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How to ask a question

ORIGINATIONPRO™
MORTGAGE SCHOOL

Economics of Home Ownership

Renting vs. Owning

Certified Mortgage Advisor™

Dave Hershman
Founder OriginationPro
Mortgage School

Dave Hershman

- Produced almost 600 transactions in his first 18 months in the industry—including closing 60 in his 12th month
- Run sales forces for large production organizations
- Directed the sales force for Ellie Mae
- Written seven books in the areas of finance, management, sales/marketing—and published hundreds of articles
- Director and founder of a federally-chartered bank
- Been a keynote speaker at hundreds of industry events

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- ✓ Our goal is to help loan officers become and stay experts & help them market like experts. ***Experts make more money in every industry.***
- ✓ That is why we focus on training and marketing systems.
- ✓ Trial members of the marketing system good for 14-days and you have access to all marketing materials.
- ✓ Students of our courses get extended free trials.
- ✓ We will not spend time today going over the system as this is a **commercial free presentation**—however, feel free to ask questions at the end.

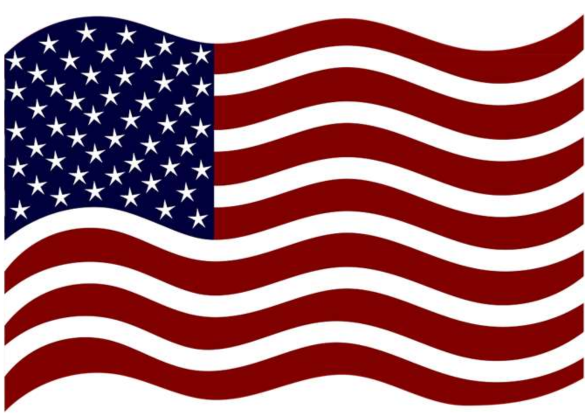
Introduction

In this session we analyze the reasons why people purchase real estate. There is no doubt that a home is the most important investment of a lifetime for most Americans. A home has several economic and social-economic advantages over renting. Most loan officers and real estate agents are familiar with the concepts, but cannot explain how they work simply to the average consumer.

DH1 DH2

The Social-Economic Benefits

The America Dream–
Our focus is economics but let's not forget….



There are many emotional benefits to home ownership – including the tendency of homeowners to become more fully ingrained into a community. Studies have shown that even the children of homeowners fare better over the long run.

Additional social-economic benefits of home ownership include:

- Security for one's family. There is no landlord to ask you to move.
- The freedom to choose. You can paint your walls any color or have pets.
- The pride of ownership. Owners take care of their properties and their neighborhoods.
- Safety. Neighborhoods with owners are generally safer than those dominated by renters.

Slide 7

DH1 Dave Hershman, 1/26/2016

DH2 I re-formatted this slide. We are taking up too much room with the graphic. This is a very important quote and did not want it lost.
Dave Hershman, 1/26/2016

Focus of This Presentation

While these non-economic benefits are substantial, this session will focus on the financial benefits of becoming a homeowner. The reason we all aspire to own real estate is simply this: we desire to accumulate wealth. There is a good reason that America has one of the lowest savings rates of industrialized countries, but remains the richest country in the world: *Real Estate.* The Federal Reserve Board's Survey of Consumer Finances has continuously disclosed that the average net worth of owners is over 10 times greater than the net worth of renters.

Economic Benefits

What are these economic advantages? There are three (plus one) basic economic reasons for purchasing a home:

1. ***Real estate is an investment***. Using the concept of leverage, we will learn exactly why real estate consistently outperforms other investment vehicles—even during periods of low inflation.
   - This concept also includes the additional factor of principal reduction, or a ***forced savings plan*** (the "plus one")

2. ***Real estate is a tax deduction***. More and more tax breaks have been cut from the menu in the interests of tax simplification. The mortgage interest deduction has suffered nicks and scratches, but has emerged as the major survivor in the world of tax strategies – though the recent tax plan has changed the numbers.

3. ***Real estate is an inflation hedge***. Even in times of low inflation, monthly rents move upward much more quickly than a mortgage payment.

The New Tax Law

There is no doubt that the numbers are affected by the new tax law.

- Because the law is new—the final conclusions are not in.
- The law will affect various price ranges and tax brackets differently. And it is unknown how the “investment value” and other values of home ownership will be affected.
- For that reason we have not changed the numbers we have used – but make certain notes where relevant.
- The numbers we use are simulated examples.
- What is more important is the fact that today people are questioning the financial value of home ownership because of the law. But that is because they don’t understand ALL of the benefits of ownership.
- Thus, it is even more important today for you to be knowledgeable about and be able to explain **ALL of the benefits**.

Section One

Real Estate as an Investment – the Concept of Leverage

Projections Made

Any prediction of the future is just that—a prediction. We do not aspire to be any more accurate in presenting a scenario for the future of housing appreciation than the so-called economic experts.

