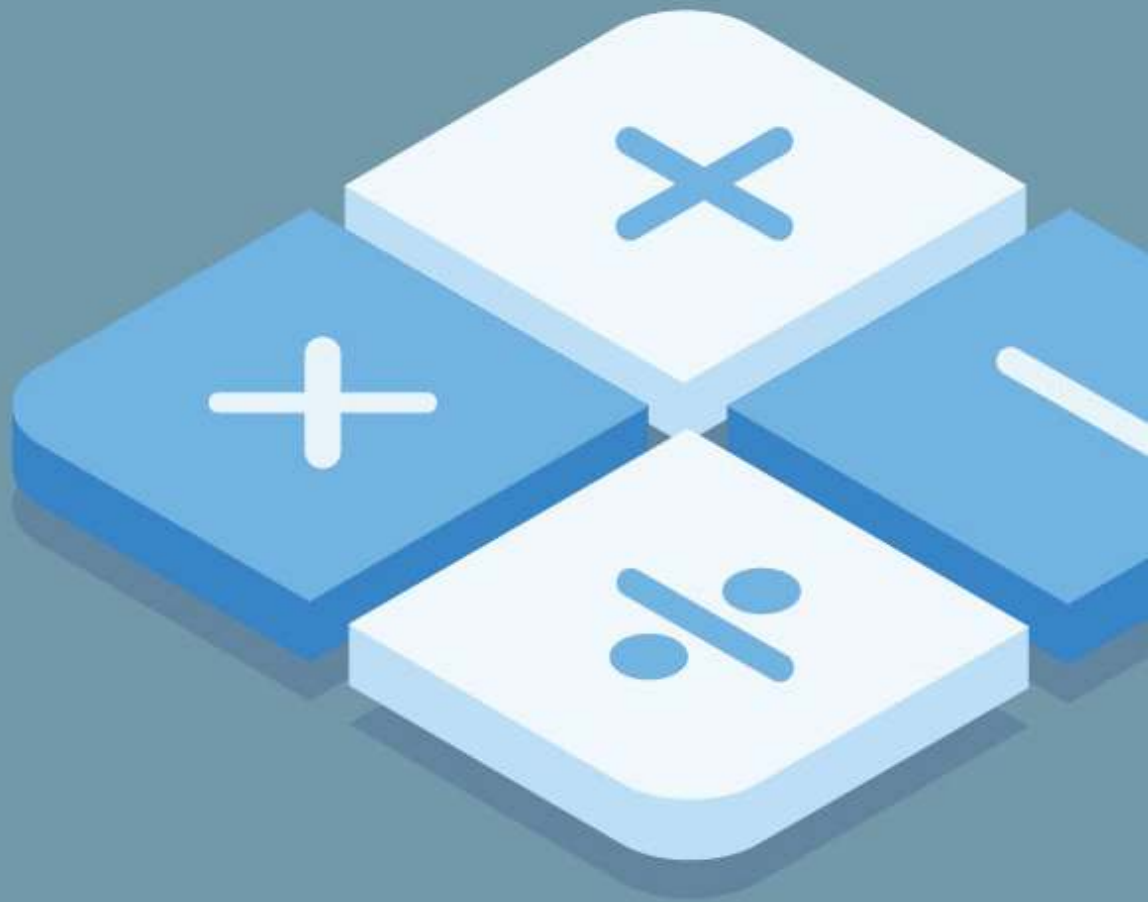


# What is Liability Management?

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And, Why work with a  
Certified Liability Advisor™?



Todd Ballenger | John Thompson

## The Role of Liability Management in a Successful Financial Planning Practice

*Understanding Cash flow, Tax Implications & Equity Management for the Mass Affluent*

### What is Liability Management?

Liability management is the holistic approach of debt and cash flow management to achieve short- and long-term financial goals by applying traditional financial planning concepts to real estate and mortgage. These key financial planning concepts are: **Safety, Liquidity, Rate of Return, EPR™ (Effective Percentage Rate), Taxes, Leverage, Diversification.** In addition consumers can follow a simple 7-step process to minimize their cost of borrowing. These 7-steps are: **Product, Payment, Availability, Amount, Management, Protection, and Discipline.**

Making borrowing decisions in isolation without considering all sides of the personal balance sheet can lead to unintended consequences. Most consumers focus on daily or monthly cash flow, borrowing to supplement their lifestyle while delaying savings decisions. It is far easier to borrow \$100,000 than save \$100,000, and this is often done without a plan to repay that debt in the most efficient way possible to minimize your cost of shelter over your life time.

Liability management is based on a 3-sided balance sheet. Essentially, how does real estate, liabilities and assets work together to create wealth. Once a consumer has a clear understanding on their borrowing and real estate goals, a liability advisor uses suitable borrowing programs, repayment strategies, and considers tax ramifications of buying, selling, or refinancing residential real estate to support the client on the management of their liabilities. Liability advisors consider the changing eligibility, suitability and lifestyle needs of the client to manage liabilities over the life time relationship of the client. Through this process, the consumer will make better decisions that support a variety of financial goals.

## What is a Certified Liability Advisor - CLA™?

A Certified Liability Advisor is a financial professional who has completed the coursework and passed the exams required to gain the CLA™ designation. The course of study includes over 30 hours of study and multiple exams covering education around liability management, tax planning, cash flow, equity protection, and strategies related to mortgage financing and house wealth. The CLA™ works together with other financial professionals, such as Certified Financial Planners, Registered Investment Advisors, Family Offices, CPAs, Insurance Agents, Realtors, Estate Planners and others focused on wealth creation, to assist consumers in making decisions on the integration of debt and liabilities into financial plans and goals.

**Financial Planners/Advisors CFP, CFA** - benefit from a CLA's knowledge and understanding of both sides of the balance sheet. A CLA™ advises on the appropriate and suitable use of liabilities, focusing on liabilities related to real estate. Cash flow and debt repayment strategies are balanced with a consumer's ability to maintain investment goals around safety, education, and retirement. Often a homeowner's largest asset is the wealth inside their home. A CLA™ will help a homeowner make decisions on how to integrate that wealth into a conversation with their financial advisor. The liability advisor encourages the consumer to work with financial professionals on key asset and wealth needs as part of their overall financial planning.

**Insurance Agents / Property and Casualty Professionals** - benefit from a CLA's knowledge and understanding of managing risk and protecting assets and cash flow through home owners insurance, life insurance, annuities and long-term care solutions. A CLA™ understands how cash flow is a critical part of funding immediate estate benefits from life insurance if a consumer is concerned about protecting their family living arrangements with an immediate estate. Additionally, long term planning that involves strategies to utilize cash flow and future equity from property sales to provide protection for refer to life agents to discuss future care provisions in retirement that are a critical part of full cycle planning for the client during each phase of their life.

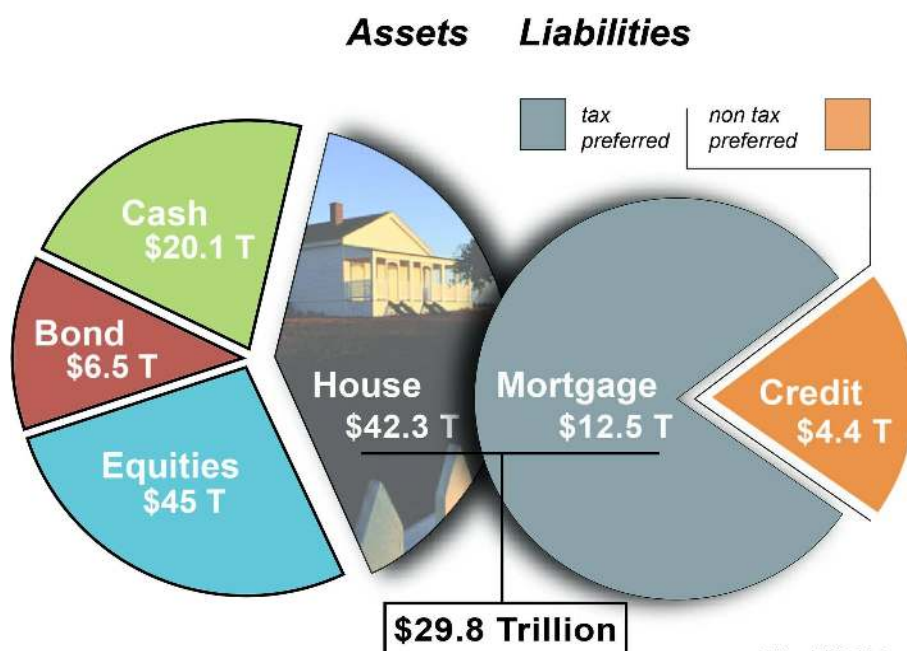
## What Is Liability Management? - Why Work With a CLA™?

