

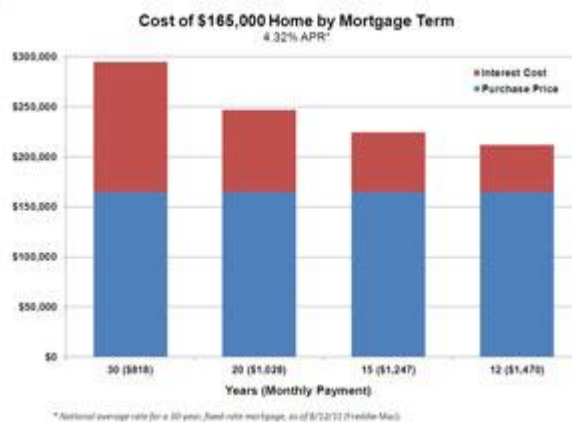
Consumer Information from Mid Oregon Credit Union

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Shorter mortgages bring bigger savings

MADISON, Wis. (8/31/11)--At a time of near-record low mortgage rates, homeowners still can save tens or hundreds of thousands of dollars by financing for fewer years. That opportunity led one of three borrowers who refinanced in the first quarter of this year to switch from a 30-year mortgage to one lasting only 20 or 15 years (*Freddie Mac* Aug. 12).

The graph compares the total interest cost of four popular fixed-rate mortgage terms. As you can see, financing for 15 years is less than one-half the cost 30-year financing. But this example is based on the national average interest rate for a 30-year, fixed rate mortgage. Typically the shorter the mortgage term, the lower the interest rate, resulting in even greater overall savings.



Of course, a shorter term also means a higher monthly payment, so you'll have to do the math to see how much more you can pay in the short run to save in the long run. Here are some other things to think about before you commit to a shorter mortgage, according to the Credit Union National Association's Center for Personal Finance:

- *Review all your debts.* If you're carrying a large credit card balance, you're better off eliminating that more expensive debt before paying extra on your mortgage.
- *Tend to your retirement.* If you're eligible for a 401(k) plan, you should be contributing at least enough to earn the maximum matching funds from your employer. If not, that comes before a faster mortgage payoff. And, as long as mortgage rates remain relatively low, you might choose a 30-year loan over a 15-year loan and invest the monthly difference in payments for your retirement.
- *Consider the stability of your current income.* Is your job reasonably secure? One way to hedge your bets is to take a longer mortgage and make extra payments on the principal whenever you can. Just one extra mortgage payment of \$818 a year would shorten the 30-year loan in the figure to 26 years, saving \$20,000 in interest in the process. The advantage of prepayment vs. a shorter loan is that you're not contractually locked in to a bigger monthly payment. You still can see significant savings over time while retaining the flexibility to skip an extra payment if you have unforeseen expenses.

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