SECTION 1

Where Do I Start?

For most people, that's the $200,000 question. Should I buy? Should I rent? How much cash do I need? Does house hunting or mortgage application come first? Asking one question just leads to three more questions.

Chip clearly remembers the day he first met Bruce and Mary. Bruce was 19, covered in sweat and grease from a local tool and die shop, and Mary was 18—fresh out of school and seven months pregnant.

With no extra money, and seemingly starting life with one hand tied behind their backs, they were given one simple instruction—go see Chip. The forceful directive came from her father, with whom Chip had worked on several mortgages over the years. "Go see Chip, and do exactly what he says," was the order.

Chip feels working with first-time home buyers has been a privilege over the years, but this case was a little different. Dad was a wealthy businessman, but was only willing to help the couple if they helped themselves.

Chip took extra time explaining the home buying process, the power of creating wealth through owning real estate—and more importantly, the concept of "mortgage management." With a REALTOR® by their side, they found a small two-bedroom cottage north of town, and once Dad was convinced they understood the plan, he chipped in the $1,400 gift to get them started. They nervously joined the ranks of millions of other first-time homeowners. *But they had a plan!*

"I remember the closing very well," says Chip, "We actually had to postpone it by a few days, since Mary had just given birth to a beautiful baby girl—the youngest person I've ever had attend a closing!"

Fast-forward 15 years. Chip is standing in a closing room with Bruce and Mary, admiring their now 15-year-old daughter, and reviewing their closing statement for the refinance on their four-family rental property. The property is just one of eight properties that they now own, many of which are free-and-clear of any debt. We're leveraging the property to invest in another multi-family unit. Needless to say, Bruce doesn't work at the tool and die shop any longer!

Simple? Yes. Easy? No. They made plenty of sacrifices over the years, but Chip gave them a plan. They listened, they learned, they executed. You can do the same thing yourself!

So where do we start? At the beginning, of course!

MYTH # 1

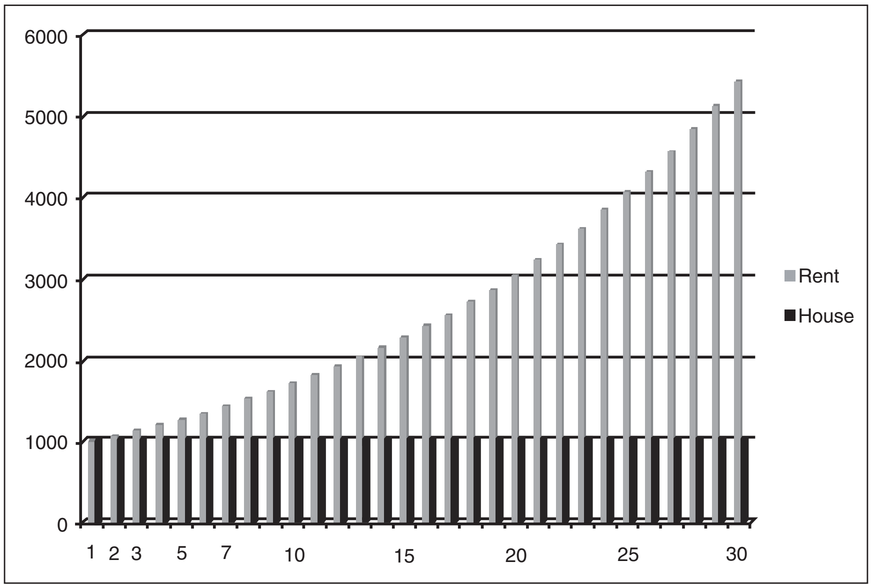
Renting Is Better than Buying.

Fact: Owning Real Estate Is the Fastest Way to Build Wealth

Buying a home offers most families a sense of belonging, a sense of putting down roots, and a sense of shared community with neighbors. As a homeowner you can make improvements, decorate, and modify your home to match your lifestyle and your decorating tastes. The financial rewards are significant, too; let's look at just a few of the reasons that buying instead of renting is a great financial move.

You Pay Your Own Mortgage; Not Your Landlord's. When you rent, you're in effect helping your landlord make his or her mortgage payments. Let's compare the financial impact on a renter to that of you as a homeowner.

To make the comparison fair, we'll assume you both earn $60,000 per year, putting you in the 25% tax bracket. We'll also assume a rent payment of $1,000 and a house payment (principal and interest at 7%) of $1,000; as a homeowner, we'll also assume that you pay the national average of $3,000 per year in property taxes. (How far can a $1,000 per month mortgage payment go? You can get a $150,000 loan at 7% for 30 years!) Here's what happens to your rent payments (see Figure 1.1):



	Yr. 5	Yr. 10	Yr. 15	Yr. 25	Yr. 30
Rent Pmt =	$ 1262	$ 1689	$ 2261	$ 3026	$ 5418

Figure 1.1 Monthly Payments. 30-year fixed mortgage payment of $1000 per month versus a $1000 per month rent payment. Assumes a rental increase of 6% per year.

Ouch! But wait, it gets better.... When it's time to pay income taxes, the renter pays $15,000 in taxes on the $60,000 income. You, however, only pay $11,507 in taxes because you can deduct your interest payments and your personal property tax. Your savings are $3,493 per year, or almost $291 per month. Those tax benefits make an $1100 house payment *feel* like a $850 rent payment! Take a look at how much farther your money will go (see Figure 1.2).

There's one other benefit to buying instead of renting; as long as you have a fixed-rate mortgage, your base mortgage payment will never go up—your landlord can increase the rent whenever your current lease expires!

Monthly Rent	15%	25%	28%	33%	35%
$ 600	$ 690	$ 768	$ 794	$ 843	$ 864
750	863	959	992	1,053	1,080
900	1,036	1,152	1,191	1,264	1,296
1,200	1,381	1,536	1,588	1,685	1,728
1,500	1,726	1,919	1,985	2,107	2,160
1,800	2,071	2,304	2,382	2,528	2,592
2,000	2,301	2,560	2,647	2,809	2,880
2,500	2,877	3,200	3,308	3,511	3,600
2,800	3,222	3,584	3,705	3,933	4,032

Figure 1.2 Monthly Rent-Equivalent Payments. Select your monthly rent in the left column. Select your tax bracket at the top to find your monthly mortgage payment-equivalent. Numbers assume year-1 P/I payment at 7% 30-year amortization. For example, if you are in the 28% tax bracket, paying $1500 per month—you could spend an equivalent of $1985 per month on your mortgage principal and interest payment—and it would feel the same.

You Take Advantage of a Great Long-Term Investment. Each year the U.S. government publishes statistics regarding median home prices. If you started with an average home with a value of $23,000 in 1970, take a look at how rapidly the median home price, including land, has appreciated over the past 35 years:

1970	$23,600
1975	$37,200
1980	$62,900
1985	$82,500
1990	$125,500
1995	$127,900
2000	$163,500
2005	$223,100
2007	$249,400 (1st quarter)

What's interesting to note is that while prices have certainly boomed in the past five years, prices have risen at double-digit levels in nearly every five-year period! Very few investments can match that level of appreciation over the long term, and when you look at any 20-year stretch in history, real estate values have always gone up.

