

“A Tale of Three Brothers” - This is a story of three brothers, each earning \$75,000 per year. Each brother has \$60,000 in savings and is buying a \$300,000 house.

Brother “A” – Believes in Paying Off the Mortgage as soon as he can.	Brother “B” – Carries a longer Mortgage than Brother “A”, but also adds \$100 per Month to His Payment	Brother “C” – Believes that Using His House as a Financial Tool is the Key to Obtaining Wealth. Brother “C” seeks out the Loan with the Lowest Payment.
<ul style="list-style-type: none"> 15-Year mortgage at 5.00% 	<ul style="list-style-type: none"> 30-Year mortgage at 6.0% 	<ul style="list-style-type: none"> Low Payment Loan at 1.95¹
<ul style="list-style-type: none"> \$60,000 as a down payment 	<ul style="list-style-type: none"> \$60,000 as down payment 	<ul style="list-style-type: none"> \$30,000 as down payment
<ul style="list-style-type: none"> \$0 savings left over to invest 	<ul style="list-style-type: none"> \$0 remaining to invest 	<ul style="list-style-type: none"> \$30,000 remaining to invest
<ul style="list-style-type: none"> \$1,898 monthly payment (52% tax deductible in first year) 	<ul style="list-style-type: none"> \$1,439 monthly payment (83% tax deductible in first year) 	<ul style="list-style-type: none"> \$991 monthly payment (100% tax deductible in first year)
<ul style="list-style-type: none"> \$1,624 average monthly after tax payment² 	<ul style="list-style-type: none"> \$1,105 average monthly after tax payment² 	<ul style="list-style-type: none"> \$715 average monthly after tax payment for the first year²
<ul style="list-style-type: none"> Wants to eliminate his mortgage as he is afraid of losing his house. Because he chose a 15 year mortgage, all of his cash is going toward his house payment and he has no money left over for investments. 	<ul style="list-style-type: none"> Sends in extra \$100 per month to eliminate mortgage earlier. Invests the other \$359³ per month. Account earns a 10% rate of return. 	<ul style="list-style-type: none"> Adds \$100 to his monthly investments, plus an average of \$747⁴ per month over for 5 years for a total of \$847 per month. Account earns a 10% rate of return.

Who made the right decision? Results After Just 5 Years

<ul style="list-style-type: none"> Received \$14,787 in tax savings 	<ul style="list-style-type: none"> Received \$19,506 in tax savings 	<ul style="list-style-type: none"> Received \$19,337 in tax savings
<ul style="list-style-type: none"> Has \$0 in savings and investments 	<ul style="list-style-type: none"> Has \$28,800 in savings and investments 	<ul style="list-style-type: none"> Has \$115,000 in savings and investments

What if all three brothers suddenly lose their jobs?

<ul style="list-style-type: none"> Has no savings to get through the crisis 	<ul style="list-style-type: none"> Has \$28,800 in savings to support him 	<ul style="list-style-type: none"> Has \$115,000 in savings to tide him over
<ul style="list-style-type: none"> Can't get a loan – even though he has \$121,000 in equity – because he doesn't have a job. 	<ul style="list-style-type: none"> Can make his mortgage payment for 1.5 years 	<ul style="list-style-type: none"> Doesn't need a loan – he can make his mortgage payment for more than 8 years!
<ul style="list-style-type: none"> Must sell his home or face foreclosure because he can't make his mortgage payments 	<ul style="list-style-type: none"> Doesn't panic right away but is starting to sweat 	<ul style="list-style-type: none"> Has no reason to panic, has plenty of cash on hand

Results After 30 Years

<ul style="list-style-type: none"> Owns his home outright 	<ul style="list-style-type: none"> Owns his home outright 	<ul style="list-style-type: none"> Has 25 years remaining?⁶
<ul style="list-style-type: none"> Has \$787,000 in savings and investments⁵ 	<ul style="list-style-type: none"> Has \$812,000 in savings and investments 	<ul style="list-style-type: none"> Has \$2,510,000 in savings and investments. Retires at will.
<ul style="list-style-type: none"> Can't even begin to think about retiring – Brother “A” is more than \$1 million short. 	<ul style="list-style-type: none"> Did ok, but like Brother “A”, he is still is more than \$1 million short in order to retire. 	<ul style="list-style-type: none"> Sends a check to the bank to pay off his house...if he wants to!

Remember...Cash is King – and Brother “C” now has more than \$2.5 million in savings in investments. Your best investment is not in your house – people who understand how money works choose a big mortgage, use it to create wealth, and never pay it off!

1 This example is based on a payment driven loan. The minimum payment is based on a rate of 1.95%, whereas the note rate of mortgage is assumed to be 6%. For the illustration above, the index is considered constant throughout the term of the loan. Actual results may vary.
2 Assumes a combined federal/state income tax rate of 28%
3 The monthly cash flow is determined by comparing the minimum payments against Brother “A” – minus the \$100 he sends in as an additional payment on his mortgage.
4 The monthly cash flow is determined by comparing the minimum payments against Brother “A”. The monthly payment changes annually at 7.5% of the previous year's payment – we have used the average minimum payment over that 5 year period.
5 Once Brother “A” has paid off his mortgage, he invests the full \$1,898 he was paying on his mortgage for the remaining 15 years.
6 Brother “C” refinances every 5 years, dropping his minimum payment back down to the low 1.95 payment level and starting all over. He continues to invest his cash flow each month. Because Brother “C” refinanced, every 5 years, Brother “C” has built little equity in the property. The equity he builds is used to cover his refinance costs every 5 years, therefore, he essentially owes what he originally borrowed - \$270,000.