



## THE 9 MOST DEADLY FINANCING MISTAKES TO AVOID!

Some bankers and mortgage brokers may not be happy to hear me tell you these things. But you need to know them so you don't get unpleasantly surprised or pay too much when you finance your home.

This first mistake happens much too often.

1. Sitting around and waiting for an approval from some giant bank, or financial institution that does not personally care whether you get approved for a loan or not.

Remember that a bank is in the business of loaning money to people who really don't need it. (Just try and get a loan from a bank when you really need it.)

Banks are in the risk avoidance business.

Bankers are paid bonuses, and promoted, based on the quality of the loans they approve. If they have even the slightest problem with a loan, it's usually a "no go" on your loan application.

You see, your banker will still get his/her paycheck every two weeks whether they approve your loan or not. But, if your loan goes bad down the road, it can cost them extra money. So, is it any mystery why banks are so hard to work with? (Rule #1. Make sure you always work with a motivated lender.)

2. Not accurately determining whether you should elect a 15 or 30 year loan... or some other financing schedule.

This question is probably one of the most common ones asked.

Over and over again, people choose the length of their loan for all the wrong reasons.

They choose the length of the mortgage based on the monthly payment, or being able to qualify for the mortgage, or whatever.

Sometimes, it's because of an emotional decision.

“I want to pay this debt off!”

“I want it free and clear, as soon as possible!”

Ever heard that one before?

But, what’s any of that got to do with the real question, which is:

**WHAT WILL BE LEAST EXPENSIVE FOR YOU  
IN THE SHORT... AND LONG RUN???**

That’s what you want – right?

Don’t you want the loan to cost you the least?

Sure... but it’s important to know how to make the right choices and calculations so that you DO pay the least amount possible!

Let’s look at an example:

You would be amazed at how much interest you pay on your mortgage over the life of the loan. For example, over a 30-year loan of \$100,000 at 9%, will cost you a monthly payment of about \$804. Sound okay doesn’t it? But when you read the fine print, over the term of the loan you will pay over \$189,000 in interest! Wow!

That’s unbelievable, but true.

Let’s take a look at some other options.

If you were to set up a prepayment fund, and add only \$67 a month to it, and have it forwarded directly to your mortgage company every two weeks - you would save over \$61,000 in interest over the life of your loan, and pay off your house in just under 22 years!

If you kept paying the normal \$804 per month on that loan, you would owe over \$55,000 at the end of year 22. (You would also still have 8 years left to go on your mortgage.)

By setting up this simple prepayment program, you would owe ZERO at the end of year 22!

What a difference huh?!

**DO YOU THINK YOUR BANKER IS GOING  
TO VOLUNTEER THAT OPTION TO YOU?**

It DOES make a difference who you select to handle this for you, but it definitely makes financial sense to do it. (Give me a call if you want further details about this.)

Now then... let me ask you something.

Do you think your bank wants you to know about any of this, and lose that extra \$61,000 of interest you will pay?

I don't think so.

Remember, they make their money by charging you lots of interest!

(By the way, did you know that the Federal Reserve Bulletin from 1989 says that the median mortgage balance in the country is \$32,000. Even that small of a loan would provide a savings of a little better than \$19,000, using the same strategy.)

Don't let anyone tell you otherwise.

The potential interest savings are substantial, with virtually any size mortgage!

This simple pre-payment strategy alone can make an incredible difference in your life-style. Would you like to save significant dollars of interest? Do you think you would be able to figure out what to do with it? Are you going to be really upset that the poor old bank didn't get your money? (I sure hope not!)

So, as you can see, coming up with the right calculations and choices can make a big difference in literally thousands of dollars of savings to you.

The "right" and best financial answer for you is based on the simple goal of whether or not you can put more money in YOUR pocket by doing something else.

Your pocket.

NOT the bank's pocket!

What's most important is to understand how to make the right choices and calculations that are in YOUR best financial advantage.

We can help you with this.

**DON'T JUST ASSUME THAT A 15 YEAR LOAN  
IS BETTER BECAUSE IT'S SHORTER!**

For example, if you choose a 30-year loan, your payment will be less than a 15-year loan. Even though the 15-year term will payoff much earlier, you cannot just assume that this is the best decision for you to help "save" interest costs.

The real equation that has to be answered is, if you invest the difference BETWEEN the payments... and ALSO "pre-pay" a small amount every two weeks ... would you have even more money years down the road?

That's the real question. Will you come out with MORE or less money?

The formula to figure this out doesn't take a lot of time.

But it SHOULD definitely be done!

