Mortgage Acceleration
Equity Optimization
Primer

Learn what you need to know before implementing a mortgage acceleration strategy.

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Introduction

Congratulations on taking the next step to educating yourself on adopting better financial practices. What you have stumbled upon is one of the most powerful financials strategies you have ever encountered. This Primer is written to help you cut threw the chatter to help lead you to the next level of discovery. Using a HELOC to payoff your mortgage? The various messages you are seeing, reading and hearing on the Internet are informative, but they are not educational. You are being informed on how it works, you are not being taught how to do it.

Before you jump in you need to understand you will need far more education than you receive from the internet. Many people rely too heavily on the internet as their educational resource. When I talk to those people they generally inform me that they have it “figured out”. Many of those people come back for more information later when they realize the internet had let them down.

You don’t want to “figure it out”. You want to ***know*** what you are doing! You are not shopping for a product. You are pursuing the knowledge and expertise to implement a new financial model. In the traditional model of banking and borrowing there are several components and procedures working together. This is no different. Someone along the way taught you how to manage your finances. You weren’t born with the know-how. This is no different. You need to be taught how to run the new model. This is the “product” you are after; the education, knowledge and expertise to implement and execute this new financial model at the highest possible level of safety and efficiency.

I have conducted 10,000’s of subject specific interviews over the last 10+ years. There are varying levels of understanding and comprehension from one person to the next, but I can assure you of this; no one knows 100% of what they need to know to do this properly. This paper is presented to help you through the discovery process so you can make a wise decision. No sales pitch, no hype and jolts, just nuts and bolt.

Forget and disregard what you’ve seen, read and heard on the Internet.
The Internet is not where you go to learn everything about everything. Most of what you learn from the internet is only there to help you understand a concept or product and drive you to one provider or another. Most of the information on the internet is primarily marketing material. The Internet does not and can not teach you everything you need to know about deploying this strategy. In fact, the internet will only teach you a fraction of what you really need to know.

Suitability should be your first priority. Just because it sounds good doesn’t mean you should be doing it. You’d be wise to have a thorough inside-out (nuts and bolts) analysis conducted by an expert before following someone’s outside-in recommendation or opinion (hypes and jolts). You want to see the numbers in action to see how this will play out.

How to structure your financing; 1st or 2nd lien position HELOC. Just because the internet tells you the default method to implement this strategy is a 1st lien HELOC, that doesn’t mean its right for you or that is what you should do. You should have an expert help you look at all your options to ensure you make the right choice.

Getting the right HELOC. HELOC’s are not created equal and if you don’t know what you are looking for you won’t know if you’ve secured the right or wrong HELOC. You should deal with an expert who knows the national HELOC market. FYI: receiving a list of banks does not mean the provider knows the nuances of various HELOC offerings. Have the right expert help you choose the right HELOC.

Implementation and Execution. How are you going to manage your finances on a day-to-day basis with this new model of banking and borrowing? How will you know how you're doing or if you are achieving at the highest level? This is where the rubber meets the road as it pertains to speed and getting your debt paid off as fast as possible. Whether it be learning how to play guitar, golf or investing in the stock market; you need some level of advanced education and training to do it right.

It is suggested you read this Primer in conjunction with our free whitepaper; Dance with the Devil and free ebook; Offset Accounting: The Accounting Principles that drive Equity Optimization. Combined they bring the concept into better view so you will have a clearer understanding of how this works when you see it in amortized form.

Again, you are embarking on a journey of discovery into a financial model that will change your world. It can also change the financial landscape of your family for generations to follow. Before you can make a decision you need to quantify and qualify every recommendation or opinion. Don't take anyone's word for it. You want to see the numbers yourself as well as run the calculations. Numbers never lie and if you can quantify and qualify the results with the numbers then you should feel 100% confident in your decision.

Do not rely solely on the internet for your education.

The Internet should not be your primary source of education if you are considering this new model of banking and borrowing. The information found on the internet is designed to teach you *about* the concept. It is <u>not</u> designed to teach you *how* to do it. You should strive to learn as much as you can by talking to a how-to-do-it expert. Again, don't rely solely on the interest. The internet cannot teach or address the multitude of variables that must be accounted for during your decision process.

