SHOULD YOU PAY OFF YOUR MORTGAGE?

Maybe … maybe not.

by Paul Myers, ChFC, CRPC

To pay or not to pay … that is the question. It sounds good, right? Pay off the mortgage and suddenly you have no more monthly payments, better cash flow, and the opportunity to make other investments. After all, buying a home is an investment, but owning a home is the American Dream. Right?

While owning a home free and clear may seem like the obvious best scenario, there are valid reasons not to pay off your mortgage. For example …

Consider the taxes. If you're still in the early stages of your loan and mostly paying off interest instead of principal, then paying it off could mean losing your mortgage interest deduction. More than likely, the largest tax write-off a homeowner will have in his lifetime will be mortgage interest. While some homeowners just want the security that may come from knowing a home is paid in full, others choose to retain that valuable tax break. Neither choice is incorrect, just bear in mind … when you stop making payments, you can no longer deduct your mortgage interest.

Past value = present reduction. Consider this … if you established your mortgage twenty years ago, the value of your home was also determined then. Right now you're actually paying your mortgage, in essence, with dollars that are worth less (in today's market in terms of purchasing power). Think of it this way: If twenty years ago you bought your house for $200,000 and today it is valued at $500,000, then today it's as if you're paying 40 cents on the dollar.

Money in the bank vs. money tied up. Money in a savings account offers easy access, and money in a home is tied up, right? Not necessarily. Today there are more options and opportunities for quick, if not immediate, access to home equity, including the popular HELOC. Remember, fundamentally equity is akin to money in the bank … whether you can withdraw it from an ATM or not.

So, should you pay off your mortgage? It depends on many factors, and no one answer is "the answer" for everyone. Before you decide, you should consider some very important factors … taxes, inflation, liquidity, and return on investment. To make an informed decision, you need to fully understand how these factors affect your finances. If you have questions, find answers. Speak with a qualified Financial Advisor and get the information you need to make YOUR best decision.

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