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Banks Post Record Profits and Canadian Savings Rate Dwindles to All-Time Low

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A resounding truth - these recurring headlines state the facts. Next to the amount of tax you pay in your lifetime, the interest cost on your mortgage is your biggest expense.

On a $200,000 mortgage amortized over 25 years at an average interest rate of 6%, you will pay $183,000 in interest to the bank. Yes, that's $183,000 in interest!

Banks typically charge us a high rate on what we borrow, and pay us a low rate on what we save. What's worse, the interest that you earn on a savings account or a non-registered GIC is fully taxable.
Since mortgage interest is not tax-deductible, you are
far better off applying your savings to the outstanding balance of your mortgage.

Einstein said that the most powerful force in the universe is "compound interest". This is bad news if you owe money.

Now consider how 60% of Australians manage their mortgages. The Australian concept enables you to consolidate your mortgage and other debts at one low interest rate that is secured by the value of your home. You are far better off applying your savings to your debt – after all, you are guaranteed to "save" more in interest costs than you would likely ever "earn" on that money. Don't be alarmed - unlike most Canadian mortgages – you have full flexibility to access those "savings" if you need them.

Instead of depositing your salary to your chequing account, where it can sit dormant for days until you need it, you should apply your salary directly to the outstanding balance of your debt. The power of this concept is in the savings that you earn on the non-deductible debt being immediately reduced each pay period.

Just as a bi-weekly mortgage payment is much more effective than a monthly mortgage payment, imagine how much more effective it would be to immediately reduce your debt with every deposit. This is by far the most powerful tool of all. When you need to withdraw money or pay a bill, your debt level increases by the amount of the withdrawal. When you get paid again, your salary reduces your debt, and the cycle continues.

To put it another way, if you borrowed $100 from the bank, and then deposited $10 to your savings account, it only makes sense for the bank to reduce your debt level to $90, and only charge you interest on the $90. You have the flexibility to access the $10 if you need it, and you only pay interest on the amount you borrow.

Not only is this concept an option for existing Canadian homeowners, it is also available to first-time homebuyers and rental property owners. Undoubtedly, the Australian concept is a major paradigm shift in the way you think about and manage your finances. Most banks are unwilling to allow this concept for fear of cannibalizing their existing business, which you already know is a very profitable business.

To see if this product meets your needs, I encourage you to talk to an Independent Financial Advisor, who is both skilled in this area and understands your unique situation.