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Speaker 1

Welcome, my name is Andrew Baron and this is Well... It Depends! The podcast where I present the pros and cons of different financial decisions so that you, the audience, feel better informed when you are confronted with these decisions in your own life. In this episode I ask the question, should I pay off my mortgage early? But before we begin a short disclaimer. This is being recorded on February 21st, 2023.

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The contents of this podcast are strictly for informational purposes only and is not to be considered investment, tax or legal advice. It is important to discuss your situation with a professional before implementing any financial decisions, as the strategies discussed may not be suitable for you specifically. Paying off your mortgage is similar to a long mountain climb. It can be daunting at first, but with planning, preparation and an understanding of the path ahead, it can be surmountable.

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Let's review a few options of paying off your mortgage early, as well as some of the drawbacks. Let's discuss some of the benefits of paying a mortgage off early. These include lower total interest payments. Since you're contributing additional principal to your loan, less amount of the loan is susceptible to interest. Therefore, over the lifetime of the loan, you'll pay less.

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Additionally, by paying additional principal, you will accumulate equity. This is especially beneficial in an asset like a home. You can also have peace of mind. Many people do not like the idea of being in substantial debt, and by making additional payments you can pay off your loan quicker. Examples of when it makes sense to pay off your mortgage early include if you have a high interest rate.

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This is because you essentially lock in your rate of return by paying off your mortgage early. Since less of your loan will be subject to interest another time that makes sense is if you're approaching retirement

and switching to a fixed income. It can make sense to get a grip on debt and have as few outstanding additional payments as possible.

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What about some of the drawbacks of paying your mortgage off early? If you have a low interest, this isn't as advantageous as you don't get as much of a benefit as someone with a high interest. Additionally, you also forgo what we call opportunity cost, which would be taking the same amount of money and investing it somewhere else that would have a positive return.

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Another thing to think about is being house poor. If you put too much of your income into your house, this ties it up and prevents you from doing other things with your money. If you do decide that paying off your mortgage early is the right decision for you, there are some strategies for you to consider. First, you can make a payment every two weeks compared to monthly payments.

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This has the benefit of being easier on many people's cash flows, as well as still getting the benefit of making additional payments. Over the course of the year, you'll make 13 full payments instead of 12. Another strategy would be to refinance. I encourage you to listen to my previous podcast, should I refinance to get remainder of the details.

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To recap, there are pros and cons to paying off your mortgage early. On one hand, you have lower interest payments, increased equity and peace of mind. On the other, you have opportunity costs that could have gone to other investments and a loss of liquidity. Ultimately, you need to decide if this is the right decision for you. If you need help deciding between your personal circumstances, you can reach out to one of our financial planners, including me.

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Please email info@jgua.com. So, to answer the question should I pay off my mortgage early? Well... It Depends!

Speaker 1: Andrew Baron, CFP®, EA