

"Mortgage Maxing" - A Conflict of Interest

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Many so-called "financial advisors" recommend against paying off your mortgage when cash becomes available to do so, regardless of the circumstances, and instead recommend investing the cash. And in some cases, advisors will actually recommend taking out a second mortgage in order to free up additional cash for investment. This is known as leveraging, or "mortgage maxing." In certain situations such leveraging techniques might make sense. Is the advisor acting in your best interest by making such a recommendation? In many cases, the answer is clearly "No." Mortgaging to the hilt is often in the financial advisor's best interest and represents a blatant conflict of interest:

- Financial advisors generally earn higher fees or commissions when your investment portfolio value increases. If you choose to pay down a mortgage when cash becomes available instead of depositing that money in your portfolio, the advisor does not benefit.
- One well-known advisor shamelessly recommends in one of his books, "Never own your home outright. Instead, get a big 30-year mortgage, and never pay it off – regardless of your age and income." Such sweeping advice is irresponsible at best and borders on malpractice in its failure to consider an individual's overall financial picture and the serious risks associated with leveraging. This same advisor conveniently offers both mortgage services and commission investment products sales. So he "double dips" by getting paid on both sides of this leveraging transaction. This is a huge conflict of interest!

The "one-size fits all" recommendation of "mortgage maxing" involves serious conflicts of interests and can be dangerous to your financial health. The question of whether you should use available cash to pay down a mortgage or to invest requires careful analysis of several key factors, not the least of which is the risk involved.

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