

# MORTGAGE INFLATION OVERVIEW

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Created Exclusively for the  
Clients of Dan Williams



# THE IMPACT OF INFLATION ON YOUR HOUSE

Do you invest more time thinking about managing your assets, or your liabilities? Your net worth is your assets minus your liabilities, and your house is often your biggest single asset and liability – the house is both an asset and a liability. As such, it plays a huge role in your wealth over time, and it is greatly impacted by inflation.

$$\text{ASSETS} - \text{LIABILITIES} = \text{NET WORTH}$$

Inflation tends to increase the value of an asset and decrease the value of a liability. If an asset goes up, and a liability goes down your net worth goes up. For this reason, a mortgage can be one of the most effective tools you have to maximize wealth over time. Surprisingly, the longer your mortgage term, the more your mortgage payment and your mortgage balance are reduced by inflation.

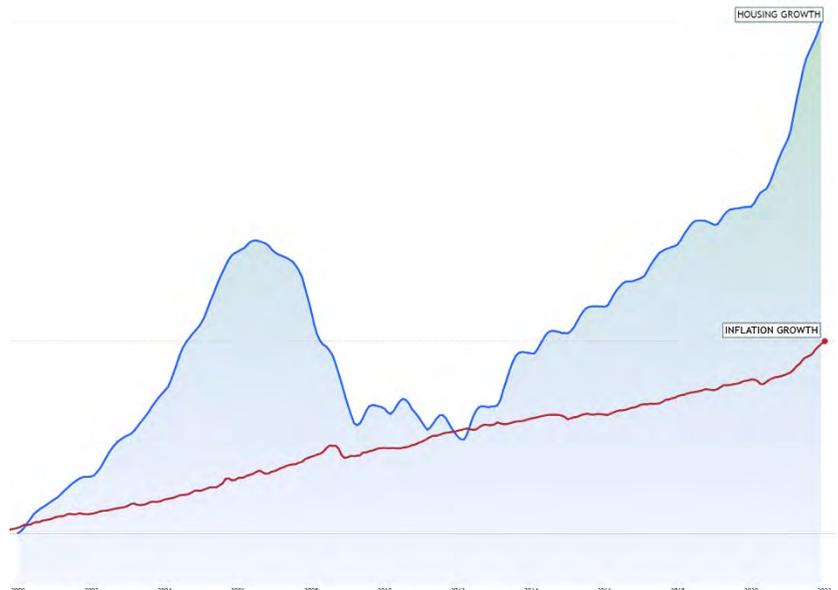
# WHAT IS INFLATION?

Inflation is defined as the loss of purchasing power over time and is usually measured against a large basket of goods and services. The Federal Reserve has a stated mandate to keep inflation at 2% or higher, which means they want assets to increase by at least 2% a year. This mandate also means your purchasing power is then reduced by 2% each year. Bottom line, what costs \$1.00 today will likely cost \$1.02 or more in a year.

Let's look at the last 20 years. Using the Federal Reserve Consumer Price Index Calculator - an asset purchased for \$200,000 in 2000, would cost \$315,233 in 2021. If you bought the asset in 2000 for \$200,000 and it is worth \$315,233 today - that feels financially good. If you want to buy that same asset that was \$200,000 in 2000, and it costs you \$315,233 today - that feels financially bad. Inflation is a monetary concept, because the 'utility' of the asset doesn't change, only the value. A house you bought for \$200,000 10 years ago, or \$315,233 last week, doesn't offer you a 55% better living experience, it simply costs more. This higher cost is considered inflation.

## The reality of realty is that real estate has outpaced Consumer Price Index of inflation.

The CPI has risen at 3.33% per year since 2000\* (red line above), while Case Shiller shows U.S. house values have increased 8.61% per year over that same time period (blue line above). We know that all real estate is local, and your individual house value changes may vary, but ask yourself if houses in your area are more expensive now than they were 10 years ago? This leads to the owner of a house asset feels wealthier, while a renter feels like they'll never catch up. This appreciation gap also makes saving to buy a house more difficult. The house asset is larger and is inflating far faster than the savings balance for the down payment can inflate.



