

TWO SIDES: PAY OFF EARLY OR TAKE THE TAX DEDUCTION

(from a blog in Dec. '08 by Heather Levin)

Side One: You should not pay off your mortgage for the following reasons...

Personal finance columnist Jim Waggoner says why. This article on USAToday.com makes the case quite well.

Taxes-

Jim says that paying off your mortgage early means that you can't deduct your interest payments off your federal income taxes.

BUT: On the surface, this seems like an appealing argument. But once you start digging, it's not that great a perk. This article by US News and World Report explains why: most Americans pay \$10,000 or more in mortgage interest payments each year. This deduction saves \$2,500 in taxes. But think about it: you're still out \$6,500. It's not that big a perk when you think about how much you'd save if your mortgage was paid off. ***Keep in mind: out of every \$1000 you send in to pay just on interest, and for example you are in a 28% tax bracket, you're paying \$720 out in interest just to get the \$280 tax deduction. Does that make sense? Many prefer being out of debt, and having the after-tax \$720 of every \$1000 earned.**

Investing-

This great article from [Get Rich Slowly](#) says that it makes better financial sense to pay your mortgage payments regularly, and invest the extra money instead. Theoretically, you make more in the long-term with this method; after all, average returns on stocks are 9% or so.

BUT: Well, at least they used to be. In this economy, however, investing in the DOW takes a strong stomach and a high capacity for risk.

Liquidity-

Jim at USA Today also says that keeping your money in liquid form (ie: stocks, bonds, cds, etc.) is a better option. If you pour all your money into your house, then it's like sinking it into a vat of concrete. It's stuck there until you sell your home. Keeping it liquid means that you can access your money quickly when you need it.

BUT: there's a flip side to this, so keep reading...

Did you know that the word "mortgage" is French?

"Mortgage" literally translates into English as "death contract". Yikes...

Side Two: There are several advantages to paying off your mortgage early.

Freedom- Can you imagine the freedom of not having that mortgage payment hanging over your head each month? If you paid it off and eliminated your other debt, you could live debt-free. Bliss. Plus, you'd only have to earn enough to pay for your basic necessities: food, heat, electric...Imagine the possibilities this would open up for you! Perhaps you could quit your job and start a business. Become a painter. Backpack through Europe. Boost your retirement fund. Remodel the house. Buy a new one! Invest. The world is your oyster.

Less Stress- You can probably guess that not having a mortgage payment would mean significantly less stress in your life. You wouldn't have to worry as much about losing your job, for instance.

Liquidity- I know I put this in the drawback section, but I believe that paying off your mortgage early gives you plenty of liquidity if you look at it differently. For instance, if your mortgage payment is \$1,500 per month and you pay it off, this means that you now have an extra \$1,500 per month in your bank account. You could invest this, or build up a fantastic emergency fund. I'd call that liquid.

Safety- Once you've paid off your mortgage debt, you truly own your home. This means you always have a place to go. And as Suze Orman says, you can't live in a stock certificate. Yes you might earn more in the long term investing the money, but you might not. Owning your home is a safe investment for the simple reason that you always have shelter. That's good enough for me.

Take It From Suze Orman. Need some more convincing? The Today Show interviewed Suze Orman on why you should pay off your mortgage. She brings up some great arguments in the Today Show Suze Orman Interview.

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