Letter #1: Intro

SUBJECT: Do You Give Your Clients What They Want to Hear…Or What They Need to Know?

Dear <Name>,

You know it and we know it: **what your clients don't know is killing them financially.** Ignorance, more than anything else, is what piles up the burden of debt that brings many of them to your door.

And unless they get the information they need, that ignorance will take them from debt consolidation to re-consolidation to second mortgage, **with little to no chance of breaking the cycle of debt.**

So before you can give them the "answer" they think they want – the mortgage with the lowest percentage rate – **you need to teach them how to ask the right questions!** Once they understand the key concepts and terms of mortgage lending, they can understand why a mortgage type that might seem counterintuitive or even risky may be the best option for their long-term financial health.

So how can you do this? Where can you even begin?

In this e-course, we'll teach you to take control of the discussion. **Guide your clients as a consultant, not an order taker**. Admit that most loan officers are stuck in the mortgage rat race, expected to be high-production order takers, more focused on finalizing transactions than in achieving their clients' best interest.

Your clients deserve more! More than a five-minute phone interview and a faxed spreadsheet. They deserve your time, your personal attention, and your financial expertise. Not to mention information they can use, rather than intimidating jargon.

And so we teach you to let them in on the secret: Most people approach mortgages from a place of shame, fear, lack, even desperation. **They see the mortgage as a necessary evil that will solve an immediate problem…and** something to be eliminated as soon as possible.

You'll learn to show them that a mortgage can be a *tool* – an integral part of a balanced financial plan, and a real step toward becoming debt-free.

"How can *that* be?" they'll ask.

That's when you introduce the four-step **Cash Flow Priority Model**. It's a common-sense set of priorities that determine **how their monthly income should be allocated to create the greatest long-term financial benefit** for them and their family.

Before we go on, we'd like you to identify your own preconceptions about your current work as a mortgage banker, and about mortgages…

- **Is my career goal to be an order taker – giving my clients the quick fix they think they want – or an equity manager, teaching them what they need to know?**
- **Do I see mortgages as a quick fix for an immediate problem, or as a means toward a larger goal?**

Your clients deserve the best…and so do you.

Yours in growth,
Mike Hardwick
Jim McQuaig
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Letter #2

SUBJECT: Step One: Stuff Happens, or The Great "Emergency Credit" Myth

Dear <Name>,

How many times have you heard it, as you ask your clients which credit card accounts they want to pay off and close with their consolidation mortgage – **"Oh, we'll just save a couple for emergencies."**

We shake our heads every time we hear this…what these good people don't realize is that **a "just in case" card is the first step on the road to deeper debt**.

Let's face facts: **credit card companies want cardholders to *buy* – not save their cards for a rainy day!** And so they'll send your clients one reason after another to accumulate debt: discounts per purchase, dollars back, frequent flier miles…the list goes on. And all too often, **by the time a *real* emergency comes, the "emergency card" is maxed out**.

So you need to begin by teaching your clients about the crucial financial habits that can **protect their credit rating, protect their assets, even protect their marriage.**

What's Rule Number One in financial planning? **"Stuff Happens!"**

Nobody wants to think about this – but sooner or later your clients will experience an auto breakdown or accident, or a fire or flood, or a layoff, or a major illness…also known as "Stuff." If they're lucky, insurance will cover much of their loss, **but there are always out-of-pocket expenses,** deductibles, other costs to be met.

So Step One in the Cash Flow Priority Model is: **Create a Cash Cushion.**

Your clients need a fund of available cash that's ready and waiting for emergency needs. We're not talking about a fortune here – for a family of four with a steady $80,000/year income, $3000 to $5000 should be enough. For solopreneurs or commissioned salespersons, more would be better.

The reason for having cash available? **Your clients won't need to depend on a credit card to meet the emergency.** They won't need to put themselves into debt at a time when they can ill afford to do so…and they won't need a "just in case" card burning a hole in their wallet.

Before we go on to Step Two in the Cash Flow Priority Model, we'd like you to take a look at your own financial habits…

- ~ Do I have a "Stuff Happens" fund ready for my emergencies?
- ~ Am I holding a "just in case" credit card to cover unbudgeted expenses – and have I used it for non-emergency purchases?

