

Kirkland Financial Center

Real Estate Finance - Investment - Insurance - Annuities

HOME EQUITY MYTHS AND TRUTHS Explained by David Donhoff

If you have a large amount of equity in your home and the bank forecloses, you lose the house and all of your equity.

No, if you default and the bank forecloses, they must offer it at public auction for the best open bid price, and whatever that price is above what you owe them, the court holds for a period to ensure there are no other legal claimants... and then you get the balance.

If there are no open bidders offering at least what the bank is owed (which means there is not only zero equity to lose... you've already borrowed more equity than the home is worth,) then the bank usually bids to buy the home at the amount it is owed, allowing it to assume title free & clear. It then gets managed by the banks Real Estate Owned (REO) department which is responsible for cleaning, repairing, managing and maintaining the portfolio of houses until they can get re-sold to recapture whatever value is actually left in the home, so that the bank's cash depositors & investors don't suffer from the losses as much.

Once you "commit" to prepaying on your mortgage, you should truly follow through with it to the very last mortgage payment.

If you "commit" to prepaying your mortgage, there is a "safe" way, and a "foolhardy" way.

SAFE = build a liquid account separate from the real estate entirely until such time it is large enough to pay of the entire untouched mortgage balance. This is the thoughtful, mature, responsible practice of "building a bridge over the minefield."

FOOLHARDY= attempt to "tiptoe across the minefield without any armor" by paying much (or even all) of your safety cash into the illiquid, vulnerable real estate.

I should completely pay off the mortgage, so the bank can't score a touchdown at my expense!

The bank gets nothing "at your expense" from any failure on your part. When you fail, the bank bleeds also.

I have somehow managed to acquire a depression-era mentality of sorts; always expecting and preparing for emergencies... so debt of any sort falls under the category of "bad".

Being cautious & conservative is a GOOD THING!!!

Thinking that "all debt is bad" and "banks are out to get you" is very small-minded and fear-laden, and is ultimately quite dangerous to your security & potential financial independence.

Time to open the mind and REALLY see the risks you are taking on by over-concentrating your cash equity in a single asset.

The banks are out to get you! If you go into foreclosure they'll hit you for attorney's fees, expenses of sale, etc., they will do a nice job of whittling it down to where you get little and they get a lot.

Newsp... once again, the "banks are out to get you" fear is upside down.

"When borrowers fail, bankers bleed."

The AVERAGE cost to banks for EACH foreclosure is a bit over \$40,000. That's not money they collect and keep, that's money they pay out to courts, and attorneys, and repairmen, and Realtors, you name it.

Banks are HIGHLY incentivized to find the least costly solution to avoid foreclosure whenever possible.

Whenever NOT POSSIBLE to avoid foreclosure, they foreclose on the homes that have THE MOST EQUITY FIRST!

The more you have separated your cash equity to places OTHER than your home, the safer your family's home is.

Everyone should strive to pay off their mortgage before they retire.

I agree... however, NOT A PENNY NOR A DAY EARLIER!

A mortgage is both "equity protection" and "retirement investment accelerant," and frittering its power away little-by-little desperately dangerous.

Accumulate safe money separately, and NEVER cheat your mortgage power until it is FINALLY time to eliminate it at once.

Paying off the house is emotional. To me, it "feels" sorta like when you ride a Harley: Rebellious freedom! It's kinda like being unleashed or free from the shackles (of debt) that 99% of us seem to suffer.

... you may actually be safer riding a Harley.

Wouldn't it feel even better to be TOTALLY free? Free of the vulnerability of loss of your net worth by concentrating all your eggs in a vulnerable basket?

Weigh the odds carefully in FULL light.

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A few things readers got right:

One should have 6 months of living expenses readily accessible.

HALLELUJAH! I'll add that we all need at least 6 months CASH AND EQUIVALENT reserves.... not merely cash-advances waiting from our HELOCs or Visa cards.

In several markets recently the "unthinkable" has happened (which I have been warning people about for years,) which is that undrawn HELOCs have been getting frozen, basically blocking the homeowners from accessing any further of their own home equity entirely. Now is NOT THE TIME to assume your family's home equity is safe if paid and held in the home itself.

Further, ALL CASH RESERVES ought to be held at a SEPERATE INSTITUTION (bank) from any debt or charge accounts we may have open, to prevent potential of "offsets" (freezing of accounts) if something goes wrong with the debt accounts.

PLAY DEFENSIVE!!!

Banks foreclose on the homes that have THE MOST EQUITY FIRST!

The critical lessons here;

- ◆ Naked debt is a burden, is dangerous, and detrimental .
- ◆ Debt married to growth assets is LEVERAGE.
- ◆ Managed Leverage accelerates your financial freedom.
- ◆ Managed Leverage protects your financial security.

Equity Risks;

- ◆ Softening of the asset class... drops in value,
- ◆ Litigation. Suit-crazy nut-balls.
- ◆ Acts of God. Hurricanes, fires, blizzards etc... and the ensuing delays while insurance companies argue and counter-sue each other to determine which one is responsible to cut you a check... while you wait, and starve.*
- ◆ Personal tragedy; health issues, employment issues, family emergencies, etc.

Managed Leverage is your only real protection against the very real risks, above.

Also read the *Consumer Reports* Article:
www.KirklandFinancialCenter.com/cr/

*If in doubt, check this out:
http://www.consumeraffairs.com/news04/2005/katrina_lott.html

If you own your home free and clear, or have a lot of equity in it, it can become a more attractive target to be taken away from you if you were to get sued.

Here you are absolutely correct! Lawyers hate working for nothing, and their kids get skinny if they never get paid... so if their targets don't necessarily have easily findable CASH, the attorneys can easily look at the title records at the county courthouse to see what liens are against the property, minus what the approximate value ought to actually be (which equals the remaining equity.)

If a litigating attorney sees that there "is no equity... no cheese down that tunnel" they will politely find reasons to avoid attacking you on behalf of whatever litigious nutcase decided you are their nemesis.

If a litigating attorney sees there IS entrapped equity, with no loans against it, THEN they know that if they win... even if you refuse to pay up on the court awards... they can place a "cloud" (a legally binding "I-O-U") on your real estate title... and be assured that you will be FORCED to repay them whenever you try to sell, or try to refinance.

Client of the Month

Gary & Sheila Murrell

We LOVE that you are our very first (and favorite) 'three generation family' working with us!

What They Say

Our processing was surprisingly smooth, actually - we did a double mortgage to avoid PMI, which usually means double the potential to go wrong. We were also on a rather tight time frame. Not a hitch. Any questions were answered in understandable language.

Dave under promised and overdelivered.

--Brian & Marianne

The Latest

Dave has been a frequent guest on several business talk-radio shows recently, and the recorded shows are being hosted at www.LeveragePlanners.com for visitors to listen to from home on your own computer, or downloaded for listening to on an MP3 player. Come check them out!

**QUESTIONS? We've got ANSWERS!
888-662-8551
WE LOVE TO HEAR FROM YOU!**