

Our Mortgage Will Be Gone In Four More Years

We bought our house almost four years ago and we acquired it for ~50% less than the bank said we could afford to borrow. The bank approved us for a \$750,000 loan but we ultimately borrowed \$355,000 on a total purchase of \$376,000 (47% of what we were approved to borrow). Anyone that has read my [ten guidelines to rapid wealth building](#) knows that as a rule of thumb, I recommend buying a house for 50% (or less) of what you are approved to borrow. In doing so, you set yourself up to be mortgage-free in five to seven years if you follow my [mortgage snowball strategy](#).

The GYFG household has just completed year three of our seven-year goal to be mortgage free. When I devised this plan three years ago, there were three fundamentals I laid out:

(1) Buy a house that is less than you can afford, preferably 50% or less of what the bank says you can borrow.

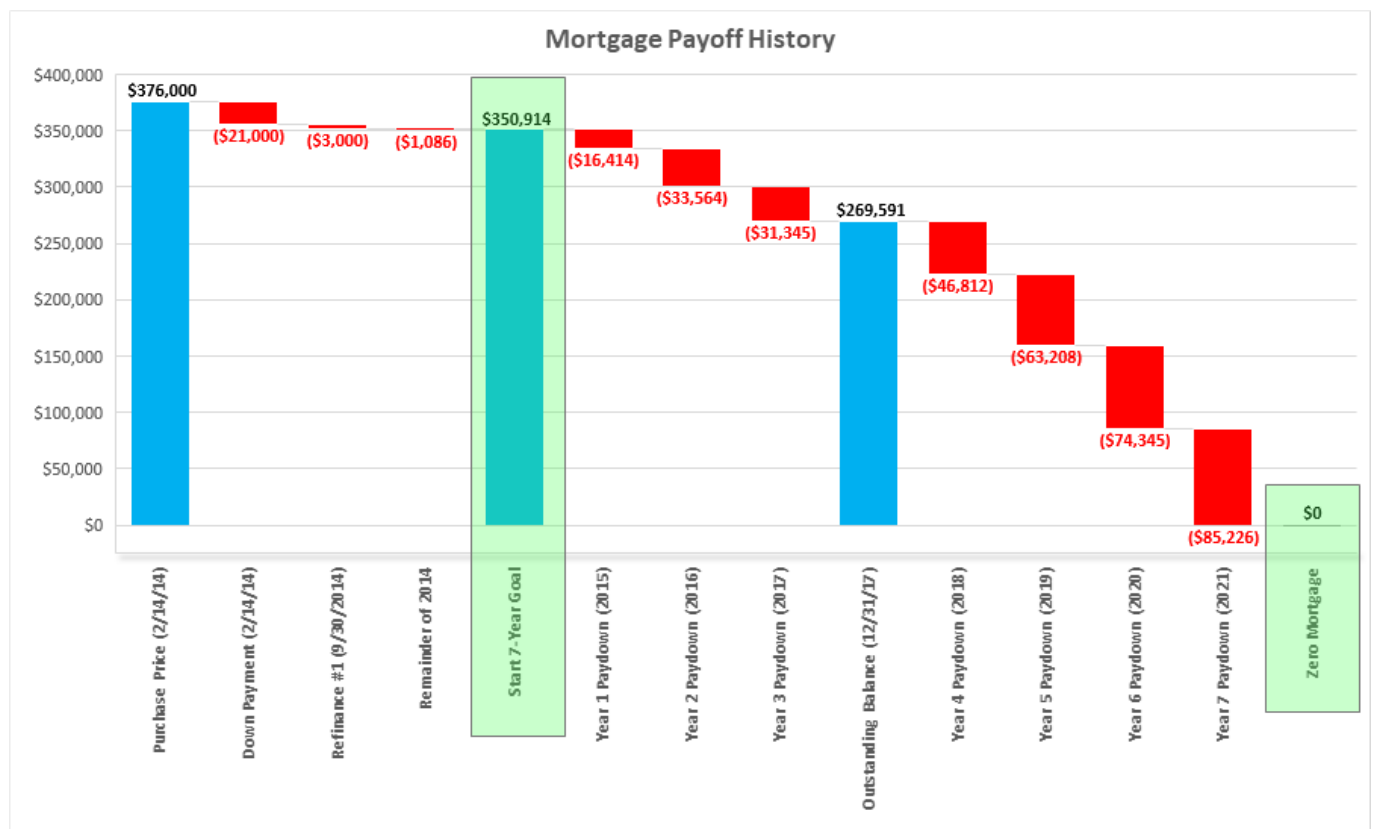
(2) Increase your income every year. This will be what funds the pay-off strategy. The amount will be different depending on the size of your mortgage and how fast you want to pay it off. When we decided on seven years, we worked backwards and calculated that we would need to increase our after-tax income by \$9,600/year.

