

## Cheap Money

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Have you ever heard anyone refer to anything as "cheap money"? You haven't? Well maybe that's because you haven't read some of my articles. There is one thing in life I do refer to as cheap money. That one thing is a mortgage. Mortgage money is the cheapest money you will ever buy. I am going to repeat that statement. Mortgage money is the cheapest money you will ever buy.

Let me explain what I mean. I will start with the end of the statement first. You do buy money you use for a mortgage. You buy it and then pay it back over a period of years with interest. Those last two words on that last sentence now make this entire exercise more interesting. Since you are charged interest for the money you borrow, that interest is a tax-deductible item. That makes the money you borrow the cheapest money you will ever buy.

When we apply a tax bracket to the cost of that money, your "net cost" becomes cheaper. For example let's assume you borrow the money for a mortgage at 6.5 percent interest. If you are in a 30 percent tax bracket, that money really cost you a net of only 4.55 percent. If you are in a combined tax rate for both federal and state taxes of 40 percent, your net rate is only 3.90 percent. That is really cheap! Now you should be able to see why I say mortgage money is the cheapest money you will ever buy.

Where else can you borrow money for just 3.9 percent? Likewise, why would you want to be in such a hurry to pay back that cheap money, especially when you may have debt or other obligations that are costing you as much as 20 percent? I am referring specifically to credit card debt. The interest is non-deductible, for the most part, and it is really expensive money. The key to remember is that when you are using "OPM" (other people's money), make sure it is as cheap as you can get it. And 3.9 percent sure beats 20 percent!

The other unique thing about a mortgage is that the longer you have it, the cheaper it gets. Whenever you purchase a home and start figuring what the mortgage is going to cost you, it seems like a huge burden. However as time goes by, it gets easier and easier to write that check.

Let's get back to the concept of cheap money. I have a drill I have used when I speak. I tell people to draw a line across the middle of a piece of paper. That line represents what it would cost them to go out right now and borrow money from their friendly banker. If that number is 10 percent, I tell them to write 10 percent on the line. Next, I ask them to write in what their credit cards are costing them currently in terms of interest. If that figure is 12 percent, 15 percent or 18 percent, they should write that in above the line. If they have a mortgage at 6.5 percent, then they should figure out what the net cost is, which in this case is 4.55 percent. That falls below the line. If they have student loans at 5 percent, that goes below the line, too.

I ask them to look at this piece of paper and see where the cheap money is. It is below the line. That shows them that if a debt falls below the line, don't be in such a hurry to eliminate that debt first. The ones above the line are what you need to deal with. This is a good exercise for everyone. The rule to remember is that money is worth what you can borrow it for.

Since interest rates are constantly changing, the "cost" of money changes, too. You need to repeat this exercise on a regular basis. Another interesting thing about money is that as the "cost" of money goes up, its buying power goes down. Think about that for a moment. As interest rates go up and it costs more to "buy" money, commodities go up in cost as well, so your buying power goes down.

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