Before you can convince your clients to establish good financial habits, **you need to know the freedom and peace of mind those habits can give.** Your clients and you deserve nothing less!

Yours in growth,
Mike Hardwick
Jim McQuaig
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Letter #3

SUBJECT: Step Two: "But I Thought *All* Debt Was Bad!"

Dear <Name>,

Once the clients have gotten control of their impulse-buying habits, started living within their means, and established a cash cushion for themselves, **it's finally time for them to move on to their original goal – eliminating debt.**

But you're going to teach them a way that's a little different from what they expect! You see, **there's "good" debt, and then there's "bad" debt.** And Step Two of the Cash Flow Priority Model is: **Get Out of Bad Money Debt.**

This concept may confuse them: "**But these aren't *bad* debts** - we've been stretching ourselves to the limit to make payments every month," they may say. Or they may say, "**But I thought *all* debt was bad!"**

This is your opportunity to teach them the incredibly empowering philosophy that lies at the core of the Cash Flow Priority Model: **Change the person first, change the finances second. Old habits created the bad debt load, and new habits can eliminate it!**

But what is a "bad debt?" In short, bad debt is unsecured, high-interest borrowing for short-term purposes. **Bad debt feeds the client's habit of impulsive consumption.**

Credit cards are bad money debt, because they encourage impulse purchases against the purchase limit, not against the actual balance in the client's bank account. **Car loans and other types of financing are bad money debt**, because the client is tempted to spend more with a financing plan than when actual cash is put down on the table.

On the other hand**,** good debt serves longer-range purposes, and does not support consumer habits. **Good debt supports the client on the path to acquiring and conserving wealth.**

For example, **a mortgage is good debt**, because it creates home ownership and protecting the tangible property that the client has. As the value of the house increases, the liability of the mortgage decreases. Mortgage payments are tax-deductible, so they help to keep earned money in the client's hands. **Student loans are good debt**, because they are an investment that will be repaid by a better career for the borrower.

But how can the client get rid of bad money debt?

The best way – and the worst way – is to convert it into good money debt: roll those credit card bills into one mortgage payment. If the client has developed good financial habits, and saves money carefully, this can eliminate debt more quickly than any other method.

But wait – there's a pitfall! If the client is still spending impulsively, **rolling those credit card balances into a mortgage just opens the way for more credit-card spending until – surprise – the client is paying the equivalent of *two* mortgages**, one for the house and one for the cards. They're worse off than before! And so they refinance, and run up the balances again, and the situation gets worse. **The mortgage industry targets these people, tempting them to reset the clock again and again.**

There is another way…we call it the "snowball" method.

In this method, the client works on **paying off the lowest-balance debt first. Once that's paid off, the client *still sets aside the minimum payment for that debt*…and adds it to the minimum payment for the debt with the next lowest balance.** When that second debt is paid off, the minimum balances of both paid-off debts are added to the payment for the third…and so on. You can see how the psychological satisfaction increases with each debt that's eliminated! **Finally, without any extra effort at all, the client is paying a very significant amount each month on the debt with the highest balance.**

And you see now why it is so important for the client to have that financial cushion, and to develop the crucial habit of saving. **Without these two key factors, the client's unresolved spending habits would make the snowball method impossible.**

Before we move on to Step Three, we'd like you to take a look at your own good and bad debt habits:

- **How much "bad money debt" do I have – and how much "good money debt?"**
- **Have I bought into the habit of resetting my credit card balances to zero with a consolidation mortgage, and continuing to spend impulsively?**
- **Have I mastered the habit of saving money to put it toward paying off bad money debt?**

Before you can teach the client how to eliminate debt, you need to have these skills in your own toolbox. The client and you deserve nothing less!

Yours in growth,
Mike Hardwick
Jim McQuaig
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Letter #4

SUBJECT: StepThree: Plumping up the Cushion

Dear <Name>,

At this point the clients have saved and snowballed their bad money debt right out of existence, and you've been cheering them on at every step of the way. Time for celebration - break out the bubbly!

