

The Neighbors are stupid

- a) Together, Joe & Jane make \$100,000 (each has a \$50,000 job)
- b) They bought a \$500,000 home
 - i) They put 5% down (\$25,000) which was all their savings
 - ii) 1st Mortgage was for \$400,000 [and they still owe \$400,000 on it]
 - (1) They have been paying \$1,000 / mo for the first two years, interest only, at 3%.
 - (a) The payment was actually \$1,600 / mo including property taxes & homeowner's insurance
 - (2) The interest rate is about to jump up to 7% because the two years is almost up
 - (a) Their mortgage payments are about to go to \$2,718 / mo. (principal + interest)
 - (i) The payment is actually going to be \$3,318 / mo including property taxes & insurance
 - iii) 2nd Mortgage was for \$75,000 [and they still owe \$70,000 on it]
 - (1) They pay \$500 / mo at 7%
 - iv) After they bought the house, property values went up a lot, so they took out a \$15,000 home equity loan to furnish the house [and they still owe \$15,000 on it]
 - (1) They have been paying \$90 / mo, interest only, at 8%.
 - v) Today, their house is worth, probably, \$285,000 (about half of what they paid for it) and they have three loans against it totaling \$485,000. They are upside down by \$200,000.
- c) They have two leased cars, each worth \$20,000 (for a total of \$40,000 in cars).
 - i) Together they pay \$500 / mo (or \$6,000 / yr) for these cars that they don't own, and never will.
 - ii) They get a tax write-off on the leased cars.
 - (1) Not for the \$6,000 / year, but only for the portion of driving time that is purely for business.
 - (a) If Joe works for himself and uses the car 100% of the time for work (not likely), he can get a \$3,000 write-off.
 - (2) Tax write-offs based on loans or leases lose you money, not the other way around.
 - (a) Joe could have taken his \$6,000 and bought a used car. Then, he wouldn't have to pay \$6,000 year after year.
 - (b) Of course, if he had bought a used car, he would have to pay taxes on the \$6,000 (in the lease example, he only had to pay taxes on \$3,000 since he got to write \$3,000 off – this results in an additional \$900 in taxes than if he had leased the car).
 - (c) Bottom Line: To avoid sending the Government \$900 each year, Joe sends \$6,000 to the car company each year. Real smart math, Joe. The car company wins, but Joe loses.
 - (d) Same logic applies to the tax write-offs Joe and Jane get for the interest payments on their home mortgages. To avoid sending the government several hundred dollars, Joe & Jane send the bank thousands in interest payments. This makes no sense. The bank wins, but Joe & Jane lose.
- d) They have \$30,000 in credit card debt.
 - i) They are making payments of \$530 / mo on that, at 20%, hoping to pay it off in 20 years.
- e) They have \$15,000 left on their student loans. \$160 / mo at 6% interest for 20 years.
- f) On the other hand, they have \$1,000 in their savings account, each has \$5,000 in their retirement accounts at work, and they dress nicely.
- g) Joe & Jane can't do math! They are broke, and just beginning to realize it. All their money has been going to pay debt (\$3,380 / mo or approx. 34,000 / yr). They don't know how they'll pay the mortgage when the price jumps up on their home loan (which will mean they are supposed to be paying \$5,098 / mo or approx. \$61,176 / yr)
- h) They make \$100,000 and \$34,000 goes to debt, leaving \$66,000. Don't forget taxes, which are \$16,000. This leaves \$50,000 to spend on everything else. After the loan increases, this \$50,000 amount goes down to \$22,824.
 - i) Other Items
 - (1) Let's say groceries are \$10,000 / yr.
 - (2) Health insurance plus co-pays are \$6,000 / yr.
 - (3) Gas is \$1,500 / yr; Water/Electricity is \$2,000 / yr.
 - (4) Maintenance on house & cars \$600 / yr; Car Insurance \$2,400 / yr
 - (5) Cable \$600 / yr; Phone \$2,000 / yr; Landscaping \$1,000 / yr
 - (6) That's \$35,000 without hitting Entertainment, Restaurant, Buying stuff, Clothing, Travel, Sundries, Haircuts, Gifts, Make-Up, Salon, Internet, Dog, Charity, Pool Cleaning, Tax Prep, Life Insurance, etc.
 - ii) Still want to imitate the neighbors? Joe & Jane have a secret that they don't want others to know about.
 - (1) Family members are always hitting them up for money because they seem so well off.
 - (2) Behind closed doors they are fighting & arguing all the time.
 - (3) Unlike when someone is physically sick or grossly overweight, their problem is NOT evident to all.