Although some markets around the country suffer some short-term hardships, real estate prices are likely to continue to rise, at least over the long term. Looking out over the next 20 years, the following is likely to happen:

- The U.S. population is expected to grow to over 400 million people.
- The U.S. median income is expected to increase by over 50%.
- Ten million people will choose to buy vacation homes in the United States.
- More than 60 million children and grandchildren of baby boomers will enter the housing market.
- Environmental restrictions and land shortages will tighten property development in popular areas, causing a decrease in supply and an increase in housing prices.
- More than 60 million baby boomers will seek retirement income, and many will sensibly turn to real estate investments.
- Minorities and immigrants will continue to buy homes in record numbers. Currently 75% of whites live in their own homes, while only 40% of Hispanics and Asians own their homes. As their rate of home ownership increases, demand for housing will increase.

So what's the end result? Real estate investing, like any other form of investing, is cyclical: As we write this, the United States is in the middle of the worst downturn in real estate values since the 1990s. In the future, values will continue to rise and fall—but over the long term, real estate prices will continue to rise, making smart real estate investing one of the best ways to grow wealth.

You Build Wealth—Tax-Free. Not only is the mortgage interest you pay tax-deductible, but so is the profit you make when you sell your home.

Let's take a $100,000 house, and compare renting it at $850 per month *(with 6% annual increase)* vs. purchasing it with a 5% down payment:

Year	**0**	**1**	**5**	**10**	**15**	**20**
Rental cost	$850	$10,200	$56,361	$128,294	$220,101	$337,272
Equity	0	0	0	0	0	0
Home value	$100,000	$105,000	$127,628	$484,987	$2,131,390	$4,052,194
Own (equity)*	**$5,000**	**$ (34)**	**$24,832**	**$131,030**	**$574,994**	**$1,582,051**

*Includes 8% maintenance and 3% tax expenses; reinvestment of equity every 5 years with 10% down in years 5–10 and 20% down in year 15.

Figure 1.3 Building Equity

When you sell your personal residence (defined as a home where you lived for at least two of the past five years), up to $250,000 in profits for an individual and $500,000 for a couple is tax free. You can buy and sell your personal residences every two years and continue to avoid taxes on your gains! But let's look at how the numbers work together (see Figure 1.3).

As you can see from the example, by simply upgrading your home every five years, and reinvesting the equity—in just 10 years you've increased your net worth by over $126,000! In 20 years, you've built a personal fortune of over $1.5 million—*and* you got to live in it!

We can't state this more strongly: You need to own your own home—unless you plan on moving in the next six months! Owning real estate should be the foundation of everyone's financial plan—if you don't already own a home, get started *today*.

Although owning a home is one of the safest investments you can make, beware of buying into areas where property values are increasing at rates of 15–20% a year or more. If the area is growing in popularity, the rising rates may be justified, but soaring rates may be a sign of speculative investing or even illegal house flipping. Before you buy—know your market.

MYTH # 2

I Can't Qualify for a Loan.

Fact: There Are Hundreds of Programs for Almost Any Conceivable Situation

What is one of the most creative and innovative industries today? You may be surprised, but the answer is the mortgage lending business. Seemingly every week, new loan programs are introduced—credit is no longer "one size fits all"; it's customized to the individual. Even though it sounds like programs are being eliminated or investors are going under, new ones step in to take their place. There are programs for first-timers, retirees, self-employed, zero-down, good credit, bad credit, even special programs for teachers, firefighters, police and medical workers!

Or you may be concerned you won't be able to obtain financing for a home in a "bad" neighborhood. Think again.

"Many consumers think they won't be able to get a loan in certain neighborhoods or areas," says Lorenzo Wooten, regional manager for the Federal National Mortgage Association (Fannie Mae). "We have programs specifically designed for under-served neighborhoods and communities. Our My Community mortgage program was created to help people finance homes in what some might consider 'bad' neighborhoods."

Even if you've experienced major credit problems like bankruptcy or foreclosure it's likely you can qualify for a mortgage. While it may be a mortgage with a higher interest rate or additional points and fees, if you want it—chances are that a subprime loan is out there waiting for you.

While "subprime" may sound a little rough, and many subprime lenders have taken a beating in the market and the media, they are vital to serving the interests of homeowners, buyers, and investors from all walks of life.

Subprime, by definition, refers to a category of loans that are not sold through the government-sponsored-agencies or GSEs such as Fannie Mae and Freddie Mac, and are made available to borrowers who have damaged credit or other extenuating circumstances. What is damaged credit? It could entail mortgage credit problems, consumer credit problems, collections, or public record postings. Mortgage credit refers to problems with past mortgages; consumer credit refers to problems with credit cards, car loans, or other nonmortgage credit; and public record postings refer to foreclosures or judgments against you.

Some lenders even specialize in making these subprime loans. Some mortgage brokers, for instance, have dozens of established relationships with a network of financial institutions willing to make subprime loans, and they work hard on behalf of their customers to help them qualify for financing in spite of their challenging situations.

But you may not need a subprime mortgage. "Say you're worried about having money for a down payment or closing costs," continues Lorenzo Wooten. "Or you're worried about bad credit or a bankruptcy. We've introduced a product called My Community mortgage: there's no minimum credit score, up to one hundred percent financing, seller concessions to help with closing costs, and private mortgage insurance (PMI) at roughly half the rate required for traditional loans. Overall the monthly payment will tend to be lower with a My Community mortgage than on subprime or even FHA loans."

"Anybody can get a mortgage," states Pam Bennett of Benchmark Mortgage, a 23-year industry veteran, who has underwritten more than 14,000 loans. "It's just a question of whether or not the mortgage they can get makes sense. Borrowers have to decide if they're willing to pay that rate . . . but there's a loan out there for anyone."

Subprime borrowers fall into different categories. An "A-minus" borrower might be someone who had a 30-day late mortgage payment in the past year, while a "D" borrower may have recently declared bankruptcy.

What level of subprime borrower you are isn't important (at least to you); what is important is what the loan will cost you. If you have a poor credit history, you'll pay more for a mortgage than a borrower with an outstanding credit history. (That may not seem fair, but think about it from the lender's perspective: the greater the level of risk they face in making a loan, the more they should be compensated for taking on that risk—otherwise why take the risk?) If you're an "A" borrower and qualify for a standard "conforming" loan, you'll get the best rates and terms. If you're a

"D" borrower, you may pay an interest rate premium that's between 2 and 10% higher than the rate available to "A" borrowers—until you can prove yourself!

If you have damaged credit, some lenders will offer better terms if you make a significant down payment. If you can put 10 to 20% down on the purchase, the lender faces less risk if you default on the loan and can offer better terms. For example, a borrower with a previous bankruptcy who can make a substantial down payment could conceivably qualify for a better rate than someone who was late a few times on their mortgage payments but has less equity!

Ginny Ferguson is a broker and co-owner of Heritage Valley Mortgage, and is a recognized expert on credit and credit scoring. "Many people think they'll only qualify for a loan if their credit score is above 620 or some other magic number," she said. "A few years ago a couple came to me seeking mortgage financing; his score was a 408, and hers was a 654. While at first glance you may think their cause was hopeless, but with a little effort we found an 'A' grade loan because they had brought delinquent obligations up to date and they had three years' worth of reserves in the bank.

