

The Mortgage Snowball Strategy: Pay Your Mortgage Off In 5-7 Years

In a [previous post](#), I mentioned that I had recently become debt-free outside of the mortgages on my primary residence and investment condo. In that blog post, I announced an outrageous goal of paying off the mortgage on my primary residence in 7.5 years. I gave you the Cliff Notes version there of the strategy I devised to accomplish this big, hairy, and audacious goal. In this post, I want to expand upon the thinking and get more granular on the strategy. My hope is that by the end of this post you will realize that **this strategy is easy and anyone can follow it...even though most won't**. Only those truly hot in pursuit of financial independence will have the discipline and willpower to follow through on this strategy.

To the Victor go the spoils. – Virgil

First, I would like to point out that this is **a plan that involves absolutely no austerity to your current lifestyle**. I got the idea from a retirement savings strategy referred to as the “save more tomorrow plan.” The premise is that you start with the minimum contribution to your 401K that your company matches, which is typically in the 3-6% range. The goal is to increase your contribution as a percentage of your income in order to max out your 401K (max as of 2015 is \$18,000). However, the objective is never to feel any pain during this increase process. So you only increase your contributions every time you get a raise. Because you never spend that increase, you never get used to having it, so you effortlessly eventually max out your 401K. Thus the “no pain” comment.

Although we are talking mortgage snowballs here, I need to state that I have a different philosophy on maxing out your 401K. In my opinion, it's imperative that you max it out as soon as possible, and ideally, during your first year in the workplace. If you think about it, you're typically just getting out of college and are making more money than you ever have in your life. Even if you maxed out \$18,000 on a \$50,000 per year salary, I would wager that you're likely still making multiples of what you made while you were going to school. Play poor a little longer and get

that 401K working for you. You'll never get back the power of those first years if you don't. Perhaps I'm a bit biased since this is the path I chose when I first entered the workforce, but it's worked for me so far. I have been maxing out my 401K since day one.

Nonetheless, I do like the underlying philosophy of the strategy and its application to paying down debt and particularly a mortgage. So let's dive in and get under the hood of this strategy...

If you have ever heard of "Snowball Momentum" then you will immediately understand why I chose the name I did. The basic concept is that if you start with a small snowball and roll it down a hill, you will gradually get a snowball that increases in both size and speed. As I lay out the fundamentals of this strategy, you'll see the exponential "snowball" power come to life.

The Fundamentals

Let's define the fundamentals of this strategy. If you can stick to the framework I have developed, it will make it much easier to adhere to and will increase your probability of success.

(1) Buy a house that is less than you can afford. Most people get pre-approved for a loan during the house buying process. During that process, they find out the maximum loan they can obtain in purchasing a home, and then most people go out and buy as much house as they can right up to that maximum amount of money the bank says they can borrow. In my case, my wife and I were pre-approved for a loan of up to \$750K. But we had no intention of buying a house that would require a loan that large. ***My rule of thumb is to borrow around 2X your annual gross pay (at most 3X).***

(2) Increase your after-tax income every year. Ideally, you will increase your after-tax income by about 2.9% **of your starting mortgage every year.** So in my case, with a mortgage of \$350K, that calculates to about \$10,000 per year. Over seven years that is an additional \$280K ($2.9\% \times \$350K \times 28 = \$280K$). In the table below you will see that by year seven you are earning an additional \$70,000 per year based on this example.

Note: Numbers are rounded for illustration purposes. The income is after-tax because you

