



## From Security to Expanding Net Worth: Mortgage Advice in the Financial Planning Context

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Kim and Leslie, a non-traditional couple, recently suffered substantial property loss when their home burned. The insurance company has declined to reimburse Leslie for her losses because she is not "in title." They're upset with their advisor. Frank and Jane, at their advisor's suggestion, refinanced their mortgage. They want their advisor to reimburse them for the \$6,700 prepayment penalty on their old mortgage that she failed to advise them would be due. Tom and Eleanor, high-income taxpayers, purchased a new home. They financed it with one month LIBOR ARM they will pay off over five years, and a margin loan against their portfolio. Their after-tax cost will be less than with a traditional mortgage. They can't say enough good things about their advisor; they've referred three friends and business associates.

Your clients' home and mortgage is often their largest paired asset and liability. Mortgage debt service approaching 30% of the family's gross monthly income is increasingly common. But it is very often overlooked as a planning consideration. Given the breathtaking expansion in options for mortgage structure, and advisors' increasing exposure to liability claims, attention to this aspect of clients' overall picture is no longer optional.

Three questions require answers when developing a method for incorporating this aspect of personal finance into your practice.

### **What do I need to know?**

There is a body of basic information that is essential to all complete client databases. The form at the end of this article is a good place to start. The first section covers essential baseline information. This information is indispensable for

analyzing a client's current position. If you don't have this information at your disposal your work in tax, cash flow, risk management, asset accumulation and retirement planning may well be seriously flawed.

The home is often the most emotionally charged asset your clients have. You need to understand how they view the home financially and emotionally. The form provides indicators for eliciting and recording this information.

### **What are appropriate protocols?**

**One:** Incorporate mortgage analysis in your "field of regard" when discussing planning with clients. Include it in your comprehensive review and analysis.

**Two:** You can't tell which way the train went by looking at the railroad tracks. Data collection and analysis is essential. This includes the key documents listed on the form below.

**Three:** Complete one form for each property. Make this a part of initial data collection with new clients. Incorporate it in your next periodic review with current clients.

**Four:** A second area of concern is client attitudes and feelings; explore this area. The second section of the data form elicits information regarding your clients' view of the property as a financial asset. The **Property Attitude Continuum** section records client feelings in four areas: security (is this property held primarily for its security value ["No matter how bad things get, the kids will always have this to come home to."]?); amenity (access to schools, shopping, work, configuration for family needs, etc.); non-investment net worth asset (view of property as a net worth asset/liability only); and

investment and net worth asset (view of property as both a net worth and investment asset/liability).

These attitudes will aid you in framing your recommendations. They may vary from property to property (e.g., primary residence vs. second home) for the same client. That's why a data sheet on each property is essential, along with the fact pattern specific to each property.

**Five:** Adopt clear standards for evaluation of mortgage structure relative to the rest of the client's financial profile. Apply these standards consistently across the client census, and over time. This protocol, in terms of both content and consistency of application will afford you some defense in the event of litigation. Primus Mortgage Advisors can help you formulate this practice standard.

**Six:** When making mortgage recommendations, either develop a substantial expertise in this area, or develop consultative relationships with third parties who "think like advisors" and work with advisors as a regular part of their practice.

**Seven:** Have a clear understanding with third party consultants regarding their role in helping you perform and document your due diligence.

**Eight:** Document your files.

### ***How can I make this a plus in my practice?***

Mortgage structure and the attendant cash flow have an impact on most, if not all, other dimensions of a family's financial plan. When you address the home/mortgage issue early in the fact-finding process you put yourself in a position to unearth client attitudes that will impact your recommendations throughout the rest of the plan development and implementation process.

Your recommendations in this area will affect tax planning, risk management covering everything from disability to life to long term care insurance, asset accumulation for goals funding, retirement

asset accumulation and expenditure planning, and legacy planning.

Add to this the fact that the home is probably the most emotionally charged asset a family will own. By addressing this issue frontally you can elicit the "stories" that will give you clues to emotional lenses through which your clients view life and frame the meaning of their experiences. Access to this information greatly enhances your ability to be a conveyor of wisdom, and not merely a technician.

By expanding your "field of regard" you invite your clients to perceive your work and your value differently. When they begin to appreciate the significance of their mortgage decisions as they impact other areas of their financial planning, they will come to rely more on your advice.

Often this leads to referrals of friends and colleagues who are facing similar questions. Such an inquiry can open up a whole discussion of that person's overall financial goals and plans. And the great thing is that the decisions under discussion are rather immediate—a perfect motivator for getting the broader planning process started or refined.

Further, many of your clients have adult children who are completing college and beginning their own careers and families. Since many young people are certain that they are both invulnerable and immortal, house-buying decisions are often one of the few areas where they are receptive to establishing a relationship with a financial advisor. This can be your entry point to the succeeding generation of your current clients. Inter-generational relationships that will serve you well as your clients age can be established here.

By incorporating mortgage analysis and advice in your planning practice, either independently or with the help of a mortgage professional, you will enhance your value to your clients by discovering additional ways to help them reach their goals, and very likely increase your income. That's a win-win scenario.

## Real Estate Mortgage Information

Client: \_\_\_\_\_

Property: \_\_\_\_\_

Address: \_\_\_\_\_

Purchase date: \_\_\_\_\_

Purchase Price: \_\_\_\_\_ Current Value: \_\_\_\_\_

Loan Type: \_\_\_ FHA \_\_\_ VA \_\_\_ Conv. Fixed \_\_\_ Conv. ARM \_\_\_ Other

Loan Date: \_\_\_\_\_ Initial Interest Rate: \_\_\_\_\_ Current Interest Rate: \_\_\_\_\_

Loan Term: \_\_\_\_\_ years

Current Principal and Interest Payment: \_\_\_\_\_

How long do you plan to continue owning this property? \_\_\_\_\_

Current use: \_\_\_ Primary Residence \_\_\_ Second Home \_\_\_ Investment Property

If the loan is an ARM (adjustable rate mortgage) fill in the following information

Type of Loan (e.g., 1/1 or 3/1 ARM): \_\_\_\_\_

Date of loan: \_\_\_\_\_

Starting Rate: \_\_\_\_\_

Adjustment Caps: First adjustment: \_\_\_\_\_ Annual Caps: \_\_\_\_\_ Life-of-loan Cap: \_\_\_\_\_

Index (e.g., 1 Yr. Treasury Index, COFI Index): \_\_\_\_\_

Margin: \_\_\_\_\_

Current Rate: \_\_\_\_\_

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Does the client view this property as an illiquid, non-investment asset that is part of net worth, or as an investment asset that is part of net worth? \_\_\_\_\_

How does the client allocate value to this property (answers should total 100%)?

Amenity asset (personal use) value: \_\_\_\_\_ %

Investment asset value: \_\_\_\_\_ %

Other (Please specify): \_\_\_\_\_ %

TOTAL: \_\_\_\_\_ %

