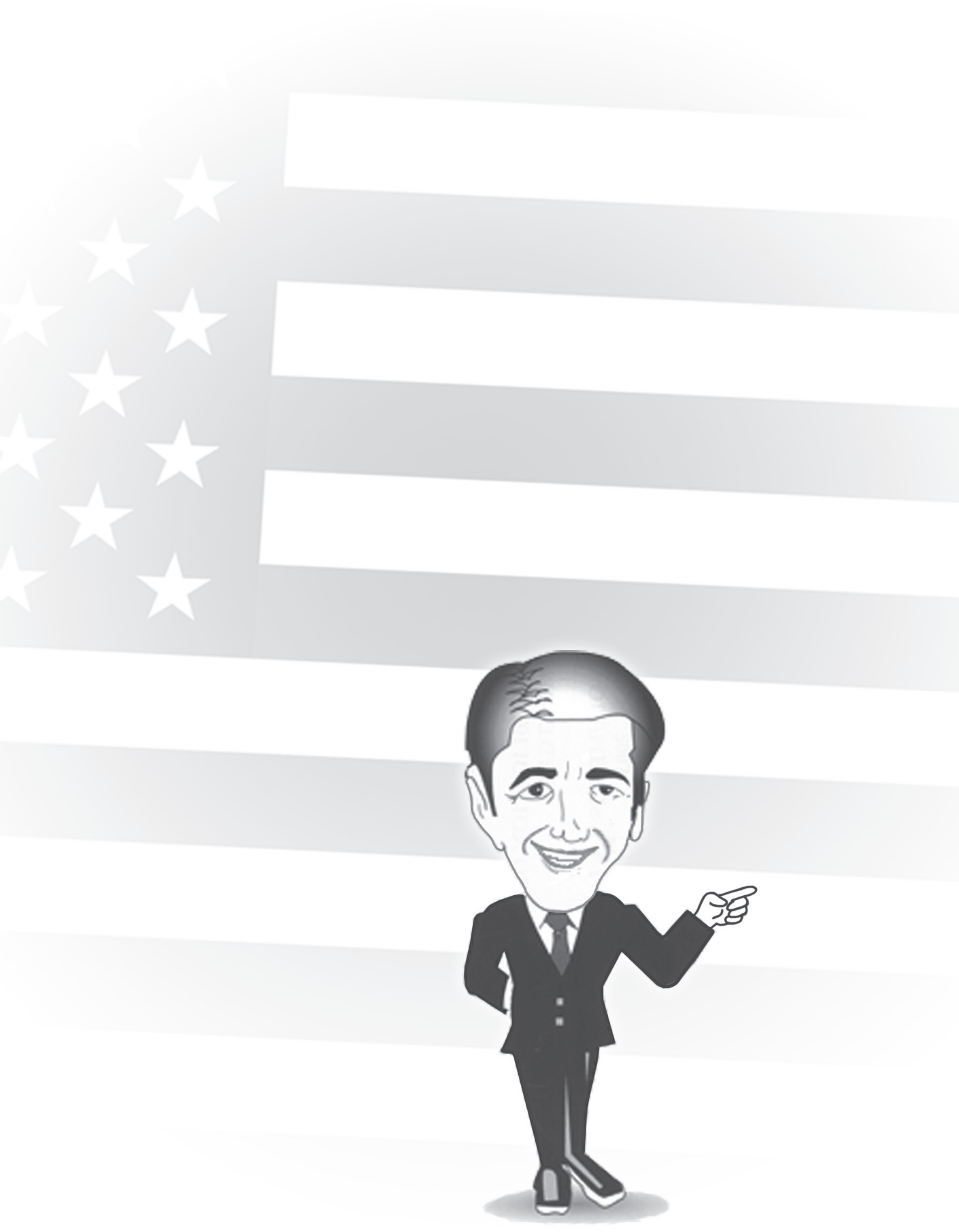
MORTGAGE POWER
An Asset in the Making

BY LLOYD J. STREISAND

Lloyd J. Streisand, Division Vice President & Senior Loan Officer, founded the Streisand Team at Sterling National Bank. Lloyd is a CPA. He and his team are mortgage bankers as well as brokers, and in cooperation with their accountants and financial planners, they offer clients comprehensive financial strategies.