**CPA / Enrolled Agents / Tax Professionals** - benefit from a CLA's knowledge and understanding of Section 121 and 163 tax dynamics as they impact the overall home ownership and mortgage liabilities. A CLA™ assists the client with understanding the appropriate use of allowable deductions for primary, secondary and investment real estate when they buy, sell or refinance including 1031 exchanges and other strategies designed to maximize tax planning and minimize tax liabilities and refer to the tax authority to identify any specific tax considerations.

Restructuring debt and using home equity for other goals can result in unplanned tax consequences - a CLA™ understands these outcomes and directs the homeowner to appropriate tax experts in these areas.

The **role of a Certified Liability Advisor** is to support consumers and their advisors in the preservation, growth, and protection of their wealth. A CLA™ focuses on the liability side of the balance sheet, educating on cash flow, tax strategies, and the **use of debt and leverage** of real estate holdings to better align with the overall financial planning objectives for each client and their wealth team.

**Are you Managing your Clients Largest Asset?**



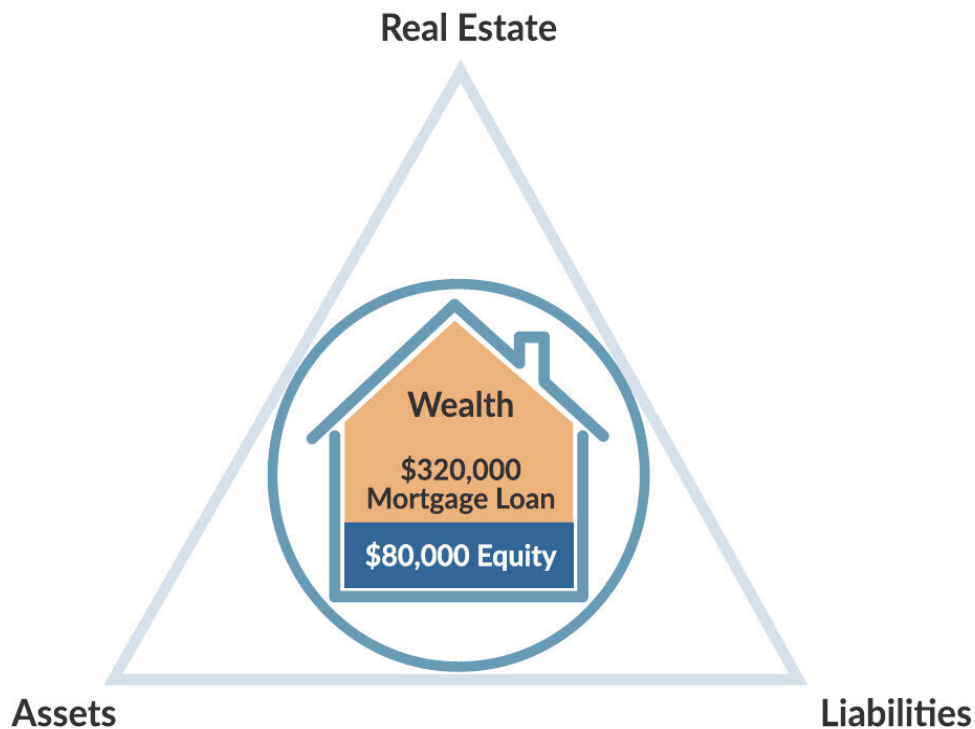
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The majority of Americans have more net worth in real estate than in all their other assets combined.

Consumers make decisions daily about cash flow that significantly impacts their ability to grow wealth. Often, they are not aware of the longer-term consequences these decisions! Very often these decisions are not coordinated with their financial advisors - resulting in transfers of assets and wealth to banks and other financial institutions - they are driving down the road with one foot on the gas and one foot on the brake. The CLA™ helps consumers find these inadvertent wealth transfers to better reallocate those cash flows toward more productive financial goals.

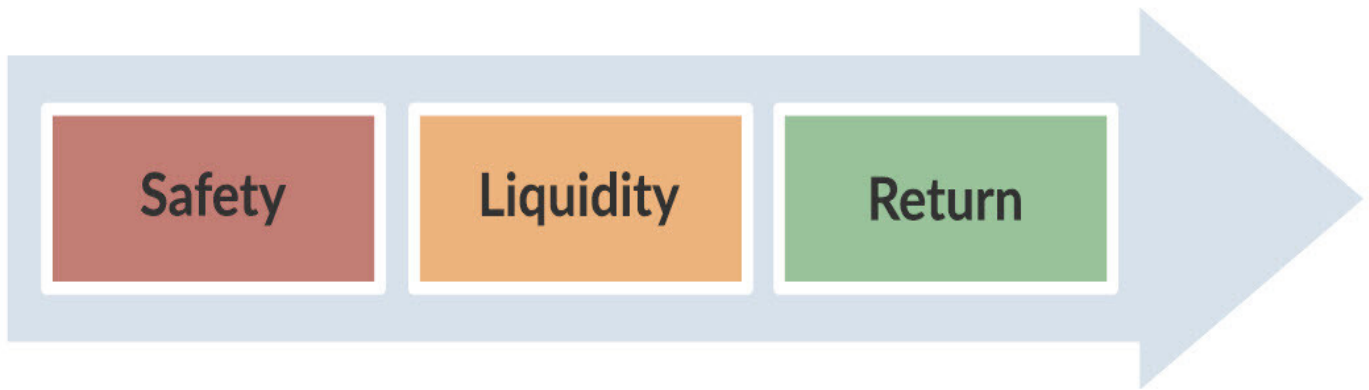
### The 3-Sided Balance Sheet

A CLA™ utilizes the 3-sided balance sheet to help clients understand how real estate is both an asset and a liability.



## What Is Liability Management? - Why Work With a CLA™?

When Real estate moves - money moves - it is imperative for families to have an expert on their team focused on Smart Borrowing Decisions around Real Estate – the CLA™ helps the consumer view their real estate asset from the perspective of three critical and often misunderstood concepts: **(Safety - Liquidity - Return)**.



If you work with clients, did you know that approximately 1.8% of your clients are in the process of making a borrowing decision around real estate each month?\* For every 100 consumers in your database at least 2 of them are making borrowing decision that could have huge financial impact on their future. In addition, there are lending industry triggers that alert others to money possibly moving - credit, deposit and real estate lead triggers - generating a solicitation call to your client. Incorporating a non-competing lending partner that understands your business and is in alignment with your clients' goals is key to retention, growth and safety. As a CLA™, we offer services focused on the management of mortgages related liabilities – always in support of suitable wealth building plans.

*\*2017 Stratmor Consumer Survey Results / Quicken Mortgage*

### The 7 Concepts

At the foundation of liability management are **7 core financial planning concepts we apply to real estate and borrowing**. Integrating these concepts into planning around debt and assets has proven to help consumers integrate their home (and related borrowing) as part of a long-term financial plan.