We feel the best approach is to assume a low rate of appreciation to be conservative. It is the concept of leverage that makes housing an excellent investment in any inflationary environment.

What is the Concept of Leverage?

Leverage is defined as the ability to control a large asset with a smaller asset. For example, you can purchase $200,000 in real estate using $10,000 or less in cash assets. You can leverage real estate highly because of these factors:

- Real estate assets have a long history of appreciation. This means security for those institutions that would lend against this asset.
- There is a complex system to record ownership of property—older than the United States itself.
- There are consistent national standards for qualifying purchasers of real estate. These standards reduce the risk that a real estate loan will default.

Median Home Prices

Value in First Quarter of 2019?

$254,800!

About 10 times as much as 1970!

Median Existing Home Prices
Source: National Association Of Realtors
Table

1970	$24,300
1975	$39,600
1980	$89,300
1985	$95,400
1990	$97,300
1995	$117,000
2000	$147,300
2005	$219,000
2010	$172,900
2015	$221,900

Our Calculations

Note that we use $100,000 or other even numbers as a base home value and/or mortgage calculation, because you can use even numbers to easily extrapolate to your value – and they are simple so that we can concentrate on the concepts.

Extrapolation: For a $300,000 home, just multiply the numbers by three. In addition, real closing costs will vary based upon the mortgage amount and other factors. Therefore, you are encouraged to do your own analysis based upon actual numbers of the transaction.

Return on Investment

Let us compare a simple example in which we invest a cash asset of $10,000 over a number of years, either by leaving it in the bank or by purchasing $100,000 of real estate. The table assumes a 3.0% rate of interest in investments for a total gain of *$3,439* after ten years. It also assumes a 3.0% appreciation rate for real estate during this time period. Factored in are a $5,000 cost of purchase (closing costs) and 10% cost of liquidation (sales costs). It should be noted that, assuming the property is sold after ten years, these costs are $15,000, which is more than the original asset. Yet the gain after ten years is over $19,000, or over an *11.0% annual rate of return on the $10,000 investment!*

Return on Investment

Years	$10,000 Cash	$100,000 Property
3	$927	(-$5727)
5	$1,593	$927
10	$3,439	$19,392
15	$5,580	$40,797
20	$8,061	$65,611
30	$14,273	$127,726

Assuming 3% rate of gain, 5,000 down payment, $5,000 closing costs, and $10,000 selling costs.

Table

Leverage Rules

What if the rate of home appreciation slows down to 2% per year? What if you try to sell the real estate after two years? What if the down payment is 20% of the purchase price? Generally, these rules apply:

- *Low rates of appreciation*. The effect of leverage will lessen with lower rates of appreciation. However, in the long run, real estate will still outperform savings based instruments.
- *Holding periods*. Because of the cost of real estate acquisition (figured in our examples to be 5.0%) and the cost of real estate disposition (figured as 10.0%--**including maintenance**), there must be a reasonable holding period for gain on real estate.
- *Increasing the down payment*. Generally, the larger the down payment, the smaller the percentage-return on real estate. Remember the concept of leverage requires that we control as large an asset as possible with the smallest asset possible.
- *Maintenance.* Note that the costs of maintenance goes up for existing homes, but starting prices are lower than new homes.

Principal Reduction

- *Mortgage principal reduction*. In addition to the leverage principle, the gain on real estate is increased by a reduction in the principal amount of the initial mortgage on the property. In simple terms, as one owns a house, one builds up additional equity because each mortgage payment reduces the amount of the principal balance outstanding. This assumes that the home owner does not opt for an interest only loan—popular in the past but not as accessible more recently.

Principal Reduction

30 Year Term
$100,000 Loan Term
5% Fixed Rate Loan

Year	Annual Principal Reduction	Cumulative Principal Reduction	Outstanding Principal Balance
1	$1,475.34	$1,475.34	$98,524.66
2	$1,551.17	$3,026.51	$96,973.49
3	$1,630.19	$4,656.69	$95,343.31
4	$1,713.59	$6,370.29	$93,629.72
5	$1,801.76	$8,172.05	$91,828.45
6	$1,893.42	$10,065.47	$89,935.04
7	$1,990.29	$12,055.76	$87,944.75
8	$2,092.11	$14,147.87	$85,852.63
9	$2,199.15	$16,347.02	$83,653.48
10	$2,311.66	$18,658.68	$81,341.82

Table

Net Return on Investments

With these concepts in mind, let's take a look at a comparison table that takes our money in the bank and compares its earnings with those from a purchase of $100,000 in real estate over ten years. We have varied the appreciation rates, return on investments, and down payments. We also assume 5% closing costs and 8% selling costs. The *total investment* is the down payment plus the 5% closing costs.

