1% Cash Flow Arm Mortgage Sales Equity Stripping

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Mortgages

- What kind of mortgage do you have?
- What kind of mortgage do your clients have?
- What kind of mortgage do all the people you want as clients have?
  - 30 year fixed
  - 15 year fixed
  - 1,3, 5 year arm
  - Interest only
  - Libor
  - Libor +
  - WHY?
- WHY?

Why?

- Why do you have that type of a loan?
  - Because that’s all you know.
- Why do your clients have those types of loans?
  - Because that’s all they know.
  - Because that’s all their mortgage broker, insurance agent, CPA/accountant and attorney knows.

Mortgage basics

- Which type of traditional loan is better? ARMs, interest only, 15 or 30 year fixed?
- People buy a 15 year loan because they can pay it off quicker and because the mortgage rate is slightly lower.
- People buy arms and LIBOR loans because the want the lowest rate with a P&I loan.
- People buy interest only because they simply want the lowest payment.

What about a 40 year amortization?

- Most clients and advisors don't know that you can buy 40 year amortization loans.
- It is a good idea?
- Absolutely.
- A CWPP™ advisor is about protecting the client and giving them options.
- A 40 year (50-60 year would be even better) is a great idea because it lowers the client's payments.
- But won't it take longer to pay off the home?
- NO. The client can still choose to make payments as it he/she had a 15 year mortgage.
- The longer amortization simply allows them to make the lower payment should they have a short term cash crunch (disability, loss of job, whatever).

What about a 1% mortgage?

- Would you or your clients want a 1% mortgage?
- Sure. Too bad it doesn’t really exist.
- Would you or your clients like a mortgage payment that is based on a 1% start rate*?
- Sure.
- *The 1% start rate can vary per lender and varies due to the interest rate environment.

Why you should learn and sell the 1% cash flow arm

- The 1% cash flow arm (CFA) is NOT for clients who want to pay off their homes.
- The 1% CFA is for clients who want to
  - implement tax favorable planning and
  - build the most wealth possible for retirement
- The question is simple, would you or your clients like to borrow money where the payment is based on a 1% start rate and invest the borrowed money in a tax deferred or tax free environment?
- Absolutely.

Mechanics of the 1% cash flow arm.

- 1% option arm is a five year arm where the **payments** of the arm increase at the rate of 7.5% a year.
- It is not a 1% loan.
- The ultimate rate charged to the client is however linked to a measuring index such as LIBOR or MTA (monthly treasury average).
- In addition to an interest rate linked to an index, there is a “margin” charged to the client.
- This creates a situation where there can be a “deferred interest payment” due at the end of the 5th year.

Continued (Example)

- Loan amount = $250,000; Margin = 2.450%; LIBOR Index = 2.590% (02/18/2005)
- “Fully Indexed” is the margin + index, i.e. 5.040%.
- 1% “Minimum Payment” arm: A starting minimum payment is calculated by using the loan amount over 30 years at the start rate (1.25% for example). This gives the first year minimum payment of $833.13.
- This is a “plug number” calculation, used just to determine the starting minimum payment.
- The “Minimum Payment” for the following year is calculated each year based on the “fully indexed” number on the anniversary date.
- However, the payment amount cannot change by more than 7.5% each year.

- If continued payment of the “minimum payment” results in “deferred interest”, as in this case ($1,050.00 - $833.13 = $216.87/mo), the mortgage is “recast” every five years with a new “minimum payment” to keep it on track to reach a zero balance at the end of the original 30 year period.
- Having said that, the client will typically roll the deferred interest into the new 1% CFA to keep payments low so money can continue to be invested.
- Additionally the appreciation in the home should, in most cities cover the deferred interest charge upon sale.

