



Mortgage Reduction

Description

Borrow to invest in property to take advantage of future capital growth to eliminate or reduce non-deductible mortgage debt.

CASE STUDY - PAUL & SARAH

- Paul & Sarah's home value \$450,000
- Mortgage \$310,000
- Mortgage term 16 years
- Interest rate 7.0%
- Current monthly repayments \$2,702.00



GOAL

Paul and Sarah wish to pay off their home sooner.

STRATEGY

- Purchase a \$470,000 investment property off-the-plan with a rental return of \$400 per week and interest rate of 7%
- Borrow 100% of the property purchase price plus stamp duty and legal costs on an interest only loan
- Reduce mortgage repayments to \$2,191 per month on a 25 year principal and interest loan
- Running costs on the investment property, after tax will be \$118 per week

ASSUMPTIONS

- Paul & Sarah's marginal tax rate is 31.5%
- Investment property appreciates by 7%pa over 10 years
- Interest only loan on investment property
- After 10 years sell investment property:
 - Investment Property value = \$924,561 (Equity = \$451,761)
 - Capital Gains Tax = \$100,549
 - Mortgage Balance = \$240,660
 - Proceeds from sale of investment property = \$331,920

OUTCOME

Paul & Sarah have now repaid their mortgage 6 years earlier, plus saved \$194,544 in future mortgage repayments and have surplus funds of \$91,260 after their mortgage has been paid off.