying you, but your marriage and family.

I can say these things because twenty years ago, I was there. I liked to escape from life for a while indulging myself in many of the temptations listed above. But, slowly, something told me that the way I was living my life was wrong. That “something” was God. Although I believed in Him, I never really knew Him. But I was confronted with that decision when He said very clearly, “You can please me, or please yourself, but you can’t do both.” I chose Him.

When I did that, I had a wonderful revelation. I didn’t have to live life on my own. I could trust God for wisdom, advice and direction. When I chose that path, the difficulties of life didn’t go away, but He was always there to walk me through them and give me guidance.

Fathers and husbands, you don’t have to walk through life on your own. But you do need to muster the courage to ask God for help and guidance, face your struggles, and move forward.

Life is not always about what we want. As a man we have a responsibility to provide and protect. To encourage and motivate. To listen and set a good example. To cherish our families and build them up. Don’t throw your family’s future away for a pleasure or feeling that lasts for a few moments. Be a man. Be a leader. Be the person God created you to be.

Thank you for taking the time to hear my heart on this issue. I’ll try not to be so serious next month.

