



*Debt Elimination Proposal  
Prepared for Mr. and Mrs. Smith*

This proposal details the simple steps a fictitious couple will take to become debt free in less than ten years. Along the way, they make some unconventional mortgage decisions. Their surprising choices and ultimate success may make you reconsider everything you believed about mortgages and debt in the past.

The Mortgage Advisory Group provides a complimentary Debt Elimination Proposal to customers upon request.

Call us today and begin your journey to a life without debt.

# Background Information: The Smiths

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The Smiths are a fictitious couple in debt for \$171,400. They contacted the Mortgage Advisory Group about refinancing their house at a lower rate to put themselves in a better financial situation.

They, like many homeowners, believed these longstanding and prevalent myths about mortgages and debt.

## **MYTH #1**

**Never refinance a mortgage at a higher rate than the existing mortgage.**

The Smiths have a 5.875% rate on their current mortgage and want to reduce their rate.

## **MYTH #2**

**Never refinance a mortgage with a longer term than the existing mortgage.**

The Smiths have 23 years left on their current mortgage and want to reduce the term.

## **MYTH #3**

**Never consolidate another debt with a short payment term into a mortgage refinance.**

The Smiths do not want to consolidate their car payment into the new loan because they have only three years left to pay on it.

## **MYTH #4**

**Always make it a priority to pay off the credit card with the highest interest rate first.**

The Smiths are planning to focus on paying off Credit Card D with a 15% interest rate.

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This Debt Elimination Proposal was developed for the Smiths by the Mortgage Advisory Group and debunks every myth above.

It will enable the Smiths to be totally debt-free in less than ten years!

Review the proposal, and then give us a call to find out how

# Current Financial Situation

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Creditor	Balance	Rate	Remaining Term	Monthly Payment
Mortgage	\$ 123,500	5.875%	23 years	\$ 1,550
Line of Credit	\$ 18,000	7.25% (variable)	Revolving	\$ 315
Car	\$ 9,800	4.5%	3 years	\$ 304
Credit Card A	\$ 3,700	12%	Revolving	\$ 87
Credit Card B	\$ 1,400	3%	Revolving	\$ 21
Credit Card C	\$ 6,100	12%	Revolving	\$ 140
Credit Card D	\$ 8,900	15%	Revolving	\$ 221
<b>Total</b>	<b>\$ 171,400</b>			

## Notes

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The Smiths have 23 years left on their mortgage with a balance of \$123,500 and a rate of 5.875%. They also have a line of credit, a car payment, and various credit card debt.

# Step A

## Secure new mortgage

The following bills will be paid off with the Smith's new loan:

Creditor	Balance (Now Retired)	Monthly Payment (Now Retired)
Previous Mortgage	\$ 123,500	\$ 1,550
Line of Credit	\$ 18,000	\$ 315
Car	\$ 9,800	\$ 304
<b>Total</b>	<b>\$ 151,300</b>	<b>\$ 2,169</b>

New monthly mortgage payment amount - restructured payment \$ 1,083.00

New rate: 6.875%, term: 30 years

## Notes

If the Smiths refinance into this new mortgage and follow the plan developed by the Mortgage Advisory Group, the Smiths can be debt-free in less than ten years.

Please consider the following:

1. The rate on the new mortgage is 6.875% compared to 5.875% on the previous mortgage.
2. The term on the new mortgage is 30 years compared to 23 years remaining on the previous mortgage.
3. The Smiths consolidated their line of credit and car loan into the new mortgage, exceeding the \$123,500 balance on the existing mortgage.
4. Although the car loan term is only three years, the Smiths agreed to roll it into the new mortgage based on this proposal.

# Step B

## Capitalize on break from mortgage payment

The Smiths will not owe a mortgage payment this month and they will have this amount of extra money on hand:

Source	Cash Available
Previous monthly payment amount	\$ 2,169

With that money, pay off the following debts:

Creditor	Payment	Monthly Savings
Credit Card B (entire balance)	\$ 1,400	\$ 21.00
Credit Card A (partially pay off balance)	\$ 769	
<b>Total</b>	<b>\$ 2,169</b>	

A recap of the Smith's monthly payments is as follows:

Monthly Payments	Retired Debt	New Mortgage Payment
Total bills paid at closing	\$ 2,169	
Total paid above	\$ 21	
Restructured payments		\$ 1,083
<b>Total</b>	<b>\$ 2,190</b>	<b>\$ 1,083</b>

	Monthly Savings
Difference between retired and outstanding debt:	\$ 1,107

## Notes

The payment on the Smith's new mortgage is not due until the following month, so the Smiths will have a month without owing a mortgage payment of \$1,083. They have already retired their debt on the car and line of credit, so they will have extra money in the amount of \$2,169 available during that skipped month.

