

Outside of Mortgage Debt, I am Now Debt Free!

It is official, we paid off the car and now the only debt we have left to tackle is the mortgage. I know so many people say that mortgage debt is the good debt, and to an extent, I agree.

But I think what most people forget is that you are only getting a tax advantage of about 20-30 cents on the dollar. That means that for every \$10K that you pay in interest and property taxes, the government will give you a discount on your taxes of \$2,000 to \$3,000 depending on your tax rate.

This is like me telling you that if you give me \$1,000, then I will give you \$300 back. Would you do it? I hope your answer is no, but if not let's get in touch, because I would offer you that deal all day long.

Additionally, the better you do financially, the less benefit you get from paying interest. There is an income phase-out that starts with an adjusted gross income of \$166K, where for every additional \$100 you make you lose \$1 in tax deduction for a maximum 80% phase out.

I know many of you reading this right now are thinking...but I can't afford not to have a mortgage. The mortgage is what made it possible for me to buy this house in the first place. And now my effective monthly expense to provide housing for my family is less than when I rented because of the tax write off and now I am building equity in an asset.

To that I would say, "Smart Move." You are taking advantage of an awesome opportunity that our country offers to buy a house. But I would also caution you to be skeptical of keeping the mortgage for the entire term if you don't need to.

Imagine what it would be like to not have a mortgage at all. You're right, you will no longer save your 20-30 cents on the dollar (and for some it's even less due to the income phase out). But, you would also save tens or even hundreds of thousands of dollars in interest.

Now that you have a house, it is time to realize that interest not paid is the same as interest earned. Let's say you have a mortgage with a 6% interest rate, every dollar you put towards paying off your mortgage early in the form of extra principle is a guaranteed locked in 6% return. I don't know where you bank, but the best I could do right now in my savings account is about 0.4% (maybe I can get 2% in a CD that locks my money up for 2-3 years).

Try this one on for size. By making just **ONE** extra payment a year you can cut your 30 year mortgage by 7 years. That is so easy that it would be irresponsible for you not to do it. Let's say your mortgage is \$2,000/month. That is paying just \$166/month more every month to get rid of your mortgage in 23 years instead of the 30 year term that the bank is hoping for. They are in the mortgage business for a reason...and that's because it is highly profitable.

Here's a look at a real example. I bought a house this year and financed \$352K with a 30 year mortgage at 3.675%. If I were to keep this mortgage through its full term, I will end up paying a total of \$605K (this includes our down payment). If you do the math, \$230K of this is interest, money that I will never see again. Now what happens if you didn't get as favorable a rate as me and you got the same mortgage at a 5% interest rate? Well now you pay \$704K, of which \$328K of that is interest. You just paid double what your house is worth.

So now you are starting to see why it may make sense to pay off your mortgage early. Below is my plan to pay my own mortgage off in 7.5 years.

How I plan to pay my 30 year mortgage off in 7.5 years (and I won't be living on Top Ramen)

The first thing that makes this even possible is to buy less house than you can afford. Most people do the exact opposite and buy as much house as they are approved for by the bank. Let me put this into context. My wife and I were originally approved to spend up to \$750K for a house, and in the end we only financed \$352K. I am sure you can see how this could be a huge advantage. This allowed us to have a mortgage payment that is only 15% of our gross pay (including our taxes and HOA payment).

Many of you may have read one of my earlier posts where I explain how my wife and I moved to an area of Southern California that allowed us to significantly cut our living expenses down by buying a cheaper house (and much bigger than we could

have purchased in Orange County). If you haven't checked that post out you can [check it out here](#). The cliff notes is that through expense savings and additional income streams we were able to save almost \$3,350/month, and we didn't change our lifestyle one bit.

A few weeks ago I read Tony Robins new book, [Money Mastery](#), and read about the "save more later" concept when it came to putting away money for retirement into your 401K. However, I already max out my 401K and started doing this the very first year I was fully employed out of college. Nonetheless, I was intrigued at its application to other personal finance matters, in this case in order to pay off a mortgage early.

The premise is that you start with the minimum contribution that your company matches, let's say that its 5%. Then over time you increase this every time you get a raise. This way you never feel any additional pain of saving more, because you never got used to that money anyways.

This got my brain churning because I knew that the next thing I wanted to tackle was our mortgage. But I wanted to do it in a way that allowed my wife and I to enjoy the lifestyle that we have become accustomed too. In other words, I wasn't looking for extreme austerity measures just to pay off the mortgage early. Mostly because none of us are promised a tomorrow, so you can't deprive yourself of everything in hope of a better tomorrow. There has to be a bit of a balance.

So like I normally do when I work through these types of decisions, I built a financial model. In the model I assumed that I could increase my pay by \$10,000/year. Just for some context, I have managed to increase my income by almost \$11,000 a year over the last six years since graduating. So based on the pay more later (or every time you get a raise) strategy, this would allow me to pay an extra \$800/month in the first year.

Remember this is from a raise or income that I have never gotten used to seeing (or spending).

Then in the second year we will increase our payment by another \$800 for a total of \$1,600/month (based on another \$10K raise)

In the 3rd year we do it again for a total of \$2,400/month.

In the 4th its \$3,200/month.

By the 7th year we are paying an additional of \$6,400/month, but only for about 3 months.

I know that these numbers seems really large, but I think \$10k a year in increases is really conservative. I never count on getting used to spending that money, because I immediately increase the extra payments I am making on the mortgage in the amount of the raise. You also need to realize that by the 7th year I am making almost \$70k/year more than when I started this strategy.

So this will allow my wife and I to pay our mortgage off in 7.5 years.

Remember my example above was based on paying the mortgage for 30 years. It was going to cost us \$230k in interest over the life of the lone. Now with this strategy we are only paying \$62K in interest. YES, that is a \$170K savings.

And the really awesome part is that we will be mortgage free before we are 35 years old. This is when many of our peers are either just buying their first house or are still in the first decade of their 30 year loan.

It is really a strategy that is just as easy to do as it is not to do. But imagine the options it gives you if you just have a little discipline.

Now I will be honest with you all. My real goal is to pay it off in 5 years, but that is my stretch goal and may be a bit aggressive.

Here are the numbers that made me realize that there is no reason this is not possible. Over the next 7 years, this strategy will only account for about 25% of the total income we will earn. The numbers don't lie. How can I not do this? In the grand scheme of things, 25% is not that much. Most people are putting up to 50% of their income just to amortize their regular mortgage in 30 years.

So what do you think? Are you ready to put a plan in place to pay your mortgage off early? Are you imagining what life would be like with no mortgage? Let me know what you think in the comment section below.

- Gen Y Finance Guy



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)