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For my wife, who has always been there for me and is as committed a woman as a man could ask for

For my team, who have been a major part of my ability to develop the ideas in this book and to run a world-class mortgage operation

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CHAPTER

A Plan for Life

When you hear the word "mortgage," what comes to mind?

For most people, two things:

1) Buying a home, or obtaining a loan for a home *you are buying.*
2) Refinancing a home, or obtaining a loan for a home *you already own.*

Both scenarios involve a "new" mortgage with new loan conditions such as Annual Percentage Rate (APR), the mortgage term, and other factors; and this mortgage will likely be the most significant liability you will ever have. What most people don't realize is that they can covert this liability into an asset and use it to accumulate wealth. In effect, rather than let your mortgage sit idly by (as most people do), you can manage it in a *proactive* fashion. I emphasize the word "proactive" primarily because in general, the average American deals with and thinks about a mortgage in a *reactive* manner.

Most people obtain a mortgage and then do nothing else with it until something happens in their life that prompts them to change their mortgage—they get a new job and relocate, they grow out of their home, or some other life-event occurs, such as a change in interest rates. Once a mortgage is in place, they usually forget about it, and sadly, their loan officer often does too.

Most people select a traditional 30-year mortgage without exploring alternatives, and in nearly every case, this is the wrong decision. They get a fixed rate product, make a big down payment, and then apply extra money to the principal each month to pay off the loan early. But unlike our grandparents, we no longer hold the same job for 30 years. Most of us have five or six careers during our lives. In today's world, we can no longer depend on a company pension for a secure retirement, and we no longer live in the same home for 30 years. Statistics show that the average mortgage lasts approximately seven years!

So why are we loyal to an approach that worked for our grandparents but no longer works for us?

As you read further in this book and grow to understand the concepts, you will realize that maximizing the various mortgage opportunities can be the beginning of a much larger vision in your life. As we review the various mortgage alternatives, your opportunities to maximize the value of this investment—and the financial power it will give you—will become clear. I started in the mortgage business in 1993 as a loan officer. I served as a managing partner of an accounting firm for about 10 years, during which time I helped my accounting clients obtain mortgages. My role in part was to supply information to lenders so they could make a decision to approve (or deny) a client's loan application. What I realized during this process was that my clients were limited, for the most part, to one of the following: (1) a 30-year fixed, (2) a 15-year fixed, or (3) a 1-year adjustable rate mortgage.

At that point, I did not completely understand the inner workings of the mortgage approval process. I was adept at making the numbers relevant and understanding the tax implications given the tax code in effect then. The knowledge required to help a client in today's world has changed significantly, and the primary reason is the dramatic increase in the number of mortgage products available. As I became more skilled at helping my clients obtain mortgages, new products came to market, and this gave the borrower opportunities they never had before. With the introduction of adjustable rate products, including the 5-year, 7-year, and 10-year Adjustable Rate Mortgages (ARMs), a smörgåsbord of choices became available. I came to realize that if I could match the correct mortgage product to the particular needs of a borrower, I could help them maximize *both* short-term cash flow and long-term strategies.

My primary objective back then was to learn as much about the industry as I could. I was able to do this because I started with a broker who represented 30 lenders. One might ask what the difference is between one lender and another, and why there are so many lenders. In a conventional sense, you don't need that many; however, if you study the manuals of each lender, you will discover that each lender requires different criteria to approve a loan. Each lender may also specialize in certain types of properties, and they may have rate structures tailored toward meeting their bank's unique financial objectives. For example, some banks prefer to write construction loans while others don't; some work with coops and condominiums, others don't; some will "portfolio" their loans, meaning they do not sell their loans to FNMA or Freddie Mac; and some banks prefer to work with larger loans while others will do all loans.

I spent my first year studying three things: (1) the various bank's underwriting tendencies, (2) the type of borrower they prefer, and (3) the pricing structure they employ for their loans. I studied the underwriting manuals of all 30 banks, and then I endeavored to write a loan with each bank to make sure I understood their unique requirements. My goal was to become an expert. When asked to do a particular loan, I wanted the ability to recommend the very best lender for that loan. As you get deeper into this book, you will learn that selecting the right mortgage professional is a key ingredient to getting on the right track with your life plan because they will simplify the process and help you make the right choices. Qualified mortgage professionals are few and far between, and as a result of recent regulatory requirements, finding the right mortgage professional is now more difficult than ever before.