"Many people think credit scores have made it harder for individuals to qualify for loans," she continued. "In fact the opposite is true: we can put more people—with weaker profiles—into homes than we did in the old underwriting days. Automated systems utilize technology and guidelines that are actually more flexible today because credit scoring has proven to be an extremely useful tool in predicting how a particular loan will perform. Credit scoring hasn't been a bad thing for consumers—far from it."

The key is to make sure you're up front with the loan officer when you apply for a loan. "Customers should always tell the lender or mortgage broker everything about their financial position," Pam states. "Hiding debts or inflating income will always come back to haunt you, and may kill your chance of approval. If I know everything I need to know about your financial situation I can work with you to overcome hurdles. Don't exaggerate how much cash you'll have to close, and don't hide debts or financial problems—most of the time we can overcome those problems if we know about them ahead of time."

Mortgage lending is customized and based on individual circumstances and conditions—if you look, there's a loan out there for you. Talk to several mortgage brokers—don't take no for an answer!

And besides making sure you provide honest and factual information, steer clear of loan officers or agents who advise you to make misleading or incorrect statements. "If someone asks you to say you make more than you do, or asks you to lie about something, or to do anything fraudulent, don't," says Ralph Roberts, president of Roberts Realty and recognized by *Time* magazine as one of America's top producing REALTOR®s. "Fraud for housing is when you manipulate or misrepresent facts, with the intent of helping you qualify for or purchase a property. It's a crime—owning a home is important, but don't do anything to break the law. It's not worth it. Never sign blank docs, never sign someone else's name, and never do anything unethical. And if a real estate "professional" asks you to, find another person to work with."

Also make sure you sense-check any advice you're given. In recent months the foreclosure and bankruptcy rates have risen, in large part due to subprime loans. (Subprime loans are loans made to "riskier" borrowers; some lenders will even lend you more than you can reasonably afford.) How much can you reasonably afford? Everyone's situation is different, but our advice is to stay within 50% of your "back ratio." Your back ratio is the ratio of long- and short-term debt you have compared to your monthly income. If the total of your debt (including your new house payment) will add up to more than 50% of your gross monthly income, you're biting off more than you can probably chew.

Don't become so desperate to qualify for a loan that you become an unwitting accomplice to mortgage fraud. Fudging the numbers on a loan application—Form 1003—is committing fraud. Having a relative with better credit than you sign the loan indicating that he will be residing in the home when he has no intention of doing so is another example of fraud. When you apply for a loan, enter only true and accurate information—and *never* sign a blank application.

MYTH # 3

Only U.S. Citizens Can Qualify for a Mortgage.

Fact: You Don't Even Have to Be a Permanent Resident Alien to Get a Loan

If you've got a job, and you're in this country legally—we want to give you a loan! Mortgages are made to nonresident aliens every day. If you're a lawful U.S. resident, you qualify under the same terms and conditions that a U.S. citizen would. You'll simply have to prove residency by providing a green card or Certificate of Resident Alien status.

If you're a nonpermanent resident alien, you can still qualify. If you will occupy the property as your permanent residence, and if you can document a two-year history of employment, have a two-year credit history, and can verify your assets, you can qualify for a mortgage.

Foreign nationals can also qualify! As Chip speaks to groups across the country, he sometimes tells the story of two Vietnamese brothers he met many years ago. Having no money or possessions, they were sponsored by a church to come to the United States. They worked the midnight shift as janitors in a book bindery, and while they spoke no English, they had worked incredibly hard and saved about $17,000 in cash. They paid cash for all their needs, so they had no bank accounts and no credit history. Using documents from their employers and taking advantage of the sizeable down payment they could make, he helped them qualify for an FHA loan. After only one year in this country they owned their own home!

As long as you show a good loan officer that you have the means to repay the loan, he or she can find a home mortgage for you.

Eric Weinstein, the president of Carteret Mortgage Corporation based in Centreville, Virginia, agrees. (He founded Carteret in 1995; today there are over 300 locations with over 2,000 loan officers across the country doing over $4 billion in loan volume per year.) He shared this story:

"A few years ago I met a lady from Guatemala who never thought she could buy a house. It just wasn't done in her country, as only the very wealthy or those associated with royal families owned homes. She had been in the country only eighteen months and had an entry-level job and no real savings. We talked about the low- and no-down payment loans that were available in this country, but she was very skeptical and didn't believe it was possible for her.

"The REALTOR®s, the sellers, the processors—everybody said it would never work! They were wrong: I was able to find a no-down-payment, adjustable-rate loan with almost no money out of her pocket. Best of all the mortgage payment was lower than her current rent payment.

"It took time, I must admit. I spent a lot of time with her, and did the deal for nothing, simply because it was the right thing to do. My philosophy has always been that this business is not about making money—it's about helping people. And that attitude comes from the top down. That's what I try to teach my thousands of team members every day.

"And what happened to that great lady from Guatemala? She's not only a happy homeowner—she referred over $10 million in new customers to me within six months. The mortgage business is actually pretty simple—it comes down to doing the right thing."

If you're a noncitizen you can qualify for a mortgage loan, but don't be tempted to lie on your loan application. Providing a false Social Security number or counterfeit pay stubs to prove that you're someone you're not, or that you earn more than you really do, misleads the lender and is therefore illegal.

MYTH # **4**

I Should Look at Some Houses First.

Fact: You'll Save Time and Money Setting Up Your *Financing* First

If you've spent any time with a real estate agent before, you're probably familiar with a scenario like this one.

You meet the agent at the property. As you're walking through, the agent describes some of the features of the home. The agent also casually asks you questions about yourself: where you work, how long you've worked there, where you currently live, if you're renting or own your own home.

Your agent is, naturally, trying to get to know you. After all, an agent wants to try to build a relationship, even if it's just a business relationship. But the agent is also trying to determine if you're a serious buyer and if you'll be able to qualify for a loan for the home you're visiting—or for *any* home at all, for that matter. (If you've noticed, the same thing happens when you visit a car dealership—it's called "qualifying" a potential buyer.) Every agent is looking for serious, qualified buyers for the properties they show, and they'll work harder for serious buyers.

An easy way to show you're a serious buyer, and to improve your power in negotiations, is to get preapproved for a loan. You'll immediately establish credibility as a serious buyer, and in a bidding contest between other buyers, your offer will carry more weight.

Two happy clients, Sam and Betty, called Chip with the good news—their offer had just been accepted over three other offers! In his follow-up call with a REALTOR®, he learned that their offer wasn't even the highest—but was accepted simply because their financing was already in place! Although the other offers were for more money, the seller wasn't about to waste time with an unqualified borrower.

Many people get prequalified, but *prequalified* is not the same thing as *preapproved*. Let's look at each.

- *Prequalified* simply means you have described your financial situation with a lender, and the lender is rendering an opinion about whether or not you will qualify for a loan. Prequalification is a lender's opinion based on information received; it does not mean the lender has reviewed your credit report, verified your information, and so forth.

