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## **SLASH YOUR MORTGAGE**

### **How to Eliminate More than Half Your Interest Debt**

Special Report by G. Edward Griffin

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This is not debt-consolidation, debt-cancellation, or something-for-nothing. It is an ethical way to trim years off your debt and eliminate huge amounts of interest.

Those who are familiar with my book, *The Creature from Jekyll Island; A Second Look at the Federal Reserve*, know that I am a strong advocate of getting out and staying out of debt. Consumer debt is a trap in which people find themselves working all their lives to make exorbitant interest payments.

Home ownership is different. It is a foundation for financial security even though it may require debt. If we don't have sufficient capital to purchase a home outright, we have no choice but to borrow the balance, but excessive interest payments remain a serious problem.

There are numerous ways to reduce or eliminate interest payments, but the ones I have examined are too complicated, too expensive, or, in some cases, unethical. Now I have found one that has none of these handicaps and, frankly, I feel I have an obligation to tell you about it.

### **THE MONEY MERGE ACCOUNT (MMA)**

Recently, I was introduced to a program that, although not new in concept, was unique in its implementation. The company is United First Financial, formed by two young men from the mortgage-lending business who wanted to help their clients acquire homes without being obligated to 20 or 30 years of debt. They developed a method to borrow money at one cost and use it to eliminate a much higher-cost mortgage. It is similar to rolling over a high-interest loan into a lower-interest loan, but the effect is a hundred times greater – and that is not an exaggeration. They call this unique program the Money Merge Account, or MMA.

I have examined this program closely and am happy to conclude that, not only does it work exactly as the company guarantees, it is entirely ethical as well. So I decided to add the MMA to the Reality Zone. If you are making mortgage payments, I highly

recommend that you check it out. You will be amazed at the huge amount of interest you can eliminate and how much sooner you can achieve true home ownership.

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### FROM THE SKEPTICS

A program as innovative as the MMA is bound to be met with initial skepticism. I, myself, had doubts when I first heard about it. It was only after considerable study that the inner workings of the program became clear to me; so I knew that, when I gave my endorsement, I would be challenged. Indeed I was, and here are some of the letters that came in. Because they express questions and doubts that are fairly common, I decided to publish them here, along with my replies. I hope you will find this exchange helpful.

Hello Mr. Griffin.

I was most interested in the MMA and, although it was not clear to me how it worked – even after watching the introductory video and speaking with the agent – I was reassured by the fact that you had recommended it. When I received my custom report and saw how much sooner I could pay off my mortgage and how much money I could save in interest payments, I went to my bank and obtained an equity line of credit. I was all set to go when I ran into a friend who is a real estate agent and, when I told her what I was planning, she almost went through the roof. She was shocked that anyone would suggest that I take out a loan and pay all my bills through it as though it were a checking account. She said I would only end up deeper in debt. She said the program was a fraud, and that the best way to do an accelerated mortgage is simply to send whatever extra money I can afford to the bank each month and forget the line-of-credit and the computer software. When I tried to explain how the program worked, I just couldn't do it. She said that if I don't understand something and can't explain it, I shouldn't do it. Now I am in a quandary. What should I do?

Gladys Teasdale.

This was my reply:

Hello Gladys.

You are not alone. The benefit of using a line-of-credit as a checking account is the most difficult part of the MMA to understand. Your friend's advice is solid. It would be better if everyone refrained from financial commitments they don't understand. So I shall accept this as a personal challenge to see if I can shed some light on the matter and clear

away the mystery. To do so, I will need to bore you with a short course on two often overlooked elements of debt.

## **1. WHEN IT IS GOOD TO GO INTO DEBT**

I am a strong advocate of getting out of debt as soon as possible and staying out as long as possible. There is, however, an exception to that rule. It is wise to go into debt if – and this is an important if – the borrowed money can be invested at a rate of earned interest that is higher than the rate of paid interest, and if the investment carries minimal risk. In other words, it would be wise to borrow at 9% if the money will earn 18% and not be subject to high risk. That is the rationale behind business loans. It is anticipated that the business can borrow money to create products or offer services that will earn more than enough to pay the interest. This also is the rationale behind the purchase of a home – or any other asset – that is expected to appreciate in value faster than the rate of interest on the loan.