## WHY WOULD INFLATION CREATE WEALTH FOR BORROWERS?

Isn't paying interest a bad financial decision? Well, it depends. Let's first consider compare old dollars and new dollars. When you earn a dollar, you are always earning it now, it's a new dollar and you know what you can buy with it today. You don't know what it will buy you tomorrow, but if there is inflation, you know the new dollar today will buy you 'less' in the future and for that reason you are better off spending that money now on something you really need. If you don't spend it now that dollar becomes an 'old' dollar. Old dollars typically buy you less as they lose purchasing power due to inflation. This is critical to understand, and one of the primary reasons we don't keep all our money in a safe. We need that old dollar to earn new dollars to hold purchasing power for future spending.

Mortgage debt works in the opposite way. We borrow money today in 'new' dollars, to buy (or refinance) a house today, and we sign a note (an obligation) to repay that debt with new dollars in the future. The day after those dollars are borrowed they become old dollars - fixed in the past, and we get to repay that debt with new dollars in our future. Remember, if there is inflation, the old dollars are also worth less, which means it costs less to repay old dollars with new dollars.

Just as inflation reduces the value of your old dollars it also reduces the value of old dollars you have borrowed. If you have \$1.00 today, and inflation is 5%, your \$1.00 will have the buying power of .95 in one year. If you borrow \$1.00 today and pay it back in one year, your cost to repay the \$1.00 in one year will be .95. Inflation increases the value of an asset, but it decreases the value of a liability (debt). We have all experienced this when we buy a house in today's dollars, and borrow money in today's dollars, the house payment seems expensive now, but over time it becomes less of a burden as we continue to earn in new dollars that support our debt in old dollars.

Consider that the average 2,100 square foot house in 1970 cost \$25,763. If you borrowed 80% in 1970, you borrowed new dollars of \$20,610 for 30 years at 8.5% - fixing your monthly payment of \$158. The average income in 1970 was \$9,870, so your payment would have been 19% of your income. At the end of your 30-year mortgage, your last payment would have still been \$158, yet your income would be over \$42,148, making your house payment only 4% of your income. Over 30 years your income increased 327% while your house payment remained the same. The house would have been worth \$204,800 in 2020, a 695% increase.



Now consider that the average 2,100 square foot house in 2020 cost \$391,900. If you borrowed 80% in 2020, you borrowed new dollars of \$313,520 for 30 years at 3.5% - leaving you with a monthly payment of \$1,408. The average income in 2020 was \$67,521, so your payment would be 25% of your income. How is that payment likely to feel over 30 years? Would rent of \$1,408 be likely to stay the same over 30 years?

### Let's look at an Example Today

In this example, a couple buys a \$500,000 house, with \$100,000 down payment, securing a 30-year mortgage at 4%. We'll assume inflation averages 3%. Their income of \$100,000 today means their payment of \$1,910 per month is 23% of their income at closing. They could rent a similar house for \$1,500 a month, but that rent goes up with inflation. How does inflation as a % of income feel over time?

Payment Year	Mortgage Balance	Fixed Payment	% of Income	House Value	Rent Equivalent
0	\$400,000	\$1,910	22.92%	\$500,000	\$1,500
5	\$362,491	\$1,910	19.77%	\$608,470	\$1,738
10	\$315,992	\$1,910	17.01%	\$742,940	\$2,019
15	\$259,217	\$1,910	14.64%	\$907,127	\$2,345
20	\$189,894	\$1,910	12.60%	\$1,107,599	\$2,724
25	\$105,252	\$1,910	10.84%	1,352,375	\$3,165
30	\$1,910	\$1,910	9.33%	\$1,651,245	\$3,676

### Summary:

When you understand the power of inflation, you realize that having a long-term mortgage that you can afford now will lead to a mortgage you can more easily afford over time, as inflation reduces your cost of borrowing. You lock in a fixed amount in old dollars that you repay with new dollars, while a renter will likely see higher rent that inflates over time. Whether you pay cash for a house or borrow and utilize a mortgage - speak with a liability advisor to analyze what might be best for you. As with most financial decisions, the right answer is 'It Depends!'.