Like we discussed earlier, one point of interest compounding over time on a home mortgage loan can quickly total up to thousands of dollars more or less in your pocket.

By taking a short-term view of this question, most homeowners cost themselves big, big money. Do you know how to structure your financing to benefit YOU? (Give us a call and we can show you how.)

3. Not knowing how much you should borrow... or pay cash for... when you buy or refinance your home.

Many people often pay cash or invest 20% down payment equity, or more, in their home. The reasons for doing so range from...

"The bank required us to."

"That's what we've always done"

"We wanted a lower payment."

“We thought it was better for us to just pay cash for it.”

The problem is: these reasons can cost you thousands of dollars!

What’s best for you, is the amount of down payment or equity that will end up keeping the most money in your pocket.

It might be 5% down. Or 30% down. Or whatever.

Would It Be Better For You to Invest The Money  
In Your Home... Or Somewhere Else?

The right answer is always going to be different for each person or family. Again, a simple financial calculation **SHOULD** be done to tell you what would create or save the most money for you. What’s most important is, do **NOT** make the most common mistake we see so many people make.

4. Trying to apply general financial “rules of thumb” to your specific needs and situation.

When it comes to financing your home, the only rule of thumb that is true, is:

**THERE ARE NO RULES OF THUMB!**

Every individual and situation is different.

Without question, the so called “financial experts” you see on morning television do a terrible job of applying “rules of thumb” that cause many people to make financing decisions that are poorly thought out. In financing, a little bit of knowledge is a dangerous thing.

Don’t let anyone persuade you to make financial decisions that are “right” for you, based on what someone else is doing. Or from some “canned” advice to the “herd” that you saw on “Good Morning America” or the “Today Show”.

**DON’T FOLLOW THE “CANNED” FINANCIAL  
ADVICE THAT YOU SEE ON TELEVISION!**

Every “financial expert” you see on television today has some “rule of thumb” about how many percentage points lower, interest rates should be, before it makes “sense” to refinance your current mortgage.

General financial advice like this is very misleading and costly.

Every individual or family situation is different.

Often times, with credit card bills, auto loans and other circumstances, it is very beneficial to refinance your mortgage in a manner that directly disproves the “one size fits all” advice of the so called “financial experts”. Sorry about the soap box speech here but...

Please understand, someone else’s financial “rules of thumb”, means absolutely nothing to you and your family. Your decision to buy, sell, finance, or refinance your home should not be influenced by generalized “rules of thumb” that you see on television or read in some magazine.

What matters is, preparing the specific financial calculations for your personal situation so that you can intelligently determine what is truly to your best financial advantage.

5. Not carefully evaluating whether a fixed or adjustable-rate is the best mortgage loan structure for you.

Adjustable Rate Mortgages vs. Fixed-Rate Mortgages.

Which is better?

We just talked about getting “canned” advice when it’s “best” for you to refinance your mortgage. Well, these same people will try to give you general “rules of thumb” about which kind of mortgage structure you should elect too. Once again, your decision should be made based on sound financial calculations that are tailored to your specific needs! If you just pick out the advertisement that sounds good, and choose the wrong type of loan, you may end up either paying too much now, or paying too much later.

Picking a lower adjustable rate might sound great now, but come back to haunt you in a few years time. It is extremely important for you to understand the terms and fine print that are contained in adjustable-rate mortgages.

**MAKE SURE YOU UNDERSTAND THE FINE PRINT  
BEFORE YOU SIGN ON THE DOTTED LINE!**

It's extremely important to know IF and WHEN you can "float" and "lock-in" the rates on your fixed or adjustable-rate mortgage during your financing process.

No one on this planet can predict what interest rates will do. But it's important to understand the fine print of your mortgage so you have the best advantage to lock-in your mortgage at the lowest rate possible! (We can show you how to do this if you need help.)

6. Deciding whether to pay higher "points" for a lower rate, or to pay less points" with a higher rate.

Here's another area that can unknowingly cost you a few thousand dollars if you're not careful.

Let's be real clear about this: Points are pure profit for mortgage lenders. And they don't mind giving you a dizzying array of choices to select from. (You'll instantly understand why in just a second.)

Sometimes the banks and mortgage companies will have three or more options on the same basic mortgage program.

- 3 points at 8%.
- No points at 8.675%.
- 1 point at 8.375%.

Mortgage lenders are not stupid. They know that most people are not too swift at math. And like the croupier at a Las Vegas gaming table, they're only too happy to take any money that you willingly leave on the table... because you didn't do your financial homework.

