Murder Your Mortgage in 7 Years Q&A

Last month I published a post that detailed my strategy to pay down a 30 year mortgage that I only recently obtained last year. I will be the first to admit that it goes against the conventional wisdom and there have been two questions that have popped up consistently that I thought I would take some time to answer:

Question 1: Why do you advocate paying down your mortgage and thus losing out on the tax savings from interest paid?

> This is a great question to very controversial advice depending on who you talk to. If you would have asked me a few years ago I would had said this was absolutely a mistake. But my thinking has changed over the years. There certainly is the psychological aspect of being mortgage free.
>
> The tax deduction and tax savings based on the size of a mortgage I advocate (2-3 times your gross income…MAX) is quite negligible in my opinion-especially when you break down the numbers.
>
> Let's assume between state and federal taxes I am in the 38% tax bracket and look at my tax deduction and tax savings over a 7 year period and see what I am really losing out on. And lets use real numbers for the mortgage which is $350,000 at 3.675%.
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> 2015 – $12,622 interest expense, which results in a $4,796 tax savings (12,622 x 38%)
> 2016 – $11,846 interest expense, which results in a $4,501 tax savings (11,846 x 38%)
> 2017 – $10,683 interest expense, which results in a $4,059 tax savings (10,683 x 38%)
> 2018 – $9,117 interest expense, which results in a $3,464 tax savings (9,117 x 38%)
> 2019 – $7,140 interest expense, which results in a $2,713 tax savings (7,140 x

38%)
2020 – $4,944 interest expense, which results in a $1,878 tax savings (4,944 x 38%)
2021 – $2,409 interest expense, which results in a $915 tax savings (2,409 x 38%)
2022 – $157 interest expense, which results in a $59 tax savings (157 x 38%)

Total Interest Paid over 7 year accelerated pay down = $58,918 with total tax savings of $22,388 (58,918 x 38%)

vs. normal pay down (meaning no extra payments)

Total Interest Paid over 7 years on normal pay down = $86,703 with total tax savings of $32,947 (86,703 x 38%)

My tax deduction falls by $27,785 (86,706 – 58,918) resulting in an extra $10,559 in taxes (32,947 – 22,388) over the 7 years. However, don't forget that I also saved $27,785 in interest expense during the 7 years due to the accelerated pay down.

On a net basis I actually have saved $17,785 (that is a 168% return on the extra $10,559 paid in taxes).

I don't know about you but as long as the math works out like this, I would do this all day until I am blue in the face. And this doesn't even include the other $171,000 in interest that I will save for the other 23 years I won't be paying interest on this loan. And because I have an adjustable rate mortgage that could see the interest rate increase. If my loan were to increase to the maximum interest rate the savings would grow an additional $215,000 for a total savings of $386,000.

Question 2: Couldn't you get a higher return in the market with the extra mortgage payments towards principal?

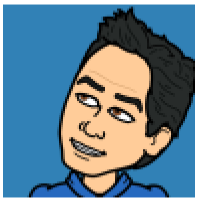
Of course there is the argument about earning a higher return in the market.

> To this I would argue that this is just a portion of my total portfolio. I am not doing this (or recommending it) in lieu of making other investments in pre-tax and taxable accounts. Some people invest in bonds, I would prefer to pay down my mortgage and not touch bonds with a 10 foot pole (future post on this).
>
> The stock market has had a magnificent run these past 6 years. But then again so have bonds. No one knows what the stock market will do or when it will have a major correction. But I do know that prices for stocks have gotten a lot more expensive over the past 6 years. I think we are entering into a period of very low performance in the market and that interest rates will remain low for an extended period of time.
>
> The 3.675% return I get in the form of interest savings sure the hell beats a 2.5% return that 30 year Treasury bonds are paying. And if rates do go up then this strategy makes even more sense to me, because I have a 5/5 adjustable rate mortgage, which means my rate could go up if rates are higher in 2019. This just means my interest savings grows (see above).
>
> I am and plan to continue taking plenty of risk in the financial markets. This is the safety portion of my portfolio, and I look at it as I would any other allocation of capital. As far as I am concerned I am earning a guaranteed 3.675% return. The market can’t promise that. But if the market does have a significant correction before I finish paying off the house then I would likely re-consider allocating more funds to stocks.

These are a few questions that I have received enough times to merit a separate post to address them.

Please let me know if you have other questions about this strategy or the rationale behind it. Or if you want to discuss if it might be right for you, I am more than happy to be a sounding board.

– 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