Now that they've achieved their original goal – eliminating their debt – it's time to move on to the next step.

Step Three of the Cash Flow Priority Model is to set aside a full year's salary, a cash cushion that will protect the client against major expenses.

Not just an automotive breakdown or a broken-down appliance – the potholes of life - but the really big expenses. Things like major illness, layoff or personal disability…or, on the positive side, a lovely new car or house priced way below market rates, as a cash-down, buy-today deal. The list is endless.

Exciting as this goal is, it's probably going to surprise the client! Here they've been faithfully plugging away, wiping out one debt after another, and just when they're ready to wipe out the big-daddy debt of them all – the mortgage – you're telling them to start saving *for themselves*?

This makes no sense, they'll probably say! Why not just go on and wipe out the mortgage, while we're on a roll?

Two practical reasons. First, the small cushion that the clients worked so hard to set up in Step One was not just for protection against surprise expenses. **Its more important purpose was to establish good financial habits – living within a budget, tracking expenses, and saving**. All of these habits made it possible for the clients to eliminate their debts, while having a small fund to protect them against the unexpected.

The second reason deals with the nature of the clients' assets. There are "non-liquid" assets like the house and other real estate properties, the car, a 401(k) or life insurance plan, etc. Then there are "liquid" assets like bank accounts, savings certificates, stocks and bonds, etc. **Liquid assets can easily be turned into cash in hand if an emergency strikes.**

If the clients invest the next, say, seven years in eliminating the mortgage, that money is going toward a *non-liquid* asset that cannot help them if disaster strikes. They can't go and squeeze a couple hundred thousand dollars from the bricks in their basement!

On the other hand, **if they have worked to plump up their cash cushion before working to pay off the mortgage, they have the liquid funds they need, ready to hand.**

Even if disaster strikes *before* clients have completed their new cash cushion, they have both liquid assets and options: they may possibly use the equity in their house as a backup resource. On the other hand, **if there's an emergency while they are paying off their mortgage – without a cushion – they have far less in the way of liquid assets, and fewer options.**

There are many ways that clients can set up their new cash cushion, but the fund must meet three basic criteria:

1. **The client must be able to get access to this money within two or three weeks.** It can't be a specified-term CD, requiring X waiting period before cash can be withdrawn without penalty.
2. **It must be safe, not a high-earning, high-risk account. Specifically, it should be principle-guaranteed**. The idea is to protect the clients' savings, not to get the highest possible interest.
3. At the same time, **the interest rate must be at least equal to the inflation rate…and must also compensate for taxes.** Inflation causes the value of money to decrease over time, and so the cost of living

rises. **The cash cushion account must allow for these rising costs. The client also needs to take taxes into consideration: will the interest still compensate for inflation if the return is taxed as income?**

Finally, there is a third reason for saving a year's salary before starting to pay down the mortgage: **peace of mind**. **The client who is making one or two high mortgage payments per month, with no cash cushion, is living on the brink of disaster…and knows it.** And this knowledge, even when it's suppressed, seeps into the body and impacts the immune system, digestive system, blood pressure...placing that person at increased risk of catastrophic illness. The stress seeps into personal relationships and places marriages at risk of divorce. It impacts the client's professional performance, increasing the risk of job loss.

On the other hand, the client who is building – or has built - a cash cushion, doesn't just have money in the bank. **There's a serenity in knowing that years of practice and wise, disciplined decision-making have yielded not just the assets, but also the know-how to deal with catastrophe.**

Before we move on to Step Four, we'd like you to take a look at your own state of preparation for disaster..:

- **Do I have a cash cushion that will cover my needs for an extended period of time, if necessary?**
- **Is my cash cushion liquid and accessible with just a couple weeks' notice, without penalty?**
- **Have I set up my cushion safely, with interest that will compensate for inflation and taxes?**

For you to communicate the peace of mind that having a large cash cushion can bring, you need to experience that peace of mind in your own life. The client and you deserve nothing less!

Yours in growth,
Mike Hardwick
Jim McQuaig
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