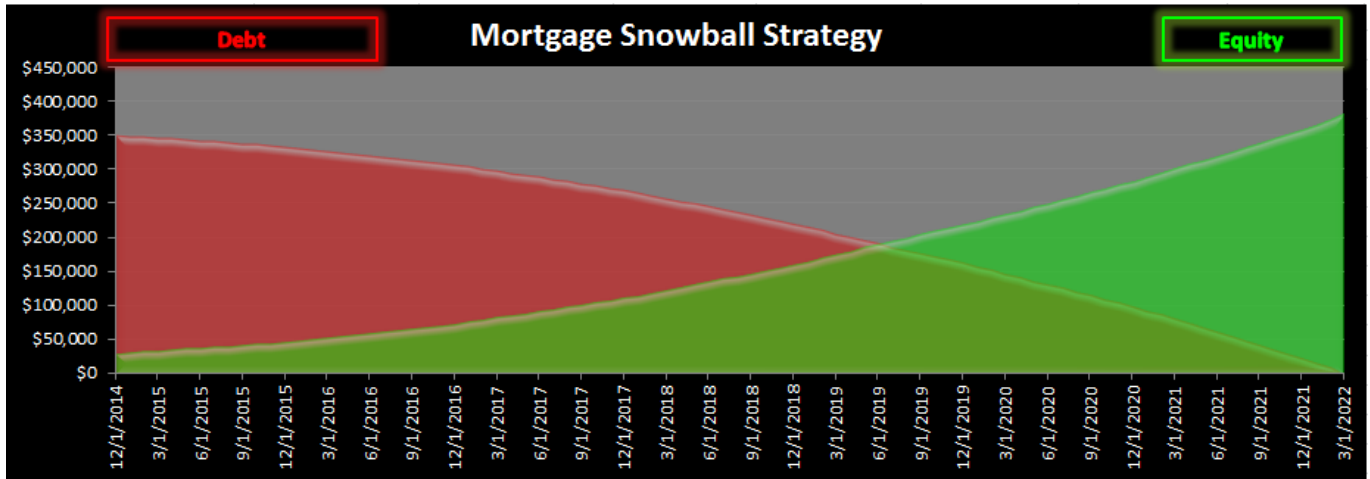
can only spend what you take home after Uncle Sam has taken his cut.

Year 1	10,000
Year 2	20,000
Year 3	30,000
Year 4	40,000
Year 5	50,000
Year 6	60,000
Year 7	70,000
Cummulative	280,000

(3) Practice the “Pay More Tomorrow” strategy. Like in the “Save More Tomorrow” plan, we only pay more to the mortgage in the form of additional principal payments when we get raises. Every time you get a raise, divide that after-tax amount by 12 and increase your mortgage’s payment to principal by that amount. So again, based on my real life example, in year one I would take the \$10,000 increase in income (2.9% of our initial mortgage balance) and divide it by 12, resulting in \$833 per month paid to the principal of our mortgage. Increase your income more than 2.9% of your initial mortgage? Do what you want with anything above that \$10,000 per year increase. Or you could be more aggressive and pay the mortgage down even further, thus getting it paid off even faster.

That’s it. Those are the only three underlying fundamentals to make this strategy work. Let’s take a look at the details over the next seven years based on my own real life example...

What paying my mortgage off in 7 years looks like



In the above chart, you can visually witness the true snowball momentum or exponential effect of this strategy. Also, I will point out that the equity curve is based on the current market value of \$383K per Zillow. We purchased the house for \$370K and have an outstanding loan of \$350K.

Below is the detailed data table with all the relevant data points by month, with each year representing a yearly milestone.

