

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.

The LEAP SYSTEM® may provide consumers with information that can be helpful to make intelligent decisions when talking to their banker or mortgage broker.

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