

go with a fifteen-year instead of a thirty-year mortgage. The interest rate on a fifteen-year mortgage is normally lower than the thirty-year rate, and the outstanding balance shrinks much faster.

Let's compare a \$150,000, thirty-year mortgage at 7.5 percent and a fifteen-year mortgage at 7 percent.

Total Mortgage \$150,000	<u>Thirty Years</u>	<u>Fifteen Years</u>
Monthly Payment	\$ 1,048	\$ 1,348
<i>At the end of fifteen years:</i>		
Interest paid	\$ 151,928	\$ 92,683
Principal paid	\$ 36,859	\$ 150,000
Principal balance due	\$ 131,140	\$ 0 (Yes!)
Interest paid, years 15-30	\$ 75,649	\$ 0
<b>Total Interest Paid</b>	<b>\$ 227,577</b>	<b>\$ 92,683</b>

If you can shrink the duration of your mortgage in half, the savings in interest is huge.

Here's the key question for you to answer: Can I afford the larger monthly payment? If it will put too much strain on your budget or will not allow you to meet your other financial goals, then I recommend a longer mortgage with a lower monthly payment.

### 2. Add something to the required payment.

You can still accelerate the repayment of your mortgage simply by paying an extra amount each month or as frequently as possible.

That's what Bev and I did. We started small. Each month we put a little more on the mortgage to reduce the principal more quickly. The longer we did it, the more excited we became.

One simple method of prepaying is to set up an automatic withdrawal from your checking account each month. This is an easy way to manage and keep track of your monthly payments.

### 3. Bonuses and tax returns.

Finally, when you receive a work bonus or an income tax refund, give generously to the Lord and then consider applying the rest to your home mortgage. Doing that each time it occurs can have a significant impact on paying off your home.

I remember receiving an unexpected bonus. Instead of taking a vacation or buying something nice but unnecessary, Bev and I applied those dollars toward the mortgage. Because the funds went directly against the principal, that bonus alone allowed us to shorten our mortgage by several years.

### TIME TO GET PRACTICAL

Once you have decided to pay off your home, take these steps to make certain your mortgage and your lender line up with the plan:

1. Let your lender know what you are planning. Not many borrowers prepay their mortgages, so the lender may be in shock for a while!
2. If you pay by check, write one for your regular payment and a separate check for the amount of principal you are prepaying. Note on the check that it is to be applied *only* toward prepaying the principle. That creates a paper trail should there ever be a question of your prepayment history. If you pay electronically, keep a copy of your monthly bank statements.
3. Get a payment schedule (amortization schedule) for your mortgage and track your progress every month. This is very important. You'll be enormously encouraged as you see the balance reducing. Remember, paying off your home mortgage usually takes years, and you'll need lots of encouragement to stay at it.
4. Once a year, contact your lender to confirm the unpaid balance of the

could better cope with the cost of a serious illness, loss of a job, or other unexpected financial emergencies. And it would allow Bev to do something she really wanted to do: stay at home and raise our young children.

We did not start prepaying the home mortgage until we wiped out all our credit card and consumer debt. Then we focused on the home. The first step was to understand the numbers.

### Understanding the Home Payment Schedule

Every mortgage comes with a payment schedule (also called an amortization schedule) based on the length of the loan and the interest rate. Knowing how this works will help you develop a plan for paying off the mortgage. Let's examine the payment schedule of a mortgage.

Please do not let the mortgage size or the interest rate in this illustration hinder your thinking. In the example below, we are assuming a \$150,000 mortgage at a 7.5 percent fixed interest rate, paid over thirty years. The first year looks like this:

**STARTLING STATS:**

During the first several years of a thirty-year mortgage, your payments are almost all interest. In fact, it will be twenty-three years before the principal and interest portions of the monthly payment equal each other!

#### PAYMENT SCHEDULE FOR A THIRTY-YEAR MORTGAGE

(at 7.5 percent)

Paymt.#	Month	Payment	Interest	Principal	Balance
0					150,000.00
1	Jan	1,048.82	937.50	111.32	149,888.68
2	Feb	1,048.82	936.80	112.02	149,776.66
3	Mar	1,048.82	936.10	112.72	149,663.94
4	Apr	1,048.82	935.40	113.42	149,550.52
5	May	1,048.82	934.69	114.13	149,436.39
6	Jun	1,048.82	933.98	114.84	149,321.55
7	Jul	1,048.82	933.26	115.56	149,205.98
8	Aug	1,048.82	932.54	116.28	149,089.70

9	Sep	1,048.82	931.81	117.01	148,972.69
10	Oct	1,048.82	931.08	117.74	148,854.95
11	Nov	1,048.82	930.34	118.48	148,736.47
12	Dec	1,048.82	929.60	119.22	148,617.25

Totals for year: 12,585.84 11,203.11 1,382.73

As you can see, the payments during the first year are largely interest. Of the \$12,585.84 in payments, only \$1,382.73 will go toward principal reduction. In fact, it will be twenty-three years before the principal and interest portions of the payment will equal each other!

Now here's something really important to remember. Interest is charged on the remaining unpaid principal balance. Look at the schedule above.

In January, if you paid your first monthly payment of \$1,048.82 plus the next month's principal payment of \$112.02, the principal balance would be \$149,776.66. So in February when you make your regular payment of \$1,048.82, it is applied as though it were payment #3. Now, look carefully at payment #2. You paid \$112.02 extra and saved the \$936.80 in interest you would have paid. That is a great deal! Can you see why I hope that you will catch the vision of paying off your home? There's nothing magical about what I'm suggesting. Once you understand how it works, the numbers will work for you.

#### HOW TO PAY OFF THE MORTGAGE MORE QUICKLY

I don't know about you, but a thirty-year goal to pay off my home mortgage doesn't excite me—it seems like forever. But if I can shorten it, the goal is much more attainable. There are several ways to accelerate the payment of your home mortgage.

##### 1. Reduce the length of the mortgage.

If you need a new mortgage or the conditions are favorable for you to refinance, consider a shorter-term mortgage. If you can afford higher payments,