So how do you select the option that is best for you?  
I hope you weren't looking for a "rule of thumb" answer here.

Because the ONLY way to make sense out of this is to run a comparison of the total up front charges, and ongoing interest costs, to determine which choice will cost you the least.

**DON'T LET THE BANK OR LENDER ZAP YOU ON  
POINTS OR "ORIGINATION" FEES**

When it comes to navigating and negotiating how many points to pay, the “right” answer will largely depend upon how long you plan to stay in your home before you move.

In other words, you need to determine how long you need to stay in the home to recover the cost of paying higher points, offset by the benefit of a lower interest rate. (Or, what is the least amount of time you should stay in the house, to warrant paying lower points but electing a higher interest rates.)

**REMEMBER:** points and origination fees are direct sources of profit for the lender... just like “dealer mark-up” on a new automobile.

So, don’t just roll over and pay them because you think you have to. Shop carefully and shrewdly to make sure that you get the best mortgage rates and terms that you possibly can.

You need to carefully calculate the numbers to see which options are best for you. (Running the math is the only answer.)

We can help you with this too, if you like.

## 7. Not structuring your loans and debts to your best financial advantage.

Sometimes a lender will require you to pay off debts to qualify for a “traditional” mortgage. In other cases, you may be able to qualify for a mortgage without paying off the debts.

- Should you pay all of them off?
- Should you pay some of them off
- Should you pay none of them off?

If you’re paying more in interest on the debts, than the interest your investments are earning, you may be better off getting rid of the debts all together. If you find yourself stretched out with credit card payments and other loans, it is well worthwhile to see if you can consolidate them into a lower interest personal loan... (or retire them if you are seeking to refinance your mortgage.)

However, a word of caution. It is NOT wise to refinance your home mortgage to pay off personal debts, unless you are willing to cut up your credit cards or toss them into a safety deposit box so you aren’t tempted to charge up the balances up again.

Need help with structuring your loan payments?

Whether you are buying a home or refinancing your current mortgage, we can share additional suggestions and advice to help you decide how to structure your loan(s) to your best advantage.

8. Not carefully calculating your maximum financial and tax savings, and withholding exemptions when you select your mortgage financing!

When financing a home, you should seek to maximize every financial and tax advantage that you can get. Particularly with the new tax laws coming into effect from now on.

You would be amazed at how many people unknowingly let thousands of dollars slip out of their checkbooks on this one!

I'm sure you know that there are tax deductions for your mortgage interest. Which mortgage you choose will have a significant impact on both your financial and tax situation.

### **THE KEY IS TO MAXIMIZE YOUR FINANCIAL AND TAX SAVINGS EQUALLY**

The bigger your mortgage, the bigger your tax deductions. But, the larger mortgage payments, may not be right for your family. Even with the tax deductions you'll get.

The bottom line is tax savings... not merely tax deductions.

You have to find the right balance between tax savings, monthly payments, down payments, and so on. And, if you're going to be saving taxes, you need to be sure to adjust your withholding so you get the cash flow benefits of your tax savings back NOW. (Instead of waiting to get a bigger refund at tax time.)

Please don't loan the IRS your money!

If you will be saving \$200 a month in taxes, you should reduce your withholding by the same amount. Then you'll be receiving the money right now, and not making the mistake of "loaning" money to the IRS interest free! Every decision you make about your mortgage loan will somehow affect your taxes. And with the government trying their best to confiscate our money, it

makes good financial sense to plan as carefully as you can, to get the biggest financial and tax savings possible!

If you need help with this, we can provide additional help and suggestions that you can discuss with your accountant before you finance or refinance your home. (The right knowledge can save you a lot here.)

9. The biggest mistake is not taking time to carefully shop when you buy, finance, or refinance your home!

I've purposely taken quite a few pages to illustrate how important it is to KNOW HOW to carefully shop before you buy or finance your home.

Making the "right" choices can literally save you thousands of dollars up front when you buy, and tens of thousands of dollars in unnecessary interest costs and taxes over the years.

Quite honestly, it is amazing to see how many people walk in to real estate offices on weekends, and end up buying a home without having a "systematic understanding" of how to get the best value and terms when they buy or finance their home.

The same is true of refinancing!

Whether you're in the process of buying a home or refinancing a mortgage, I hope I've demonstrated that, who you select to assist you, can make a BIG difference in how much you pay up front... and over the years!

Now remember. Before you do anything. Get educated. Know the right questions to ask, and read that fine print, okay? If nothing else, call us anytime.

We're in business to help people make the right decisions. For themselves, their families and most importantly their future!