Row Labels	Normal Payment	Additional Payment	Total Payment	Interest Expense	Starting Balance	Ending Balance	Total Equity
2015	\$19,413	\$9,600	\$29,013	\$15,857	\$190,931	\$334,540	\$48,460
1/31/2015	\$1,618	\$800	\$2,418	\$4,309	\$190,931	\$349,588	\$33,412
2/28/2015	\$1,618	\$800	\$2,418	\$5,379	\$349,588	\$348,241	\$34,759
3/31/2015	\$1,618	\$800	\$2,418	\$6,446	\$348,241	\$346,889	\$36,111
4/30/2015	\$1,618	\$800	\$2,418	\$7,508	\$346,889	\$345,534	\$37,466
5/31/2015	\$1,618	\$800	\$2,418	\$8,566	\$345,534	\$344,175	\$38,825
6/30/2015	\$1,618	\$800	\$2,418	\$9,621	\$344,175	\$342,811	\$40,189
7/31/2015	\$1,618	\$800	\$2,418	\$10,670	\$342,811	\$341,443	\$41,557
8/31/2015	\$1,618	\$800	\$2,418	\$11,716	\$341,443	\$340,071	\$42,929
9/30/2015	\$1,618	\$800	\$2,418	\$12,758	\$340,071	\$338,695	\$44,305
10/31/2015	\$1,618	\$800	\$2,418	\$13,795	\$338,695	\$337,314	\$45,686
11/30/2015	\$1,618	\$800	\$2,418	\$14,828	\$337,314	\$335,929	\$47,071
12/31/2015	\$1,618	\$800	\$2,418	\$15,857	\$335,929	\$334,540	\$48,460
2016	\$19,413	\$19,200	\$38,613	\$27,703	\$334,540	\$307,774	\$75,226
1/31/2016	\$1,618	\$1,600	\$3,218	\$16,881	\$334,540	\$332,347	\$50,653
2/29/2016	\$1,618	\$1,600	\$3,218	\$17,899	\$332,347	\$330,147	\$52,853
3/31/2016	\$1,618	\$1,600	\$3,218	\$18,910	\$330,147	\$327,941	\$55,059
4/30/2016	\$1,618	\$1,600	\$3,218	\$19,914	\$327,941	\$325,727	\$57,273
5/31/2016	\$1,618	\$1,600	\$3,218	\$20,912	\$325,727	\$323,507	\$59,493
6/30/2016	\$1,618	\$1,600	\$3,218	\$21,903	\$323,507	\$321,280	\$61,720
7/31/2016	\$1,618	\$1,600	\$3,218	\$22,887	\$321,280	\$319,046	\$63,954
8/31/2016	\$1,618	\$1,600	\$3,218	\$23,864	\$319,046	\$316,805	\$66,195
9/30/2016	\$1,618	\$1,600	\$3,218	\$24,834	\$316,805	\$314,558	\$68,442
10/31/2016	\$1,618	\$1,600	\$3,218	\$25,797	\$314,558	\$312,303	\$70,697
11/30/2016	\$1,618	\$1,600	\$3,218	\$26,754	\$312,303	\$310,042	\$72,958
12/31/2016	\$1,618	\$1,600	\$3,218	\$27,703	\$310,042	\$307,774	\$75,226
2017	\$19,413	\$28,800	\$48,213	\$38,386	\$307,774	\$270,244	\$112,756
1/31/2017	\$1,618	\$2,400	\$4,018	\$28,646	\$307,774	\$304,699	\$78,301
2/28/2017	\$1,618	\$2,400	\$4,018	\$29,579	\$304,699	\$301,614	\$81,386
3/31/2017	\$1,618	\$2,400	\$4,018	\$30,502	\$301,614	\$298,520	\$84,480
4/30/2017	\$1,618	\$2,400	\$4,018	\$31,417	\$298,520	\$295,417	\$87,583
5/31/2017	\$1,618	\$2,400	\$4,018	\$32,321	\$295,417	\$292,303	\$90,697
6/30/2017	\$1,618	\$2,400	\$4,018	\$33,217	\$292,303	\$289,181	\$93,819
7/31/2017	\$1,618	\$2,400	\$4,018	\$34,102	\$289,181	\$286,049	\$96,951
8/31/2017	\$1,618	\$2,400	\$4,018	\$34,978	\$286,049	\$282,907	\$100,093
9/30/2017	\$1,618	\$2,400	\$4,018	\$35,845	\$282,907	\$279,756	\$103,244
10/31/2017	\$1,618	\$2,400	\$4,018	\$36,701	\$279,756	\$276,595	\$106,405
11/30/2017	\$1,618	\$2,400	\$4,018	\$37,548	\$276,595	\$273,424	\$109,576
12/31/2017	\$1,618	\$2,400	\$4,018	\$38,386	\$273,424	\$270,244	\$112,756
2018	\$19,413	\$38,400	\$57,813	\$47,502	\$270,244	\$221,547	\$161,453
1/31/2018	\$1,618	\$3,200	\$4,818	\$39,213	\$270,244	\$266,254	\$116,746
2/28/2018	\$1,618	\$3,200	\$4,818	\$40,029	\$266,254	\$262,251	\$120,749
3/31/2018	\$1,618	\$3,200	\$4,818	\$40,832	\$262,251	\$258,237	\$124,763
4/30/2018	\$1,618	\$3,200	\$4,818	\$41,623	\$258,237	\$254,210	\$128,790
5/31/2018	\$1,618	\$3,200	\$4,818	\$42,401	\$254,210	\$250,170	\$132,830
6/30/2018	\$1,618	\$3,200	\$4,818	\$43,167	\$250,170	\$246,119	\$136,881
7/31/2018	\$1,618	\$3,200	\$4,818	\$43,921	\$246,119	\$242,055	\$140,945
