

“Even with today’s low interest rates, the total amount of interest you’ll pay over the life of a 30-year mortgage can be staggering. You’d be surprised what a difference paying off just a little more of your principal each month can make.”

— Brenda Schafer, CPA, CFP™, EA, H&R Block Manager, Tax Analysis and Advice Support

PAYING MORE ON YOUR MORTGAGE CAN SAVE YOU MORE

Homeowners who pay extra toward their mortgage principal each month will save a considerable amount in interest payments over the life of their mortgage.

For example, if you have an \$80,000 mortgage at 6.5% interest, your mortgage payments — not including real estate taxes and mortgage insurance — is \$505.65 per month. If you pay an extra \$50 per month toward the principal, the balance declines faster and you pay less interest each year.

By paying just \$50 extra per month, you reduce your total *interest* paid over the life of the 30-year loan by over \$26,000. You also finish paying off the loan almost seven years earlier. The chart below illustrates this concept:

Balance on loan	\$ 80,000.00
Monthly payment (principal and interest only)	\$ 505.65
Annual interest rate	6.5%
Additional monthly payment	\$ 50.00

Without additional payment

Number of payments to pay off loan	360
Total payments	\$182,038.90
Interest paid	\$100,038.90

With additional payment

Number of payments to pay off loan	280
Total payments	\$155,679.60
Interest paid	\$ 75,679.60

Total interest saved \$ 24,359.30

If you’re thinking of paying down your mortgage, here are some questions you should consider:

Will paying down my mortgage reduce my taxes?

No, it won’t. In fact, paying down your mortgage can actually *increase* your tax liability. As you see in the example above, you’ll be paying less interest each year, so your interest deduction will be lower.

What should I pay off first? Credit cards or my home loan?

Credit card interest is usually higher – and often substantially higher — than mortgage interest. You’re usually better off concentrating on paying off your credit card debt first.

Does the number of years I intend to live in my home make a difference?

Yes and no. The longer you own your home, the longer you will benefit from the interest savings. If you’re planning to sell your home in the next few years, you may have other savings goals that are more important. Of course, any additional principal you pay on your loan will come back to you when you do sell your house, but you won’t have access to it until then.

What if I am charged an early payment penalty?

Some lenders charge a penalty for early payoff of debt. You’ll need to compare any prepayment penalty to the interest savings, plus the benefit from the extra mortgage-free years, before you decide to pay down your mortgage. **Note:** Prepayment penalties are tax deductible in the year paid.

Paying down your mortgage can make good financial sense. But make sure you are putting your hard-earned money to its best use. You may have other debt that’s more important to pay off first. Also, remember that the extra payments you make on your house are generally only accessible when you sell or refinance your home. Your overall savings goals may require you to save or invest your funds in another way.