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15-Year Mortgage? Try a 30-year Mortgage Plus an Investment Pla

It seems like there are a million and one different ways to pay off a mortgage. Lenders have designed programs to fit almost every borrower's needs. Two of the most popular loans however, remain the 30-year fixed and the 15-year fixed mortgages. These are tried and true programs that offer complete predictability.

Both programs offer fixed interest rates for the entire course of the loan. The interest is amortized over the full term, but the main difference is obviously that one loan takes 30 years to pay off, while the other cuts the repayment time in half. That also means the 30-year monthly payments are quite a bit lower than the 15-year payments.

There has been much continuous debate about which program is better in terms of saving you money. On the surface, the answer seems obvious. Take a look at this example: You take out a $200,000 loan at 6%. With a 30-year fixed loan you will make a monthly payment of $1,199.10 and will pay a total of $231,676.00 over the course of the loan. If you decided on a 15-year loan, your monthly payments would have been $488.61 more at $1,687.71 but you would only end up paying $103,787.80 in interest. That is a savings of $127,888.20!

Yet if you are disciplined with your money, you may be surprised to find that you may actually earn more with a 30-year mortgage, interest tax deductions, and a simultaneous investment plan. First consider the tax deductions. All mortgage interest is completely tax deductible. So with a $200,000 30-year home loan at 6% you will pay approximately $12,000 in mortgage interest during your first year. So if your income is $80,000, you get to subtract that $12,000, leaving you with only $68,000 of taxable income. That will translate into several thousand dollars less that year in income taxes. If your tax bracket is around the 28% or 33% range, you will find great savings by keeping your interest payments high as long as possible.

Now at the same time that you take greatest advantage of your mortgage tax benefits, to earn the most money you should invest the additional amount it would have taken to make the 15-year mortgage payments. So with the example above, you would be putting roughly $490 into a high-yield savings account or investment portfolio. If you put that much each month into a long-term c.d. perhaps, with a 6% interest rate, after 15-years you would have a savings balance of $145,074.47. Your principal balance on your 30-year mortgage after 15 years would be $142,097.99. So at that point your savings account would allow you to pay off the rest of your mortgage outright and have several thousand left in the bank. And don't forget that you would also be saving money through tax deductions each year. If you also invested that sum each year, your savings account would be much bigger and even more profitable!

Finally, in addition to the long-term savings benefits, going with the 30-year mortgage and the investment plan will be a much safer route than a 15-year mortgage should you face any sort of financial crisis. It will be much easier for you to pull money out of your liquid savings account than it would be to access your home equity built up through the 15-year loan. There will be higher fees and greater restrictions placed on your access to those funds.

While you should consult your tax or financial advisor before making a final decision, consider sticking with the 30-year fixed loan if your goal is to earn money and pay off your home as quickly as possible.