## DAN WILLIAMS

*Certified Mortgage Planning Specialist*  
C2 Financial Corporation  
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## ABOUT DAN

In 2020 - 2021 Dan Williams closed **308 transactions** totaling **\$128 million** in Loan Volume. Considering their loan volume of business, you might be shocked to hear that Dan and his team can close a purchase loan in **21 days**, sometimes faster!

- **C2 Financial is the largest Mortgage Broker in the Country**
- **Dan has consistently ranked in the Top 25 of all C2 Loan Officers for the past 5 years**
- **Overall 5 Star Rating on Google Reviews**
- **Over 15 years experience, the team has over 100 years of experience in the industry**





# CLIENT REVIEWS



Superior Customer Service and Open Communication



Rapid Turn Time: Industry Leading Turn Times to Close Faster



Competitive Rates and Fees



### Joe Lara

At the end of the day, who do you trust to do business with? Dan and his team gave me comfort in knowing they had my best interest in mind. I couldn't have asked for a better experience and an incredible, REMARKABLE result! I don't write reviews often...but this was an an easy one to make.



### James Tepner

Dan and the team made our dreams come true. We wanted to do a cash-out re-fi on a second home and the banks we had done business with our whole lives wouldn't touch it. Non starter. Dan's attitude was "sure, no problem" right from the start and he was right. He found a loan for us, plus we got the cash out to pay off a HELOC and the rate was even less than the previous loan with Big Old bank of Attitude for an added bonus we were not expecting.

Call or email him now and you will be taken care of!



### Brad Chitwood

My wife and I recently refinanced our condo in Oceanside, Ca. Dan and Katie were awesome to work with. My wife and I felt like it was a very personable experience even in these trying times with COVID-19!! Dan would reach out to us via the internet with personal videos addressed to my wife and I explaining all of our options thoroughly and gave us his own personal recommendation based on what we were trying to achieve. We have decided that when it comes to mortgages and/or refinancing in the future, we are definitely going throughout Dan Williams and his wonderful team at C2 Financial. Ohh I didn't mention that Dan saved us about 6,000.00 compared to refinancing with Rocket Mortgage and a half of percent lower interest rate. Need I say more



### Austin Gonyou

Dan and the whole C2 Financial team worked hard and kept us and our lender and title company on task! The easiest home buying experience we've had!



### William Spekhardt

I started working with Dan and C2 Financial in 2016. Dan walked me through my first home buying experience and took the time to explain everything down to the smallest detail. Since then, Dan's knowledge and expertise in the mortgage lending world has allowed me to start a successful real estate business in an otherwise competitive market. I continue to rely on Dan and his team for the most up-to-date information on markets, finance, and global trends. C2 Financial is a true asset to my team.

# AGENT REVIEWS



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Dan Williams and C2 Financial is my number 1 lender! He is not only No. 1 on my list he is the list. His team is on the ball and keeps me informed throughout the entire loan process more importantly he keeps the client informed and makes them aware of the many steps that are involved. We work as a well oiled team and I have never been disappointed in his ability to make loans work that others can not even attempt.

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**Don Dowe**

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As a Realtor, I have dealt with many lenders over the past 25 years. Dan Williams is one of the best I have ever encountered. He knows his business inside and out, and has provided unique solutions for many of my clients. As a loan broker, he shops around to find the best company, with unique solutions for each different situation. He is always finding programs that I didn't even know existed, and consistently saves money for my clients. In fact, the other day, he said something that I have never heard a lender say: "Can we close this transaction early?" Wow - most lenders are scrambling right up to the last minute, but Dan and his team are ready to go early - unheard of!! I highly recommend Dan - you will be pleasantly surprised all along the way!

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**Maggie Barduson**