If they apply \$2,169 to pay off Credit Card B and part of Credit Card A, they retire debt on Credit Card B, resulting in a monthly savings of \$21. Considering what they used to pay monthly (\$2169) and their new payment (\$1,083), they now have an additional \$1,107 every month to use as a debt elimination tool.

# Step C

## Tackle other outstanding debts

By systematically and strategically applying savings to debts as follows, the Smiths can be debt free:

<b>Credit Card A - Months 1-3</b>	<b>Monthly Payment</b>
Minimum monthly payment	\$ 81
Savings from restructured loan	<u>\$ 1,107</u>
<b>Pay this amount until balance is zero</b>	<b>\$ 1,188</b>
<b>New total monthly savings after month 3</b>	<b>\$ 1,188</b>

<b>Credit Card C - Months 4-9</b>	<b>Monthly Payment</b>
Minimum monthly payment	\$ 140
New monthly savings	<u>\$ 1,188</u>
<b>Pay this amount until balance is zero</b>	<b>\$ 1,328</b>
<b>New total monthly savings after month 9</b>	<b>\$ 1,328</b>

## Notes

Now let's concentrate on paying off Credit Card A. If the Smiths apply the regular monthly payment (\$81) plus the savings (\$1,107) generated by this plan to that card, they will retire Credit Card A debt in just three months.

In months 4 through 9, the Smiths will follow the same approach to pay off Credit Card C. By applying the regular monthly payment (\$140) plus the new savings (\$1,188) generated by this plan, they will retire Credit Card C debt in just six months.

## Step C (continued)

### Tackle other outstanding debts

<b>Credit Card D - Months 10-17</b>	<b>Monthly Payment</b>
Minimum monthly payment	\$ 221
New monthly savings	<u>\$ 1,328</u>
<b>Pay this amount until balance is zero</b>	<b>\$ 1,549</b>

**New total monthly savings after month 17**      \$      **1,549**

<b>Mortgage - Months 18-119</b>	<b>Monthly Payment</b>
Monthly payment	\$ 1,083
New monthly savings	<u>\$ 1,549</u>
<b>Pay this amount until balance is zero</b>	<b>\$ 2,632</b>

**New total monthly savings after month 119**      \$      **2,632**

## Notes

Next, the Smiths will apply the same principles to their last credit card, Credit Card D. They will pay the regular monthly payment (\$221) plus the new savings generated by this plan (\$1,328) and retire Credit Card D debt in eight months.

Once the unsecured debt is paid off, the Smiths can focus on owning their house free and clear. The approach is the same: They will apply the regular monthly payment (\$1,083) and the new savings generated by this plan (\$1,549) to their mortgage each month. After just nine years and three months of making a \$2,632 payment, the Smiths will be totally debt free! (What a difference from a 30 year mortgage.)

No credit card payments! No car payment! No line of credit payment! And no mortgage payment!

# Step D

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Enjoy being debt free!

Mr and Mrs. Smith will be **out of debt**

in less than **10** years

and save **\$2,632** per month!

## Notes

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We have effectively debunked the following four myths about mortgages and debt:

### MYTH #1

**Never refinance a mortgage at a higher rate than the existing mortgage.**

The Smiths annual percentage rate (APR) on their new mortgage was 6.875%; however, by systematically applying savings to 100% principal reduction, their effective rate was actually 1.75%.

### MYTH #2

**Never refinance a mortgage with a longer term than the existing mortgage.**

The Smiths had 23 years left on their original mortgage, refinanced for 30 years, and paid off the mortgage and all other debts in less than 10 years. That's 13 years earlier than their original mortgage would have been paid off.

### MYTH #3

**Never consolidate another debt with a short payment term into a mortgage refinance.**

When the Smiths saw the larger picture through this Debt Elimination Proposal, they realized that consolidating the car payment into the mortgage was beneficial to them. They were able to apply the amount of the car payment to bills and get out of debt quicker.

### MYTH #4

**Always make it a priority to pay off the credit card with the highest interest rate first.**

The Smiths concluded that the first priority should be to pay off the bill that provides the quickest route to getting out of debt via useable monthly savings.



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Debt Elimination Proposal*

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*Begin your journey to a life without debt!*