  In simple terms, a prequalification letter can be translated as saying: "I, the lender, feel this individual is probably qualified for a loan of this size if everything he told me about his financial situation is accurate. I have not tried to make sure the individual truly *does* qualify, however . . . so who knows how it will all turn out in the end."
- *Preapproved* means you have provided documentation proving income, assets, and liabilities . . . you've provided everything the

lender needs to evaluate your creditworthiness. The lender has checked your credit report, and most of the paperwork needed for your loan has been prepared. Sellers and agents can be as certain as possible that a preapproved buyer will be able to close on the home they're selling.

A preapproval letter can be translated as saying: "I, the lender, have reviewed all necessary documentation and have run appropriate credit checks to ensure the individual will qualify for a loan of this size . . . I'll happily make the loan."

Obviously there's a big difference between *prequalified* and *preapproved*. Real estate agents know the difference, and some home sellers know it, too. Getting a preapproval letter provides several advantages that can save you time and money—and it only takes minutes.

If you've been preapproved:

- The sellers can feel comfortable accepting your offer and taking their home off the market. In many cases sellers accept an offer only to find out, sometimes weeks later, the buyer could not qualify for financing. They then have to put their home back on the market, losing valuable weeks of time and possibly having missed a qualified buyer.
- A seller reviewing several offers will look more favorably upon your offer because she is confident you will be able to obtain financing. If an owner needs to sell his home quickly, for instance, many times he will accept a lower-priced contract from a buyer he knows can get financing.
- Completing the home purchase can be quicker. If you're preapproved, much of the loan application work has already been done, allowing your closing to possibly take place sooner. Motivated sellers may also further discount their home price if they know they can close quickly.

Here's the bottom line: you should always shop for a loan and get preapproved for financing before you start seriously looking at homes. At the very least get preapproved before you decide to make an offer on a property.

Why do we recommend getting preapproved before you start seriously looking at new homes? Here are the advantages to you:

- You'll know exactly how much house you can afford, which will keep you from getting stretched too far when you are shown that house that you just have to have.
- You'll be in a better negotiating position when you do find the house you want.
- You won't be caught in the trap of hurriedly searching for a loan after you've found the house you want. Most home sales are contingent on your getting financing, and you're typically allowed only 30 days or so to get financing in place. It can be tough to shop around properly during that time—do it ahead of time, and you can find the best financing deal possible. Here's an easy rule of thumb that's fairly accurate: the bigger hurry you're in, the more you'll probably spend on your mortgage.

Keep in mind that getting preapproved doesn't lock you into any one type of loan, or even to working with a certain lender: it just lets sellers know that you can get financing if you make an offer on their house. You can still choose the right lender and the right loan later on. When you begin looking for a home, it's important that you know exactly what you can afford, and can make an offer on a home with the confidence that comes from knowing you have financing in place. You'll be in a better position to negotiate with the seller, and you'll know exactly what price range of homes you should be looking for.

Take a few minutes, and prequalify yourself by using the "Prequalification" form in the Appendix, or visit our online resource at www.TheMortgageMyths.com; that way, you'll know exactly what you can afford—but don't start shopping until you know you've got the money to spend!

In fact, put together your team before you start looking seriously at houses. "Find a great agent and a great loan officer first," Ralph Roberts recommends. "It's the best way to ensure you'll have the greatest success and the fewest problems."

Make sure you're comfortable with your REALTOR® and your loan officer. "Many first-time buyers simply call the number on the sign on the lawn," continues Ralph. "I think you should approach it a different way: go into it thinking your agent and loan officer will be your agent and loan officer *for life*. If you approach it that way, you should spend more time finding the people you're most comfortable with. And don't just go for the "top" person: the "top" agent or loan officer may not be the right person for you. Some agents specialize in selling or financing luxury homes, for example, and if you're looking for a starter home, they may not know your market as well as someone who does."

"The most valuable thing you need for the home-buying process is trust," says Eric Weinstein, president of Carteret Mortgage. "Trust in your loan officer, trust in your REALTOR®, trust in your title company, trust in your inspection company . . . trust is the key in real estate as in any business. Before you go too far, put together a team you trust—then the rest will be easy."

Preapproval is especially important for real estate investors. When you find a great deal on a property, move on that deal as quickly as possible to prevent another investor from swooping in.

MYTH # **5**

I Need a Down Payment—But I Don't Have the Funds.

Fact: You Can Buy a Home without Putting a Single Dollar Down

As recently as the 1980s, the average down payment for a home loan was approximately 20%. Mortgage lenders were much more conservative and protected their investments by requiring significant down payments in almost every case. Today the average down payment is approximately 5%; some borrowers still put down more cash at closing, but many make no down payment at all on a new home purchase—in some cases avoiding paying cash for closing costs, too. In effect you're financing 100% of the value of the home. There are even loans for 105% or 125% or more of the value of the home!

Mortgage lenders typically call these types of loans "zero-down" or "no down payment" mortgages. While it's a riskier loan for a lender to make, if your credit profile is positive and the lender is confident in your ability to repay the loan, you could easily qualify. This allows you to leverage your money, increase your investment power—and your return.

If you're a veteran of the armed services you may qualify for a VA loan. A VA loan requires no down payment as long as the house appraisal meets VA specifications; the house can't appraise for less than the purchase price, and must not need any major repairs. Keep in mind that if your credit is damaged and the lender would have required a down payment if you *weren't* seeking VA financing, you may not be strong enough to qualify for a zero-down VA loan.

Is a zero-down mortgage right for you? It depends on your circumstances. If you don't have the funds to make a down payment, getting a zero-down loan is possibly the only way you can buy a home. Or you may want to save your cash to make improvements or buy furniture. Or you could have the money available but don't wish to dip into your savings, investments, or retirement account.

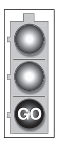
Whether a zero-down loan is right for you depends on your individual circumstances and needs. Some home buyers need the money they save for paying off debt. (In some cases consolidating debt by using available funds to pay off other credit obligations is a good move, because mortgage interest paid is tax-deductible while "consumer" interest paid is not.) Or you may need the cash to fund a child's tuition or to fund other investments.

Another way to finance the down-payment is through the seller! Called "seller-seconds," or seller "take-backs," these second mortgages may be very attractive. If the seller of the property doesn't need all her money right away, a second mortgage can be a great investment! She gets a solid return on her money, and it's secured by an asset she knows well—her own real estate!

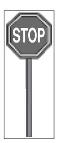
Also increasingly popular, but getting harder to find are "piggy-back seconds." In this case, the lender (or another financial institution) carries a second mortgage for a portion of the total. For example, an 80/20 would include an 80% first mortgage, and a 20% second mortgage. Although the interest rate on the second will likely be higher, the "blended" rate at 100% will make for a sweet return on your investment—of zero!

If your financial situation allows you to choose whether to make a down payment or not, make sure to discuss the terms of the loans available to you with your mortgage broker. The interest rate or costs you'll be charged are typically higher on zero-down loans; make sure you understand the options available to you so that you make the right choice for your needs. But if you don't have the cash available, take heart: there are dozens of zero-down loan options available. All you have to do is ask your lender or mortgage broker.

"In America you *can* buy a house with no money down," says Ralph. "There are loans available for almost any potential homeowner. A good loan officer can help you find the right package. It may take a little time and effort—but it's definitely worth it."



Down-payment assistance funds (DPA's) are available nationwide, and so are state and local grants. Check with your state Housing Finance Authority. Gift funds can be used from family members or nonprofits too!