## What Is Liability Management? - Why Work With a CLATM?

7 Concepts	Considerations
Safety	Appreciation - Depreciation Foreclosure - Lawsuit
Liquidity	Character - Capacity Collateral - Credit
Return	Principal - vs - Appreciation Impact Net Worth
Hidden Cost	EPR = Net Cost Borrowing Market Risk - Discipline Risk
Taxes	Selling - Buying - Refinancing Section 121 / Section 163
Leverage	Borrowing = Leverage Amplify Gain / Loss - Rule 72
Diversification	Risk / Return (A-M-C) Location, Location, Location

Liability management is not a sales strategy, a single product or about a single person - it is about individual understanding and decision making with the rigor required to create an liability plan that is intentional.

Our *[Code of Ethics and Conduct](#)*

## Safety - Liquidity - Return - Hidden Cost - Taxes - Leverage - Diversification

**Safety** - when we discuss safety, we are talking about how safe is the wealth located in your home (equity), or money you might relocate to repay debt. Appreciation, depreciation, foreclosure and lawsuits can impact home equity wealth.

**Liquidity** - refers to how liquid is the wealth in a home. As an asset, real estate has many benefits but is also very illiquid. Character, capacity, collateral and credit all impact your access to this house equity. Real estate equity requires that you maintain income and good credit to access through borrowing.

**Return** - defining the rate of return on wealth inside real estate is confusing for most consumers. All equity is not new wealth. We clarify how appreciation increases wealth over time. We explain how real estate appreciation impacts their net worth.

**Hidden Cost / EPR** - the cost of borrowing is not the rate of interest you pay on debt but rather the net cost of that debt - understanding EPR™ (Effective Percentage Rate), helps clarify the various costs of different debts. Someone inadvertently repaying mortgage debt of 4% while maintaining credit card debt of 18% is clarified through the EPR discussion.

**Taxes** - real estate is unique in that there are several unique tax benefits related to its ownership. Section 121 and Section 163 deal with both tax deductibility and capital gains of mortgage debt. 1031 exchanges and other estate planning strategies can be incorporated to reduce/defer interest costs and taxes owed now or in the future.

**Leverage** - is present when anyone borrowing to buy an asset. Leverage can amplify and accelerate gains, and it can also amplify losses. The ability to leverage a 50k down payment to buy a \$500k house is a powerful tool for consumers to build wealth when managed as part of an overall financial plan.



## What Is Liability Management? - Why Work With a CLA™?

**Diversification** - is key to minimizing catastrophic financial risk. Real estate is an asset class, sometimes correlated to other asset classes and sometimes negatively correlated to others. Real estate wealth should be managed and diversified as part of the overall portfolio. Properly managed equity in primary and secondary homes, rentals, and commercial property, and even REIT's and TIC's can be considered to further minimize diversification risk.

### Advisor A versus Advisor B

Advisor A does a great job focusing on asset and savings conversations with his clients. His typical clients earns \$100,000 a year and is able to save 10% of that a year. The advisor hopes to deliver a 10% rate of return over time to the client.

■ Salary:	\$100,000
■ Savings from Salary:	\$10,000
■ Return Target:	10% yearly return

If successful, the client will have the following portfolio at the end of Year.

■ Savings from Salary:	\$10,000
■ Savings Growth (10% on \$10,000):	<u>\$1,000*</u>
■ Total Year End Savings:	\$11,000

Advisor B works with a CLA™ to manage assets and liabilities. The CLA™ identifies a savings of **\$100 per month** through a simple risk free debt restructuring. Now the portfolio returns for the year look different.

## What Is Liability Management? - Why Work With a CLA™?

■ Savings from Salary:	\$10,000
■ Annual Savings from Refinance:	\$1,200
■ Savings Growth at 10%	<u>\$1,000</u>
■ Total Year End Savings:	\$12,200
■ Return Target:	<u>10%</u>
■ Actual Return (w/ savings):	22.2%

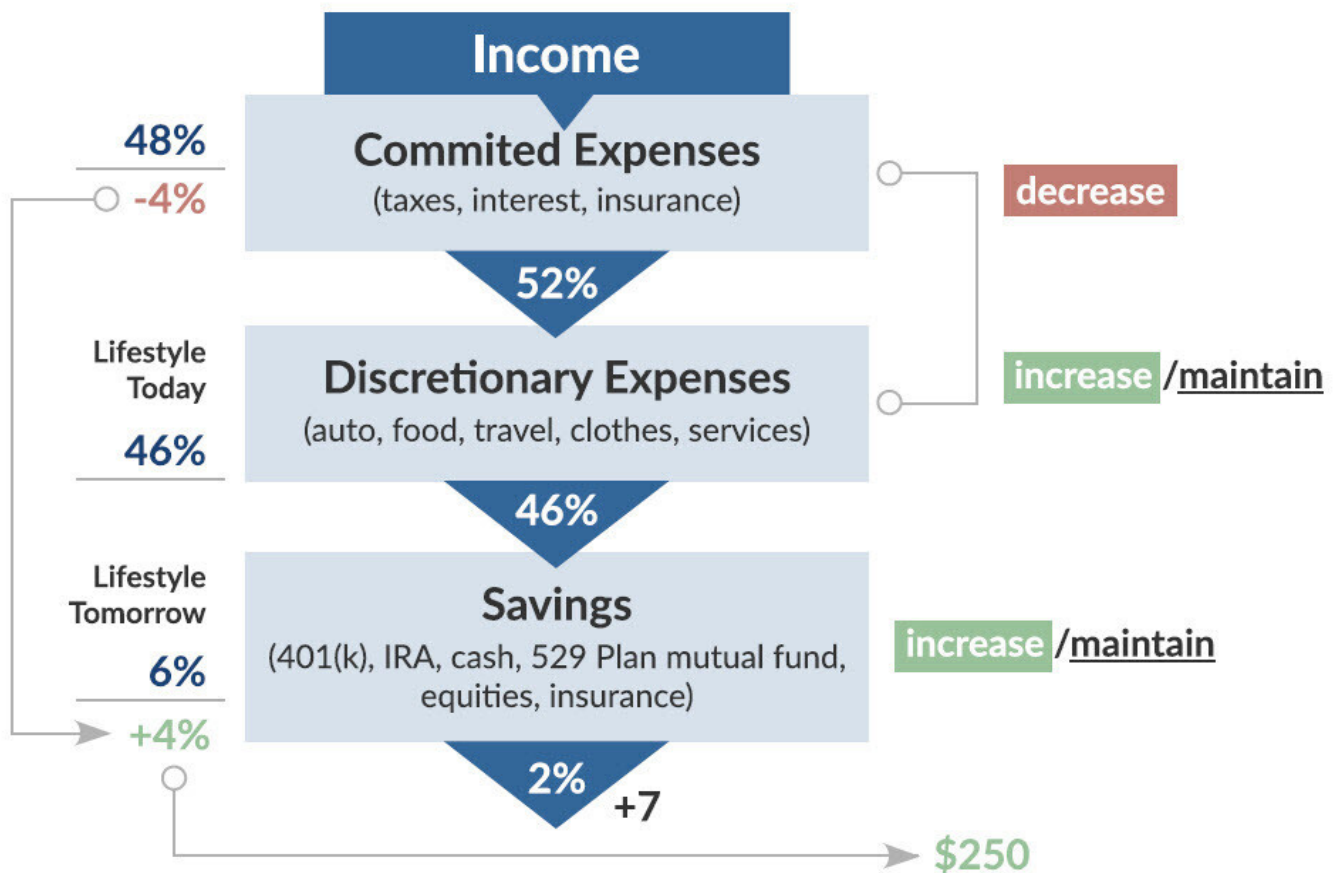
Advisor A has to more than double his Return to yield the same savings results as Advisor B. This is a simple example, but worth considering as liability management by a CLA™ can help increase the overall returns on all sides of the balance sheet.