Net Return on Investments

$100,000 Home
With Principal Reduction and Equity Gain
Assuming a Mortgage Held for 10 Years

	Down Payment	20%	10%	5%
	Total Investment	$25,000	$15,000	$10,000
	Loan Amount	$80,000	$90,000	$95,000
Home Appreciation Rate	Invest-ment Returns	*Assumes 5.0% 30-year loan $5,000 closing costs and 8.0% cost of sale.*		
3%	3%	$24,969	$30,274	$32,994
4%	4%	$34,102	$40,771	$44,172
5%	5%	$44,062	$52,217	$56,371
6%	6%	$54,852	$64,626	$67,817
7%	7%	$66,725	$78,268	$84,098

Calculations are as follows:
Home price appreciation over 10 years
+principal reduction over 10 years
-lost investment returns over 10 years
-costs of purchase (closing costs) and sale
=Total return on home investment

Table

Net Return on Investments

Next, let's look at the impact of varying the number of years you own your home. Since you only have to pay closing and sales costs once, you will benefit most from a longer ownership period. A long holding period assures positive returns even at low appreciation rates.

Net Return on Investment

$100,000 Home
With Principal Reduction and Equity Gain
Assuming a 5% Mortgage and 10% Down payment

Number of Years Held		3	5	10
Home Appreciation Rate	Savings Interest Rate	Assumes 30-year mortgage with closing costs of $5,000 and 8.0% costs of sale.		
3%	3%	($1,672)	$6,618	$30,274
4%	4%	$805	$11,036	$40,771
5%	5%	$3,329	$15,628	$52,217
6%	6%	$5,900	$20,399	$64,626
7%	7%	$8,519	$25,351	$78,268

Calculations are as follows:
Home price appreciation over amount of years
+principal reduction over amount of years
-lost investment returns over amount of years
-costs of purchase (closing costs) and sale
=Total return on home investment

Table

Real Estate as a Forced Savings Plan

We introduced the concept of principal reduction in tandem with the concept of leverage. However, principal reduction also makes the monthly payment on a home more affordable in terms of real costs, as opposed to “out-of-pocket” costs.

This is why it is important to understand the structure of mortgage vs. the structure of rent. It is a simple equation:

- When you pay rent, 100% of the rent goes to the landlord.
- When you pay a mortgage, the interest is paid to the lender, but the principal pays down the loan, building equity.

Real Estate as a Forced Savings Plan

Let us take a very simple example. In this case a $300,000 30-year mortgage at 5.0%. The payment on the mortgage is $1,610, which includes principal and interest. In this case we will assume the total mortgage payment is $2,000, including taxes and insurance. We will also assume that payment of rent for the same property is $1,700. Thus, it appears the owner is paying $300 more per month for the privilege of owning.

However, let us break the payment down:

Month	Principal	Interest
1	$360	$1,250
60	$460	$1,150
Average	$410	$1,200

Note: all numbers are rounded for ease of comprehension.

Real Estate as a Forced Savings Plan

Thus, on the average for the first five years of the loan, the owner is really paying $1,590 for the mortgage (2,000 minus 410) and the renter is paying $1,700. This money comes out of the home's "savings account" only when the home is sold or if the owner takes a loan against the equity in the home. If the owner lived in the home for 30 years, eventually the mortgage would have been totally paid off. The renter pays rent forever. Because the savings are not accessible and because the home owner must make these payments each month, the concept is referred to as a *forced savings plan.*

As impressive as these numbers are, we have not considered two other important aspects of the comparison – tax deductibility and inflation protection. We will cover these in the following sections of this presentation.

Section Two

The Concept of Rental Equivalency

Rental Equivalency – Tax Savings

The term rental equivalency refers to the determination of an individual's mortgage payment after the effect of tax deductions, as compared to the rent they are presently paying. The mortgage payment after taxes that is the same as their rent is that person's "rental equivalent."

Another way of stating this?

For the rent you are paying, you could purchase a home of ____ amount and keep your payment the same after taxes.

The concept can also be applied to move-up buyers because the increased mortgage payments can also be reduced by the amount of tax savings. We refer to this as *re-leveraging*.

Rental Equivalency

Let us take an example of someone who is paying $1,300 each month in rent. Let's also assume the same home would cost $250,000. Once again we use an even number so you can extrapolate.

Rent	Owning		Mortgage Payment (PITI)	
$1,300	$250,000	Sales Price	$1,311.00	Principal & Interest (PI)
	237,500	Mortgage	250.00	Real Estate Taxes (T)
	5.25%*	30 Year	50.00	Homeowner's Insurance (I)
			$1,610.00	PITI (rounded)

*includes lender paid mortgage insurance

In this example the mortgage payment is $310 more than the rental payment of $1,300 each month. It is also natural for a prospective purchaser to say:

"I can hardly afford my rent. How can I afford $310 more each month?"