8/31/2018	\$1,618	\$3,200	\$4,818	\$44,663	\$242,055	\$237,978	\$145,022
9/30/2018	\$1,618	\$3,200	\$4,818	\$45,391	\$237,978	\$233,889	\$149,111
10/31/2018	\$1,618	\$3,200	\$4,818	\$46,108	\$233,889	\$229,788	\$153,212
11/30/2018	\$1,618	\$3,200	\$4,818	\$46,811	\$229,788	\$225,674	\$157,326
12/31/2018	\$1,618	\$3,200	\$4,818	\$47,502	\$225,674	\$221,547	\$161,453
2019	\$17,261	\$48,000	\$65,261	\$54,642	\$221,547	\$163,426	\$219,574
1/31/2019	\$1,618	\$4,000	\$5,618	\$48,181	\$221,547	\$216,608	\$166,392
2/28/2019	\$1,618	\$4,000	\$5,618	\$48,844	\$216,608	\$211,654	\$171,346
3/31/2019	\$1,618	\$4,000	\$5,618	\$49,492	\$211,654	\$206,684	\$176,316
4/30/2019	\$1,618	\$4,000	\$5,618	\$50,125	\$206,684	\$201,699	\$181,301
5/31/2019	\$1,618	\$4,000	\$5,618	\$50,743	\$201,699	\$196,699	\$186,301
6/30/2019	\$1,618	\$4,000	\$5,618	\$51,346	\$196,699	\$191,684	\$191,316
7/31/2019	\$1,618	\$4,000	\$5,618	\$51,933	\$191,684	\$186,653	\$196,347
8/31/2019	\$1,618	\$4,000	\$5,618	\$52,504	\$186,653	\$181,607	\$201,393
9/30/2019	\$1,618	\$4,000	\$5,618	\$53,060	\$181,607	\$176,546	\$206,454
10/31/2019	\$900	\$4,000	\$4,900	\$53,601	\$176,546	\$172,186	\$210,814
11/30/2019	\$900	\$4,000	\$4,900	\$54,128	\$172,186	\$167,813	\$215,187
12/31/2019	\$900	\$4,000	\$4,900	\$54,642	\$167,813	\$163,426	\$219,574
2020	\$10,806	\$57,600	\$68,406	\$59,586	\$163,426	\$99,964	\$283,036
1/31/2020	\$900	\$4,800	\$5,700	\$55,143	\$163,426	\$158,226	\$224,774
2/29/2020	\$900	\$4,800	\$5,700	\$55,627	\$158,226	\$153,010	\$229,990
3/31/2020	\$900	\$4,800	\$5,700	\$56,096	\$153,010	\$147,778	\$235,222
4/30/2020	\$900	\$4,800	\$5,700	\$56,549	\$147,778	\$142,530	\$240,470
5/31/2020	\$900	\$4,800	\$5,700	\$56,985	\$142,530	\$137,266	\$245,734
6/30/2020	\$900	\$4,800	\$5,700	\$57,405	\$137,266	\$131,986	\$251,014
7/31/2020	\$900	\$4,800	\$5,700	\$57,810	\$131,986	\$126,690	\$256,310
8/31/2020	\$900	\$4,800	\$5,700	\$58,198	\$126,690	\$121,377	\$261,623
9/30/2020	\$900	\$4,800	\$5,700	\$58,569	\$121,377	\$116,049	\$266,951
10/31/2020	\$900	\$4,800	\$5,700	\$58,925	\$116,049	\$110,704	\$272,296
11/30/2020	\$900	\$4,800	\$5,700	\$59,264	\$110,704	\$105,342	\$277,658
12/31/2020	\$900	\$4,800	\$5,700	\$59,586	\$105,342	\$99,964	\$283,036
2021	\$10,806	\$67,200	\$78,006	\$61,995	\$99,964	\$24,367	\$358,633
1/31/2021	\$900	\$5,600	\$6,500	\$59,893	\$99,964	\$93,770	\$289,230
2/28/2021	\$900	\$5,600	\$6,500	\$60,180	\$93,770	\$87,557	\$295,443
3/31/2021	\$900	\$5,600	\$6,500	\$60,448	\$87,557	\$81,324	\$301,676
4/30/2021	\$900	\$5,600	\$6,500	\$60,697	\$81,324	\$75,073	\$307,927
5/31/2021	\$900	\$5,600	\$6,500	\$60,927	\$75,073	\$68,802	\$314,198
6/30/2021	\$900	\$5,600	\$6,500	\$61,137	\$68,802	\$62,513	\$320,487
7/31/2021	\$900	\$5,600	\$6,500	\$61,329	\$62,513	\$56,203	\$326,797
8/31/2021	\$900	\$5,600	\$6,500	\$61,501	\$56,203	\$49,875	\$333,125
9/30/2021	\$900	\$5,600	\$6,500	\$61,654	\$49,875	\$43,527	\$339,473
10/31/2021	\$900	\$5,600	\$6,500	\$61,787	\$43,527	\$37,160	\$345,840
11/30/2021	\$900	\$5,600	\$6,500	\$61,901	\$37,160	\$30,773	\$352,227
12/31/2021	\$900	\$5,600	\$6,500	\$61,995	\$30,773	\$24,367	\$358,633
2022	\$2,701	\$21,360	\$24,061	\$62,153	\$24,367	\$463	\$382,537
1/31/2022	\$900	\$6,400	\$7,300	\$62,070	\$24,367	\$17,141	\$365,859
2/28/2022	\$900	\$6,400	\$7,300	\$62,122	\$17,141	\$9,893	\$373,107
3/31/2022	\$900	\$8,560	\$9,460	\$62,153	\$9,893	\$463	\$382,537
Grand Total	\$119,226	\$290,160	\$409,386	\$62,153	\$190,931	\$463	\$382,537