### Pay Extra or Invest the Cash

The most asked question of a CLA™ by a consumer has to do with the use of their free cash flow. What do they do with an extra \$250 a month? The client faces a choice of what is their highest and best use: 1) Spend 2) Save 3) Repay.

The typical consumer in the US looks something like this:

## What Is Liability Management? - Why Work With a CLATM?



Their biggest expenses are **Committed** related to taxes, housing interest, insurance, and then **Discretionary Expenses** for auto, food, travel and essential services with only a small percentage making it's way through to the **SAVINGS** decision.

Consumers tend to view that choice in the following way – **REPAY** to reduce the mortgage term, or **SAVE** to increase my future savings. We help the consumer determine which option is best for them at any particular time.

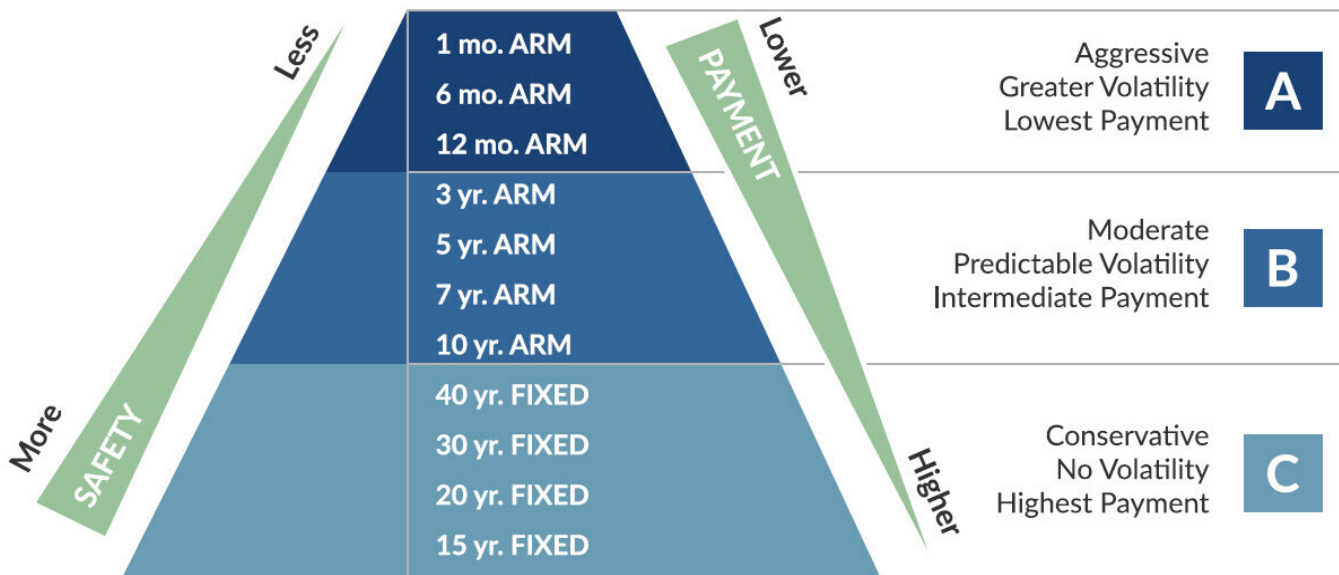
## What Is Liability Management? - Why Work With a CLA™?

Cash Flow Found	Used to Payoff 30-year Mortgage*	Used for 30 Years of Investing**
\$150 mo.	21.5 years	\$182,996
\$250 mo.	18.5 years	\$304,993
\$350 mo.	16 years	\$426,990
\$450 mo.	14.5 years	\$548,987
\$550 mo.	13 years	\$670,984
\$750 mo.	11 years	\$914,978
\$1000 mo.	9 years	\$1,219,971

\*. \*\*Assumes 7% after tax return and 7% 30 yr. Mortgage

### The Mortgage Risk Pyramid

Mortgages are available as: Fixed, Hybrid (Fixed to Adjustable) and Adjustable. Due to various life events, very few consumers keep their mortgage for more than 5-7 years, nor do they keep a house for more than 11 years. Mortgage products can be used to manage risk, and the CLA™ considers the time the consumer will utilize new borrowing as a key component of that risk management.



Borrowers pay a premium for safety and long-term rate protection, which may be a perfectly acceptable tradeoff. However, good planning may identify situations that can save 1-2% annually in rate by matching the loan product with the time that borrowing is needed.

Higher payments may or may not have higher degrees of interest rate protection, while lower payments may or may not increase risk. Our process seeks to balance the varying yield curve risk of longer term debt and shorter term debt as a key function of the CLA™ process.

### **Liability Tax Planning**

Mortgage Interest deductibility was one of the last remaining tax benefits available to a significant portion of the US population, but new laws mean that 86% of borrowers will utilize standard deductions that won't make the house borrowing more tax efficient.

New tax laws may reduce or cap the deductions available, but it still remains a critical tool to consider for higher net worth (larger loans) that may benefit, and for most consumers who benefit when they sell real estate. As a consideration, CLA's are trained on both Section 163, Section 121, and Section 1031 of the IRS code.

### **Title 26, Section 163 IRS US Code**

#### **(B) Acquisition indebtedness**

(i) In general the term "acquisition indebtedness" means any indebtedness which –

**(I) is incurred in acquiring, constructing, or substantially improving any qualified residence** of the taxpayer, and

**(II) is secured by such residence.**

Such term includes any indebtedness secured by such residence resulting from the refinancing of indebtedness meeting the requirements of the above sentence; but **only to the extent the amount of such indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.**

(ii) **\$750,000 limitation is the aggregate amount** (\$500,000 if married filing separately) **qualified residences (primary and one secondary house)**

### Title 26, Section 163 IRS US Code

#### (C) Home equity indebtedness

(i) In general, the term “home acquisition indebtedness” means any **indebtedness (other than acquisition indebtedness)** secured by a qualified residence to the extent the aggregate amount of such indebtedness **does not exceed** –

(I) **the fair market value of such qualified residence**, reduced by

(II) **the amount of acquisition indebtedness** with respect to such residence.

(ii) **\$100,000 limitation is the aggregate amount** (\$50,000 if married filing separately) for any period that shall be treated as home equity indebtedness.

**Section 1031** - applies to investment property, and vacation property only if “mixed use”. Section 1031 is a way to exchange one property for another to shelter the tax event, which is technically memorialized as an exchange and not a sale - thus the taxpayer defers the gains.

- The purchase price of the replacement property(ies) must be **equal to or** greater than the net sales price of the relinquished property(ies).
- All equity received from the sale of the relinquished property (ies) must be used to acquire the replacement property (ies).

## What Is Liability Management? - Why Work With a CLA™?

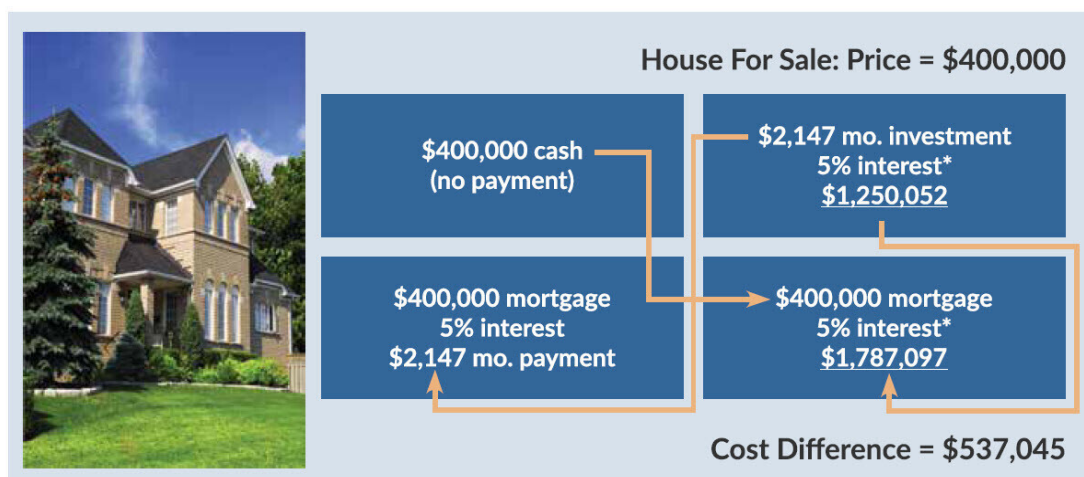
- The exchangor (seller) has **45 days from the closing** of the relinquished property to identify the target property.
- **3 Property Rule** - There can be up to 3 properties of any value identified as replacement property (ies).
- **200% Rule** - There can be 4 or more identified as long as the total value of all properties does not exceed 200% of relinquished property value.
- The exchangor (seller) has **180 days from the closing** of the relinquished property to acquire and close on the replacement property.