The MMA is a classic example of borrowing to make money. It borrows money from a line-of-credit (LOC) at one cost and uses it to pay down a mortgage at a much higher cost. Notice, I did not say *rate*, I said *cost*. That is because the rate of the LOC usually will be higher than the rate of the mortgage, but the cost will be the other way around, because the rate of the LOC will be charged for a very short period of time (usually less than three months) whereas the rate of the mortgage typically will be charged hundreds of months. That leads to the next factor:

## **2. THE LENGTH OF A LOAN IS AS IMPORTANT AS THE RATE**

The third thing to understand is the importance of the length of a loan compared to the rate of a loan. We have been sensitized to the value of a fraction of a percentage point in interest rates but rarely think about the impact upon net worth caused by how long the loan is spread out. Too often, borrowers look only at monthly payments to see if they can afford them without realizing that low payments and even low interest rates often are coupled with a gargantuan interest obligation when accumulated and compounded over many years.

The MMA software is programmed to squeeze out every micro-advantage of shortening the term of the mortgage. This goes far beyond just sending extra monthly payments to reduce your principle. That, in itself, is an excellent plan, but it falls short of what MMA can do because of two factors:

(a) While your money is accumulating in a checking or savings account waiting to be sent, it is not working for you. At best, it may earn a pittance of interest that falls short of inflation, which means it actually is losing value and, on top of that, you have to pay income taxes on the pittance; and ...

(b) When you finally do send in your extra payment for principle, the mortgage company will apply it only once each month. Even if you send it in early (to be sure of meeting the deadline) it will be applied only at the first of the following month. That means the money you save for mortgage acceleration sits idle for several weeks each month, not benefiting you in any way and not helping to reduce your mortgage during that time. Two or three weeks may not seem like much, but when this same pattern is repeated every month for 20 or 30 years, the loss to you can be substantial.

We are dealing here with a process similar to arbitrage, which is what they call it when investors and traders earn a small profit on a large number of transactions. The profit per transaction is not impressive but, when all added together, they represent high reward for low risk. The MMA monitors your monthly cash flows and gives you perfectly timed prompts telling you when to send in your mortgage-acceleration payment and exactly how much. We would be hard pressed to figure that out on our own.

### **WHY USE THE LOC AS A CHECKING ACCOUNT?**

This still doesn't explain why we need to use the LOC as a checking account. To answer that, we come, at last, to the heart of the program. We use the LOC as a checking account because that is how we put our previously idle money to work. That is how we greatly improve the traditional method of saving-up and sending-in.

First off, please explain to your real estate friend that she would be correct in her concern over people taking out a line of credit for day-to-day expenses if it were used also for consumer debt. That would be unconscionable, because it could entice them to go deeper into debt. But that is not what the MMA is about. While it is possible for MMA clients to use this credit for consumer debt, we strongly caution them not to do so. The role of the MMA is to facilitate mortgage acceleration. Period. The LOC should be used only for expenses that are fully budgeted by the client's income stream, and that is one of the functions of the software. This program is for getting out of debt, not going into it.

A simplified understanding is that we take the cash we now have in our checking account (money that is not working for us), hold back what we need for emergencies, and send the balance to the mortgage company for payment against principle. That first step is a big launch into the program and typically results in a jaw-dropping reduction in interest owed. Our previously idle money suddenly goes to work for us; but that also leaves us with no (idle) money sitting around waiting to be spent. So, to pay bills and make purchases, we use the LOC, instead.

Remember, the LOC is credit, not cash, which is to say, it is the bank's money, not ours. It is a loan. The numbers in the ledger are the opposite of numbers in a cash-based account. They indicate, not what we have but what we owe. So, the more we spend from the LOC, the more we owe. That's the bad news, but the good news is that we also put our income into the LOC, which means that the amount we owe is reduced with each

deposit. Furthermore, it is reduced on the date of the deposit, not on the first of the following month. Because of that, your paychecks go to work for you immediately rather than sitting idly for several weeks.

LOCs are open-ended accounts, which means they charge interest on the average balance during the month. That's an important fact. If we get paid only once per month and deposit at the end of the month, the average balance will be approximately one-half the total balance owed to the account. However, if we deposit weekly, each deposit knocks down the balance and, at the end of the month, the average will be less. The program works well with single monthly deposits but it works even better with bi-monthly or weekly deposits, because that reduces average balances and interest charges.

### **MORTGAGE HYPER ACCELERATION**

Borrowing money to pay routine expenses has a price, but it is small potatoes compared to the much larger amount of interest we are able to cancel by putting our formally idle money to work for us. Remember, when we borrow \$1000 and use it to eliminate mortgage interest on \$1000 over 20 or 30 years, we are eliminating a phenomenal amount of interest, and to do this, the bank will typically charge us about \$35 for the short term. Yes, we could accomplish the same thing by waiting a few months until we earned and saved an extra \$1000, but the cost of doing that in terms of interest we do not cancel for several months is far greater than \$35. That, in a nutshell, is why we use the LOC as a checking account. If the traditional method of save-up and send-in is called mortgage acceleration, then the MMA should be called mortgage *hyper* acceleration.

