

Mitochondria Learns to Invest #04
by Klarise Yahya

Continued from last month...

When I was done I turned the pad so she could read it. I owed almost nine month's income! And if I made my minimum monthly payments it would be *forever* before I would get out of debt.

Mrs. Langerhorn frowned. "*This is not very good*", she said. I nodded my head. It was *terrible!*

But then she added something and I didn't think I heard it right. "*You don't owe enough money!*" she said. "To really illustrate how effectively you can get out of debt, let's give you at least one big obligation. Let's pretend you've just bought a little condominium and have a \$120,000 mortgage. OK. That should work for us. So your car and your credit cards and your student loans total \$35,000. Additionally, you have this hypothetical mortgage of \$120,000. So you own \$155,000 and your total monthly payments are \$1,522.00. Are you with me so far? What we've done is to give you a mortgage – and tripled your debts – so we can dramatize how easily they can be defeated."

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even if you never charge another item, *it*
will take more than 30 years to pay off
the latte and bagel you charged last week.

"Here, you take the pad and start making some notes. Put your biggest debt on the first line with its monthly payment. That would be your imaginary mortgage of \$120,000 with a payment of \$966.00.

"Move down one line and write down the next biggest obligation. That would be your student loan of \$20,000 and monthly payment of \$200.00.

"Then would come your car loan of \$5,000 and payment of \$156.00.

"Next, there's a VISA with a balance of \$4,000 and minimum payment of \$80.00.

"Then a MasterCard of \$3,000 with a minimum payment of \$60.00.

"Finally, there is yet another VISA with a \$3,000 balance and \$60 payment.

"Your paper should reflect a list of all your debts, their balances, and the monthly payments. Can you guess how long it will be before you pay them all off if you follow the bank's payment schedule?"

She answered herself. "You would have your condo paid off in 30 years, *but you would still be paying on your credit cards!* Think about that. You will have paid \$227,000 in mortgage interest ..."

I had to interrupt. "How do you figure that?"

"It's easy. The \$120,000 mortgage amount is your principal. That is the contract amount you have to pay off. It never gets bigger. So everything you pay above that \$120,000 is interest.

"Now, multiply your monthly payment by the number of months until you pay off the loan. That's \$966 times 360 months, or \$347,760. Subtract the \$120,000 you originally borrowed and you find that you will have paid \$227,760 in mortgage interest over the thirty years.

"But that's the simple part. You know that total of \$10,000 credit card debt that you're making minimum \$200 payments on? You will still be making those credit card payments long after your house is paid off. If you make just the minimum payments, even if you never charge another item, *it will take more than 30 years to pay off the latte and bagel you charged last week.*

"The good news is that your car and your student loans will be retired before your mortgage. That should be some solace", she grinned mischievously.

"Ok, that is what a lot of people are facing. Some are a little better off. Most are worse off. Let's see how we can handle this little difficulty. Do you still have the paper with your debts in one column, the balances due in a second column, and the minimum payments in a third column?"

I nodded and said "Yes". I didn't know where this was going, but I sensed that something pretty important would be revealed.

"And you agree that, with the normal payment schedule you wouldn't be out of debt for at least 30 years?"

I agreed. I didn't know about the more-than-thirty-years to payoff my credit cards, but it was pretty obvious that a thirty year mortgage would take 30 years to retire.

"Ok", she said, "now I want you to apply your 15% self-payment to the smallest debt. Make your normal minimum payment, but add the 15% of your paycheck you've been paying yourself.

"Your smallest debt is the \$3,000 you owe to VISA, right? Well, you'll pay the required \$60 a month as you always do, but you will also be paying that 15%. Let's see, you make about \$4,000 a month, so 15% would be \$600. Add the \$60 and you will be paying \$660 a month towards that \$3,000 debt. How long will it take to pay it off, do you think?"

I punched the numbers into my calculator: \$3,000 divided by \$660. "It would take 4.55 months", I answered.

Mrs. Langerhorn told me to round the number and write 5 months to the right of the last column. That meant that I would have the debt paid off in less than half a year.

"Now take that \$660 you had been paying towards your first VISA and add it to the \$60 minimum payment you owe your MasterCard. How long will it take you to retire your MasterCard?" she asked.

I did the math. I would be making \$720 monthly payments. I divided \$3,000 by \$720 and found that I'd have the MasterCard paid off in another 4.17 months. Mrs. Langerhorn said to round it to four months.

"Now you have \$720 to add to your \$80 minimum payment to retire your second VISA. Talk to me ..." she demanded.

"Well", I said, "I'll have \$800 a month to pay towards a \$4,000 debt". I thought I could do that in my head, but I punched in the numbers anyway. "The VISA will be gone in exactly 5 months."

"Grand! Now, you have to pay off your car. Please do the numbers out loud".

"I owe \$5,000 on my car. But I have \$800 in accumulated payoffs to add to the regular payment of \$156. So I'll be paying \$956 a month and it will take 5.23 (rounded to 5 months even) to pay off my car. I'll just make a note on that line of my pad", I said.

"Now you have to pay off your student loan. Would you please do that now?"

"Ok. I have \$956 a month to add to the \$200 that I normally pay, so my total payment will be \$1,156. And if I divide that into \$20,000 it will take ... let's see ... 17.20 months. I'll just round that to 17 months and put it in the proper column." I turned to Mrs. Langerhorn, "How am I doing?" I wanted a compliment, but I also wanted to make sure I was getting this.

"You are doing it exactly right. Now you have only one debt remaining. What are you going to do with it?"

"I don't want to pay off my mortgage, Mrs. Langerhorn. It's the only tax write-off there is anymore!" I felt I had to explain these things to her, because she's older and probably has trouble understanding the bigger picture.

Mrs. Langerhorn looked at me a long moment, as though she was trying to understand what I said. I was glad I talked loudly and slowly. She'd done so much for me I thought it was only fair that I did something for her. Then Mrs. Langerhorn seemed to slump in her chair. "I forgot", she said as though to herself, but loud enough to be sure I heard, "how difficult it must be to be young ... and permitted to have opinions before you are taught to think!" **Continued next month ...**

Klarise Yahya is a Commercial Loan Broker. If you are thinking of refinancing or purchasing five units or more anywhere in the U.S.A., Klarise Yahya can help. Find out how much you can borrow! For a complimentary mortgage analysis, please call her at (818) 500-9966.