The internet will also lead you down a road of thinking you are in search of a particular product; mainly a specialized HELOC. Again, the internet is leading you down a false path. A 'specialized' HELOC is not necessary for implementation. More importantly, specialized HELOC's are virtually impossible to find. A conventional HELOC and conventional checking account is all you need to implement this program. However, all HELOC's and checking accounts are not created equal and you should know what you are looking for before you pull the trigger. The last thing you want is a HELOC that will restrict how you live on a day-to-day basis or hinder the ultimate goal; the acceleration process of eliminating your mortgage.

The HELOC is simply a tool within the new model.
Collection of the proper tools/products is paramount to your success.

If you qualify as a suitable candidate and you decide to move forward; knowing how to actually run this new strategy on a day-to-day basis is paramount. To be successful you must develop the expertise to implement and execute the various strategies and techniques at the highest degree of safety and performance. When comparing your provider options choose the resource that has demonstrated a long history of working exclusively within this strategy. Choose a resource that does not limit your ability to access their counsel. Choose a resource that will provide ongoing, unlimited training and support.

The new model, the strategy is what you are after. <u>The model is the product.</u> Within the new model are requisite tools, but more importantly, there are critical rules of engagement, strategies and techniques on how to use the tools within the model. The internet is not the expert. Hire an expert via a consulting service or a DIY course because the internet can't customize or account for your unique budget or circumstance.

How it works

This strategy is very easy to understand. The difficulty in understanding how it works and the associated benefits are a result of a lack of analysis and making comparisons through the conventional lens.

The conventional or traditional model of banking and borrowing is the problem. The traditional model dictates your progress. You may have the lowest interest rate money can buy, earn a good living, carrying very little or no debt and you have positive monthly cash flow…so why aren't you making any substantial progress on your traditional mortgage? You will never win working within the conventional model. You might gain some ground by deploying traditional strategies, but the traditional model will always win. **You have to change the model if you want better results.**

Part of your education process should include an analysis of the traditional model so you have a better understanding of why you should start questioning the traditional model more and the new model less. Once you understand why your financial progress in the traditional model is so poor you should start questioning why you want to continue working within such a poor performing model. You have to understand what is happening to you today before you can understand what the new model can do for you tomorrow.

To boil how-it-works down to its most basic explanation…you are moving checking account activity to a HELOC. When you make this transition your deposits and withdrawals will be working a little differently. The difference is caused by an outstanding balance in the HELOC. Income is subtracted from the outstanding principal balance and withdrawals are added. The exact opposite of how deposits and withdrawals work in your checking account. When operating the strategy…

- Income going into the HELOC acts as a large payment, suppressing the balance to its lowest level thus turning your income into an interest savings mechanism. You don't pay interest on money you don't owe.
- Income comes back out of the HELOC for expenses. The HELOC provides 100% liquidity so you can go get what you need to pay your bills. Not in the same way you do today, but same principal.
- Reconcile at the end of the billing cycle: Income less expenses equals net payment against the debt balance for that billing cycle. *Net monthly payment = positive monthly cash flow...the accelerant!*
- In the traditional model deposits and positive monthly cash flow provide no return. In the new model 100% of your income is either saving you interest or paying back the debt. Is there anything more efficient than 100%?

It's really that simple. The complexities come with how to do it.

The HELOC…Why is the HELOC used with this strategy?

Forget everything you've seen, read or heard on the internet about why a HELOC is used in this strategy. A HELOC is the only debt instrument that provides liquidity. That's it!

If you are going to apply 100% of income to the HELOC balance you better have 100% access to what you need to feed the family and keep the lights on. You can't hand over 100% of your income to a traditional mortgage. They'll hand you an application instead of cash when you need gas and groceries. With a HELOC you can get what you need without an application or anyone's permission. The HELOC = Liquidity!

Interest

The internet…and various purveyors…will lead you to believe interest is calculated differently in a HELOC than a traditional mortgage. Nothing could further from the truth. Interest on ALL debt is calculated exactly the same. The only difference is whether interest is charged on a daily basis per days in the billing cycle or on a 12 month basis. DO NOT let anyone try to convince you otherwise. Make them prove it via the math. Make them quantify and qualify their claims. If they cannot then they are only delivering their opinion and you should not be basing your decision on an opinion.

