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Why You Should Say Yes to a Fifteen-Year Mortgage

If you are looking to create a safe, money-saving plan for your mortgage loan, you should consider getting into a 15-year fixed rate home loan. You have probably heard of these programs. They are one of the most popular loan choices on the market, next 30-year fixed and adjustable rate mortgages. The way it works is that you take out a mortgage loan for a 15-year term with a fixed interest rate. That means your interest rate never changes and the interest will be fully amortized over the course of the loan. The difference between this loan and the 30-year fixed rate mortgage is obviously that the 15-year loan gets paid off in half the time. This also means that the payments on a 15-year loan will be higher, but if you can afford to put more towards your mortgage there are many reasons that this might be a great loan for you.

Lower Interest Rate
You will have higher monthly payments with a 15-year mortgage than with a 30-year; there is no getting around that. Yet one thing proponents of the 30-year mortgage fail to mention is that because 15-year mortgages are perceived as less risky to the lenders you will get a lower interest rate on a 15-year loan. This will help offset the higher payment slightly. Take a look at this example: You take out a $200,000 home loan. If you went with a 30-year fixed mortgage, with today's market you might get a 6.2% interest rate, while the average rate for a 15-year loan is 5.9%. With the 30-year mortgage, that translates into a $1,227.53 monthly payment. The lower rate on the 15-year plan would mean a monthly payment of $1,676.93. So you end up paying about $450 more each month. If you can afford to put away that much more each month, you will reap the benefits of being mortgage-free within only 15 years!Less Interest Total
And of course you are not only completely your mortgage earlier, but you will be saving tens of thousands of dollars in interest charges. Using the same example above, over the course of the 30-year loan at 6.2% you would end up paying $240,978.40 total in interest. In contrast, you would only pay $101,847.40 with the 15-year loan at 5.9%. That is a savings of $139,131!
Saved Money Can Be Invested
Now many people will tell you that you will miss out on the great mortgage interest tax deductions by paying off your loan in only 15 years. It is all a matter of perspective. You might get to deduct 30 cents from every dollar you pay in interest while you have mortgage, but that still means you are paying 70 cents on each dollar of interest. If you pay off your loan, you will then be saving the 70 cents as well. Not a bad deal. Then you can start putting all that money towards savings or retirement accounts after only 15 years.Requires Less Personal Discipline
The same people who will argue for holding on to your tax deductions, will also tell you that you would be better off with a 30-year mortgage and simply invest the money you save each month on mortgage payments into a savings account or fund. This assumes that most people have the discipline to consistently take money out of their paycheck to invest it. The truth is many people do not have such discipline. A 15-year mortgage requires less self discipline as you have to pay your mortgage each month while you do not have to pay yourself in savings account if you do not want to. Many people might skip a month or two here and there, spend the money for something else, and then their savings are not as great as they would have been if they had chosen a 15-year mortgage.

The choice is yours and you should consider all the tax ramifications with your financial planner, but perhaps a 15-year mortgage may be the best savings tool for your situation.