



Kam's Mortgage Monthly

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A mortgage is debt!

A mortgage is debt, period. No matter how you sugar coat it, it's a loan that you have to repay back! Unfortunately, however, our society tends to deem this financial instrument many other things that tend to confuse its prescribed purpose, and gives many of it's users (borrowers) a false sense of superiority, comfort and prestige. For others, it's a prescription for angst, worry, uneasiness, and at times, irrationality. It's just a loan! It helps millions of people buy a house to live in and it gives tens of thousands of folks an opportunity to have a very comfortable retirement. Now you might be wondering why I didn't use the same numbers for retirement as home ownership; unfortunately, that's because the majority of borrowers do not understand how to make the transition from one to the other.

With mortgage rates at record lows, I'm afraid that most of those who are choosing to refinance to these lower rates are going to miss a golden opportunity to make the transition from homeowner to active participant in their own retirement program. Decades ago, when folks took out mortgage loans, the strategy almost unanimously was to eliminate the loan. It would be done through scrimping and saving every penny to pay it off as quickly as possible. Today, however, the idea of ever paying off a mortgage for most homeowners is like the Easter bunny; something that makes them feel warm and fuzzy all over but far from reality! For most, the only way they can see the mortgage ever being paid off is by selling the property when they decide to downsize, or winning the 6/49. There is another way to turn fantasy into reality; it's called shorter amortizations, which unconsciously have the borrower working to pay off the mortgage loan faster. Now I'm sure some you will immediately get the significance of this, while I'm sure there's some of you out there who will feel it's a great idea, because it would give you more equity to borrow in future years, and I'm afraid, simply "don't get it".

I will digress for a moment and state that after several years of rising real estate prices, they have now fallen over the last 12 months, a fact that no one out there disputes. Now how do you think those who have consistently refinanced over the past few years taking more and more equity out, and stretching out the amortization further and further, have fared?

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Something
to
Ponder

*Crime does not
pay as well as
politics!*

Alfred E Newman

A mortgage is debt, cont'd...

We both know the answer to that question: not well! In fact, I met someone last week who started with a 20 year amortization and a \$175,000 mortgage loan 10 years ago, but due to lifestyle choices along the way, have gradually pulled out more and more equity to now be sitting with a \$350,000 mortgage and a 35 year amortization. Yeah, they had equity, but guess what, it's gone! Mortgage free sooner, not! They were thrilled that the interest rates are now lower because that's saving them money. I didn't have the heart to show them the difference of where they would have been versus now if they had just left things alone. In the end, the lower and lower rates for them were just an enticement to take out more and more equity, to live the "lifestyle" they had now become accustomed to, one which now would enslave them forever!

Let's look at a few false conceptions about mortgage loans, specifically those which are designed for homeowners. A loan does not provide security for the borrower because it is a liability, a debt, and reduces your equity in the property. Therefore, when borrowers say they only feel comfortable with the lowest possible payments and are not really that worried about the amortization, I don't think they realize that the majority of their adult life, more or less, will be spent paying back this liability. The real safety is when there is no loan and the entire house belongs to you and not the lender.

Those who are currently refinancing or purchasing with fixed rates in the 4% range should feel that the amazing gift they are being given, a low interest rate, is best used by allocating more of the payment towards principal (thereby reducing it), and applying any and all additional monies to speed the process. Unfortunately however, too many look at the new loan payment and see more disposable income and we have seen what that has done for most borrowers with this thought in the last few years. Not much!

There are a few who take great pleasure in "strutting their stuff" with a loan in the 4% range. I'm sorry to tell you, but no one really cares all that much. The only person you should be trying to impress is yourself by taking the shortest possible amortization, thereby paying off your debt as quickly as possible. Plus the truly sophisticated homeowner who has found a way to pay off his loan will just look at you cross eyed, as they don't have one on their house and aren't indebted to the banks for life.

Whatever loan you choose, make sure you have an exit strategy other than selling the house or winning the 6/49. Whether your loan is \$4.4 million or \$240,000, it needs to be paid back. If you get it done while you are working, your life will be easier and your retirement will be even better. Entering the "golden years" without the "green" will make them less fulfilling, more stressful and not exactly what you had in mind.

While devising your plan, remember that a \$300,000 loan, regardless of the amortization, takes \$300,000 to pay it back. All of the extra money you will spend on your loan is interest, which grows ever larger, the longer the loan. The few extra dollars you will need a day, a week or a month, can save a lot more than you will be spending if you can budget yourself to be able to take a shorter amortization. The low interest rates today should make the future much brighter if you use them correctly. Best of all, you won't have to rely upon that whopping government pension!

Wisdom from First Graders...

A teacher of first-graders gave her students the first half of a well-known proverb, then asked them to complete the saying. What they came up with will make you smile, laugh and likely wonder at the wisdom that comes from the mouths of babes.

1. Don't change horses ... until they stop running
2. Strike while the ... bug is close.
3. It's always darkest before ... Daylight Savings Time.
4. Never underestimate the power of ... termites.
5. You can lead a horse to water but ... How?
6. Don't bite the hand that ... looks dirty.
7. No news is ... impossible.
8. A miss is as good as a ... Mr.
9. You can't teach an old dog new ... Math.
10. If you lie down with dogs, you'll ... stink in the morning.
11. Love all, trust ... Me.
12. The pen is mightier than the ... pigs.
13. An idle mind is ... the best way to relax.
14. Where there's smoke there's ... pollution.
15. Happy the bride who ... gets all the presents.
16. A penny saved is ... not much.
17. Two's company, three's ... the Musketeers.
18. Don't put off until tomorrow what ... you put on to go to bed.
19. Laugh and the whole world laughs with you, cry and ... you have to blow your nose.
20. There are none so blind as ... Stevie Wonder.
21. Children should be seen and not ... spanked or grounded.
22. If at first you don't succeed ... get new batteries.
23. You get out of something only what you ... See in the picture on the box.
24. When the blind lead the blind ... get out of the way.
25. A bird in the hand ... is going to poop on you.
26. Better late than ... Pregnant.

Referrals

Your referrals are always welcome, so if you can think of someone who may benefit from my services, please send me an e-mail to kam.brar@vericoselect.com or call me at **250-686-4246**.

Never dealt with me, not sure what kind of service you're going to get? [click here](#) to see what some of my clients have to say!

If you have any questions or comments please contact Kam at kam.brar@vericoselect.com or visit www.kamthemortgageman.com

