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Mortgage payment acceleration accounts

Ancient Wisdom Fits Current Economics

By Andrew Waite

Mortgage burning parties are a relic of our parents' generations. With growing uncertainty about our over-leveraged lives, conservative and pragmatic homeowners and investors see significant benefits in the option to own personal residences and other real estate free and clear.

MORTGAGE PAYMENT ACCELERATION

There is a growing interest in mortgage payment acceleration plans. We looked at plans that encouraged pay-offs, payments every two weeks, and hybrid account management. We concluded that the preferred strategy is mortgage acceleration plans with merged accounts. See chart below.

EXPERTS AGREE

Dr. David Goldreich of the prestigious London Business School proved that 80 percent of U.K. mortgage loans with balances of (U.S. equivalent of) \$80,000 would benefit from a mortgage acceleration payment strategy.

The "Mortgage Professor," Dr. Jack Guttentag, a member of the faculty of the Wharton School since 1969 and a former economist with the Federal Reserve Bank of New York, believes there is real merit to these strategies. Dr. Dolf de Roos, engineer, real estate educator, investor, and *New York Times* best-selling author agrees. De Roos is author of a forthcoming book on mortgage acceleration.

Hybrid accounts have been used in Australia, New Zealand and Britain for more than 20 years.

In 1997, Virgin Financial (Richard Branson of Virgin Records and Virgin

Atlantic fame) got together with The Royal Bank of Scotland to promote a mortgage interest offset account called Virgin One or a Current Account Mortgage (CAM). This allows customers to consolidate mortgage balances, checking and saving accounts, and personal loans (home equity lines), into one account. This requires refinancing and sophisticated software to manage the account balances to the benefit of the homeowner's mortgage.

These systems carry names like current account mortgages, hybrid, or mortgage payment acceleration. They approach the opportunity in various ways, and for the primary benefit of the lender.

OUR PRODUCT EVALUATION

Recently we evaluated the mortgage acceleration programs available in the U.S. We concluded that the Money Merge Account™ plan offered by United First Financial™ was superior in functional quality, distribution, and customer support.

Banks and financial institutions are slow to change. Merged customer account strategy is advantageous to banks. It means massive reprogramming of existing systems and perhaps a reduction in earned interest. Informed and empowered customers are less profitable.

MORTGAGE REDUCTION COMPARISON CHART

Acceleration Options compared to a 30-year principal & interest mortgage

Features	Maintain 30-Year Fixed Mortgage	Sell House	Refinance to Lower Interest	Twice a Month Monthly Payments	Mortgage Acceleration Merged Accounts
Still Own Home	Yes	No	Yes	Yes	Yes
Refinance of 1st Trust Deed	No	No	Required	No	Option
Home Equity Line Required	No	No	Option	No	Yes (HELOC)
Availability	50 States	50 States	50 States	50 States	Most States
Years to Payoff	30 Years	Instant	Life of new loan	23 years	12 to 18 years
Loan Years Saved	None	No loan or home	Typically none	About 5 years	12 to 17 years
Interest Paid*	\$237,000	Any fees to payoff	\$230,000	\$184,000	\$85,000 to \$133,000
Interest Saved*	\$0	No further interest	\$0	\$53,000	\$104,000 to \$152,000
Program Costs	No new costs	Unknown	Any new loan fees	\$350 set-up	\$3,500 to \$6,000
Annual Loan Account Audit	No	Not necessary	No	Option	Optional program feature

* Assumes \$200,000 loan at 6% with a payment of \$1,200 a month and \$500 in unallocated income.

United First Financial™ offers a customer friendly consolidated management solution to the complexity of more than one bank account and loan. The Money Merge Account™ system gives the user one integrated dashboard view of the state of their accounts at any bank or lender. The Money Merge Account system user can now manage their entire financial picture and direct money to where it has the most effect and pays down debt faster.

Personal Real Estate Investor Magazine reviewed many of these systems and concluded that the United First Financial™ system is ideal. It's called the Money Merge Account™ system. See chart below.

CUSTOMERS FIRST

We prefer systems that focus on the customer and work with the exist-

the mortgage acceleration customer.

Any system must deliver increased customer convenience, savings to the account holder and the financial institution, mutual loyalty and better aggregate loan payment performance for the bank.

This last benefit makes any lender look better in the eyes of the financial regulators and, as a result, the lender

Some hybrid accounts have a less customer-oriented approach.

It is relatively easy to determine the product mission by who is behind the product. A loan broker wants the customer to take a new loan and may offer a mortgage acceleration strategy as a competitive advantage.

Lenders may offer this to existing customers or as a tool customers can use to simplify and manage their mortgage finances.

Ideally, any system places the customer and their experience first. United First Financial's Money Merge Account met these criteria best. For this and other reasons the Money Merge Account system earns *The 2008 Personal Real Estate Investor Magazine Editors Choice Award* for best mortgage acceleration strategy and agency distribution model versus an adjunct loan origination benefit or telemarketing sales model.

MORTGAGE PAYMENT ACCELERATION PROGRAMS

PROVIDER	United First Financial™	Sydney Financial	CMG Financial	MacQuarie
PROGRAM NAME	Money Merge Account™ System	Mortgage Checking Account	Home Ownership Accelerator Loan	Asset Manager Loan
Availability	49 States	48 States	27 States	25 States
Refinance of 1st Trust Deed	No	No	Yes, 1st TD HELOC	Yes, 1st TD HELOC
Home Equity Line Required	Yes, 2nd TD/HELOC	Yes, 2nd TD/HELOC	No	No
Require Credit Card Line	Option	Yes	Option	Option
Minimum FICO Score	No	N/A	Yes	Yes
Years to Payoff	12 years	13 years	13 years	15 years
Loan Years Saved	18 years	17 years	17 years	15 years
Interest Paid*	\$85,000	\$92,000	\$92,000	\$108,000
Interest Saved*	\$152,000	\$145,000	\$145,000	\$129,000
Program Costs	\$3,500	\$3,500	\$6,000	\$6,000
Dedicated Customer Service	Yes	Unknown	No	Unknown
Annual Loan Account Audit	System feature	Unknown	Not applicable	Not applicable
Distribution	Direct agents Mortgage brokers Accountants CFP/CFAs	Mortgage brokers Accountants CFP/CFAs	Mortgage brokers	Mortgage brokers

*Assumes 30 year \$200,000 loan at 6% with a payment of \$1,200 a month & \$500 in unallocated income.

By placing the various options in a single table, it is easy to see how one system becomes the preferred system. Two require an immediate refinance of the account holder's primary mortgage. Clearly those alternatives are first about the lender, not the customer. The Money Merge Account is user centric. This works with any lender or bank account and can move with any changes in the user's financial relationships.

ing mortgage structure. Systems that require refinancing the basic mortgage were considered are less desirable because they benefit the financial institution more than the customer. Customer and account support is a vital component of any strategy. In one case, the merged mortgage account originator sent the customer to a generic mortgage service center that did not serve

has more freedom and reserves to originate new loans. This strengthens the tie between customer and financial services provider.

MORTGAGE PAYMENT ACCELERATION VENDORS

A current account mortgage or Money Merge Account™ system should simplify a homeowner's life.

RESOURCES

CMG Financial Services
www.cmghome.com
GMAC Bank: 800-648-5508
GMAC Mortgage: 866-346-3640
CMG Client Liaison: 866-659-8989

MacQuarie Financial
www.macquriefinancial.com
949-743-8500

Sydney Financial
www.sydneyfg.com
866-376-0554

United First Financial
www.UnitedFirstFinancial.com
866-307-3201