Questions to Answer

In order to answer this question, we must compare the rent payment with the mortgage payment after the tax benefits have been calculated. To do this, we must answer the following:

- How much of the mortgage payment (PITI) is tax deductible?
- What tax bracket is the borrower in?

Fortunately, most of the mortgage payment carries tax benefits, because the interest and real estate tax portions can be deducted from one's income. The calculation is as follows:

$237,500 mortgage x 5.25% = $12,468.75 annual interest, or $1,040.00 monthly

Therefore, $1,040.00 out of the total PI payment of $1,311.00 is interest and is deductible, along with the real estate taxes—

Total deductible portion of $1,610 payment:

$1,040	Interest
250	Real Estate Taxes
$1,290	80% of total PITI

Tax Savings

Now that we know the deductible portion of the payment, we can determine the tax bracket of the borrower and calculate the tax savings. Using the Federal Monthly Withholding Tax Charts, we find the following:

In other words, what looked like a $300 gap is now equalized with this analysis—and certainly the monthly cost of the home will not affect the equity one will gain with regard to homeownership versus renting.

Borrower's Income (Single):	$72,000	annually, or $6,000 monthly
Borrower's Present Federal Tax:	$1,000	
Borrower's Income after Deduction:	$4,700*	($6,000 minus $1,290)
Borrower's New Federal Tax:	$700	
Tax Savings:	$300	
Rental Equivalent:	$1,600	Total Mortgage Payment
Tax Savings:	(-) 300	
Rental Equivalent:	$1,300	
Actual Rent on Same Property:	$1,300	

Note: All numbers are rounded for ease of comprehension.

*We are lowing the borrower's taxable income by giving them a deduction.

In this case the "table" ends at just over $5,000, but the brackets show that the tax rate is 25% of the amount over $5,000.

If someone is in a 25% tax bracket and 80% of the mortgage is deductible, then the mortgage payment is generally reduced by about 20% because of taxes. This is a good "approximation" number. In this case, 18.75%.

Looking at a Tax Withholding Table

Wage Bracket Method Tables for Income Tax

SINGLE Persons—**MONTHLY** Payroll Period

(For Wages Paid through December 31, 2016)

And the wages are–		And the number of withholding allowances claimed						
At least	But less than	0	1	2	3	4	5	6
		The amount of income tax to be withheld is—						
$2,400	**$2,440**	$296	$246	$195	$144	$94	$55	$21
2,440	**2,480**	302	252	201	150	100	59	25
2,480	**2,520**	308	258	207	156	106	63	29
2,520	**2,560**	314	264	213	162	112	67	33
2,560	**2,600**	320	270	219	168	118	71	37
2,600	**2,640**	326	276	225	174	124	75	41
2,640	**2,680**	332	282	231	180	130	79	45
2,680	**2,720**	338	[illegible]	237	186	136	85	49
2,720	**2,760**	344	[illegible]	243	192	142	91	53
2,760	**2,800**	350	[illegible]	249	198	148	97	57
2,800	**2,840**	356	[illegible]	255	204	154	103	61
2,840	**2,880**	362	[illegible]	261	210	160	109	65
2,880	**2,920**	368	[illegible]	267	216	166	115	69
2,920	**2,960**	374	[illegible]	273	222	172	121	73
2,960	**3,000**	380	330	279	228	178	127	77

Note that the tax brackets were lowered slightly with the new plan. This will lower the benefit – again slightly. The standard deduction increase is a more important factor.

State Tax Savings

There are also state tax savings for most borrowers. They are not shown because many times the borrower will need the deductibility of state taxes paid to exceed the standard deduction given to tax payers who do not itemize deductions. Those who do not have enough itemized deductions to reach the standard deduction without the mortgage payment will not fully realize the tax savings for mortgage deductibility, especially for lower-cost homes. Eliminating the analysis of state and local tax savings minimizes this effect – **(see new tax plan)**

Note that this is not an issue for move-up buyers who are already itemizing deductions. Also, the full effect of deductibility may not be realized in the first year of ownership because you will pay less than a full year of mortgage payments.

The New Tax Plan

The increase in the standard deduction is where the new tax plan comes in. The rise in the deduction to $12,000 for singles and $24,000 for married couples obviously magnifies the deduction effect. Especially for –

- Married couples buying lower priced homes

For a married couple buying a lower priced home, the tax deduction benefit may be wiped out completely – though with prices rising, there are fewer “lower priced” homes.

Likewise, on the upper end of the scale, the $10,000 max deduction for state and local taxes (including income taxes) and $750,000 loan cap (new loans only) for allowable deductible interest will have an effect.

Interesting note: you might think they gave a great benefit to Americans by raising the standard deduction. But remember, they took away personal exemption which could be used even if you did not own a home.