This is how interest is calculated on every debt you've ever had or will have…

Balance x interest rate / 365 (days) x days in the billing cycle = interest owed.
Traditional mortgages divide by 12 months vs. daily x days in the cycle.
You can verify this for yourself by performing this calculation on your own debt.

Again, the ONLY reason a HELOC is used is the need and ability to retrieve the money needed to feed your family and keep the lights on. Don't let anyone try to convince you otherwise unless they can prove it with the numbers. HELOC = Liquidity!

Interest…traditional myths

Compound front-end loaded interest?

Be wary of any informational resource when they are spouting off about conventional mortgages charging compounded or front-end loaded interest. This is the biggest myth associated with conventional mortgages. And you don't have to believe me either. You can quantify and qualify my statements by running the numbers yourself.

Compounded interest

Charging compounding interest on a debt is illegal. Creditors can not charge interest on interest that has already accrued. They can only charge interest on the outstanding principal balance during the billing cycle. Compound interest only works on the asset side of the ledger…earning interest on interest earned. Conventional mortgages actually produce compounded interest *savings*.

Front-end loaded interest

Riddle me this; how can you pay front end loaded interest if the interest you pay accrued 30 days before it was paid? You always pay interest in arrears so how can we pay front loaded interest that hasn't accrued? Front-end loaded interest…it's completely false! Test it; multiply your current balance by the interest rate and divide by 12. Save the number and compare it to the interest charges on your next statement. I am 99.9% sure the numbers will be the same. Traditional mortgage interest calculation: Balance x interest rate / 12 = interest due.

Compounded interest is illegal and front-end loading interest is impossible. We pay so much interest up front because interest is always being calculated on the highest possible debt balance: the higher the balance the higher the cost. And…the only part of your monthly mortgage payment that is amortized is the principal portion. Interest is not amortized! The interest calculation is simple interest. Balance x rate / 12 = interest owed.

Any HELOC?

All HELOC's are not created equal! You can walk into 100 banks and while in the lobby all HELOC's look identical: a revolving line of credit secured by the equity in your home. **They are not all the same.** The changes come from behind the lobby walls where policy, procedures and loan parameters are established. Rates, terms, transaction restrictions, repayment terms, etc all come from the back office. And the lobby employees may not even be aware of all of the nuances of their own product. Don't rely on the banking community. You have to be self reliant and know what to ask and what you are looking for before you start applying for a HELOC.

This is critical…the right HELOC will dictate how you will manage your finances on a day-to-day basis. Proper functionality dictates results. Getting the wrong HELOC can put you in a bind and hinder performance.
Get the right HELOC!

1st lien or 2nd lien HELOC

The internet…and various purveyors…will lead you to believe a 1st lien HELOC is the default method of implementing this strategy. NOTHING COULD BE FURTHER FROM THE TRUTH!! A 1st lien HELOC translates into refinancing your traditional mortgage into one big HELOC. You could do this, but understand you will be exposing the bulk of your debt…possibly a very large six figure number… to a variable interest rate that is going to move. Even the slightest of increase can cut deep into your monthly positive cash flow thus slowing the acceleration process. A 1st lien HELOC is <u>one</u> way to do it, but it is <u>not</u> the only way. This is very, very important for you to understand…

The lien position or size of the HELOC has NO bearing on acceleration!

The acceleration process is driven by month end positive cash flow not the HELOC itself. Remember, the HELOC is a tool within the model; it is not the model in and of itself.

You can achieve the same or better results with a 2nd lien HELOC than you can with a 1st lien HELOC. A two loan scenario mitigates your risk. Disregard anything you hear as it relates to a 2nd lien HELOC carrying a greater degree of risk. There is nothing further from the truth. Any associated risks fall on both sides of the fence; 1st or 2nd. Before making a final decision make sure you see a side-by-side comparison so you can quantify and qualify your decision based on the verifiable results. The numbers won't lie to you.

**If you don't have the equity in your home to obtain a HELOC (Home Equity Line of Credit) you can implement and execute the strategy with a PLOC or unsecured line of credit. They both function the same way.

The variable interest rate

Don't make a decision based on an interest rate. That is a top down approach vs. a bottom up approach. Interest rate does play a factor, but it shouldn't be the determining factor in choosing a HELOC. The interest rate doesn't cost you the money…the balance costs you the money.