*Tax planning should be done by tax experts and tax preparers. The CLA™ is not a tax professional but works to spot and refer by being aware of possible tax benefits important to the consumer when real estate and borrowing related transaction arise.*

### Opportunity Cost

*The loss of potential gain from other alternatives when one alternative is chosen "idle cash balances represent an opportunity cost in terms of lost interest"*

A common question for many clients involves paying cash for their house. We understand there are Safety, Liquidity and Returns issues with this decision and the CLA™ has illustration software to run comprehensive analysis for these decisions. One common misunderstanding is the opportunity cost of paying cash.



## What Is Liability Management? - Why Work With a CLATM?

Paying cash for the home avoids a monthly payment of \$2,147 - making that cash flow available for investing, but requires investment discipline and loses the important time value of money possible from investing \$400,000 in a lump sum. While cash flow invested for 30 years at 5% could grow to \$1,250,052, making a \$400,000 lump sum investment over 30 years at 5% could grow to \$1,787,097. The potential opportunity cost of this misunderstanding - \$537,045 - is greater than the purchase price of the house.

### *What is LAG?*

LAG is Liability Asset Gap™. LAG™ is a tool to help understand the opportunity cost of the lost use and control of cash - particularly when a decision to pay cash is being compared to a financing option. LAG™ is calculated by subtracting the minimum expected return after tax from the after-tax cost of borrowing.

#### Return on taxable investments?

What you sold or exchanged		Tax rate
Asset held < 12 months:		Taxes as ordinary income
Assets held > 12 months:		
> 15% tax bracket:		15%
≤ 15% tax bracket:		5%

9% x = 1.35%

$$9\% - 1.35\% = 7.65\%$$

Investment  
EPR™

$$7.65\% - 4.2\% = 3.45\%$$

Investment  
LAG:

*\* Capital Gains laws and rules change and should be confirmed by a tax planning professional.*



## What Is Liability Management? - Why Work With a CLAT™?

In this example, we assume a 9% return on taxable investments and deduct the long-term capital gains rate from the return, therefore  $9\% - 1.35\%$  (15% of 9% = 1.35%) before any state taxes, and 7.65% as the Investment EPR™ (Effective Percentage Rate) of return.

If the net cost of borrowing is 4.2% then deducting the net cost of borrowing from the Investment EPR™ results in an Investment LAG™ of 3.45%. A client would be better off investing at an expected 7.65% over time, than repaying debt at 4.2%. The client could simply set up a separate investment account for the future payoff of their mortgage and invest in that regularly over 30 years to repay the mortgage faster than a direct repayment against the mortgage.

### EPR™ - Effective Percentage Rate

EPR™ (Effective Percentage Rate) is a tool used to calculate the net cost of borrowing based on different interest rate costs and different types of loans.

Class	Type	Safety	Liquidity	Return	EPR
Personal Debt	credit card	high	high	high	18%
	personal loan	high	low	high	12%
	unsecured loan	high	low	high	10%
	car loan	high	low	medium	8%
Investment Debt	house mortgage	medium	medium	medium	6%
	student loan	high	low	low	4%
Investment Asset	mattress	medium	high	low	0%
	money market	high	high	low	1%
	CD	high	medium	low	2%
	bond	medium	high	low	4%
	insurance	medium	medium	medium	6%
	moderate stock	medium		medium	8%
	aggressive stock	low	medium	high	10%
	real estate	medium	low	high	12%
	loan shark	low	low	high	18%

*\*these rates are hypothetical*

## What Is Liability Management? - Why Work With a CLA™?

We calculate EPR™ initially by looking at the note rate of each debt. In some cases there may be additional interest rate tax benefits for higher loan values. The CLA™ works to help the consumer prioritize the repayment of higher interest rate debt first.

EPR™ can be used in planning around the following common client conversations:

- Prepay Existing Debt or Invest
- 15 yr. -vs- 30 Year Mortgages
- Amortized or Interest Only
- Borrow or Pay Cash

### What is the rate of return on house equity?

Real estate appreciation & depreciation happen whether homes are leveraged or not. Most consumers mistake the equity they have repaid into their house as 'new wealth', when it is merely an ongoing transfer of wealth, they already have toward their debt repayment. It is essentially balance sheet neutral. The only way house wealth is created is through appreciation. In this example the house appreciates at 4%.

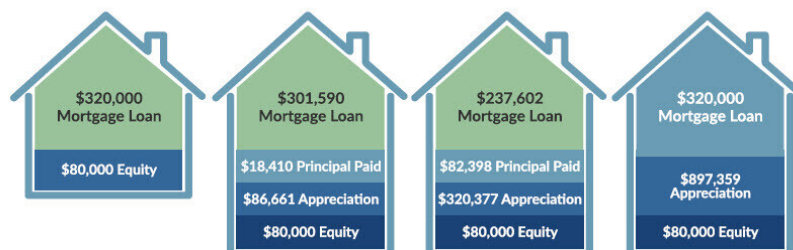
\$400,000 purchase price  
\$320,000 mortgage loan

Interest Rate: 7% (30 year fixed amortizing)  
Appreciation: 4% (annual)

Return - **\$80,000** (with appreciation and principal)

	Day 1	5 Years	15 Years	30 Years
House Value	\$400,000	\$486,661	\$720,377	\$1,297,359
Mortgage Balance	\$320,000	\$301,590	\$237,602	\$0
Total Wealth	\$80,000	\$185,071	\$482,775	\$1,297,359

With appreciation, it appears that \$80,000 grew to \$1,297,359 over 30 years...  
But our new wealth is actually \$897,359.



# What Is Liability Management? - Why Work With a CLAT™?

In this example, with no appreciation, we explain that any increase in real estate equity happened as the result of an initial down payment, and ongoing principal reduction only, absent appreciation there is no new wealth.

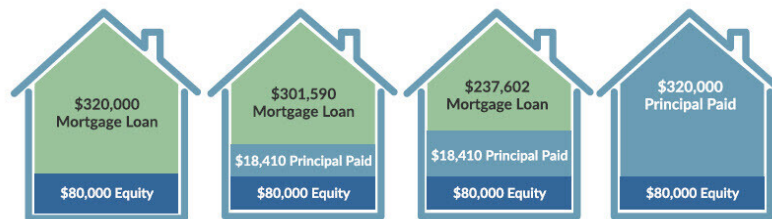
\$400,000 purchase price  
\$320,000 mortgage loan

Interest Rate: 7% (30 year fixed amortizing)  
Appreciation: 0% (annual)

Return - **\$80,000** (without appreciation)

	Day 1	5 Years	15 Years	30 Years
House Value	\$400,000	\$400,000	\$400,000	\$400,000
Mortgage Balance	\$320,000	\$301,590	\$237,602	\$0
Total Wealth	\$80,000	\$98,410	\$162,398	\$400,000

Without appreciation, wealth in the house increases only through principal repayments, and the wealth inside the house is only your principal.



In this example, with no principal payments the only equity in the house comes from their initial down payment, there is no additional wealth from real estate ownership.