Commercial Real Estate

Commercial real estate owners are probably the smartest users of mortgages in the world. They understand that certain principles remain constant in the real estate business. One principle is that the market goes *up* and the market goes *down*, and all the while, the basic strategies of investing hold true. Another is that real estate is an asset that grows in value. Wealth accumulates in the property, and to maximize that wealth, it is common for commercial owners to refinance. They borrow against the equity, and in so doing take cash out of the property to reinvest, and at this point that cash is *tax-free* and can be used for other profit-making opportunities. Most people who see these extremely rich commercial investors believe this is really smart, so let me ask you this:

If it works for commercial real estate owners, why wouldn't it work for you?

The simple answer is it will. And this idea underlies all the principles outlined in this book. Commercial real estate owners want to enhance the cash flow of their investments, and they do everything in their power to accomplish that goal. In effect, they are *proactively* managing their liabilities. You will learn that proactively managing your liability—your home mortgage—is as important as any other financial activity you can undertake, and I hope that when you finish reading this book, it will become part of your annual financial review process.

I was very fortunate when I started in the mortgage industry because people had mortgages with interest rates in the teens. Since then the market has changed significantly for the better, and as interest rates dropped precipitously, many homeowners sought to refinance their homes. I was there to help them. For some clients, I have refinanced their home mortgage three to four times in a two-year period. In the process, I have learned a lot about mortgages.

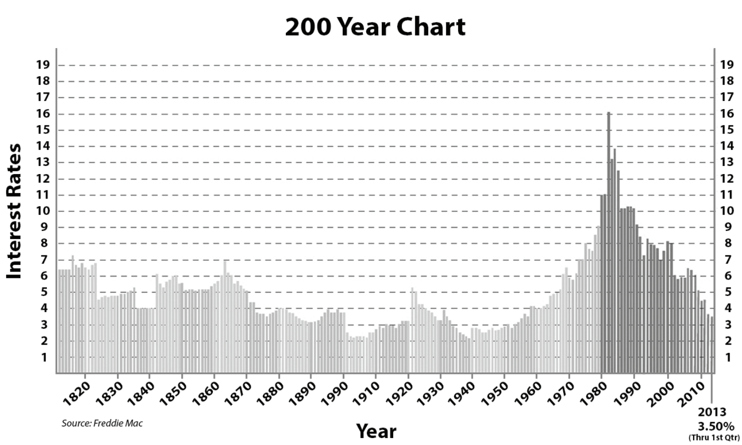

Figure 1-1

My biggest epiphany has been to realize that a mortgage is not something fixed that you must keep for the entire term of the loan; rather, it is a "commodity" you can manage and change at will for whatever reason. Most readers are probably thinking to themselves, "How can you keep changing a mortgage? You can't do that." I can tell you that if you think like that, you will miss out on one of the greatest financial opportunities of your life.

To understand many of the concepts herein, you need to understand how mortgages work and how money works. This is critically important to accepting the ideas I will present you with. Consider the following situation. Assume you have a home valued at $500,000 and you have a mortgage of $100,000. Assume an interest rate of 8% (this is exaggerated in the current market but important for illustrative purposes). Also assume that you have an investment that gives you a return of 6% and you can lock it in. You may think this is unrealistic, but the 6% return is achievable; I just made such an investment. Now borrow $100,000 at a cost of 8% for 30 years. I have calculated the cash flow required to service this loan over that period of time, and it will cost $264,155 to pay off the $100,000. If you invested that $100,000 at 6%, what do you think the value of that investment would be in 30 years? $602,258. You just made $338,103 ($602,258-$264,155).

So would you like to invest the $100,000?

	Borrowing $100,000	**Investing $100,000**
Interest Rate	8%	6%
Value/Cost	$264,155	$602,258
Difference		+ $338,103

In other words, if you free up the $100,000 from your mortgage—money that is normally locked up in the equity—you can invest it to generate a benefit of $338,103. You really don't need to get a return of 6%. All you need is about 3% to cover the cost of the mortgage. What you see from this example is how money works—and I will give you other examples. I considered the extreme of getting returns of 3% and 6% and how it compares to the cost of an 8% mortgage and from the chart above where the average interest rate over 30 years was 8%. Should you concern yourself with rate risk or return on your money? These types of gains are possible even if you refinance with a new 30-year mortgage; however, with the introduction of more creative mortgage products, the opportunity is magnified, and if you use these creative products, rate risk should not enter into the discussion because the return should always be better.