I hope this explanation is useful and does not deepen the mystery. Please let me know if anything is not clear, and I will have another try at it.

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Shortly after we first announced the MMA, I received a note from a gentleman who expressed the opinion that the same results could easily be replicated by simply using an Excel spreadsheet. He wrote:

Hi Mr. Griffin!

I'm a big fan of yours and the "Creature" too. However, I am a little concerned as to why you are endorsing MMA. I listened to the Video. And it appears the only thing I'm getting is an Excel spreadsheet with formulas already plugged into certain cells. Am I missing something?

This was my reply:

Yes, I think you are missing the fact that it has taken years to perfect the algorithms that are built into the program that tracks the comparative interest balances between the ALOC and the mortgage(s) and then produces action points on specific dates to make payments and maximize the net gain. A fraction of a percentage here and another fraction there can add up to very large savings over time, which is the genius of this program. I am not aware of anyone else who has done that. Programmers with whom I have spoken have no idea how to approach it. In fact, one of them has signed up in the project himself. If this could be done with an Excel spreadsheet, he would have jumped at the chance. If you find that you are able to duplicate this program with Excel, please let me know and I will pass along the information.

Thanks for writing.

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Another skeptic wrote: "The simplest way to reduce interest is to pay the next months principle with each payment. You save the interest for that month forever and cut the years about in half."

My reply:

You are right about that being the simplest way. However, it is not the best way. Using the unique power of the MMA can beat that approach significantly. There's nothing that can match it. You owe it to yourself to request a free report and check out the numbers.

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On the day following the day we first announced the MMA, we received the following response. My reply is embedded within the text.

I am rather surprised at your endorsement of the MMA program. It is basically a bi-weekly plan on steroids whereby the poor home owner transfers more money, more quickly into "dead" equity thus increasing his risk, lowering the banks risk and transferring potential wealth away.

**REPLY: Your concept of "dead" equity is common among investment brokers who would rather have home owners let them invest their money into something else. In some cases, that may be wise, provided the alternate investment can deliver a sufficiently high yield to make up for continuing mortgage interest payments plus tax liability on profits from the investment plus the broker's commissions plus the risk inherent in the investment itself. It has been my experience that, for all but the most savvy investors, elimination of mortgage interest is the best first step toward**

**financial security.**

Yes, one does save interest but loses a fortune in tax deductions and lost opportunity costs. Also, they put themselves in a high-risk, illiquid position with no control. And finally, they allow the banks to have full control of their equity while it lies dormant suffering the ravages of inflation.

**REPLY: Increasing one's net worth by eliminating debt carries zero risk. All other investment strategies carry risk. True, there is an inflation factor, but home equity generally keeps up with that, while many other investments fall behind. Even those that show long-term gains in terms of dollars, when adjusted for inflation, turn out to be modest performers. Residential real estate may have its ups and downs (related to tampering of interest rates by the Federal Reserve); but, in the long run, it has a good track record for keeping up with inflation.**

**There is nothing illiquid about owning one's home free and clear. If an emergency should arise or even an investment opportunity-of-a-lifetime, there is nothing easier than to reverse direction and obtain a home-equity loan. Any home owner with equity can be rolling in cash within an hour. That's liquidity.**

**Regarding banks having control of equity, just the opposite is true. When a mortgage is paid off, the equity lies entirely in the hands of the home owner, not the banks.**

It sounds good and feels good, but it is mathematically and historically incorrect and quite contrary to what you write about. Read my report at [www.IWantMyOwnBank.com](http://www.IWantMyOwnBank.com), "Stop Sitting on Your Assets" by Marian Snow, "The Ten Truths of Wealth Creation" by John E. Girouard, "Unintended Consequences" by Leonard A. Renier, "Becoming Your Own Banker" by Nelson Nash or "Missed Fortune 101" by Doug Andrew.

We believe in the adage, "Do as bankers do, not as they say."

**REPLY: Banks perform many legitimate and valuable services; but in the category of loans, I believe they operate in an unethical manner, especially in terms of expanding the money supply against unsecured loans, charging interest on money created out of nothing, and facilitating that hidden tax called inflation. I could never recommend that we "do as bankers do" without serious qualifications.**

The MMA, MAP and similar programs are the banks new "accelerator traps" to collect your money even faster, leverage it and loan it out for their benefit.

**REPLY: To the contrary, when we repay mortgage debt, the money literally goes out of existence, which means the banks cannot leverage it and loan it again. The**

**only way they can do that is for someone else to take out a new loan. Loans are the trap. Accelerated payments are the escape.**

We teach people how to do it for themselves and use the bank and tax deductions to their own benefit.

I have passed your book on to many people. Please keep up the good work.

