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Mortgage: Should you maintain, payoff, or refinance?

It seems every local paper, financial network, or informative media source is reporting about the historically low interest rates, the fear of near zero or negative interest rates, and the discussion of economic growth because of these conditions. What does this really mean and more importantly, what does it mean to you?

Historically low mortgages rates:
Current low interest rates have created an environment where the old ideology about mortgages no longer applies. In the past, our financial goals included home ownership free and clear of mortgage debt. We have entered an era where we now suggest that you refinance and maintain a mortgage for the rest of your life, or at least to a 30-year mortgage term. I think we all can agree that low mortgages interest rates benefit the homeowners that own a mortgage and qualify for these low rates. Before you start thinking we have lost our minds and that there is no way you will attempt to maintain a long term mortgage, let’s take a look at some of the benefits of holding a mortgage.

No debt ideology:
First, we need to understand where and why the ideology of paying off your mortgage comes from. If we look back in history to the late 1920s and 1930s, we are reminded of a time where a large number of families lost their homes. This fear was engrained in Americans and, in turn, the desire to buy and keep a home was a defining goal of financial success. We move forward to the late 70’s and early 80’s and we see mortgage rates as high as 15-20%. Due to these economic and emotional experiences, our parents and grandparents made it a point to encourage their children and their grandchildren that paying off your home is a necessity to unsure home ownership.

Reduce monthly payments:
Although this is a great concept in theory, does it still hold true today? The answer, quite frankly, is a resounding no. The main reason people try to eliminate their mortgage is that pesky monthly payment. Let’s just say that you bought your home with a 30-year fixed mortgage and paid every month on time without refinancing. The month after your last mortgage payment, you still have to make a payment on your house. This time you are paying your Taxes and Insurance. What was once conveniently saved monthly for you by your bank or lending company, is now your responsibility. Thus that pesky monthly payment you tried to alleviate continues. It is proven that an affordable mortgage payment helps individuals and families run and maintain a personal financial budget. It just helps everyone plan and maintain a financially healthy mindset.

Mortgage Tax Deductions:
In addition to still having to pay this monthly payment, you lose out on the benefit of having that money help you come tax time. One thing to remember about your mortgage is that the payments are tax deductible. This means that a percentage of the money you pay each month decreases your taxable income. This is one of the largest upsides to maintaining a mortgage throughout your lifetime.

Being and maintain investable liquidity:
There is also a liquidity and investment benefit to owning a mortgage. The most beneficial is that a mortgage is one of the most inexpensive loans you will ever have. Compared to most other forms of debt, mortgages hold the lowest interest rate for the greatest amount of money. This cheap money provides some benefits when you either

refinance or purchase a new home. The money you earn from selling a home or refinancing a home that has increased in value, can be used to invest in your retirement or another account. This will allow you to grow your wealth quickly and at a very minimal cost to you. This will allow for diligent saving and all the equity accrued from the home can be used for the next stage in life and improving liquidity needs.

To illustrate this point, let's look at an example. Let's say that you purchase your first home for $200,000, make the down payment of 20% or $40,000, and have a 30-year mortgage for $160,000 at 4%. 10 years into that mortgage, you get married and you and your spouse decide to sell your home and move onto a bigger home to accommodate an expanding family. Your home is now valued at $300,000 with $180,000 in equity. You purchase a new home for $400,000. How much do you put down? We suggest that you put 20% down and invest the remaining $100,000. Saving this money can increase your emergency reserve savings, your retirement assets, and enhance your overall financial security. If you stay diligent and use the monies for these purposes, you always have the ability to pay off your mortgage in the future if you so desire. You have created a cash flow of liquid and easily accessed monies. i.e. If you invest the $100,000, in 20-years at a rate of 8%, less than the historical 20-year average of the S&P 500 of 10%, your investment account balance would be $492,680.28 and your mortgage balance would be $132,958.72.

Once you have money invested in your house, the only way to get it back is by selling your home. This means if you have a home with $400,000 in value and equity, the only way you can get at the equity is to sell your house. If you sell your house, where are you going to live? Typically, we find that when homeowners change housing situations through events such as downsizing, they swap their current home's equity to purchase the new home. Therefore, never utilizing the home's equity at the most advantageous and tax beneficial manner.

Conclusion:
The ideology of buying a home and paying off the mortgage has become an antiquated way of thinking due to the current low rate environment. We make the recommendation to explore refinancing your home to take advantage of historically low interest rates. The changes in your monthly mortgage payment increases your savings and liquidity, increases your retirement funds long-term which allows you to retire sooner and reduces the taxes you pay to Uncle Sam.

We suggest you call your current lender as well as get a second opinion from a mortgage broker to accomplish this. If you are in need of a reliable referral to meet your refinancing and purchasing needs, please feel free to contact us for a list of trusted providers.

We work very hard to help answer these kinds of questions and bring you the most up-to-date information when it comes to your financial needs. If you have any questions about refinancing your home or any financial matter, please do not hesitate to contact us. We are here to help.

Cordially,
Mitchell Thompson, CFP

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