Don't let anyone "assist" you in creating a paper trail for a creative gift or depositing money in your account. Doing so is almost always considered fraud!

MYTH # **6**

I Should Make the Biggest Down Payment I Can.

Fact: Your Down Payment Should Be Appropriate to Your Financial Situation

In general, a large down payment is a good thing: qualifying for a loan may be easier because the lender carries less risk, your monthly payments will be lower, you may avoid paying private mortgage insurance (PMI) if you put down more than 20% of the purchase price, and you're less likely to owe more than the house is worth if property values decline. A basic rule of thumb is the larger the down payment, the weaker the borrower's credit can be.

On the other hand, putting all your available cash into a down payment could backfire. Emergencies can and do occur, or you may simply need or want cash for another purpose.

There's no single best amount to put down, and the best amount varies based on your situation. Twenty years ago the average down payment was 20% of the purchase price; as we write this book, the national average has dropped to approximately 5% of the purchase price!

Mortgage lenders typically like to have you pay 20% or more down (which means you're only financing 80% of your purchase price), but some special loan plans allow you to qualify for 10%, 5%, or even zero down payment loans. If you put down less than 20%, you'll probably have to pay PMI, which can cost, for example, around $220 for a $285,000 loan.

However, even if you can make a large down payment, you may not want to. You may wish to put the extra money toward some other goal like home improvements, retirement, or college expenses.

Here are a few questions to consider when deciding how large a down payment to make:

- What is your personal financial situation? Do you have short-term and long-term savings? Do you have funds set aside for emergencies?
- Do you have high-interest debt? You may want to use available cash to pay off credit cards or auto loans with high interest rates.
- Is a lower monthly mortgage payment important to you? Are you more concerned about paying off your home as quickly as possible than investing funds elsewhere, such as in the stock market?

Amy Tierce, a top originator with Fairway New England Mortgage in the Boston area, shares this advice: "I always suggest that people take mortgage insurance if they intend to do a lot of work on the house, and save some of their cash for those improvements. That way they can use cash to improve the house and have the PMI removed after the house is re-appraised."

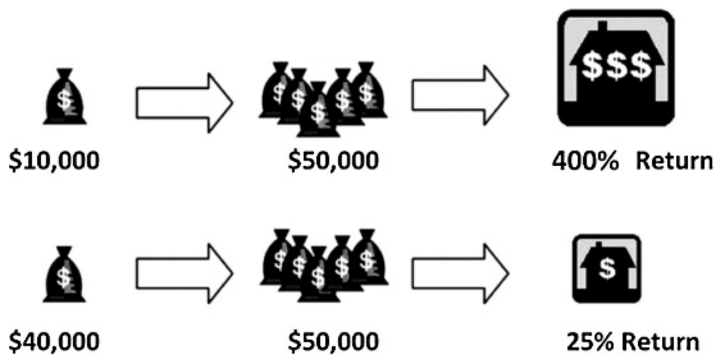


Figure 1.4 Leveraging Equity. Lower down payments will result in greater returns on your investment.

Many homebuyers take advantage of the principal of leverage: the less money they put down, the greater their investment return. For example, if you put down $10,000 on a home and sell it two years later for a $50,000 profit, you've turned that $10,000 investment into $50,000. If you put down $40,000 and sell for the same $50,000 your rate of return on investment is lower (see Figure 1.4).

If safety is your main concern, a larger down payment lowers your monthly payment and makes it more likely you'll still have equity in your home even if property values decline. Making as large a down payment as possible can be comforting, but it will be small comfort if you lose your job or have a medical emergency with no cash reserves to fall back on.

Remember, a mortgage isn't a debt. It's a financial planning tool. Make sure your down payment fits within your overall financial plan. Don't stretch yourself too thin, as it can be expensive to get that cash back out if you need it later on!

GO

If you do put down a large down payment on your property, consider taking out a home equity line of credit on the property. With a home equity line of credit you don't pay interest until you actually borrow money, so the money is available in the event of an emergency. (For more information about home equity lines of credit, see Myth #69.)

MYTH # 7

All Mortgage Companies and Loan Officers Are Licensed and Regulated.

Fact: In Most Areas, the Loan Officer could be Moonlighting from Burger King

Here's the good news:

- Licensed mortgage brokers have the resources of many lenders, including banks and mortgage companies, and can offer a variety of products and programs.
- Licensed mortgage companies and loan officers are governed and regulated to ensure compliance with all state and federal laws.
- Most licensed loan officers are trained and tested to measure their competency prior to receiving their license.

Here's the bad news: the mortgage loan officer you contact could be unlicensed and unregulated. Many "mortgage brokers" work part-time under the supervision of a licensed broker who in effect pays a finder's fee for new clients. At the present time, every state regulates mortgage lenders, but most states do not regulate individual mortgage loan officers.

The National Association of Mortgage Brokers (NAMB) and the Mortgage Brokers Association (MBA) offer membership to licensed mortgage lenders and brokers. Both organizations are committed to promoting the highest degree of professionalism and ethical standards for its members. Brokers who are members of the NAMB and/or MBA are committed to enhancing professionalism in the real estate community through industry-wide certification programs and an ongoing pledge to the accuracy and quality of products and services. Check licensing and membership through the resources listed in the Appendix, or visit our online resource page at www.TheMortgageMyths.com.

"There's no real barrier to entry to the loan officer business," said Amy Tierce of Fairway New England Mortgage. "I'm all for loan officer regulation and certification. And, every borrower should try to get a referral from someone who has some personal experience with the loan officer you're considering; a personal referral speaks volumes."

Barry Habib is the CEO of Mortgage Market Guide, and agrees. "Borrowers need to understand how the system works, and deal with professionals who know what they're doing. Check to see if they have any additional credentials and training, such as a CMPS (Certified Mortgage Planning Specialist) or CMC (Certified Mortgage Consultant) designation, which indicates a greater level of commitment to the consumer."

Get referrals and recommendations and interview potential mortgage brokers before you start signing documents. Real estate agents and other real estate professionals will be happy to give you recommendations—and their input can be valuable. If your agent recommends a lender or loan officer, ask for reasons for the recommendation: in some cases the agent will reply that the loan officer is easy to work with and always closes loans on time. That may be important to the real estate agent, but what is important to you is that you get the best mortgage for your financial situation, and that you feel comfortable with the business relationship you establish. Once you have a short list of lenders to contact, interview them: ask about their licensing and whether they belong to any professional organizations such as NAMB. Ask for references if you're the least bit uncomfortable. If your loan officer works at the local bank, you can feel comfortable that you are working with a licensed professional; if you've responded to an ad in the classified section of your newspaper, check credentials and qualifications thoroughly.

"In Florida, consumers can check the Department of Financial Service's website to get information about mortgage companies and individual loan originators," says Patrice Yamato, owner of Plaza Mortgage in Jacksonville, Florida. "Most states have a corresponding office or department. While it may be helpful to check with the Better Business Bureau, the state should be your first choice for ensuring the originator you're considering is licensed and registered."