**REPLY: Thanks for that, Kent. I deeply appreciate your support.**

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Here is a particularly insightful caution that I believe should be read and understood by everyone who is considering an MMA.

Mr. Griffin,

While this program does help save interest by playing the interest calculation game with the bank, it also causes borrowers to increase their debt risk by leaving them totally dependent on a line of credit to pay living expenses. This is risky. If the bank decided to close the line of credit due to the borrower's job loss or other inability to show income to make debt payments, it would leave the borrower with no money to even buy groceries that week. ... This program could easily be abused to cause homeowners to default on their mortgage, just as the Universal Default clause is used by credit cards. I would never advise someone to do this on the basis of the increased financial risk that is completely unnecessary. ... Over a ten-year period people are almost guaranteed to have at least one financial crisis. I'd be cautious about recommending this to anyone.

Sincerely,  
Jim

This was my reply:

Thank you, Jim, for your excellent analysis.

The substance of your concern is that mortgage holders may find themselves with an insufficient monetary cushion to absorb inevitable cash drains that every family faces from time to time and that this could lead to missed payments in the Equity Line of Credit and, ultimately, to foreclosure on their mortgages. However, if a mortgage holder has equity in his home, under most circumstances, banks will gladly extend the loan and use that equity to cover the payments during a period of hardship. After all, it's more business for them. That means mortgage holders don't really lose the safety benefit of having cash on hand. As long as they can use it to cover payments, it makes little

difference whether it is in the form of cash or home equity. Either way, they still have access to it. If they keep it as a cash cushion, they lose the great leverage possible from applying it to an accelerated mortgage paydown. If they apply it to equity and then need to re-borrow it to cover current mortgage payments or living expenses, they must, of course, pay interest on it. There is a cost either way. In my opinion, the cost of keeping a storehouse of cash to cover emergencies is substantially more expensive than building a storehouse of home equity to cover emergencies.

Having said that, I still do not recommend that mortgage holders put all of their cash reserves into the MMA. I believe it is prudent to hold back a reasonable cash fund in the form of currency and bullion coins. I prefer these over checkbook and savings account balances because of the possibility that, in the event of national crisis, the electronic transfer of funds could be disabled for a prolonged period of time. In that scenario, cash, silver, and gold, would be very useful.

What constitutes a "reasonable" cash fund? That will depend on the mindset of each individual. It also depends on whether or not the family has a well-stocked emergency food-storage pantry. At a minimum, I believe we should keep a two-month supply of food and enough cash to cover two months of other expenses. A six or nine-month reserve would not be unreasonable.

Related to this issue of not having enough cash reserve to cover emergencies is the possibility that people will take out an MMA and be tempted by the available credit to go deeper into debt for automobiles, vacations, and other consumer delights. The MMA is a powerful tool. Like all power tools, it is dangerous in the hands of children and those with impaired judgement. I do NOT recommend MMA for anyone who lacks sufficient self-control to avoid using it for consumerism. However, for adults who can control their impulses and want to get out of debt, I highly recommend it.

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The following letter is a reminder that one does not have to use MMA to pre-pay the capital balance on one's mortgage. In most cases the mortgage contract allows pre-payments without penalty, and anyone with a little extra cash at the end of the month can take advantage of it. Jason writes:

At 1 1/2 years into my mortgage, I switched to bi-weekly payments and added an extra \$50 every two weeks and knocked a full 13 years off from my mortgage. It was very simple, effective, and automatic (the payments are preauthorized). My car payment is almost fully amortized, then I will be adding an extra \$200 every two weeks, which will shorten it even more significantly. Perhaps as an alternative to the MMA, this system could also be suggested. Thank you for your time.

Jason Bradley

This was my reply:

Hello Jason.

Yes, the simple method works very well for those who have the available cash and the self discipline to follow through. The MMA, however, goes even beyond the effectiveness of the simple cash-forward method because it leverages money from the bank in the form of an equity line of credit. This is one of those rare cases where borrowing money actually makes money. The bottom line is that the payoff could be even greater and faster through MMA. But what you are doing is excellent. Congratulations.

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### **THE ISSUE OF TAX DEDUCTIONS**

Some people are concerned that, if they pay off their mortgages, they will lose their tax deductions on the interest they pay. That's true, but it's a no-brainer to realize that it is far better to give up a tax deduction in exchange for not having to pay interest. Tax deductions are worth only the amount of our tax bracket, whereas not having to pay interest is worth the inverse of that. For example, if our tax bracket is 33%, then our deductions are worth 33 cents per dollar of interest paid. The other 67% is out of our pockets forever. However, if we have no interest payments at all, there is *nothing* out of our pockets; so we are twice as well off without a tax deduction.