Remember from my [previous post](#), that it was going to cost us \$230K in interest over the life of the loan if held for the full 30-year term, assuming no rise in interest rates. But we have a 5/5 ARM that is impacted by increasing rates. A good point to make is that if our rate was to go up the maximum 5% stated in the loan agreement, as fast as allowed by the terms of the loan, this plan looks even better: by paying it off in seven years instead of the 30, we save an additional \$215K in interest savings. Nice!

All savings calculations were done very conservatively, by assuming no rise in interest rates. So with this very conservative example, we will only end up paying \$62K in interest. YES! That is a \$170K savings based on the conservative base case I'm sharing here.

The 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. More and more of our generation are living with their parents longer, thus delaying the home buying process even longer.

This plan is very easy to do. But it's also very easy not to do. Imagine the options being mortgage-free gives you if you have just a little discipline and intentional action.

Let me be honest. **My real goal is to pay it off in five years**, but that is my stretch goal and it may be a bit aggressive (although still worth trying).

Here are the numbers that made me realize that there is no reason why this wasn't feasible. Over the next seven years, this strategy will only account for about 22.3% of the cumulative gross income we will earn (see table below). The numbers don't lie. **How can I not do this?** 22.3% is not that much in the grand scheme of things. And look, over five years it's still only 32.6% of cumulative gross income. Some people pay up to 50% of their gross income just to amortize their regular mortgage over 30 years.

Mortgage Amount	\$ 350,931
% of 5 Yr Income	32.6%
% of 7 Yr Income	22.3%
Household Income	\$ 185,000
Expected Annual Increase	\$10,000
5 Years of Income	\$1,075,000
Avg Income	\$215,000
7 Years of Income	\$1,575,000
Avg Income	\$225,000

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

- Gen Y Finance Guy

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Mortgage Rates Hit

2.89% APR

5/1 ARM

30-Year Fixed	3.75%	3.75% APR	➔
15 Year Fixed	2.75%	2.80% APR	➔
5/1 ARM	2.75%	2.89% APR	➔

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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](#)