Tim Wooding is the president of the Kansas Association of Mortgage Brokers, and the owner of Executive Mortgage Group. An experienced top-producing veteran, he's closed over a billion dollars in mortgage loans in his career. According to Tim, the NAMB is working to establish a national database that states can access to share reciprocal information on broker licensing and qualifications. NASD, which tracks securities dealers, is also working on a similar system for loan originators. In the meantime, his advice is to seek out NAMB-certified brokers because of their training on loan origination procedures, best practices, and professional ethics.

"Unfortunately," says Tim, "many borrowers may simply go to their local lender because of the bad press generated by a few bad apples in the lending business. That's a shame, because a good mortgage broker may be able to find the borrower a great program that will save thousands of dollars." What is his advice for borrowers? Ask for referrals from friends and real estate professionals, check for NAMB certification, ask for qualifications, and call the Better Business Bureau to see if any complaints have been registered. "A good lender seeks to find the best possible program available for his or her clients," says Tim, "and if you do your homework, you'll find a lender that's right for you."

"Ask a lot of questions, and if you aren't comfortable with the answers, then go elsewhere," advises Joe Falk, long-time industry veteran and past president of the National Association of Mortgage Brokers. "Asking questions will help you learn about the business, and quickly determine the experience level of the originator."

Your goal is to find an originator who is fully qualified, offers the products and services you need, and is somebody you can partner with. "A great originator will counsel you and collaborate to help you make sound decisions on what you need," continues Patrice. "He or she will ask about your career, your goals for the next five years, whether your family will grow . . . the purpose of that conversation is to help you decide what loan package is best for you. We don't make decisions for you—we help *you* determine the best decision for *your* situation and *your* goals. If your originator is just an 'order taker,' move on. Find someone who wants to help you make sound financial decisions that fit your financial plan."

Joe, who has worked with thousands of first-time homeowners and spends an enormous amount of time working to protect the rights of borrowers and brokers around the country, also offers this advice. "Seek help from a trusted friend or advisor, or a family attorney who can help give you a sense of your 'life circumstances.' The perspective of a 23-year-old newlywed is different from that of a 45-year-old executive, so get their opinion and advice. They can help provide information, guidance, and resources to check and evaluate your final selection of a broker, loan officer, and loan program, which will drive other important decisions in your life."

Real estate investors can team up with loan officers and mortgage brokers for more than just financing their investment purchases. If you invest in foreclosures, an experienced loan officer can often help your clients (distressed homeowners) with their financing needs. In addition, if you're a buy, fix, and sell investor, the prospective buyers may need financing to close a deal. By having a loan officer on your team, you cover all your bases.

When doing your research, make sure to search the Internet search engines for both the name of the company, *and* the loan officer! You never know what might show up!

MYTH # **8**

Big Lenders and Major Banks Are Always Better.

Fact: Size Doesn't Equal Security—or Savings

Kathy walked in to Chip's office on a sunny August afternoon. He instantly recognized the lapel pin on her jacket—it was from the investment bank down the street. Chip quickly learned that she was the Branch Director of the Securities Division, where she bought and sold mortgage securities—and she was shopping for a loan! She explained that she knew that all the mortgage funding came from essentially the same source—Wall Street. As a mortgage broker, Chip had access to hundreds of banks and programs, and she knew the value of his expertise. He took out the application and started writing.

At face value you might think that major national banks and lenders are the most secure source of funding and information protection—they have the resources and funds, and can provide the highest level of security for their customers' personal information. While they may have greater resources, major banks and major lenders don't necessarily enjoy bulletproof information security. In 2005, ABN AMRO Mortgage Group (which owns LaSalle Bank and also InterFirst Mortgage at the time) lost the data for 2 million residential mortgage customers, including customer names, account information, payment histories, and Social Security numbers. Earlier in 2005, 1.2 million customer records were accessed by hackers from Bank of America. (Imagine how happy they—and their customers—were.) Wells Fargo has been hit by hackers three times in the past few years, and Citibank has been hit too. The reality is that *any* organization is potentially vulnerable.

Does that mean major banks and lenders are less safe? Of course not—what it does mean is that information piracy can and does occur, both at small banks and at major, multinational banking corporations.

There's also no guarantee a big bank will give you the best deal on your mortgage, even if you're currently a customer. (In fact, very few lenders offer better terms to current customers than they will offer to noncustomers.) They may offer the best deal—or they may not. The only way to know is to shop around for the best mortgage.

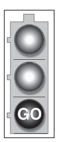
A bank is not necessarily safer or better than a mortgage broker, either: Once your loan is approved and underwritten there's no real difference in safety or security between a major bank and the loan provided by a mortgage broker. (In fact, the major bank will probably sell your mortgage on the secondary market just like the small broker down the street, and it could be serviced by someone else within months of closing.)

"The little guy can often be a better place for the consumer to go," indicates David Acquisti, president of MSource Financial Group, and the past president of the Michigan Mortgage Brokers Association. "For example, some big institutions offer all-inclusive loan programs, but they charge higher rates for the privilege. The consumer can often wind up paying higher fees by going to a larger institution. Brokers have a variety of different programs they can offer, whereas a large bank is limited in their products and don't have the ability to shop around for the consumer."

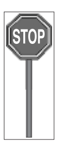
Because loan officers deal with fewer programs, they can also be less likely to understand the dizzying variety of programs currently available. "An attorney asked me to take a look at a loan on behalf of his client," said

Dave. "The borrower thought they were getting a 1.25% interest rate for 3 to 5 years, and after I took a look at the loan (it was called an option-ARM) and explained it, they could not believe what was going to happen to them. I've taken three-day classes on the program to ensure I understand it, and while it does offer a number of options it also can create potential pitfalls that can have major repercussions for a borrower. In fact, I recommend that my clients consult with a financial planner to make sure they can take advantage of all the options. That's the number one complaint today: the loan officers don't understand all the products available, so the average consumer has no way to understand all the products available."

Here's the bottom line: shop aggressively and find the best deal for you. Shop with major banks, smaller banks, major lenders, smaller lenders, mortgage brokers, online lenders . . . shop aggressively—find someone you are comfortable dealing with, and have them find you the best deal.



Getting a second opinion is always a good idea. We don't think twice about asking a doctor for a second opinion, but when it comes to our financial health and well-being, we're often reluctant to seek advice from another expert. If you suspect your loan officer doesn't quite understand what he's explaining, ask another loan officer for clarification.



Be careful of out-of-state banks and brokers. They may not understand local market conditions, and may only have an "impressive sounding" name and not much else!

MYTH # 9

My Best Bet Is to Use a Friend (or Someone Local).

Fact: Using a Friend May Cost You a Friendship—and More

All the potential sources of mortgage financing available—banks, lenders, mortgage brokers, online lenders, and so forth—can seem overwhelming.

It's tempting to turn to someone you trust or at least feel safe with, especially if a friend or relative is in the mortgage lending business. If you don't have a friend in the business, it's tempting to turn to a local banker or lender—after all, that's safer, right? Plus, you figure, they know the local market, and they'll take care of me, right?

Not necessarily. Unscrupulous people can be found anywhere, whether on the Internet, at a large bank in another locality, or right around the corner. Integrity isn't geography-related. And while a local lender may know the local market, that's no guarantee he or she will offer you the best deal, or put together the right mortgage package for your individual needs. They may—or they may not. You should always shop locally, but make sure you shop other sources, too: it's your money, so make sure you put it to its best use.

