February 2008

# Mortgage Minute

## Food for Thought

### More contemplations on using your mortgage to build wealth

This month I'd like to revisit my Algebra II lesson I mentioned a few months back. The lesson explored whether or not using "extra" money each month to pay off a mortgage at an accelerated rate made the most financial sense. It was basically a question of whether or not a 15 year or 30 year mortgage is a better mathematical choice.

Before I begin with the numbers, I have two financial beliefs I'd like to share with you. My first belief is that having a debt is not necessarily the same as being *in* debt. If I have a debt of $100 but a liquid asset of $100, I would not consider myself to be in debt.

My second belief is that a liquid asset, like a bank or investment account, is much, much better to have than a non-liquid one, like home equity. Liquid assets provide more safety and flexibility when navigating life's unpredictability.

There are two reasons given most often for taking out a shorter mortgage. The first is simply to get out of debt sooner and the second is to save money by paying less interest over the life of the loan. The amount of interest paid over the life of a 30 yr. mortgage is significant and a little shocking. For most of us, these reasons of taking out the shorter mortgage are based in emotions though and not necessarily on mathematical reasoning. What type of mortgage to undertake is a rather large decision and should be considered from both an emotional and mathematical perspective.

With a loan amount of $150,000, the difference in payments on a 15 yr. and a 30 yr. mortgage using today's rates is $336.49. If invested each month and realizing an average rate of return of 8%, this $336.49 over the course of 15 years would grow to $116,438, enough to pay off the remaining balance on the 30 yr. mortgage with $13,000 left over. If the average rate of return was 10%, the balance after 15 years would be $140,000, enough to pay off the mortgage and pocket almost $37,000.

Thanks to compounding interest, the longer this strategy is employed, the more mathematical sense it makes. After 20 years of investing the $336.49 at an 8% return, you could pay off the mortgage balance and have over $100,000 remaining! This strategy also has a by-product of partially separating equity, which you already know I am a fan of.

You may have noticed my illustration suspended some tax rules as usual to simplify my point. The bottom line is it is almost always a better use of our funds if we can choose to let our money earn compounding interest rather than pay off low, tax deductible mortgage interest.

Now, can we have a little heart-to-heart? Don't take my word for it. Don't take any one person's word for it. Please don't read one book or listen to one radio show about money and think that that is *the* answer to pattern your life after. My newsletter excluded of course. Seriously, there is a lot of great financial advice and knowledge out there and you should collect more than one piece before coming to conclusions.

## *Today's Rates at a Glance*

30-year fixed
**5.375%**
(APR 5.521%)

5/1 ARM
**4.500%**
(APR 5.097%)

30-year fixed
100% LTV no MI
**6.125%**
(APR 6.243%)

Calculations based on a first-time homebuyer purchase, loan amount of $200000 and an 80% loan to value (unless otherwise noted). Rates include a 1% origination fee and are as of 2-1-08 and are subject to change.

## *Identity Theft Tip of the Month*

*Check your credit accuracy by accessing your free credit report from*
*www.annualcreditreport.com*



Zac Hill
*Loan Officer*

Cell: 503-269-8199
Office: 503-589-1999
Fax: 503-589-1988

*zac@residentlendinggroup.com*