Monthly Cash Flow

There is another factor which affects the affordability of the home on a monthly basis. While the homeowner receives a tax deduction, the benefits of this tax deduction is not realized on a monthly cash-flow basis. Basically, most new homeowners cannot afford to increase their monthly payment by 20% and wait until the end of the year to receive a refund. Thus, what they must do is adjust their "withholding exemptions" so that their monthly withholding is decreased by the same amount as the tax benefit.

In order to do that, they must fill out a W-4 form with their human resources department. The calculation of the correct exemptions is an easy process. If the monthly savings is $300 as in our previous example, you would go back to the monthly withholding chart. The person was single and therefore was allowed one exemption. You would go to their monthly income without the deduction and move to the right until the taxes are reduced to close to $300.

DH15

Tax Savings

Wage Bracket Method Tables for Income Tax

SINGLE Persons—**MONTHLY** Payroll Period

(For Wages Paid through December 31, 2016)

And the wages are–		And the number of withholding allowances claimed						
At least	But less than	0	1	2	3	4	5	6
		The amount of income tax to be withheld is—						
$2,400	**$2,440**	$296	$246	$195	$144	$94	$55	$21
2,440	**2,480**	302	252	201	150	100	59	25
2,480	**2,520**	308	258	207	156	106	63	29
2,520	**2,560**	314	264	213	162	112	67	33
2,560	**2,600**	320	270	219	168	118	71	37
2,600	**2,640**	326	276	225	174	124	75	41
2,640	**2,680**	332	282	231	180	130	79	45
2,680	**2,720**	338	288	237	186	136	85	49
2,720	**2,760**	344	294	243	192	142	91	53
2,760	**2,800**	350	300	249	198	148	97	57
2,800	**2,840**	356	306	255	204	154	103	61
2,840	**2,880**	362	312	261	210	160	109	65
2,880	**2,920**	368	318	267	216	166	115	69
2,920	**2,960**	[illegible]	324	273	222	172	121	73
2,960	**3,000**	[illegible]	330	279	228	178	127	77

In the above example, we will assume the person makes $3,000 monthly. Their monthly tax withholding at one exemption is $330. To achieve a $100 change in withholding, they would have to take three exemptions.

Slide 33

DH15 can you impose arrows at the relevant numbers? Also made chart a bit bigger.

Dave Hershman, 1/26/2016

Rental Tax-Equivalents Chart

To save you the steps of these complex calculations, we have devised a chart that calculates the rental equivalency of mortgage payments. The chart assumes that 80% of the typical mortgage payment will be tax deductible and the borrower(s) are in a 25% tax bracket. You can use the table to extrapolate to other mortgage payments. For example, the tax savings for a $950 mortgage payment would be one-half of the difference between $900 and $1,000.

Of course, today, there are plenty of online sites that will help you with these calculations. For example, the IRS has a withholding calculator Click Here. However, it is important during training to do these calculations manually so that you understand the concepts thoroughly in order to explain them to clients.

Rental Tax-Equivalents
Assumes a 20% reduction of Total PITI
Or a 25% tax savings on the interest & taxes which is 80% of PITI

Total Mortgage Payments (PITI)							
Monthly Payment	$800	$900	$1,000	$1,200	$1,500	$2,000	$2,500
Rental Equivalency	$640	$720	$800	$960	$1,200	$1,600	$2,000

Table

Note: This table will vary as income tax rates change as well as by variations in property taxes and income. In general, those purchasing more expensive homes are more likely to have slightly larger write-offs and those purchasing the least expensive homes will have slightly lower write-offs.

Section Three




The Mortgage Payment as an Inflation Hedge

Long-term Affordability

We have discussed the investment aspects of a home purchase. Clearly the use of leverage causes real estate to be a superior investment at any level of appreciation in the long run. The concept of rental equivalency makes the investment affordable in the short run. Plus, we are also participating in a forced savings plan.

But what about the affordability of a home in the long term?

DH17

Inflation Hedge

How does the home stack up against renting five, ten, and twenty years from now? As time goes on, home ownership becomes even more and more affordable because a home is an ***inflation hedge***.

What is an inflation hedge? We all know what inflation is. It is the tendency for expenses to rise over time. We know that rent is subject to inflation. If your present rent payment was $800, a 5% rate of rental inflation would make the payment approximately $1,300 in ten years.

A *hedge* is an instrument of financial protection. An inflation hedge protects one against future costs of inflation.

Slide 37

DH17 reformatted slightly.
Dave Hershman, 1/26/2016

Inflation Hedge

Why does a mortgage payment resist inflationary pressures? Because the largest portion of the mortgage payment is the loan repayment (P&I), which is fixed when the homeowner selects a fixed rate mortgage. The remainder of the payment will be subject to inflation. Specifically, real estate taxes, homeowners insurance, and association dues will tend to move up with inflation.