Continued

- What would the client normally have done if he/she didn't use the 1% CFA?
- The client would have traditionally had a 6% 30 year mortgage.
- The client would have very high mortgage payments, thereby not freeing up extra money for investment.
- In the <u>real world</u> when clients use this loan, they traditionally will refinance back into the 1% arm every 3-5 years.
- This keeps their payments to a minimum and allows the maximum amount of money to be used for investment purposes.

Example ($400,000 loan)

- The **payments** of the arm increase at the rate of 7.5% a year.

Option Arm Cash Flow Analysis	30 Year @ 6.000%	Option Arm @ 1.000%	Option Arm Cash Flow Over Other
Year 1	$28,778	**$12,137**	$16,641
Year 2	$28,778	**$13,047**	$15,731
Year 3	$28,778	**$14,026**	$14,753
Year 4	$28,778	**$15,078**	$13,701
Year 5	$28,778	**$16,209**	$12,570
5 Year Totals	**$143,892**	**$70,497**	**$73,395**

Life and Annuity Sales Equity Stripping

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How do clients buy life insurance and annuities?

- Post tax if an investment.
- Sometimes in a qualified plan or IRA (bad idea for life insurance and can’t be done in an IRA).
- VEBAs/419e plans (client can’t borrow the money).
- Would clients like to buy these investments with tax favorable dollars?
- Yes.

Continued

- 1% CFA.
- If your clients could borrow money at 1% and invest it into life insurance which should earn 5-8% would they do it?
- Would your clients be interested in a 1% home mortgage?
- Would you be interested in a 1% home mortgage.

Annuities (400k loan) investing just the money saved by lowering payments

Cash flow Cash Flow Analysis	30 Year @ 6.000%	Cash flow @ 1.000%	Cash flow Cash Flow Over Other
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Cash flow Investment Analysis	Equity Indexed Annuity @ 8.00%
Year 1	$17,972.64
Year 2	$36,399.99
Year 3	$55,244.69
Year 4	$74,460.87
Year 5	**$93,993.03**

Retirement Income

- If the client at age 63 started taking money out of the indexed annuity, he would be able to take out $28,000 each year for 20 years (the growth above basis would be income taxed, thereby netting **$18,450** a year after tax).

Continued (what about LI)

- If the client took the money saved from the first five years (from the example on slide 12) and invested it into an equity indexed life insurance policy earning 7.9% a year, the client could take out of his life insurance policy **$22,000** a year income tax free from age 63-82.

What did we do different for the client?

- Nothing really.
- We simply converted their 30 year mortgage into a 1% CFA mortgage.
- We did not complicate the client’s life or have the client take more money out of pocket to invest.

Equity Stripping

- Would a client refinance a property if they could have payments on a <u>1%</u> loan and invest the borrowed money in a tax favorable environment*?
- Many would say YES.
- ES is all about the numbers. If client is adverse to debt they will not like ES.
- If a clients wants to maximize their assets to create the largest retirement nest egg, then they will love ES.
- We are simply taking dead equity out of an asset (typically a home) and investing it somewhere where the money can grow tax free and potentially come out tax free.

- Subject to IRS Publication 936.

- Example: assume a client has a $1,000,000 home with no debt or very little debt.
- Assume the client decides to sell the home and buy a new home.
- In that process, assume that he removed **$600,000** of equity from the sale of the home and invest it for retirement income later.
- Assume the client used the 1% option arm and is in the 40% tax bracket.

Out of Pocket Interest

Option Arm Cash Flow Analysis	Option Arm @ 1.000%	Cost Out of Pocket After Tax
Year 1	$18,206	$10,923
Year 2	$19,571	$11,743
Year 3	$21,039	$12,623
Year 4	$22,617	$13,570
Year 5	$24,313	$14,588
5 Year Totals	**$105,745**	**$63,447**

Annuity continued

- If the money continued to grow at 8% until the client reached age 63, he could take out $296,000 each year for 20 years. The client would pay income taxes on the amount above basis in each payment. After income taxes on the growth at 40%, the client would be left with $159,000 a year.

