



10 TIPS TO BEING MORTGAGE FREE FASTER

One of the highest financial priorities of Canadian homeowners is to pay off their mortgage as quickly as possible. Most are aware that paying down extra principal in the early years by whatever means possible can shorten the life of your mortgage — and dramatically lower the interest you'll pay over the long haul. The "Pay-Off Tips" below describe some of the most effective methods of achieving this.

TIP #1: Mortgage payments made with after tax cash

More Canadians are becoming aware that, since mortgage interest is not tax-deductible in Canada you are making mortgage payments of both principal and interest with money that you've already paid tax on — "after tax dollars". This makes it even more important to eliminate the drainage of disposable income as soon as possible!

TIP #2: Prepayments give great return on investment

If you pay an average of 6.5% in mortgage interest, for each \$1,000 by which you reduce your mortgage principal, you will save \$65 in after tax cash every year. If you are paying taxes at a marginal rate of 40%, you have to earn \$108.33 each year to pay the interest on every \$1,000 of principal outstanding...a heavy burden, but also a tremendous implied benefit to reducing this balance. In fact, the example shows that the "return on investment" for making prepayments on your mortgage is 10.833% before tax and 6.5% after tax — far better than most fixed return investments (bonds, GIC's etc.).

TIP #3: Increase your payment annually to the most you can afford

The upside is that most lenders will allow you to reduce it again to the previous level if it turns out to be too great a burden or your circumstances change.

TIP #4: Utilize your RRSP-driven tax rebate as a mortgage prepayment method

Even if you can only prepay annually, make sure these funds are set-aside for that purpose. Many Canadians will borrow (at prime) to buy an RRSP to ensure the maximum rebate. When applied to the mortgage principal, this refund is a "gift that keeps on giving". Combining the refund with the tax-free interest earned on the RRSP over the subsequent years will quickly outpace the short-term interest costs of the RRSP loan.

TIP #5: Increase the frequency of your payments

Make accelerated bi-weekly payments to get a "free" principal reduction equivalent to one full mortgage payment every year — painlessly. Unless you are paid weekly it makes little sense to make weekly payments. All you'd be doing is making a smaller payment, and deferring the difference for a week.

TIP #6: Make use of double-up privileges wherever possible

Tell yourself that you will "skip-a-payment" whenever necessary... then skip only when you absolutely must.

TIP #7: Round your payments up

By adding even a nominal amount of say, \$10 per payment, the amount of interest you are saving will be unbelievable, and the extra money relatively painless to part with.



TIP #8: Pay a lump sum whenever possible

By decreasing the principal of the mortgage, your payments will not be allocated as much to interest in the future, thereby accelerating your freedom to mortgage-free life.

TIP #9: Keep payments the same when mortgage rates have fallen

If the payment amount has not been a problem so far, then keep it the same thus paying down the principal faster.

TIP #10: Raise payments in line with increased income on an after-tax basis

If your income increases, don't keep your mortgage payments the same. Although the disposable income may be fun to spend on unnecessary luxuries in the short-term, the long-term benefits of being mortgage free faster and saving those interest payments will far outweigh the short-term curtailing — just pretend that your income did not increase and maintain our usual lifestyle.

DON'T WASTE YOUR HARD-EARNED MONEY ON INTEREST!

These methods have allowed many people to shorten their mortgage life by years within a very short period and enjoy a greater lifestyle for a longer period. Contact us to find out more information about how you can be mortgage free faster.

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