

SHOULD YOU PAY OFF YOUR MORTGAGE EARLY?

Burning the mortgage (after paying it off, of course) was a milestone event for earlier generations of Americans. But with our current mobility and lifestyles, it's unusual for homeowners to remain in one home long enough to pay off a 30-year loan.

Still, you may dream of getting rid of that monthly payment. Owning your home free and clear can mean true financial independence. Plus, by paying off your mortgage early, you could save tens of thousands of dollars in interest payments.

On the other hand, there are clearly situations where prepayment – whether a lump sum or through additional payments each month – would not work to your advantage.

When It Doesn't Pay to Prepay

In some situations, you may be better off sticking to your original payment plan rather than paying down the mortgage more quickly. Consider:

Your tax status. If you're in the 28% tax bracket and eligible to deduct your mortgage interest, the effective rate on a 6.75% mortgage rate is 4.86%.* The tax break alone could help justify putting that money toward other financial goals, such as home improvements or tuition costs for a child or grandchild.

Your debt load. If you have higher-interest rate debt such as credit cards, it may make more sense to pay down that debt first.

Other uses for the money. For example, you may be better off putting your extra money into a long-term investment that yields a higher amount than your mortgage interest rate – particularly if the money is directed to a tax-advantaged account such as an employer-

sponsored retirement plan or individual retirement account.

When Prepayment May Be a Good Option

It could make sense to pay down your mortgage sooner if:

You can't deduct your mortgage interest payments. For example, your loan interest payments combined with your other itemized deductions may be lower than the standard deduction the IRS gives non-itemizing taxpayers.

You pay private mortgage insurance. PMI is frequently charged to borrowers with less than 20% equity in their homes. If you're close to the 20% mark, the extra payments could help you eliminate PMI and lower your monthly payment, giving you an immediate return on your investment.

You are nearing retirement. Heading into retirement with a paid-off home could ease the pressure on a fixed income and free up more cash for travel and hobbies.

Come to Us for Help

Our Mortgage Representatives can help you explore the best option for you – whether paying off your mortgage, refinancing to a shorter-term loan or continuing with your current payments – in light of your financial and personal situation. Call us at **408.445.3386** or **800.232.8669**.

* Mortgage loan rate is for illustration only and does not represent the annual percentage rate of an actual Alliance Credit Union mortgage loan.

Note that neither Alliance Credit Union nor any of its affiliates give tax advice. Consult your tax advisor about the potential tax benefits of retirement accounts.

