

15-Year Mortgages

Why do banks usually charge less interest for a 15-year mortgage than for a 30-year mortgage? Is one mortgage cheaper than another? Actually, they may be identical in cost. In order to get the cheaper loan interest rate, you have to pay a higher premium for the monthly payment. If one took the difference in the payment and invested it into an IRA, Roth IRA, paid off credit cards, or put it into a guaranteed annuity; there is a good chance that they would have more money at the end of the 15-year period. No guarantees of course, but one needs to consider the alternatives.

For a large percentage of American consumers, the net cost of a 15-year mortgage is greater than a 30-year mortgage given similar or even lower interest rates. Although one can save actual interest costs with a 15-year mortgage, after considering the income taxes paid and the lost opportunity costs on the invested difference in monthly payments, a 30-year mortgage may actually be cheaper in the long run.

A 30-year mortgage may still be paid off in 15-years, and potentially still have more money left over compared to a 15-year mortgage, if the difference in monthly payments had actually been faithfully saved in a conservative alternative. In addition, the lower monthly payments of a 30-year mortgage versus the higher monthly payments of a 15-year mortgage may provide the consumer with more safety in the event of loss of job, a declining real estate market, or for any other unforeseen expenses that may come along that need to be made.

LEAP[®] provides consumers with information that can be helpful to make intelligent decisions when talking to their banker or mortgage broker.

© 2003-2013 Leap Systems, LLC – LS005k-LS-R1302 – No part of this page may be reproduced, abstracted, excerpted, transmitted, in any form by any means, electronic, mechanical, or photographic, or stored in information systems, except as set forth in writing under a license from Leap Systems, LLC. Any other use is prohibited. LEAP[®] is a trademark of Leap Systems, LLC.