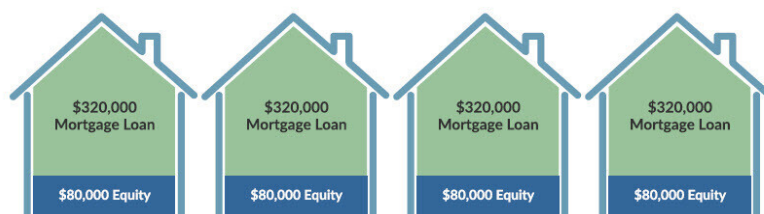
\$400,000 purchase price  
\$320,000 mortgage loan

Interest Rate: 7% (30 year fixed interest only)  
Appreciation: 0% (annual)

Return - **\$80,000** (without appreciation or principal)

	Day 1	5 Years	15 Years	30 Years
House Value	\$400,000	\$400,000	\$400,000	\$400,000
Mortgage Balance	\$320,000	\$320,000	\$320,000	\$320,000
Total Wealth	\$80,000	\$80,000	\$80,000	\$80,000

Without appreciation, or additional principal repayments - the original principal does not increase the idea of a 0% Return.



## Protection Current Equity in the House

Protecting assets is a key consideration of any financial plan. Equity in the house is safe, but it is not guaranteed, and it is one of the more illiquid investments the client may have.

There are multiple factors that can affect the value and access to this important source of wealth.

- *Foreclosure*
- *Lawsuits and legal actions*
- *Depreciation*
- *Appreciation*
- *Inflation*

Losing access to the wealth in a home can be devastating when it is needed the most. A job loss creates a need for liquidity, but also eliminates borrowing capacity to avoid a **foreclosure**. A divorce is a **legal action** that can temporarily prevents access to home equity when both parties may need it the most.

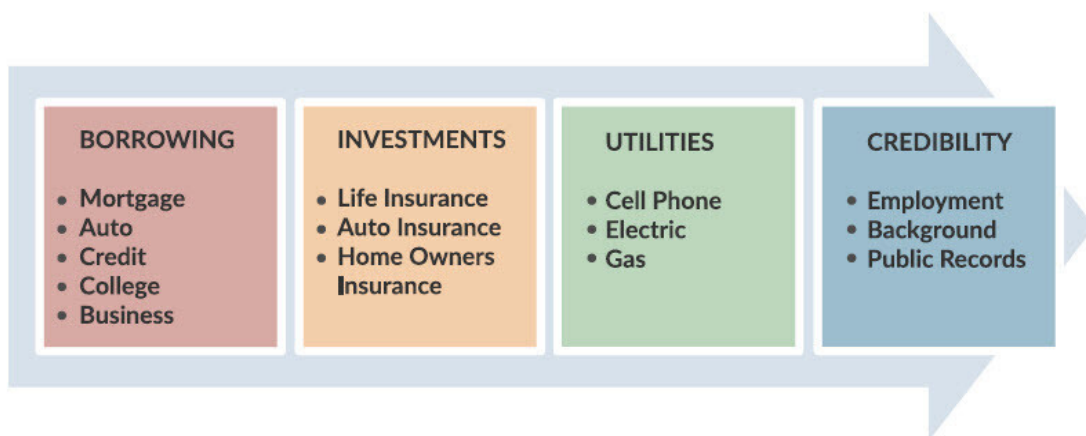
Market **depreciation** clearly can cause a loss of equity and access to that wealth. **Appreciation** can result in added property tax drains on current cash flow that require the disposition or use of existing equity. Inflation also eats away at a consumer's purchasing power as additional cash flow is needed for other expenses, and using house equity can be a suitable solution.

We suggest homeowners with equity maintain a Home Equity Line of Credit (HELOC) for the maximum they can qualify for as a simple protection strategy to maximize liquidity in times of need. For homeowners over the age of 62, a Reverse HELOC (HECM) is also an option to provide additional liquidity.

## The Credit Score



Access, use and control of wealth through borrowing is driven largely by a credit score. Having the ability to borrow at the best available rates has a huge impact on wealth over time. Employers, insurance companies, utilities, federal agencies and rental housing owners use credit scoring algorithms as part of a decision making process. Credit scoring is like a game where most consumers aren't fully aware of the rules for how their score is derived.



The object of the Credit Game is to achieve the highest possible credit score.

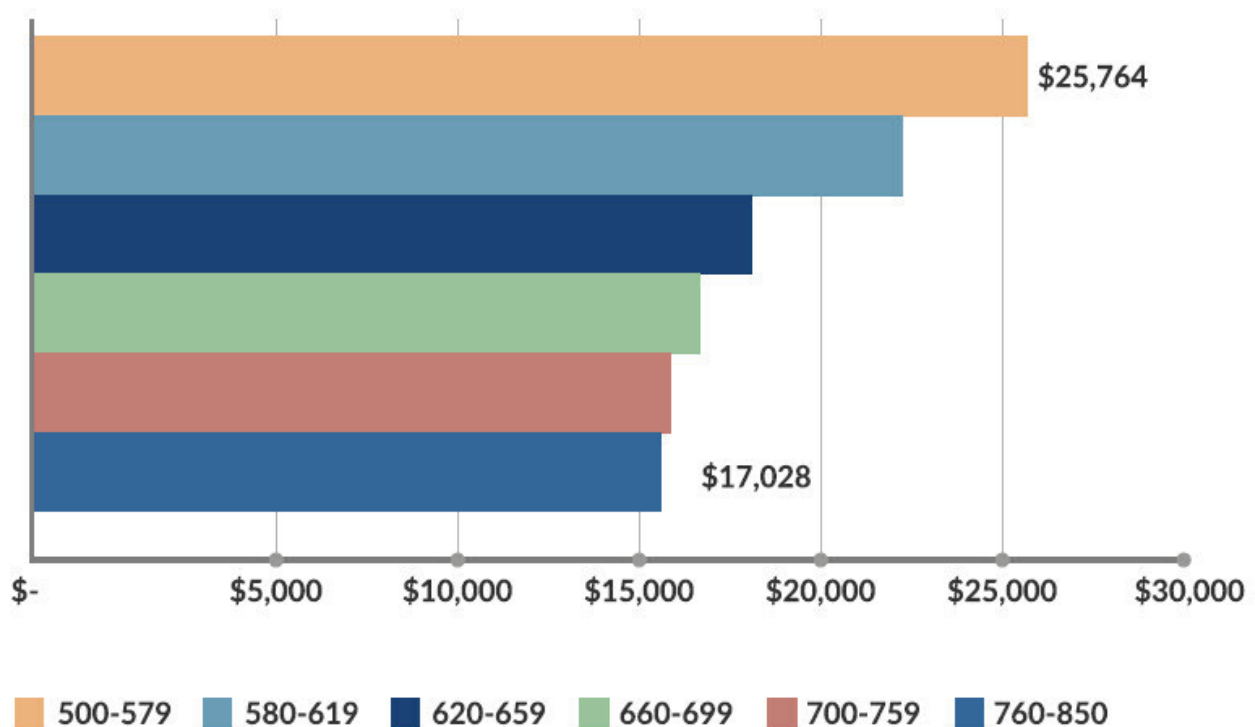
## What Is Liability Management? - Why Work With a CLAT™?

### Did you Know?

- 80% of Americans have one or more errors on their credit report.
- 40% of Americans are paying a higher mortgage payment due to lower than necessary credit scores.
- 25% of Americans have credit report problems that would prevent them from securing a loan or new employment.

Over time these credit mistakes can be expensive.