If you do have a friend in the lending business, consider carefully whether it's in the best interest of your friendship to use your friend to handle your mortgage. At the very least you'll have to share your financial information: your credit history, your income, your debts . . . your friend will know all about your finances. Are you comfortable sharing that information with your friends? Does the thought of discussing your salary or discussing the time a couple years ago when you got three months behind on your car payments sound like a fun thing to do at a dinner party? It won't be any more fun to discuss when you're sitting in your friend's office.

In our experience there are very few times when sharing financial information has been positive for the relationship, especially one-way sharing, since your friend won't have to share any of his own financial details with you. Even worse, what if later on the "great deal" you thought you were getting doesn't turn out to have been so great? How will you feel? More importantly, what will that do to your friendship?

A few years ago a real estate agent called Chip and said, "I need your help: my client was prequalified by a good friend of hers, but there looks like there's a major problem. Can you take a look at it?"

After a little investigation Chip learned that the borrower had decided to sell her home in order to purchase a new one, and had been prequalified by a friend who, unfortunately, was an inexperienced loan officer.

Sadly, the loan officer hadn't noticed there was a second mortgage on the property. In order to sell her home to buy the new home, the borrower needed to come up with $10,000 at closing to satisfy the lien. Because she was under contract she had to sell her home, but after paying off the second mortgage she didn't have the cash to purchase the new home. Instead of moving into a new dream home, she ended up having to rent. Had her loan officer friend done her homework, they would have known about the lien, and she could have stayed in her home.

With so many lending options available, it's very likely that mixing friendship with business isn't such a great idea. The final decision is one only you can make, but please think very carefully about the possible impact on your relationship before you use a close personal friend for your next mortgage.

Sometimes, of course, it can work out great! Chip never would have dreamed that he would be financing the home of his ex-wife and her husband, but it turns out that she still trusted him more than anyone else to protect her interests. He's even had the privilege of financing a few homes for his wife's ex-husband!

"Good thing I didn't screw those up!" adds Chip.

And as for using a local lender—that may turn out to be a great option, but only if the rate, terms, costs, and so forth are the best ones for you. It may seem comforting that you will, for instance, be mailing your monthly payment to a local address, but does it matter where the check is sent? Not in the least.

A couple years ago the manager at a local branch of a national bank came to Chip for a loan. He was happy to help, but he was also curious.

"You work at a bank—I love doing business with you, but why do you want to use me for a mortgage?" Chip asked. "Isn't it more convenient to get a mortgage from your bank?"

"If I get a mortgage through my own bank," she replied, "all of my associates have access to my personal and financial information. If I work with you I know you'll maintain confidentiality. My privacy is important to me, and I know you'll protect it."

Most mortgage brokers can access the same products. A key difference is the professionalism and service they offer. "Don't just shop for the best deal—also shop for the right mortgage officer for you," says Ruth Faynor, National Education Consultant for the National Association of Mortgage Brokers (NAMB). (Ruth's responsibilities include coordinating training classes and procedures for 48 U.S. states.) "Look for someone you feel comfortable with and can trust. Are they the type of person who will help you and take time to explain things to you? Good brokers are willing to sit and talk to their customers, and will talk in language you can understand. Good brokers are interested in *you*."

Remember, what's important is finding a great loan officer and finding the best deal possible on your mortgage—not *where* you find them!

Beware of overly friendly loan officers who promise to "take care of everything" for you. Some unscrupulous loan officers and other real estate professionals simply use loan applicants for fraudulent schemes. If a loan officer tries to encourage you to borrow more money than the property is worth so you can obtain cash back at closing, or offers some other deal that sounds too good to be true, consult another loan officer or a real estate attorney for a second opinion.

MYTH # **10**

I'll Find a Better Deal on the Internet.

Fact: It's a Good Way to Shop Around, But Who Will Help if You Have a Problem?

Frantic and hopeless. That's the only way to describe what Chris and his new wife Lisa felt when they walked in. They had found the home of their dreams, and were three days away from closing on the deal. Or so they thought.

"Everything had been going smoothly," Lisa started, "then it came undone . . ." They had decided to go with an Internet lending company that seemed to have a great rate and terms. Although they had never heard of the company before, the sales rep assured them they could complete everything in a "virtual environment." Then came the call from the FTC. The Federal Trade Commission told them that they had been the victims of fraud, and there was no "real" lender—just a front for a well-organized crime ring. They had no loan, no deposit, no paperwork, no closing, and no new home. And no one to go and yell at! Fortunately, the story had a happy ending, as a local mortgage broker stepped in and put the pieces back together. Chris couldn't believe it. "The closing was delayed by a couple of days, but we got in the home!"

Don't get us wrong, there are plenty of good Internet lending companies out there. But there are several factors you need to consider when selecting the right lender. It shouldn't surprise you to learn that experts estimate that nearly 82% of potential homebuyers start their mortgage shopping online. It's a quick and easy way to gather basic information about programs, rates, terms, and lenders—and you can do so anonymously (at least up to a point). You can quickly access payment calculators, qualification tools that will help you determine—in a general sense—how much house you can afford, and other tools that help you calculate your down payment requirements or rent-vs.-own comparisons (we already know which one wins there!). Check out our resource page for several easy-to-use calculators at www.TheMortgageMyths.com. In short, the Internet is a great place to gather basic information.

So, is the Internet the best place to get a mortgage? Like most things in life, the answer is: it depends. A great mortgage is one that has the right combination of professional guidance and service, interest rate, fees, points, down payment, closing costs, and so forth for your individual situation. You may be able to find that loan from an online mortgage source, or you may find that a local lender can provide you with the best mortgage. Online lenders claim you'll get a better deal because the application process is streamlined and automated, and because many online lenders don't have to bear the expense of maintaining branch offices for customers to visit, so as a result the savings are passed on to you. That may or may not be true: what is true is that the mortgage you choose must meet your financial needs and must be the most cost-effective for you, regardless of where you find it. And you also need to be able to rely on the mortgage lender. The Internet should be a tool to help you accomplish the process—not replace real people.

"A buyer asked me for a quote, and then found a 'better rate' on the Internet," said Amy Tierce of Fairway New England Mortgage. "About 10 days prior to closing she still didn't have a commitment, and the 'better rate' had never been guaranteed in writing. I found her a great program and she ended up locking in the loan at a better rate . . . and in less than

10 days, even though the Internet lender had waffled on rates and terms for almost four weeks."

There are two basic types of Internet lenders. Some mortgage brokers and lenders offer web-based application tools as a convenience to their customers. "We offer Internet application tools to make our customers' lives a little easier," says Tim Wooding. "We're not necessarily trying to generate new business from our web tools, but we are trying to make the process easier for our clients." Other Internet lenders are just that—they only offer loans over the Internet.

So what do you do? Shop around. Begin your mortgage search on the Internet—check online providers and gather information on rates, terms, and the various programs available. If you like, fill out the online forms and receive quotes. Then, armed with the information you gathered online, shop your local lenders. (Feel free to let local lenders know you've contacted online lenders; creating a little competition may help you negotiate better terms.) Then compare *all* the offers you receive and pick the mortgage that meets your particular needs. If an online lender's offer is similar to a local lender's offer, you may want to choose the local offer to gain the peace of mind that help is around the corner if you have problems.