(3) Practice the “pay more tomorrow” strategy. You only pay additional principal payments when you receive a raise. Each time you get a raise, divide that after-tax amount by 12 and pay down your mortgage principal by that extra monthly amount. Alternatively, you can make one lump-sum payment at the end of each calendar year, which is what we started doing in 2017. Remember that every year is cumulative. So, in our example we pay down \$9,600 in additional principal in year one, then \$19,200 in year two, \$28,800 in year three, and so on.

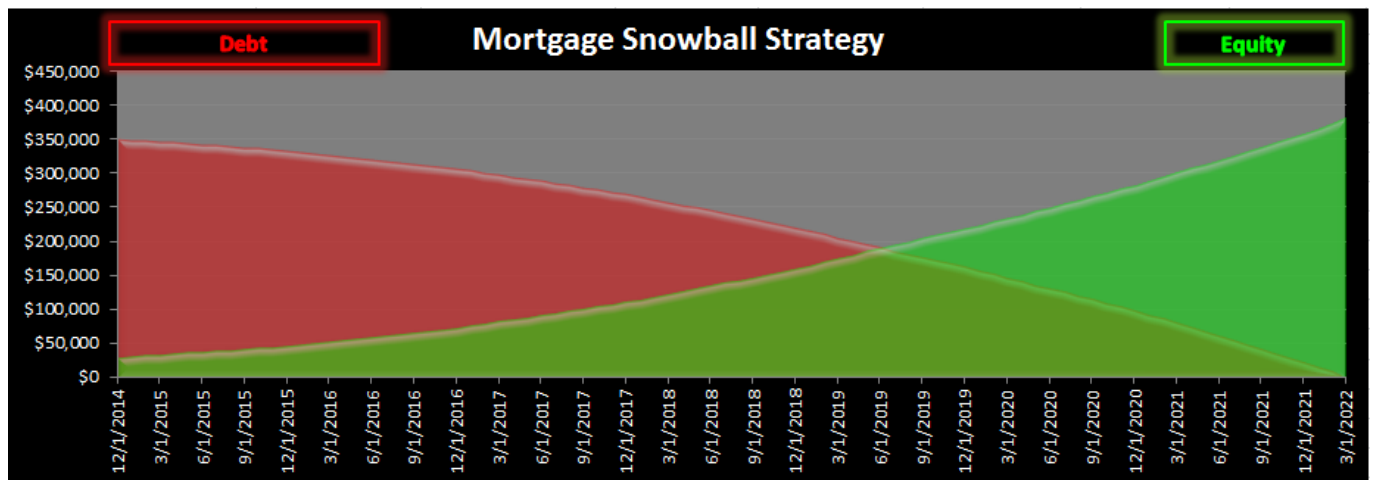
Note: These guidelines have been slightly revised since publishing this strategy back in 2015. The refinements are minor but necessary to capture elements I had not considered when I originally crafted the plan.

Below you will find a chart that visually shows the progress we have made through 2017 as well as what the remaining four years look like. Keep in mind that the red bars, which represent the principal reduction, include both regular amortization from our normal monthly payment and the reductions due to additional principal payments. For example, when you see that in 2018 we are scheduled to pay down \$46,812 in principal, \$8,012 is due to normal monthly amortizations, and \$38,800 is the additional amount we are paying down the mortgage.

You will notice that based on what I shared in item number three above, that we have not followed the plan exactly as it was laid out, but we have still managed to stay on track. Remember that a battle plan never survives the first day of battle.



Here is the original chart I created to visualize this strategy from start to finish:



Note that the starting debt position (in red) corresponds to the first green outlined bar in the first chart above, which represents the official start to our seven-year goal to be mortgage free.

