

Mortgage Merge Accounts: readers respond

by Ilyce_Glink

In the few weeks since I published a letter on Mortgage Merge Accounts (MMAs), I have received all sorts of e-mails about this topic. Today, I'm publishing two letters (edited for spelling and clarity) that I think will help shed a little light on the subject.

Comment: I have enjoyed reading your columns, and have gleaned information from them, but when I read your response to concerning money-merge accounts, I was surprised. It is the typical response from those that haven't done their research! Did you know that when the 401(k) was first introduced, most analysts and columnists called it illegal and/or a scam? We get the same response from those who don't understand the money-merge account. When you see it work, you will understand. The money-merge account is as essential to one's financial planning as a dashboard is to driving. The money-merge account is your financial dashboard. The initial response from most people is, "I can do this myself." This is true, and we had an engineer draft up the same analysis using an Excel spreadsheet. He said it took him six hours to create the same spreadsheet, and he thought he had one over the company! However, once he had everything entered into the spreadsheet, he realized he would have to do the same thing over the next month, all six-plus hours of it. The money-merge account does much more than accelerate your mortgage payment, it helps you manage your finances to the penny, and will track every penny you spend, adjusting your pay-off accordingly. Of course, one has to be diligent in entering the data, but the retention rate of customers is over 95 percent. Can they do it on their own? Of course they can! Will they? I'd bet \$100 they won't. People aren't disciplined enough. The cost is absolutely nothing out of pocket. The initial fee of \$3,500 comes out of your line of credit. It doesn't change your income, cash flow or lifestyle, but it does help you get out of debt in one-third to one-half of the time. In my book, that is a win-win situation.

Comment: Thank you for bringing up the discussion on accelerated payoff HELOC mortgages in your recent column. I want you to know that you missed the key point on merged account HELOC mortgages. I have analyzed this loan type in detail and have done all the math on virtually every possible borrower scenario. When you go through the math in detail, you find that the idea of using the float on your money to help advance the payoff of the mortgage is only a minor item. However, there is a much larger issue. About two-thirds of the mortgages in Europe and Australia are written as combined account mortgages (CAM), and under certain circumstances for some borrowers they can be an exceptional tool that can automatically greatly accelerate the payoff of a borrower's mortgage with no change in the borrower's spending habits or any special administrative procedures required of the borrower. The key here is that CAM mortgages will only benefit the borrower if the borrower makes significantly more money per month than they spend, but do not use their excess cash to accelerate the payoff of their existing mortgage because they may need the money downstream. With the typical mortgage they cannot retrieve any extra money they may have paid in without refinancing or selling their home. With the CAM mortgage they can. The CAM mortgage lets them potentially accelerate the pay-down of their mortgage with no change in their spending habits. Unless the borrower meets one or both of the following criteria, a CAM mortgage will be of little value to them. First, and most important, is that the borrower makes a few thousand more than they spend each month. If this is the case, then that extra money is automatically applied to their mortgage and has a similar effect as paying an extra thousand or two each month on their existing mortgage. Again, the difference is that with the CAM mortgage (where CAM loans are prevalent) they can retrieve the money back if they need to, whereas they cannot with their existing mortgage. Second, if the borrower keeps a reasonably significant amount in their savings account, now the borrower can transfer those funds to their CAM mortgage account to accelerate the pay-down on their mortgage. Again, because these loans are home equity lines of credit loans (HELOC) they can retrieve the money instantly if needed. Again, they would not be able to do this with their existing loan. For borrowers who could afford to, the largest single reason they do not accelerate the pay down of their existing mortgage is the fact that they may need the money downstream and it is not retrievable with their existing mortgage. The problem with the CAM loans we can write today is that they are ARM mortgages. Another problem is that the rates on CAM mortgages are significantly higher than conventional mortgage rates. A second mortgage is not the way to go either, again because of the higher rates and the fact that they are ARM loans as well. A competitively priced, fixed-rate first CAM mortgage (not a second mortgage) can offer significant, even life-changing advantages to families with no changes in their current spending habits as long as that family

lives well within its means. However, for families that are stretched to the limits financially, a CAM mortgage is of little value. These loans in themselves are not scams and do have merit. A scam would occur if an ignorant or disingenuous real estate agent or loan officer promoted these products to people who would not benefit from them. Each individual needs to do the math to determine if CAM mortgages are good tools for their situation. The potential benefit to some borrowers can be incredible. A: I've received a lot of mail on the MMAs, mostly from people who insist that they are life changing for everyone. I'm not a PhD in mathematics, but even I know that if you're spending as much as you bring in, these loans won't really do anything for you. The truth is, if you prepay your mortgage by \$1,000 to \$2,000 per month, you'll achieve great benefits and quickly reduce the amount you pay on your loan. And, if you apply the \$3,500 cost of setting up the MMA on top of that, you'll shave years of interest off your loan. And that's the real point, isn't it? (Ilyce R. Glink's latest ebooks are "Credit Scoring Secrets" and "How to Find a Great Real Estate Agent," which are available at her website, www.thinkglink.com. If you have questions, you can call her radio show toll-free (800-972-8255) any Sunday, from 11a-1p EST. You can also write to Real Estate Matters Syndicate, PO Box 366, Glencoe, IL 60022 or contact her through her website, www.thinkglink.com.) © 2007 Real Estate Matters - TMS

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