

Paying off Mortgage Early vs. Investing

A historical view from 1986-2016

Premise for Scenarios 1 and 2

Average 30 year mortgage rate on September 12, 1986	10.00%
Amount of mortgage	120,000
Monthly Payment	1,053.09
Number of Payments	360

Scenario 1: Pay \$500 extra per month until mortgage is paid in full

New payment	1,553.09
New number of payments	125
Total early payments	62,000.00
Date mortgage is paid in full	4/1/1997

The Pros on April 1, 1997

- * A place to live that is paid for
- * \$1553.09 per month to invest

The Cons on April 1, 1997

- * You have a whole lot of cash tied up in your house.
- * If you have an extreme emergency involving loss of income, you will not qualify for a new mortgage or line of credit. The only way to access the equity will be to sell the house.
- * A house can take a while to sell.

Assuming everything has gone as planned

Begin May 1, 1997 investing \$1550 monthly in an S&P 500 index fund	0.00
Beginning balance	681,029.19
Balance on September 1, 2016 (date original mortgage would have been paid)	

The Pros on September 1, 2016

- * A place to live that is paid for
- * A liquid investment worth \$681,029.19

Scenario 2: Pay mortgage as due and invest \$500 per month in an S&P 500 index fund

Begin October 1, 1986 investing \$500 per month in an S&P index fund	
Beginning balance	0.00
Balance on April 1, 1997	131,292.75

The Pros on April 1, 1997

- * A liquid investment worth \$131,292.75

The Cons on April 1, 1997

- * Still making those darn mortgage payments

Assuming everything has gone as planned

Continue investing \$500 per month	
Beginning balance	131,292.75
Balance on September 1, 2016	685,565.85

The Pros on September 1, 2016

- * A place to live that is paid for
 - * A liquid investment worth \$685,565.85
- \$4,536.66 more in the bank than Scenario 1**

Sources

For weekly historical mortgage rates:
www.hsh.com/weekly-mortgage-rates.html

For a historical calculator for an investment in an S&P 500 mutual fund including deductions for taxes and management fees:
<https://dqydj.com/sp-500-dividend-reinvestment-and-periodic-investment-calculator/>