Yes, I love chart porn!!! (more to come below)

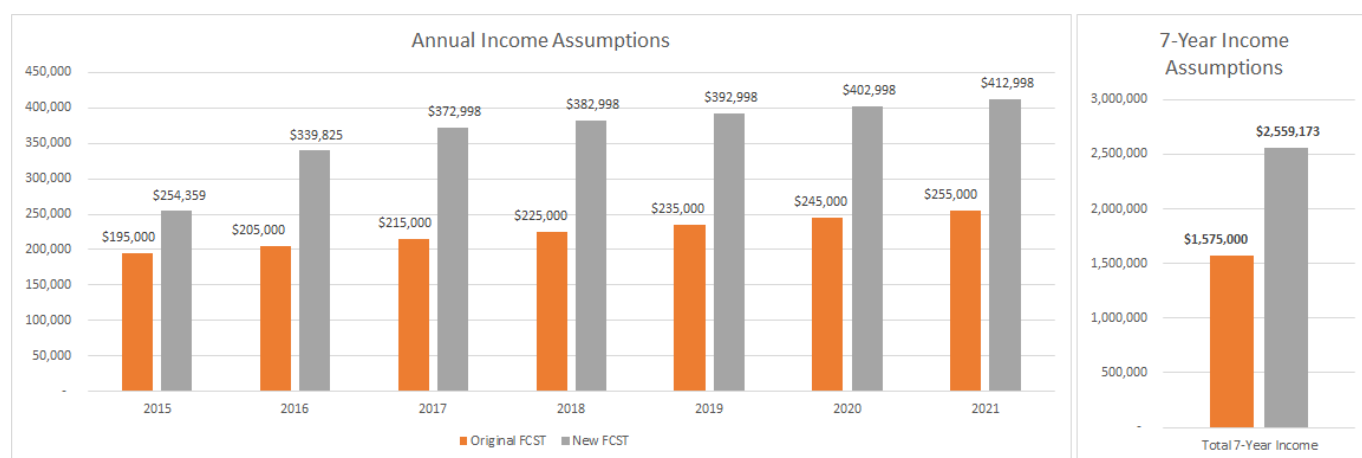
The last piece of consideration in testing for the feasibility in achieving this goal is to compare the initial mortgage amount (\$350,913 in our case, which was a result of a refinance before starting down this path) to the amount of income you expect to earn over the same time period of the goal (seven years in our case).

Three years ago, when I first forecast our income over the next seven years (2015-2021), I estimated that we would earn about \$1,575,000. This means that the \$350,913 would represent 22.3% of our gross income over that seven-year period. In light of the fact that banks will typically loan up to a 43% ratio of monthly loan to monthly gross income, paying this off seemed more than reasonable (and even conservative). I actually started to feel that it would be irresponsible not to pay the mortgage off in seven years based on this amount of income.

Even though it is considered normal and acceptable to carry a mortgage for the full 30 years of its term, I feel differently. I know far too many people who find themselves 20 years into their mortgage with the same if not *more* money owed than when they originally bought or built their home (obviously not the same exact mortgage). This was all made possible during the refinance craze that took place in the decade leading up to the Great Financial Crisis of 2008/2009, when people took out way more mortgage than they could realistically afford (counting on ever-increasing home values), many times at ridiculously aggressive terms that only benefited the

mortgage holders. But this even continues today with people taking out equity from their homes, increasing their mortgages to do so, for purchases such as home improvement, cars, kids' college tuitions, etc. Increasing debt is never a good idea!

Needless to say, our income has exceeded my initial projections, and some may accuse me of sandbagging. I now estimate our income over the same time period at \$2,559,173 (see chart below).



The \$350,913 starting debt position now represents 13.7% of the income we anticipate earning between 2015 and 2021.

It is exciting to know that we only have four years before we are officially mortgage free. At 35 years old we will be mortgage free when many of our peers will be buying their first house. In the short-term, we may have missed out on some market gains (due to paying down the mortgage early instead of investing those extra payments), but in the long run, our financial foundation will be stronger than most. Imagine the freedom gained without a mortgage payment to consider.

“You’ll learn, as you get older, that rules are made to be broken. Be bold enough to live life on your terms, and never, ever apologize for it. Go against the grain, refuse to conform, take the road less traveled instead of the well-beaten path. Laugh in the face of adversity, and leap before you look. Dance as though EVERYBODY is watching. March to the beat of your own drummer. And stubbornly refuse to fit in.”

— Mandy Hale

We have chosen to take the road less traveled and our results have been extraordinary. We refused to handle our mortgage according to the conventional wisdom of the day so our results have not been conventional...and that's a very good thing.

The reason I share so much of my personal details with **YOU** is that I'm inviting you to join me on this contrarian path. I want **YOU** to experience **EXTRAORDINARY!**

Will you join me?

- 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](#)