



When Should You Prepay Your Mortgage?

While the news today is filled with stories of those struggling to stay on top of their mortgages, there is actually a lucky minority of homeowners faced with the dilemma of have more money than they need for their monthly home loan. The quandary facing this fortunate bunch is whether or not it would be wise to through extra money at their mortgage debt. There are definite advantages to eliminating that hefty financial burden, yet there are also several ways in which a mortgage can be a boon for a homeowner. And not only is the decision a fiscal one, but it is also heavily dependent upon the personality traits and psychological needs of the mortgage borrower.

The Case for Prepaying the Mortgage

The financial advantages of paying off your mortgage include the very real benefit of saving thousands, if not tens of thousands of dollars in interest charges. That money could then be theoretically put towards other more profitable ventures. Of course, this is only helpful if you plan to stay in your home for life, or at least for a long time. Otherwise you may not have enough time to realize the real savings, especially if your loan includes a prepayment penalty.

Mortgage prepayment may also be a good idea if your home loan payments will continue into your retirement. Large mortgage payments can be a big obstacle to realizing retirement plans. If prepaying the mortgage eliminates that debt for your golden years, it may be a wise choice.

Putting extra money toward the mortgage seems to make most sense for those who need the psychological peace that comes from decreasing their debt. A mortgage is usually the largest financial obligation most people will carry and it can be quite a stress-inducing responsibility. For many people paying off the mortgage quickly may be the best option, simply for the peace of mind it will bring, even if they could actually make more money from investing the extra money elsewhere.

The Case for Doing Something Else

Trying to get rid of the mortgage as soon as possible is a natural enough goal. Debt is bad, right? Well, the answer these days, is not always. If there is a good kind of debt, mortgage debt fits the bill. Mortgage loans in the U.S. come attached with some nice tax perks. These include full tax deductions of any mortgage interest paid as well as a deduction this year for private mortgage insurance premiums. Often it is more financially sound to take advantage of these tax shelters as long as possible while putting your extra funds to work in stocks and bonds. Certainly, this requires discipline on the part of the homeowner, but prepaying the mortgage would also require discipline.

If your mortgage interest rate is relatively low, you may also want to think twice about prepaying the loan. In such a case, it is very likely you would gain a greater rate of return by investing your extra money for retirement or other financial goals. Plus this form of investment is much more liquid than home equity. If an emergency were to arise, it would be much easier and cheaper to pull money out of stocks and bonds than to pull it out from a home equity loan.

So, should you put try to pay off your mortgage debt faster than required? There is no one right



answer. It is a matter of determining your financial personality and your aversion or tolerance of risk.