

# TRIVIA challenge

How much of the U.S.'s domestic oil production comes out of the Gulf of Mexico?

- A) 18%
- B) 29%
- C) 33%
- D) 42%

Last Issues Answer: A, 5 years



Send your answers by January 31 to Melanie Thompson at [mthompson@mortgagevirginia.com](mailto:mthompson@mortgagevirginia.com). Each correct answer will be entered into a drawing for movie tickets and dinner for two.

## Current Rates

Program	Conforming
30-Year Fixed .....	Low 6's
15-Year Fixed .....	High 5's
7-Year Fixed* .....	Low 6's
5-Year Fixed* .....	High 5's
3-Year Fixed* .....	Mid 5's
1-Year T-Bill ARM .....	Low 5's
(Index Value: 4.300)	
LAMA ARM .....	Mid 5's
(Index Value: 3.127)	
MTA ARM .....	High 5's
(Index Value: 3.478)	

The interest rates represented here are at one point.

\*Amortized over a 30-year period. Following its fixed rate term, it converts to a 1-year Treasury Bill or LIBOR adjustable rate mortgage for the remaining term of the 30-year loan.

**Melanie Thompson • Mortgage Planner**

434.258.5626 Phone

[www.MortgageEquityTeam.com](http://www.MortgageEquityTeam.com)

**HAPPY HOLIDAYS!**

Melanie Thompson  
c/o Main Street Mortgage  
2095 Langhorne Road, Suite C  
Lynchburg, Virginia 24501



# PLANTING new seeds

Innovative Mortgage and Home Equity Solutions from the Mortgage Equity Team

[www.MortgageEquityTeam.com](http://www.MortgageEquityTeam.com)

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## DID YOU KNOW?

Individual income tax returns (i.e., Form 1040) showing Adjusted Gross Income of at least \$200,000 represent only 3% of all taxable returns, but those returns pay 42% of all federal income tax (source: IRS, 2003 returns).



## Introduction: Change is Everything

We have exciting news from the Mortgage Equity Team, and it all revolves around the changes we're making to enhance our services. As you may have noticed, we have a new logo. We're extremely excited about our new look, and the slogan—*The Key to Building Wealth*—embodies the ideals and concepts we are committed to teaching.

Our website—[www.MortgageEquityTeam.com](http://www.MortgageEquityTeam.com)—is now fully active, and we encourage you to utilize this resource. With insightful articles and helpful links, it will assist you with expanding your mortgage and wealth building knowledge.

One of the useful tools at the website is our innovative Stop-N-Lock Rate Light, which will indicate if and when you should lock-in your mortgage loan with us. Be sure to check the Stop-N-Lock light frequently as rates can fluctuate throughout the course of the day.

In this issue of Planting New Seeds we begin to focus on equity management, one of the key steps to financial security and building wealth. We hope you're as excited as we are about learning how to use the equity in your home as an investment tool. Don't worry—that concept may sound uncomfortable now, but once you start to understand the life-changing benefits it can offer, we guarantee you will never look back.

In addition to the information you'll receive from us, we highly recommend you read the book *Missed Fortune 101*, by Douglas Andrew. You can pick up a copy from any local bookstore, or we have copies available for purchase or loan. As always, if you have any questions, please contact us.



## Should You Leverage Your Home or Pay It Down Rapidly?

by **The Mortgage Equity Team**

Melanie Thompson, Mortgage Planner

Barry Doyle, Production Assistant

There is a great debate within the inner-mortgage circles these days. Should we, as loan professionals, encourage clients to borrow as much money as possible? Or would consumers benefit more if we helped them to 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 to use that money as a down payment. Especially since this will enable you to obtain a lower interest rate.

However, if you were to place the \$60,000 in an investment product 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 or accelerating payments to principal instead of saving for a "rainy day", they frequently end up having to refinance back into a 30-year schedule or pull cash out to weather an unexpected storm.

If you find this subject intriguing and would like to know more, I recommend that you read a book titled, *Missed Fortune 101*, by Douglas Andrew. It's an outstanding read that is very simplistic and goes into far greater detail than we can cover in this column. Douglas is a financial planner who advises safe-structured investments to create tax-free retirement income.

*If you would like to obtain a FREE CD interview with financial planning expert and best-selling author, Douglas Andrew, please contact Melanie Thompson at (434) 258-5626.*

## ADDITIONAL RESOURCES



# MISSED FORTUNE



# MISSED FORTUNE 101

By Douglas R. Andrew

Isn't It Time You Became Wealthy?



*The Mortgage Equity Team has copies of Missed Fortune for sale or loan. If you would like to purchase or borrow a copy of this life-changing book, contact Melanie Thompson at (434) 258-5626 or [mthompson@mortgagevirginia.com](mailto:mthompson@mortgagevirginia.com).*

*We are also hosting our first Missed Fortune seminar on December 19, 2005, at 6:30PM at Lynchburg College. If you would like to attend this seminar, the next one (tentatively scheduled for January), or to schedule a personal consultation, contact Melanie.*

**HAPPY HOLIDAYS!** from the Mortgage Equity Team