Annuities

- If the client took the $600,000 and invested it returning 8% in an indexed annuity, the numbers would look as follows at the end of five years:

Year	Start of Year Balance	Contribution	8.00% Growth	Year End Balance
1	$600,000	$0	$48,000	$648,000
2	$648,000	$0	$51,840	$699,840
3	$699,840	$0	$55,987	$755,827
4	$755,827	$0	$60,466	$816,293
5	$816,293	$0	$65,303	$881,597

Investing in life insurance.

- If the client invested the $600,000 into an equity indexed life insurance policy earning 7.9% a year, the client could take out of the life insurance policy **$191,000 income tax free** for 20 years starting at age 63 (plus the client would have a sizable death benefit to protect the family).

Summary on Equity Stripping

- Equity stripping/harvesting is a very powerful tool especially when coupled with the 1% option arm.
- This is a tool that you can use for yourself and for many of your clients.
- It’s something that few advisors are talking about with clients.
  - Because financial planners, insurance agents and CPAs/accountants don’t usually sell mortgages
  - Mortgage brokers do not usually sell LI.
- And virtually no one deals with the 1% CFA.
- This concept can make you unique and make yourself significant amounts of extra money.

Mortgages

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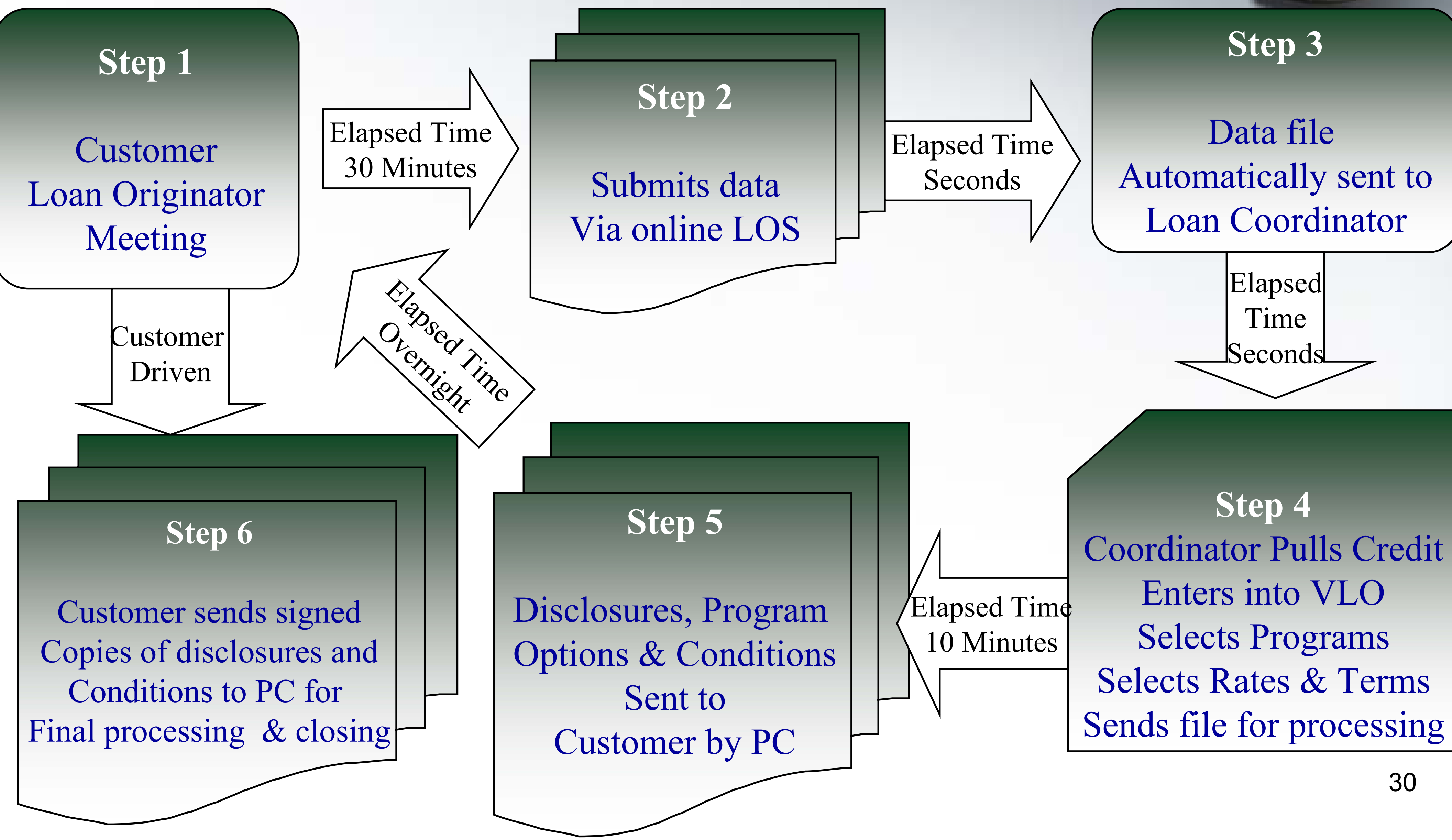
Mortgages

