

Paying off Mortgage Early vs. Investing

A historical view from 2006-2016

Premise for Scenarios 4 and 5

Average 30 year mortgage rate on September 1, 2006	6.55%
Amount of mortgage	120,000
Payment	762.51
Number of Payments	360

Scenario 4: Pay an extra \$500 per month until mortgage is paid in full

New payment	1,262.51
New number of payments	135
Total early payments	67,000.00
Date mortgage is paid in full	12/1/2017

The Pros on September 1, 2016

* Only 14 more mortgage payments and a mortgage balance of \$18,585.53

The Cons on September 1, 2016

- * 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

Scenario 5: pay mortgage as due and invest \$500 per month in an S&P 500 index fund

Begin October 1, 2006 investing \$500 per month in an S&P index fund	
Beginning balance	0.00
Balance on September 1, 2016	95,434.31

The Pros on September 1, 2016

- * A liquid investment worth \$95,434.31
- * A very secure financial position and a lot of choices about what to do next. If you have a mortgage at 6.55%, I would advise refinancing it to a lower rate!
- * In case of extreme emergency, you can use the cash to pay the mortgage for many years. You also have enough cash to write a check for almost the entire balance due.

The Cons on September 1, 2016

- * The balance on the mortgage is \$102,066.47.

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/>