BROKER VILLAGE
A Division of Black Cat Decisions, LLC

Sales Perspective
A Refi Makes Life More Affordable

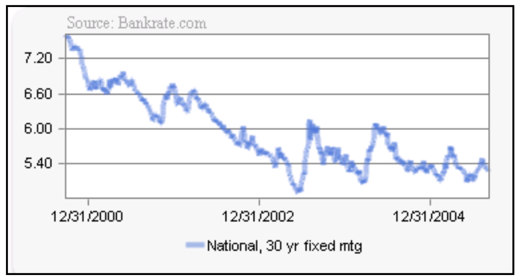
A Penny Saved is a Penny Earned

Timely investment ideas are scarce. This is a great ***savings*** idea, and it's independent of the stock market.

Even if a client refinanced just a year ago, encourage them to do so again. They'll save a ton of money, even if closing costs are over $2,000. On 9/1/05, 30-year rates were roughly 5.5% for conforming, 0-point loans. (Jumbo rates were higher.) It is ***very*** likely that clients can save $50 - $250 per month!

A common "rule of thumb" is that rates must drop one percentage point (1.0%) before it makes sense to refinance. This is terrible advice. Every client's situation is different: mortgage size, term, rate, and tax bracket. For most clients with mortgages over $250,000, a "paltry" $1/8^{th}$ point drop (0.125%) is all that's required for this idea to make sense.

30 Year Fixed Rate Mortgages



Example. A client can get a $250,000 mortgage today for 5.5%. If they got a rate of:

- 7.28% in Dec 2001, they'll save ~$290/mo or $3,480/year or $104,400 over 30 years!
- 6.72% in July 2002, they'll save ~$200/mo or $2,400/year or $72,000 over 30 years!
- 6.28% in Sep 2003, they'll save ~$125/mo or $1,500/year or $45,000 over 30 years!
- 6.01% in July 2004, they'll save ~$85/mo or $1,020/year or $30,600 over 30 years!

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Perspective. A client at 6.72% refi's at 5.5%. Their savings ($200/mo. or $72,000 overall) equal about:*

Five *lifetimes* of coupon clipping. (Save $5/week * 52 wks/yr * 50 years * 5 people = $65,000)
One *lifetime* of gas. ((Drive 40 miles/day * 365 days/yr * 50 yrs * $2.00/gal) / 20 MPG = $73,000)
1 year of Harvard. ($200/mo invested @7% ≅ $85,000 in 18 yrs, or a year of school, all-in, @5% inflation)
4 years of tuition, *for two kids*, at a state school. (In-state tuition ≅ $4,100, per The College Board)
Free breakfast *for life!* (An Egg McMuffin, coffee, & hash browns is $4, or $73,000 over 50 years)

A financial advisor brings value to clients in many ways. If a penny saved is a penny earned, cutting mortgage costs helps boost a client's net worth.

Except for projected school costs, the effect of inflation (e.g., on gas prices) was not considered, nor was the time value of money. The refinancing savings do not reflect the lowering of a client's itemized tax deductions due to a lower mortgage interest expense. Had it been considered, they'd save 20% - 40% less. The sample refi's above do not assume making extra payments so that the loans expire at the same time. Even with these simplifying assumptions, the "spirit" of this piece remains intact. Sources for mortgage rates are www.bankrate.com and www.hsh.com.