However, since these are only a small portion of the payment, the overall payment will not increase as fast as rent. *Note that the payment on adjustable rate mortgages may change independently of inflation.*

A Typical Mortgage Payment

$100,000, 30 Year Mortgage at 5%	
Principal and Interest (P&I)	$537
Real estate taxes	100
Homeowner's insurance	40
Total PITI	$677
Portion subject to inflation	$140
Percentage subject to inflation	21.0%

In the example, only $140.00 or 21.0% of the total mortgage payment is subject to inflation. We will use 20% as an even number. This will reduce any effective inflation by a factor of five, i.e., an inflation rate of 5% will become 1%. In other words, the rent payment will move up at a speed of five times the amount of the mortgage payment.

Median Rent

Using the Table, we can see that even low rates of inflation (3%) will cause the mortgage payment to become virtually equal to rent in ten years. These are conservative measures; the average inflation rate in the United States for the period from 1950 to 2010 was over 3.0%, according to the U.S. Department of Labor, Bureau of Labor Statistics.

Inflation Effects on Rent and Mortgage Payments

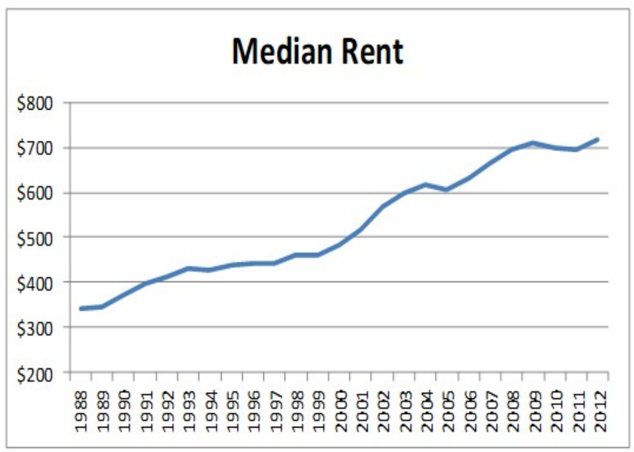
	$1,000 Rent		$1,300 Mortgage	
Inflation Rate	After 5 Years	After 10 Years	After 5 Years	After 10 Years
3%	$1,159	$1,344	$1,339	$1,380
4%	$1,217	$1,480	$1,353	$1,408
5%	$1,276	$1,629	$1,366	$1,436
6%	$1,338	$1,791	$1,380	$1,465
7%	$1,403	$1,967	$1,394	$1,494
8%	$1,469	$2,159	$1,407	$1,524

The assumption is 20% of the mortgage is subject to inflation, while 100% of rent is subject to inflation

Table

Median Rent

The financial crisis and slow recovery has brought the level of inflation below the norm for the most recent decade. However, with regard to rental inflation, rents in the United States over the same period have gone up at an even faster pace and are expected to continue to rise because the financial crisis has resulted in the creation of additional rental demand.



Graph 1-1
United States Median Rents 1988-2012
Source—US Bureau of the Census
Note: in 2017 rents averaged $1,400 for a 2-BR apartment and this number was exceeded significantly in many metropolitan areas.

Slide 40

DH18 This is the wrong graphic for this page. Take this graphic and put it on the next slide, and move that slide's table to this slide.
Dave Hershman, 1/27/2016

DH19

Total Effects on Rent and Mortgage

Our analysis of inflation hedging is only partially complete. We have merely compared the actual payment increases over a period of time in accordance with various imputed inflation rates. We have not factored in the effects of tax deduction and principal reduction of the mortgage. In ten years, the rent payment is still projected to have no tax benefit.

The next table repeats a similar chart, only this time we are reducing the mortgage payments by the amount of the federal tax benefit and the principal portion of the P&I payment.

Slide 41

DH19 add a graphic to this one
Dave Hershman, 1/27/2016

Inflation Effects on Rent and Mortgage

When one analyzes this chart which covers the true cost of owning versus renting in the long run, the economic advantages of homeownership are clear – especially when you add in the "investment" gains of homeownership as compared to renting. This is exactly the reason that the net worth of owners consistently is many times that of renters as reported by the Federal Reserve Board. It is also why the dream of homeownership is known as the "American Dream" -- both economically and socially.