This is a Very Big Game



Over a 30-year period, the difference between the highest and lowest credit scores is four times the mortgage amount. \$1,084,981.68\*\*

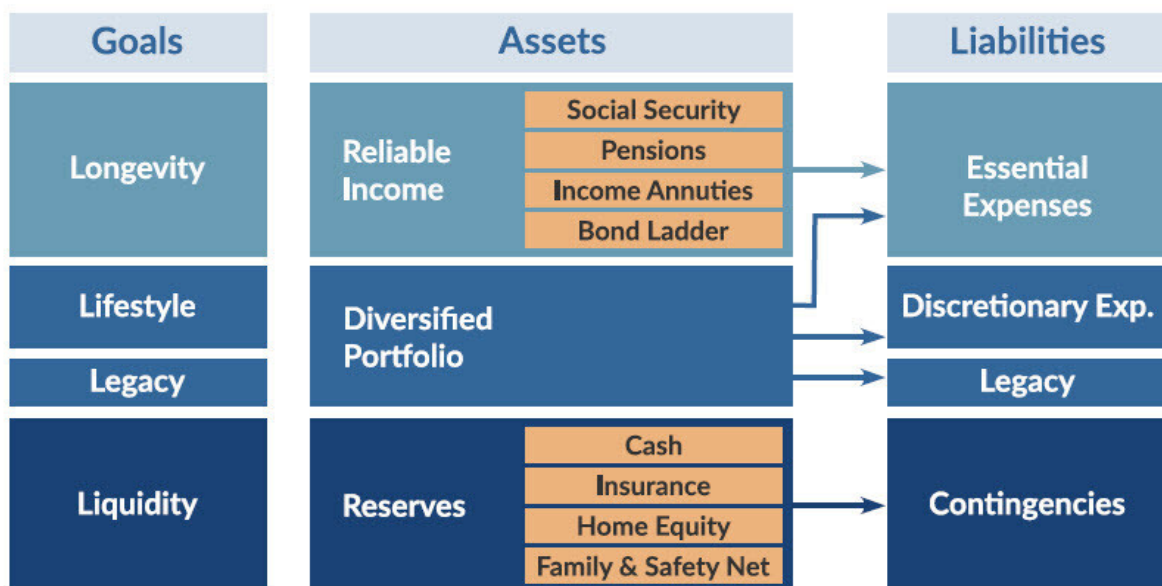
## Retirement Income Planning

The generally accepted goals of retirement income planning are:

- Income
- Contingent expenses
- Legacy Planning

A retirement planning process tends to incorporate the following risks:

- Reduced Earning Capacity
- Longevity
- Long Term Care
- Sequence of Returns Risk
- Spending Shocks
- Declining Cognitive Ability
- Public Policy Risk



## What Is Liability Management? - Why Work With a CLAT™?

A household balance sheet includes equity in the house, but it is rarely utilized by the advisors as a key part of asset accumulation and asset distribution planning. If more intentionally included in the overall retirement income planning process, this asset could result in better outcomes for the consumer in real terms: better financial real returns, increased portfolio retention and duration and the client's sustainability and quality of lifestyle enjoyment of their later years.

Sometimes traditional financial planning only looks at the house as an exit strategy to access funds on a future sale. However, a more balanced approach could be a coordinated approach to looking at both an investment portfolio and house equity over their lifetime of investing.

Assets	Liabilities
<b>Human Capital</b> Continuing Career Part time Work	<b>Fixed Expenses</b> Basic Living Needs Taxes Debt Repayment
<b>Home Equity</b>	<b>Discretionary Expenses</b> Travel & Leisure Lifestyle Improvements
<b>Financial Assets</b> Checking Accounts Brokerage Accounts Retirement Plans	<b>Contingencies</b> Long-Term Care Health Care Other Spending Shocks
<b>Insurance &amp; Annuities</b>	<b>Legacy Goals</b> Family Community & Society
<b>Social Capital</b> Social Security Medicare Company Pensions Family & Community	



## What Is Liability Management? - Why Work With a CLA™?

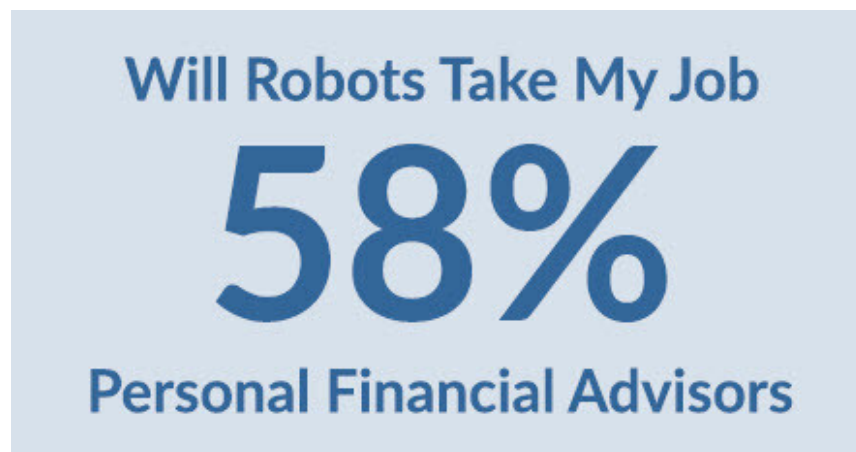
Given the house is the largest asset for most citizens, and their largest single payment, it is one of the largest obstacles to saving for future wealth, and one of the largest expenses consumers want to retire before they retire.

Liability management can help to accomplish these goals, and more and more consumers and financial advisors are starting to incorporate these benefits early and often as part of annual review, estate planning checkups, tax reviews, life and immediate estate planning and more.

### Differentiation in a World of Automation

As technology continues to push for the consumer's attention and encourages them to drive their own financial pathways forward, the CLA™ working with financial professionals as part of a wealth team creates a compelling way to differentiate - offering a new or existing client an integrative approach to merge liability planning with traditional asset planning to accomplish emotional and logical goals. While an advisory role will always be needed, automation will push transactions of buying and selling investments, and mortgages toward new AI based analysis – bypassing much of the critical advice and experience that can come through collaboration.

*This graphic from "Will Robots Take My Job" shows that 58% of Financial Advisors jobs can be replaced by technology.*



Being seen as a professional who understands and can assist in multiple financial areas will add value and create further differentiation. As we shared, most consumer live lives of cash flow. Their management of debt and other liabilities are a bigger day-to-day focus than investing for a future retirement goal that appear less urgent. The CLA™ partnership offers an additional frequency of interaction – making financial advice a broader and more permanent part of the clients yearly practice of staying focused on decisions that lead the to a brighter future.

### **Client Retention and Acquisition**

When clients make financial decisions in a silo, there are often unintended consequences both for the client and possibly for their existing advisors.

Do you want your clients' getting mortgages from other asset managers, or from banks that cross sell those clients to their wealth advisors? Working with a CLA™ means you'll see a duplicatable process utilized with each client referral. We assess their situation, understand their goals, make a proposal that we review together, and then implement that proposal as part of a lifelong goal to manage the liabilities of that client until they are debt free, or need to utilize debt in their future for other financial reasons.

Likewise, having a CLA™ when presenting to new prospects helps your further differentiate your value as the clients saves money on interest, own their house faster, increase savings for the future – all key assists that help you win, and retain new clients. A Certified Liability Advisor™ is committed to minimizing the cost of home ownership over a lifetime while maximizing your potential to create new wealth for your clients.

### Annual Liability reviews that are Not Rate Driven

Most advisors, agents and accountants meet with their client at least annually. Lenders have never considered that as part of their role in working with a client. Selling the mortgage is key, but managing it is not. As a CLA™ we offer our clients an annual review to make sure they are on track with their various goals.



This once annual review by a CLA is not about rates, but about their often changing and competing goals. Priorities change as life events change from year to year and opportunities to discuss repayment strategies, vacation homes, supporting children or aging parents, are rarely interest rate driven. While interest rates can remain low for an extended period of time, life events dictate much of what we must change in our financial lives each year.