Here's what I mean: if you have $50,000 HELOC at 5% with a $0 outstanding balance what is your cost? $0. What is your 5% interest cost with a $10,000 balance? $41.10. With a balance there is cost. Without a balance there is no cost. The balance costs you the money. When you adopt this strategy you will become a balance driven individual. Interest will take care of itself. How you operate the new model will dictate your overall cost vs. the interest rate. An important note, if you drive the balance down faster than the interest can keep up you are virtually interest rate immune. *When you are outpacing the interest rate your interest payment can actually fall even when the interest rate is going up.*

Choosing a provider

You have various resources and choices when it comes to obtaining the required knowledge and expertise to implement this strategy. When choosing a provider you want to be hyper focused on their business model, their agenda, and their longevity in this arena. More importantly; how extensive is their service and experience as it relates to program customization and continued support. The latter should be critically important in your decision process.

Critically important provider criteria…

- Provides a dedicated strategist from inception. You don't talk with a new, unknown Financial Planner every time you want to discuss your retirement portfolio. You want a dedicated relationship on the debt side of the ledger too.
- A dedicated strategist that has personally worked extensively with a variety of homeowners over an extended period of time. 25 year olds in a cubicle don't qualify as your strategist.
- Avoid companies that make you shop for your own HELOC without arming you with at least a Q&A interview worksheet. A list of banks is just that; a list of banks. If you don't know what to ask you

won't know what you are going to get. It's not about interest rate, it's about *functionality* between HELOC and checking. Functionality trumps interest rate!

- Avoid companies where you may be dealing with a Customer Service rep in an unknown call center every time you need help or have a question. You don't want to explain your situation every time you make contact with them. You want to work with someone who knows you and is readily available at any time of need.
- Don't rely on companies whose social media network is your primary contact point when you have questions or problems.
- Avoid companies whose agenda isn't inline with yours. Nobody should be telling what to do with this strategy or pushing you down a path you don't want to travel. This is about your life not theirs.
- *Choose a provider that gives you access to their customers. There is no better source to validate the provider's claims then a customer.*

You will be learning and deploying something new. You want a provider whose agenda is your agenda. You want to choose a provider that will be in our corner at all times. You want a provider that will pick you up and carry you throughout the process to ensure you reach your goals as fast as possible. Like HELOC's; all providers are not created equal.

Your options to implementation

You will be faced with the following choices in how you implement a mortgage acceleration strategy.

Do It Yourself/DIY : You will be left to your own devices. You will not have an expert looking over your shoulder to make sure you are making all the right moves. You are on your own to find your HELOC. All HELOC's are not created equal so make sure the DIY course you purchase is very explicit about identifying the right vs. wrong HELOC. You will rely on the DIY material to learn how to manage income and expenses. This can get very tricky depending on the complexities of your personal budget, lifestyle, etc. How you get paid, when you get paid, who you pay, when you pay them and how you pay them within the confines of the strategy are all critical factors when it comes to success. DIY programs are not recommended if you do not have the time or confidence to implement and execute the model at its highest degree of efficiency.

Software: Plug in the software and it will lead you to the promised land? False. Software is just another tool within the model. Software isn't even necessary to implement or execute the strategy. Software's primary role is to help you track and manage your progress. Software can not teach you how to obtain the right HELOC. Software can not teach how to customize the program to fit your unique budget or circumstance. This is why you should not rely solely on software. You want to compliment your software purchase with a solid DIY course and/or one-on-one help.

Consulting Services: You will be hiring an individual or company to help you obtain your HELOC, teach you how to implement the strategy and hopefully provide ongoing support to ensure you are getting the most out of this new model of banking and borrowing. Personalized, one-on-one counsel and support is recommended if not critical to your success. Having an expert in your corner is worth the money spent.

In Conclusion

Your decision to implement this program or not is an important one. Don't take it lightly. How and with whom you choose to work with is equally important. Hopefully the information you just read helped clear your view in how to proceed. The internet is not and should not be your sole source of education. There is too much you don't know and won't find on the internet. Hiring or obtaining the knowledge and expertise is critical to your success or failure. It is recommended you refrain from self-implementation of this strategy if you are not going to seek the advice of an expert.

Notes