- Why should you incorporate mortgages into your practice?
- You can benefit your clients (by giving better advice).
- You can make significant money from the mortgage business.
- You can “find” money for clients to invest in life insurance or annuities (even in the face of rising interest rates).

Aren't loans a pain?

- They can be, but…
- Would it help if you could take applications from clients in less than 30 minutes and have them submitted all through the internet.
- Would it help if you had your own loan coordinator who really does all the work to get your loan coordinated and through the system?
- Would you be interested in a model where all you had to do is to turn a client over to a loan professional who will take care of all the paperwork and the closing (this model pays you less).

Work Flow Process



The Advantage…working with The WPI

- Access to a national correspondent base of over 250 lenders, banks and investors including:
- Citibank
- Washington Mutual
- Chevy Chase Bank
- Countrywide
- Indy-Mac Bank
- Flagstar Bank
- Wells Fargo Bank
- World Savings Bank

Product Types

- Access to all product types and competitive pricing, including:
  - "A" thru sub-prime credit capability.
  - Purchase, refinance and 2nd mortgages
  - Conventional and non-conforming products
  - Government programs – FHA & VA
  - Interest Only Fixed Rate & ARM Products
  - Hybrid – Option ARM Products
  - Fixed Rate Maturities Through 40 years.

The Typical Compensation Model
Assumes: $4,000 Net Commission

Contract Level	Additional Overrides	Compensation	Promotion Guidelines
20%	Infinity Overrides	$800	Minimum $1,500/Month
30%	Infinity Overrides	$1,200	Minimum $2,500/Month
40%	Infinity Overrides	$1,600	Minimum $5,000/Month
50%	Infinity Overrides	$2,000	Minimum $10,000/Month
60%	Infinity Overrides Generation Overrides	$2,400	Minimum $20,000/Month
70%	Infinity Overrides Generational Overrides	$2,800	Minimum $25,000/Month
80%	Infinity Overrides Generational Overrides All-Company Override Pool	$3,200	Minimum $50,000/Month 5 Qualified RM’s
90%	Infinity Overrides Generational Overrides All-Company Override Pool	$3,600	Minimum $100,000/Month 10 Qualified RM’s

How much is available on each loan?

- With the 1% CFA usually the total available is 3% of the loan balance (which is cut up to pay everyone).
- One a typical 30 year conventional, the amount is typically 1.5-2%.
- So on a $500,000 loan the amount on the table is $15,000 for a typical 1% CFA.
- How many clients of yours have $500,000 homes with debt that could re-finance into the 1% CFA?

Can I Make Money If I Just Write Loans?

