

Proper Mortgage Planning in Lehman's Terms, by Daniel Lehman, is a consumer's guide that explains everything from interest rate fluctuation and how lenders are paid to how to pay off your home in a fraction of the time without any change in spending habits.

Proper Mortgage Planning in Lehman's Terms

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PROPER MORTGAGE PLANNING
In Lehman's Terms

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Daniel Lehman
2008

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Introduction

“In the word mortgage, the *mort-* is from the Latin word *mori* (via old French *mort*) for death and *-gage* is from the sense of that word meaning a pledge to forfeit something of value if a debt is not repaid. So *mortgage* is literally a death pledge.”

In the past, mortgage planning was simple, because life planning was a lot simpler than it is today. You could go to work for a big company and buy your home with a 30-year fixed loan. When you paid off your “death pledge,” you could retire and live on your pension and Social Security.

Today, the rules of money have changed a bit. We’ve moved into much more of a global economy, and now big companies need financial advice more than their employees. Approximately 62% of U.S. companies believe that less than half of their employees have accumulated enough assets to retire by the age of 65. About 52% of American households have less than \$25,000 saved for retirement. With Social Security going bankrupt, a comfortable retirement is up to us to achieve on our own, but 22 million American workers have access to 401K plans and choose not to participate.

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The stakes are extremely high when you consider that Americans are spending more than they are saving, Medicare is on course to be completely depleted by 2019, and according to the Census Bureau, by 2030, 20% of America's population will be older than 65. However, we do have an ally in our home equity. About 65% of Americans have more net worth in their homes than all other investments combined. These days, the proper management of home equity can be the deciding factor in whether or not a comfortable retirement is attained.

This book was written with one simple objective: educating consumers. When consumers are armed with information, they're able to make good decisions, and maximize their ability to benefit from them. According to John Hancock Retirement Plan Services, nearly seven out of 10 (69%) participants in 401K plans don't know as much as they would like to about investments. My objective is to give you everything you want to know and more about proper mortgage planning.

When it comes to proper mortgage planning, it's very important to know exactly what you're committing to and why. My hope is that by reading this book, you'll have the information necessary to make smart decisions that will help you to achieve the short- and long-term financial goals you have set out for your family. Along with this, you'll be able to cut through the nonsense of advertising, and eliminate your chance of being taken advantage of by bad players in the mortgage arena.

The first few chapters of this book discuss the history of lending, how loans work, why interest rates fluctuate, the Fed, and other basics of the mortgage market. This section will debunk some misconceptions in lending, and shed a lot of light on how you can really understand what's going on behind the scenes. Who is Ben Bernanke and what is the Federal Reserve? Why is it that when the Fed cuts rates, mortgage rates don't decrease immediately? You'll also have an ability to decode certain advertised lending programs, and make sure the program that you select makes sense for your situation, and doesn't just sound good at the time.

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After reading this section of the book, you'll have a good understanding of the mortgage market and a good base of knowledge as a foundation for the later chapters.

The next couple of chapters discuss some mortgage basics. I'll show you the different types of loan programs and how to choose the correct one for you, as well as discuss points versus no points, interest-only options, and the very tricky one percent option ARM, which is not fully understood by many loan officers, much less consumers. By reading this section, you'll be way ahead of the game. I'll even show you how mortgage brokers are paid, so you can look at the deal you're getting in an objective manner.

The third and most important section of the book is the mortgage planning chapters. I'll show you how to properly manage your liabilities in the same manner a financial planner would manage your assets. The goal in this section is to show you how to properly plan using the leveraging power of your real estate and mortgage in a way that will minimize interest expense over time, maximize rate of return on your portfolio as a whole, and minimize tax exposure. I'll explain the importance of employing a team of financial advisors as you grow and progress.

Your mortgage is a huge part of your overall financial picture. This section will give you a whole new perspective on how to properly plan your mortgage to work with the rest of your financial plan. Along with this, you'll learn the importance of looking at your real estate as part of your overall portfolio. You'll learn how to analyze and correctly decipher what loans go with which properties in your portfolio. The knowledge you'll attain in these chapters is easily enough to save tens of thousands of dollars in interest over the life of your loan, as well as accumulate much more than that in net worth over your lifetime.

As far as "Lehman's Terms" is concerned, I wanted to write a book that would be an easy read, not a textbook filled with unhelpful fluff. There are plenty of books on mortgages, the mortgage process, etc. This book

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explains not only the “what,” but the “why.” You know that mortgage rates go up and down, but why do those fluctuations occur? What are the factors that influence mortgage interest rates, and how can you use them to your benefit?

This flow of this book was adapted directly from the flow of a conversation that I’d have with a client in my office. One of the main reasons I wrote this is because it baffles me how little people know about home loans. I have had new clients who own 10 properties, and still had no idea what a mortgage bond was. Their lender of 15 years never took the time to explain why he chose specific loan programs.

I also tried to write this book in a way that would be relevant in subject matter whether you are a first-time homebuyer or a real estate investing guru. Everyone needs to understand how to properly plan when buying a home or refinancing an existing loan. This book is a great guide for homeowners and homebuyers.

I remember when I first had to get health insurance for my family. I felt like the absolute dumbest person on earth. Between deductibles, co-pays, HMOs and PPOs, I had no idea what I was doing, or which plans to pick, because I had no idea how health insurance worked. There are many industries that are the same way. With the constantly changing nature of the real estate and the mortgage market, this book serves as an important resource that explains in the most transparent way possible how mortgages work, and how you can use them to better your financial picture over the long term. After all, if a home is the biggest asset and a mortgage the biggest liability that most people will ever have, it’s important to understand not just how to buy a home, but how to successfully manage your mortgage.

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