Inflation, Tax, and Principal Reduction Effects on Rent and Mortgage Payments

	$1,000 Rent		$1,300 Mortgage	
Inflation Rate	After 5 Years	After 10 Years	After 5 Years	After 10 Years
3%	$1,159	$1,344	$769	$723
4%	$1,217	$1,480	$782	$754
5%	$1,276	$1,629	$795	$788
6%	$1,338	$1,791	$809	$824
7%	$1,403	$1,967	$824	$864
8%	$1,469	$2,159	$839	$906

Table

Assumptions:

- *5.0% interest rate on a $200,000 mortgage and real estate taxes and insurance at $225 monthly.*
- *A reduction of 20% in the total mortgage payment due to the tax deduction. This is the equivalent of a 25% reduction in the taxes and interest only (25% tax bracket)*
- *@20% of the mortgage is subject to inflation, while 100% of rent is subject to inflation.*
- *Formula for future mortgage payment--*
  - *80% of mortgage payment (for tax deduction);*
  - *minus principal reduction in year 5 or year 10;*
  - *plus inflationary increase in taxes & insurance.*

It's a Wrap!   Open For Questions

These are the most important concepts in the world of real estate--

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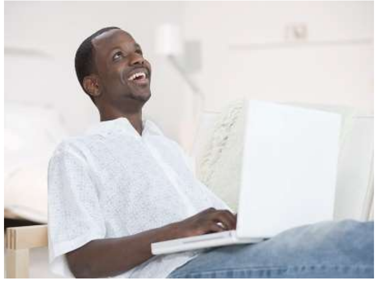

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- Real Estate, not just mortgages -- the “name says it all”
- Hard hitting news, not recipes or handy homeowner hints
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REAL ESTATE REPORT

May 19, 2009

ECONOMIC COMMENTARY

Has the market gotten ahead of itself?

The stock market has rallied for over two months, oil prices have risen and long-term rates have gone up as well. It is not surprising that the markets have paused to take a breather. Yes, the reports were fairly negative this past week with higher jobless claims and slower than expected retail sales. Even the good news, slow consumer inflation, is indicative of a slower economy. But the markets have been reacting positively through a lot of negative economic news. Why pause now?

It would not be out of the question to view this period as a breather or period of consolidation. The markets are not likely to turn back down unless there are some really surprising negative statistics. We don't rule that out. For now, the breather and lower rates are a great opportunity for homeowners and consumers to take advantage of what might be the last chance to obtain the lowest rates of our generation. At this point rates on home loans have stayed steady despite higher rates on Treasuries and that can't last forever.

WEEKLY INTEREST RATE OVERVIEW

The Markets. Rates on home loans were fairly stable last week. Freddie Mac announced that for the week ending May 14, 30-year fixed rates averaged 4.86%, up slightly from 4.84% the week before. The average for 15-year rose slightly to 4.52%. Adjustables were lower with the average for one-year adjustables decreasing slightly to 4.71% and five-year adjustables falling to 4.82%. A year ago 30-year fixed rates were at 6.01%. "Fixed-rate mortgages were little changed this week following the release of April's employment figures," said Frank Nothaft, Freddie Mac vice president and chief economist. "The economy lost 539,000 jobs, less than the monthly job loss of the past five months, and the unemployment rate rose to 8.9 percent. Adjustables, however, fell slightly over the period. Relatively low house prices and rates are clearly helping first-time homebuyers. Housing affordability for the median first-time buyer reached an all-time record high in the first quarter since the NAR index began in 1981. Consequently, first-time homebuyers accounted for half of existing home sales in the first three months of this year, the NAR reported."

Current Indices For Adjustable Rate Mortgages

ORIGINATIONPRO™

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THE SALES UPDATE

FOR TODAY'S SALES PROFESSIONAL AND ENTREPRENEUR

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Basic Guides For Cold Calling

If you have read our previous articles on this topic, you will get the impression that we do not think highly of "cold calling." Sales people actually ignore previous and present customers as sources of additional business while they spend their time focusing upon cold calling for new business. We spend much time and resources bringing in this business and our easiest source of additional business is our existing relationships. Yet, bookstores are filled with works teaching us how to become effective cold callers through advanced techniques.

In fact there are some situations in which sales people are going to be expected to be able to cold call. If you are moving into a new sales position in a new geographic area and/or are selling a new product, you may not have a base of existing business or relationships from which to build. Also, you may be selling within a very specific business niche which requires new contacts be initiated. So in deference to our own advice, we are going to present a few tips for cold calling—

Address your problems with call reluctance up-front. If you are consumed with call reluctance, cold calling may not be for you. On the other hand, there are those who are reluctant to call upon those with whom they have a close relationship and may prefer cold calling. In most situations, sales people will be more effective utilizing those relationships as a basis for their calls—and we stick with this advice even as we move to help our readers be more effective calling sources with whom they have no relationship. The bottom line is, whether you are cold calling or networking, if you do not prospect, you will not succeed.

Have a unique offer. If you can offer something of value that no one else is offering, you are more likely to be successful. If you are calling with the same offer as everyone else, you will be facing an uphill battle from the start. The worst call someone can make is the same offer the prospect received within the past 24-hours.