Around 1995, vasrious adjustable rate mortgages were introduced, and they gave the borrower the option of not paying off the principal. In some cases you could extend the life of a mortgage for up to 40 years. In essence, the mortgage world became much more sophisticated. The mortgage "gods" also allowed a fixed adjustable rate term of less than 30 years because they realized that most people do not keep their mortgages for the entire term.

So why have a 30-year fixed rate mortgage when interest rates are much cheaper for a shorter term adjustable rate mortgage?

It doesn't make sense.

Life Planning

Now that I have created a foundation for thinking differently about mortgages, let us focus in on *life planning.* We all seek mortgages for different reasons and at different times in our lives. A young person's needs may be drastically different than those of an older person, yet I believe if you develop a strategy of owning your home with a mortgage, it will lead to a sound financial structure, and the more you know about your individual needs, the better you are able to find the right mortgage product to meet those needs. Remember, a mortgage is a *commodity*. It is not permanent, and it should be managed as a commodity.

To help you develop a proper life plan and determine the best mortgage product, begin by considering the following life criteria to ascertain your needs:

1) What will make me happy as a person (self)?
2) What will make my family happy (family)?
3) What do I need to maximize my business or professional opportunity (business)?
4) What do I need to be healthy (health)?
5) What do I need to create financial security and what does financial security mean to me (money)?

When you consider these questions carefully, you will find that many things come into play with your particular circumstances. Let me discuss a few other questions that might arise as you think about these criteria. *How long will I live in this house? What will my family size be? What does my future look like? Where do I see my career going?*

You can continue to grow this list by asking questions that further address the five major areas: (1) self, (2) family, (3) business, (4) health, and (5) money. Once you answer these questions, you will know how much house you can afford, if the house will be a starter home, and what type of lifestyle you want to lead, and on and on—all of these life criteria are an integral part of the *life planning* process.

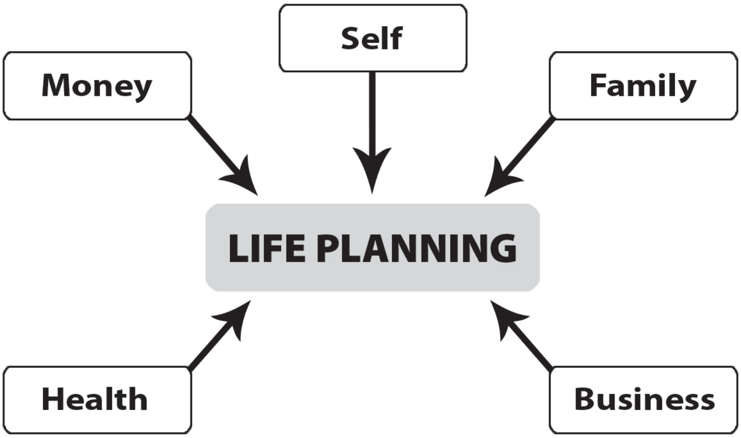

Figure 1-2

If you have, or have ever had, a mortgage, it is likely that your mortgage advisor did not prompt you to consider any of these questions. You probably have either a 30-year fixed rate or a 15-year fixed rate mortgage. As a mortgage professional, I seek answers to these questions because answers allow me to discuss how you can best use the power of your mortgage to accomplish your life goals. This is where the rubber meets the road. My goal is to ensure that you understand your alternatives so you can build the most comfortable life for yourself and your family. In determining the correct balance between life planning and the available mortgage options, I am concerned with affordability, growth, opportunity, and other criteria—and I do my best to minimize the stress of any undertaking and maximize the compatibility between these two important areas.

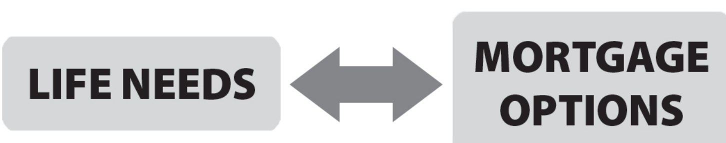

Figure 1-3