Some of the client situation and questions we discuss at an annual review include:

- Combine a 1<sup>st</sup> and 2<sup>nd</sup> Mortgage/HELOC
- Debt Consolidation
- Adjustable Rate to Fixed Rate
- Fixed Rate to Adjustable
- Eliminate Mortgage Insurance
- FHA financing to Conventional
- Home Renovation
- College Planning
- Home Purchase
- Assisting Family Members with Purchase/Debt Restructure
- Second/Investment Home purchase
- Reverse Mortgage – Retirement income Planning
- Strategic Downsize Planning

## Who is Liability Management for?

**Liability management is for anyone that has a house.** Many of our conversations are with consumers that have no debt, but find that the out the house is a key wealth resource they can use to accomplish various goals. Many conversations are simply about managing cash flow and determining the best way to borrow now or in the future.

Sometimes life events trigger a lack of liquid assets or other resources needed for a purchase and sometimes borrowing can be strategic for opportunities to invest in a new business or other opportunity. **For most people borrowing is out of need** until such time that they have built wealth, liquidity and resources to have the option to borrow for opportunity.



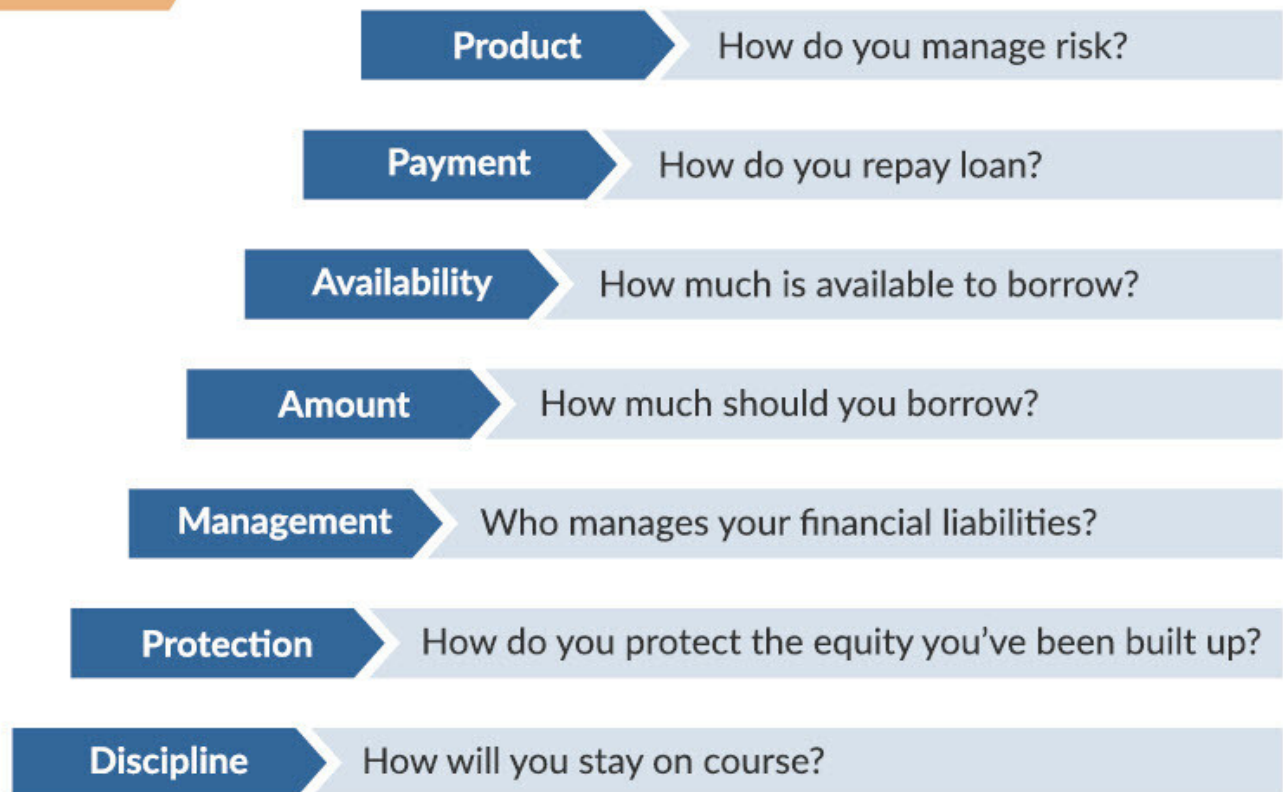
**The Borrow Smart- Repay Smart Conversation** is for everyone, and we offer it to all our clients and advisors that we partner with to make sure our clients understand the key dynamics of how to borrow and repay smart.

We work with homeowners and would-be homeowners that are serious about their money and want to utilize mortgage debt and liabilities in the most efficient way possible to accomplish their financial goals.

Through our **7-Step Borrow Smart Repay Smart process**, our clients pay off their debt sooner, maximize tax benefits and protect and build wealth in real estate in a more intentional way.

# What Is Liability Management? - Why Work With a CLATM?

## 7 Steps to The Right Mortgage



## Client Gaps

Everyone working in financial services with clients will discover, clarify and then attempt to **assist a consumer with any gaps in their financial life**. Depending on the advisor's role, different advisors are likely to discover different gaps, simply because it may not be an area of focus or discipline, variations in training, even product biases.

Someone focused on tax reduction planning, or insurance and annuity sales, may notice different client gaps than someone focused on retirement income or long-term care may not see.

## What Is Liability Management? - Why Work With a CLA™?

A Certified Liability Advisor™ is trained to spot mistakes and gaps in the risk and planning of the consumers real estate and borrowing. This helps to complete the full profile of the client and eliminate gaps that are left by a focus on only a portion of their overall net worth.

A more complete picture of the client profile of liabilities and debt discovered through a rigorous, process of reviewing all credit, debt, and real estate assets is a critical new paradigm for the consumer. In this more rigorous approach to moving away from mortgage lending and toward liability management, we identify opportunities that we then refer to other professionals that specialize in these disciplines.

One way you can engage with clients is recommending that each client have a 360 degree wealth team that together works as a network focused on their best interests that includes this liability management discussion. One clear benefit of being in this network and having a community of assistance is that the client becomes more financially confident and secure, which creates a win/win for all parties involved.

### The Borrow Smart Process™

Moving advice from conceptual to client implementation is not easy. It requires education, understanding, trust and confidence - on the part of advisor and client.

One element used often when moving from concept to execution is a **written plan (concept) delivered in such a way that there are compelled to take action**. In our case, we call this the **Borrow Smart Process™**. The Borrow Smart Process™ is designed to explain borrowing concepts in a simple fashion with visuals that help the client see what we are saying to help the client understand options and the impact their decisions may have on various future outcomes.



## What Is Liability Management? - Why Work With a CLATM?

The Borrow Smart process™ covers any costs of acting now, or waiting, important cash flow considerations, and the long-term wealth impact of these decisions. It may factor in tax ramifications from other professionals, real estate considerations, and recommendations that our client meet with other advisors about various opportunities we see as beneficial.



*\*Mortgage Coach - Total Cost Analysis*



### In Conclusion

Integration of a proactive liability review into a successful financial plan seems like an obvious part of a comprehensive planning process, yet it's rare that financial advisors, insurance agents, tax accountants recommend it.

While all have competing priorities, we know for a fact that that working with a Certified Liability Advisor™ as part of an annual review process with your clients will have a **positive impact on the financial outcomes of the clients you serve.**

As such, we have developed simple processes to assist your advisory practice to integrate our capabilities into your practice management. We will make ourselves available to offer a review of your clients liabilities that you provide us or that we secure through a direct conversation with your clients.

Our team will take any client you refer to us through our Borrow Smart Process™ and share with you're the results as well as our recommendation for your collaboration.

We can provide a variety of ways that we can best work together, and we look forward to a long and prosperous relationship that serves the best interest of our joint effort.

# Why Work with a Certified Liability Advisor?



Robert Boladian  
Mission Pacific Mortgage

