Encore Wealth Management Group

Ameriprise Private Wealth Advisory Practice

Should You Pay Off Your Home Mortgage Early?

Many people who carry a home mortgage dream of the day when they will no longer face the burden of a monthly house bill. They want the financial freedom – and the satisfaction – of owning their home outright. Does that mean you should make paying off your mortgage early a priority? The answer depends on your circumstances and goals. One question you should ask yourself is, “Would the money you spend on your home loan be better spent on or invested in another financial opportunity?”

Getting a different perspective on debt

Reducing debt as early as possible could help you avoid costly interest rate charges. You may have experience with this principle if you’ve eliminated credit card debt or a car loan. While your home mortgage is a type of debt, the same concept may not apply. In certain instances, staying true to your repayment terms may be best for your financial situation for these reasons:

- The interest rates on mortgages tend to be more reasonable than other types of credit, and the terms often provide more certainty (30-year fixed rate mortgage).
- The interest you pay can potentially be deducted from your taxes. This deduction makes a mortgage much more cost-efficient on an after-tax basis than most other forms of debt. If mortgage interest is part of your tax strategy, consider if you’ll be able to itemize deductions once you own your home outright.

On the other hand, the earlier you pay off your loan, the longer you could have the opportunity to invest the money each month. This additional investment could help you achieve a more secure financial future. To see if investing may make sense, compare your interest rate to what you could reasonably expect to earn in market returns.

Factoring in time

As you evaluate your situation, you should consider the time you expect to stay in your home and how close you are to retirement. Those who are approaching retirement or are already retired may prefer to be done with the monthly expense of a mortgage. Since this is also a stage in life when your investment approach may be more conservative, the tradeoff of reducing your balance rather than investing may not be as significant. Those who are in this position may want to consider if accelerating payments today would help reduce housing expenses in retirement.

The same is true for those who plan to stay in their homes for a long time. Reducing your loan may be appealing if it results in years of living without a house bill. Younger homeowners should explore methods of accelerating their mortgage pay down. Among the strategies to consider are contributing more money each month, refinancing your mortgage over a shorter term (i.e., a 15-year mortgage instead of a 30-year one) or occasionally making a larger, lump sum payment to reduce the balance.

Considering the emotional side

Deciding if you should carry a home mortgage is not only a rational decision, but an emotional one as well. Your home is where you raise your family, create memories and return to each day. How important is it for you to know that you will own your home free and clear?

As you think about your decision, be sure you're in a position to not jeopardize your financial security today by putting additional funds toward your home. Adjusting your monthly bill will impact your cash flow, and you'll want to have flexibility in your budget to cover unexpected expenses. Review your financial circumstances carefully before you decide what's right for you.

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Encore Wealth Management Group is a private wealth advisory practice of Ameriprise Financial Services, Inc.in Louisville, KY. They specialize in fee-based financial planning and asset management strategies and has been in practice for 31 year. To contact them, encorewealthgroup.com.