Personal Loans Monthly	Gross Revenue/File $4,000	Contract Level	Net Mo. Earnings	Annual Earnings
5	$20,000	50%	$10,000	$120,000
5	$20,000	60%	$12,000	$144,000
5	$20,000	70%	$14,000	$168,000
5	$20,000	80%	$16,000	$192,000
5	$20,000	90%	$18,000	$216,000

Recruiting a team

- Many advisors will recruit other local advisors to sell mortgages.
- If you do that you can make overrides on that business.
- JV business with local real estate firms and local contractors.

The bottom line

- You should be dealing with mortgages in your business.
- It is easy, good for the client and you can make a nice ancillary income.
- How do you start selling?
- You can do your own research or if you would like a referral to the educational board members from the WPI, please e-mail me at info@thewpi.org.

Summary

- The 1% CFA is a great program and a great door opener.
- Equity Stripping is a viable tool to help your clients build wealth.
- Selling mortgages in your business is a nice simple non-confrontational way to make more money in your practice.

Questions?

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Overview for the Professional Designation: CWPP™ (Certified Wealth Preservation Planner)

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What do Advisors want?

- To earn more money?
- To have more knowledge than other advisors?
- To provide better advice to clients on multiple topics?
- To be more credible than other advisors?
- A team of advisors for support and back office when dealing with “advanced” planning.
- The ability to market to CPA, Attorneys and physicians through continuing education credit.
- Are these of interest to you?
  - If so you are a candidate to become an APP™ or CWPP™

The WPI and CWPP™/APP™

- What is the Wealth Preservation Institute (WPI)?
  - The **only** educational entity in the country devoted to provide education on **“advanced” planning (**asset protection, tax and estate planning)
  - The **only** entity in the country focusing on topics that apply mainly to the **high income/net worth client**.
  - Certifying entity for the CWPP™ designation.
- The CWPP™ course is a 24 hour certification program which can be taken all online or in person.
- The Asset Protection Planner designation is for those simply want to deal with AP (12 hours).

Marketing

- The WPI helps is certified advisors market in two several very unique ways.
- 1) The ability to become an instant author through a 340+ page “ghost book.” You can read the table of contents at http://www.thewpi.org/newindex.php?dept=51&pid=495
- The WPI will allow CWPP™ advisors to give CPE continuing education courses on a local level to CPAs and accountants.
- The WPI has a number of articles that CWPP™ advisors can use to place in local medical, accounting, legal and other business journals.

Topics

- What topics are covered in the CWPP™ course?
- **Asset protection (3 hours)**

  -Domestic

  -Offshore
- **Deferred Compensation (4 hours)**

  -WealthBuilder® Annuity; Traditional NQDC and the Leveraged Bonus Plan®

  -Qualified plans/412(i) plans

  -ESOPs

  -IRAs
- **Business Planning (6 hours)**

  -Account Receivables (A/R) Leveraging

  -VEBAs and 419A(f)(6) Plans

  -Section 79 Plans

  -Closely Held Insurance Companies

  -Corporate Structure

Continued

- **Estate Planning (8 hours)**
  -Basic
  -“Advanced”
  - Life Insurance
  -Premium Financed Life Insurance
  - Medicaid Planning
  -Qualified Pension Insurance Partnership®
    (Mitigating the 75% Tax Trap)
  -Charitable planning
  -Long Term Care Insurance
- **Personal Finance (4 hours)**
  -Annuities
  -Life Settlements
  -Reverse Mortgages
  -Private Annuity Trust

Next Seminar?

- The next in person seminar is in NJ on the 15-17th of November.
- The course can be taken completely online.
- The next in person seminars are:
  - **February 22-24, 2006 in Dallas, TX.**
  - **March 14-16, 2006 in San Diego, CA.**
- Group discounts. If you have 5 or more advisors who want to take the course, please contact The WPI for information on course discounts.

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