CHAPTER 1

Freeing Your Estate from Conventional Thinking

Here's an example of conventional thinking. Talking head after talking head preaches that you make extra payments and pay off your mortgage early. You'll save tens of thousands of dollars in interest and will own your home outright sooner.

What are you doing by paying extra into the home? You are creating a situation that makes the mortgage holder salivate. Each time you pay extra, you place more money in their hands for them to invest for THEIR wellbeing, and you also lower THEIR risk. Let me repeat this. As you put more equity into the home, the mortgage gets smaller, and there is more equity protecting the lien holder in case you can't make your mortgage payment for whatever reason. Death, disability, and divorce are common unforeseen reasons. If their risk is decreasing, what is happening to your risk? It is going up! You have the most to lose if you can't pay your mortgage, and they take your home to auction and only cover what is owed to them, the mortgage balance. Auctions are not meant to protect the seller; they are meant to protect the lien holders.

I had a physician client who had not made a payment to the bank in 28 months on a $1.6M mortgage due to health issues that kept him from working. His monthly payment was around $9,000 and again, he stopped paying it twenty-eight months prior. The amazing thing was the lender, instead of sending him foreclosure notices, was sending him get well cards. The primary reason was his house that was located in Beverly Hills California was currently only worth around $1.4M, and the lender knew they would take a significant loss if they tried to foreclose.

Conversely, I saw another situation where a senior was not able to make her mortgage payments, and like clockwork the foreclosure process in her case was painfully expedient. The reason, as you can probably ascertain, was she had lots of equity in her house. She had dutifully paid down the mortgage balance over 20 years, as conventional financial wisdom commonly suggests. Because her financial situation deteriorated and she couldn't keep up with the payments, she was forced to sell her house in a fire sale before the lender repossessed it.

An Unconventional Approach

Here is what I call unconventional or uncommon knowledge. Instead of paying extra equity into your home, make the exact same payment into a side investment account—something that can potentially earn 5 to 6 percent each year and compound on itself, and is fairly liquid. Even something with surrender charges will work. In the same time you would have paid off your house, the side investment account will have grown to equal your remaining mortgage balance—in actuality, faster. At that point, you can take your side account, pay off your mortgage all at one time and own your home outright. I'll explain ways to help earn the 5 to 6 percent in Chapter 6, but for now, assume you can achieve those results.

There are many advantages to this financial strategy.

First, you have an emergency reserve of immediate cash. Is equity in your home more liquid than a side account? No way. Unless you have a line of credit already established and it hasn't been taken away, like so many have been since 2009, then your equity in your home is stuck.

Without a pre-existing line of credit, you could apply for a line of credit, refinance your mortgage, or sell your home to unlock the equity to pay for your emergency. Today, all three choices are exceptionally difficult and time consuming. In an emergency, you usually do not have the luxury of time.

Second, by not paying down your mortgage, you will retain more mortgage interest to deduct on your tax returns, which will give you greater tax rebates from Uncle Sam. If you really want to be aggressive with your saving, take the rebate generated from the interest deduction and deposit it in your side account. There is a limit to mortgage interest that is deductible, but most homeowners are not affected by the limit.

In Summary

The point of this example is this: An idea might sound good on the surface, but only until you dive in and begin to analyze the logic behind it do you get the right answer, which can be very different or even the exact opposite. Conventional thinking in finance has caused a lot of pain and hardship for people, and often it has been promoted by the groups that have a vested interest in staying the course.