Would you like to employ a strategy to pay off a 25-year mortgage in 9.08 years?

Let me start with, "This strategy is not for everyone". If it was…the banks would be marketing it and making lots of money on it. For the banks, this strategy will reduce their expected earnings off of you. This approach will typically require a high family income and those that have a desire to be savers or better savers.

Vaughn Warrington Mortgage Philosophy is based on these 6 tenants:

1. Do not accept a mortgage the bank says you can afford, take out a mortgage you can pay off in 10 years
2. Have 20% or more as a down payment to avoid the cost of CMHC mortgage insurance
3. Your monthly payment is about paying off the mortgage not paying the interest on the mortgage
4. Additional annual payments of 5% of the original mortgage amount makes up part of your family budget
5. Do not accept "life insurance" from the bank on your mortgage…it is horrendously expensive and taking out term insurance is not only cheaper but holds its value throughout the term
    a. Bank mortgage life insurance typically declines with the balance of the mortgage
        i. You pay more for less every single month
6. Do not let the bank talk you into "renegotiating" your mortgage and extending your amortization back to 25 years…how are you ever going to pay that off?

By following the first 4 tenants you can pay off a 25-year mortgage in only 9.08 years. If you have the ability to do this, you are setting yourself up for pretty much every financial hurdle and commitment for the rest of your life. You will be able to have savings for your kids' education. You can create an enviable retirement portfolio that may even permit "early" retirement. You will understand the value of borrowing, when to do it, why you do it, and why debt for so many is so deadly…but not for you.

An example to explain this follows. To make it simple I will use a house price of $625,000, with 20% down payment and a mortgage of $500,000, amortized over 25 years, using a fixed term structure that we are assuming maintains the same 3% interest rate over the life cycle of the mortgage.

But wait the bank has pre-approved you for a mortgage of $612,000. Yet I am saying a mortgage of $500,000? They will say, *"Go out and buy a house worth $680,000 and put just 10% down"*. Instead, purchase a house that is 9% lower in value than the bank suggests. Also put 20% down and now have a "budgeted/strategic" mortgage. This will keep you focused on saving for your future and building equity in your home day one. You should take out a smaller mortgage than what the banks will allow. This is the beginning of you taking charge of your money and starting to become a saver.

Step one is taking out a mortgage inline with using your payments effectively. And in this example, you need to start with a mortgage that is 18% less ($500,000 not $612,000) than bank approval maximum. This step is critical as it begins to establish the ability to get to a 9.08 year date for burning the mortgage document.

The monthly payments on this $500,000 mortgage will be $2,366 for 300 months (25 years). Step two is moving to a bi-weekly versus monthly payment. We take the $2,366 and divide it in half, so every 2 weeks you pay $1,183. So every year you wind up paying 1 extra month towards the mortgage. This will reduce the mortgage amortization from 25 to 22.25 years. You have just saved 33 months of payments or in this case $25,375 in interest. That is now equity value in your home you otherwise would not have had.

Interesting fact:

> Before we go any further, let's talk about how much **interest** would be paid on a $500,000 mortgage over 25 years if you paid $2,366 every month. 300 months after starting to make payments you have paid $209,868 in interest, or 42% of the original mortgage amount in interest. This is on top of the principal you borrowed of $500,000. So 300 months later you have paid $709,868 for your house.

Step three is all about savings towards the mortgage to get it paid off in 9.08 years. And it can be done using step three and step four. Let's answer why I wanted you to take out a $500,000 mortgage versus a $612,000 mortgage? Your bi-weekly on $500,000 is $1183 and most mortgages will allow you to increase this payment 25% without penalty. So let's pay bi-weekly at $1,479 instead of $1,183. What will this bi-weekly payment of $1,479 mean for you?

How about a mortgage paid off in 16.5 years! By managing your mortgage expectations and budgeting effectively, versus maxing out like the banks want you to do, you now own your home 9.5 years' sooner. That is outstanding! You have paid the bank a total of $632,793 including your principal versus $709,868. You have saved $77,075 in interest.

Interesting fact:

> I mentioned early on about creating savings for your kids' education. If you took that same $1,479 that you were used to paying out bi-weekly, and kept it going for 6 years, and placed it in a bank account earning no interest you would have $106,488. You have created a pretty good Warchest for your kids' post-secondary education. (Registered Education Savings Plans are not even being discussed or used in this example, but they sure should be thought about)

Step four is the final step to get to paying off the mortgage in 9.08 years and likely making your bank manager not very happy. You are going to be removing $136,000 in interest they thought they were gonna make off of you. Savings of 5% of the original mortgage amount applied each year have a dramatic impact. 5% in this case is $25,000 per year. This is a very strategic process and is part of your planned method and does not happen by chance. It happens by being a strategic saver.

Day one of your mortgage you walk into the bank and pay down the mortgage $25,000. And you are going to repeat this 8 more times, once a year, on the yearly anniversary of your mortgage. By doing this and the steps outlined above you will be burning that mortgage document in 9.08 years to be exact.

Interesting fact:

> By paying 5% extra on day one of the mortgage alone you take 22 months off the mortgage amortization. Why? The start of a mortgage is when you pay the most interest. By dropping a cash bomb into your mortgage day one, you remove 22 months right away.

If the first thing that comes to your mind is; "I cannot afford to do this", you may be right. These strategies are not able to be accomplished by everyone. However, are you 100% accurate?

- If you already have a mortgage, I challenge you to incorporate at least Step two. Go bi-weekly versus monthly at the very least.
- If you have not bought a home yet, start out with Step One, and take out a mortgage you can afford to aggressively pay down.
- If you do Steps One, Two and Three, you will own your home mortgage free in 16.5 years. In the very least that is phenomenal success. You have saved 9.5 years of payments.

My job is helping clients create a Retirement Income Plan. It starts with effective use of debt and stays that way for the rest of their lives. I am very fortunate to have the opportunity to work with families that share these views. The majority of my clients are retired and are having great retirements. They have managed debt well and in the process saved enviably. They are not how millionaires are typically portrayed in the media. It is not about being lavish, but being smart with their cash. They don't talk about "having missing out" or "not having lived well". For those clients that are still working I love to see them get excited about paying off debt. For I know, it means an amazing opportunity to educate their kids, enjoy retirement and have fun in life.

All the best…

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