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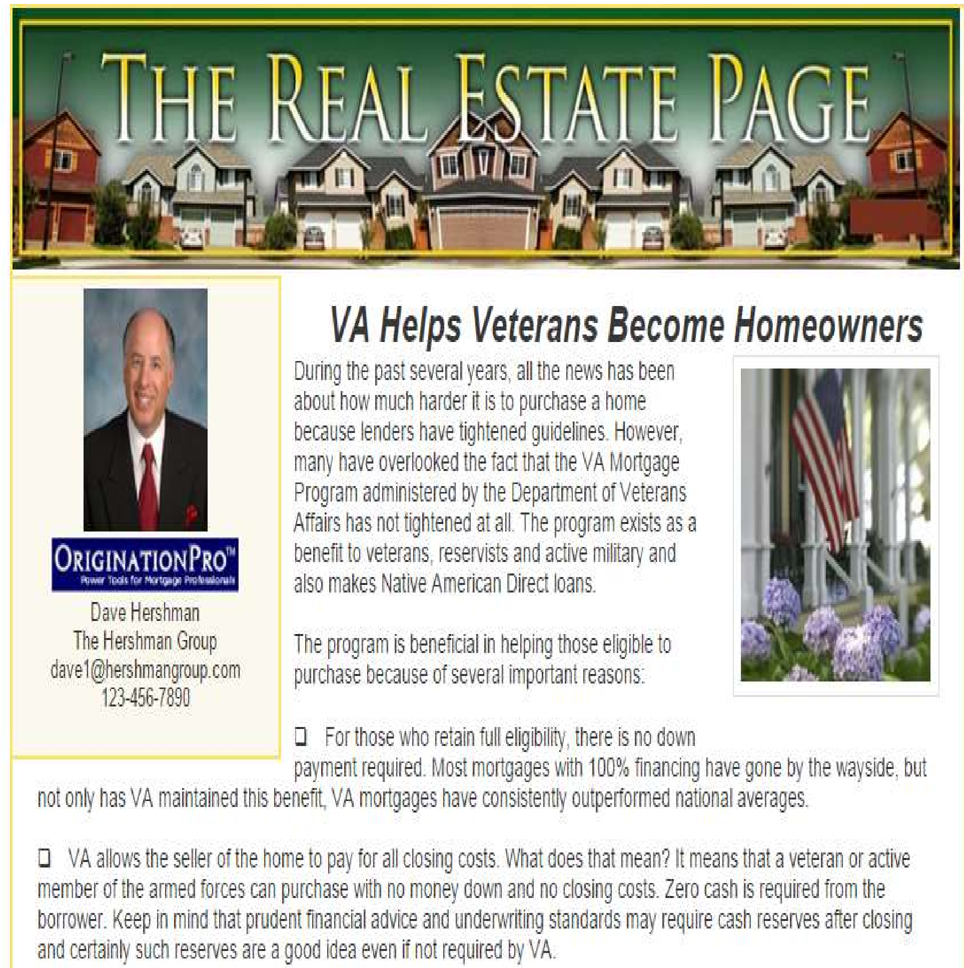

THE REAL ESTATE PAGE

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VA Helps Veterans Become Homeowners

During the past several years, all the news has been about how much harder it is to purchase a home because lenders have tightened guidelines. However, many have overlooked the fact that the VA Mortgage Program administered by the Department of Veterans Affairs has not tightened at all. The program exists as a benefit to veterans, reservists and active military and also makes Native American Direct loans.

The program is beneficial in helping those eligible to purchase because of several important reasons:

❑ For those who retain full eligibility, there is no down payment required. Most mortgages with 100% financing have gone by the wayside, but not only has VA maintained this benefit, VA mortgages have consistently outperformed national averages.

❑ VA allows the seller of the home to pay for all closing costs. What does that mean? It means that a veteran or active member of the armed forces can purchase with no money down and no closing costs. Zero cash is required from the borrower. Keep in mind that prudent financial advice and underwriting standards may require cash reserves after closing and certainly such reserves are a good idea even if not required by VA.

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HTML Email Library

- A complete email library targeted to all segments.
- Includes real estate and refinance campaigns.
- Includes customer service/pipeline emails.
- Includes emails for alternative business sources such as attorneys and even recruiting
- Completely personalized with picture, logo and other contact information.
- Includes, “write your own email feature” and special occasion cards—all in one place!

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- Four page document published monthly
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Mobile Alerts

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VA Loans More Popular

America's fragile housing recovery is getting a boost from military buyers using VA loans as the U.S. draws down troops after more than a decade of combat in Iraq and Afghanistan. About 4.7 million full-time troops and reservists served during the wars and many are now able to take advantage of one of the easiest and cheapest paths to homeownership.

The program's share of new home loans, at a 20-year high, is also increasing as other types of government-backed loans have grown more costly. "The reduction in uncertainty for the returning vets allows them the freedom to spend more, including buying housing," said Sam Khater, deputy chief economist at CoreLogic Inc., an Irvine, California-based property-data firm. "VA buyers are coming into the market in higher and higher proportions and tend to be first-

Three Purposes

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