"Most consumers understand what rates and points are, so some lenders hide additional fees in other areas," says Tim. "Look at all the costs, including the Annual Percentage Rate, in order to decide which program offers the best terms and costs."

Here are some tips from Tim for using online lenders and online lending auction sites:

- Before using any site, decide whether you want a fixed- or adjustable-rate mortgage, as well as your preferred loan term, down payment, and points. Auctions don't work if the item being sold is not precisely defined. If necessary, do some homework. If you would rather not bother, see a mortgage broker or traditional lender.
- Fill out the questionnaire as accurately and completely as you can. The information you provide is used to match you with the right lenders.
- Mortgage rates and price information comes not from the site but from the lenders who contact you. The quality of information

they give you may depend on what you ask for. On fixed-rate mortgages, you need the interest rate, points, and dollar fees. While some lenders are not in the habit of providing their dollar fees in initial price quotes, you should insist upon it. Ask for a *"Good Faith Estimate" (or GFE).* On adjustable-rate mortgages (ARMs), you need to know more than the rate, points, and loan fees; also ask the lenders for the interest rate index, margin, when the rate can adjust, all rate adjustment caps, and the maximum possible rate.

- Ask lenders to e-mail or fax their quotes and GFE to you. (Receiving price quotes over the phone is a problem because you'll have nothing in writing as a backup.)
- The interest rate and points quoted to you by a lender apply only on the day you receive them. The lender is not bound to them on the following day since the market may have changed. For the same reason, it's not safe to compare a price received on Monday from one lender with a price received on Thursday from someone else.

NAMB past president Joe Falk agrees that shopping and comparing is the key. "A borrower cannot do enough shopping. Talk to several brokers and get lots of estimates, and keep asking questions about the program and rates."

The best way to get the best deal is to shop aggressively, and understand the process. Get as many quotes as you can—you'll learn more as you go, you'll be a better consumer, and your chances of saving the most money on your mortgage go way up. Don't be lazy—you can save thousands of dollars by hunting down the best mortgage for you.

If you do choose an online mortgage, remember that the level of service you'll receive is likely to be less than what you'll find with a local lender. As Tim says, "You can't yell at or ask advice of a computer when you have a problem." While service may not be an issue for you, if there are problems a local lender is usually in a better position to help you. For example, forms and disclosures must be specific to your state, not to the state the loan originated in, so if you chose an online lender located in another state, you'll need to make sure the forms meet your state's requirements. For your own protection, close the transaction with a knowledgeable closing officer—such as someone from a title company—or with an attorney. You'll protect yourself from signing incorrect mortgage documents that could create a title error.

"There are a number of reputable Internet lenders," says Tim. "There are also some cases where individuals have been taken advantage of. An individual came to me who had gotten a loan over the Internet. She was a high credit score borrower (her score was 820), she had held the same job for over twenty years, and she owned her home free and clear. She wanted to do a cash-out mortgage to finance an addition to her home. She found a loan on the Internet and it sounded like a good deal, but at closing she learned she was paying over $8,000 in fees, which equated to almost 7 points. She did get the low interest rate she was promised, but not on a fixed-rate loan; she instead received an adjustable-rate mortgage and the rate could change after six months. At that point there was little I could do to help her, and in her words, the person she spoke to was a 'slick-talking salesman.' Again, there are a number of reputable Internet lenders—just make sure you know who you're dealing with and that you compare apples to apples when you're shopping various lenders for the best program available to you."

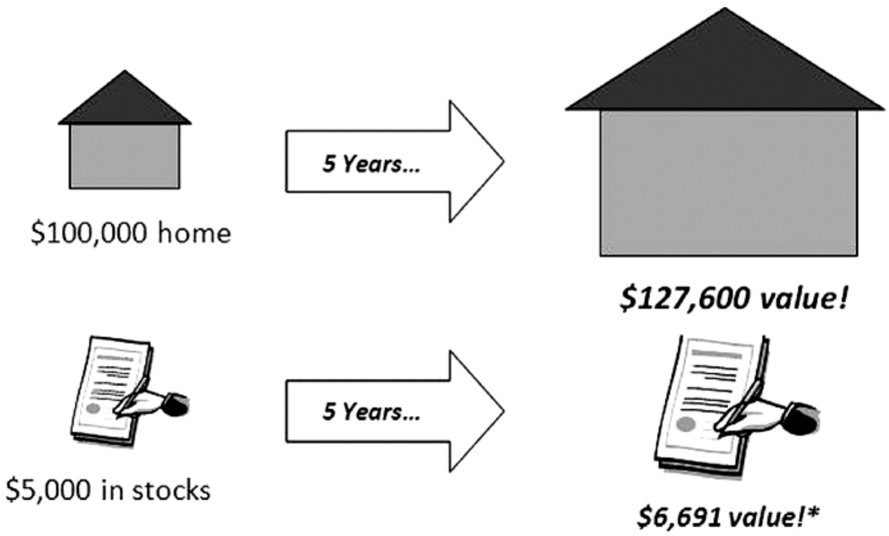
STOP When searching the Internet for great deals, beware of really great deals, like ads for CASH BACK AT CLOSING. Many Internet sites that promise to obtain loans for people who can't otherwise qualify are simply looking for victims and accomplices. Deal only with reputable, licensed mortgage brokers or lenders.

MYTH # **11**

I Can Get a Higher Return by Investing in Stocks.

Fact: You Can't Live in Your Portfolio While You Create Wealth

If you bought shares in Google stock a couple years ago at $100 per share, and you've held onto them (even though selling and cashing in has to have been awfully tempting), today you're a pretty happy camper: Google stock



*Calculated at 6% annual return.

Figure 1.5 Appreciation versus Stocks. Real estate values increase faster than stocks, and *you get to live in your investment!*

currently trades at more than $520 per share. If you bought $100,000 worth of shares in 2004 those shares are worth over $520,000 today. (Sounds like a percentage gain similar to people who invested in Southern California real estate!) You might be thinking, "If I can find the next Google, why should I put my money in a house?"

If you can find the next stock that will perform like Google, maybe you should. (But first let us know which stock it is!) Returns like that are rare, though—most investors are very happy if they can earn between 8% and 10% over the long term; many mutual fund managers struggle to achieve those kinds of returns on a long-term basis.

Investing in stocks should be one component of your investment portfolio, but let us ask you: Can you live in your shares of stock? Of course you can't. We all have to live *somewhere*—it makes sense to build wealth through real estate first, then expand through other investments. Paying rent really is like paying someone else's mortgage. The one thing almost all financial experts agree on is that investing in real estate, especially in your personal residence, is a key component of almost everyone's investment portfolio. As the "house vs. stock" chart below illustrates, if you have $100,000 to invest and you don't own your residence, put at least some of that money towards a house—you'll build wealth and security while you take care of a basic need. And you can always buy the house with $10,000 down and invest the rest in other ways! (See Figure 1.5.)

GO

Don't forget about the tax break you receive from your residential investments. First, you get an annual tax break on the mortgage interest and property taxes you pay, assuming you itemize your deductions. When you sell the house, assuming you lived in it for at least two years, you get to keep $250,000 of the profit tax-free ($500,000 for a couple)! You won't get that tax break by investing in stocks and bonds.
