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## 3 Ways to Pay Down Your Mortgage Faster, and 1 to Avoid at All Costs

If you pay your mortgage off faster, you can save many thousands of dollars in interest and can own your own home sooner -- which is particularly welcome in retirement. Here are three strategies to consider and one to avoid.



*"There are millions of people out there who faithfully make their regular mortgage payments because they don't understand, or because no one ever told them, about the benefits of pocket-change prepayments."*

-- Marc Eisenson, author of *The Banker's Secret*

Mortgage holders would do well to understand the power of prepayments, as they can help you pay down your mortgage much faster. Here are several strategies to get that mortgage off your back sooner -- including one you should avoid.



IMAGE SOURCE: GETTY IMAGES.

### **Strategy No. 1: Pay more than you have to**

The simplest way to pay down your mortgage faster is the one noted by Mr. Eisenson, above: Pay more than you have to -- each month, each quarter, each year, or just occasionally. You might send in an extra \$100 or \$200 with each mortgage payment in order to reduce your principal, or you might send in a few thousand dollars every few months, if you can.

The table below shows just how much someone might save by making various kinds of monthly prepayments. It assumes a 30-year \$200,000 fixed-rate mortgage taken out at an interest rate of 4.5%. The regular monthly payment would be \$1,013.38.

Payment Method	Pay Off Loan In...	Total Interest Paid	Total Interest Saved
Minimum payment	30 years	\$164,810	\$0

Payment Method	Pay Off Loan In...	Total Interest Paid	Total Interest Saved
\$100 extra monthly	25 years	\$133,066	\$31,744
\$200 extra monthly	21 years and 6 months	\$112,056	\$52,753
\$500 extra monthly	15 years and 3 months	\$76,698	\$88,111
\$1,000 extra monthly	10 years and 5 months	\$50,679	\$114,131

DATA SOURCE: AUTHOR CALCULATIONS AT MTGPROFESSOR.COM.

It's rather amazing how powerful this strategy is, if you can muster the discipline for it. Paying just \$100 more each month -- only \$25 per week -- can lop five full years off your loan's life and save you more than \$30,000! When you're getting [pre-approved](#) for your mortgage and as you finalize your loan's details, make sure that it doesn't include a prepayment penalty.

### Strategy No. 2: Downsize into a smaller home

This is a less common strategy for getting a mortgage paid off sooner, but it's a powerful one, too. Imagine, for example, that you want to buy a \$400,000 home, paying 20%, or \$80,000, down. That would leave you with a \$320,000 loan, which would cost you \$1,620 per month for 30 years at an interest rate of 4.5% -- or \$2,367 per month for 15 years at 4% (shorter-term loans tend to sport lower rates). You might opt for the 30-year loan because the \$2,367 payment is beyond your means -- even though the longer loan means you'll typically pay more than twice as much in interest over the life of the loan.



IMAGE SOURCE: GETTY IMAGES.

A way to pay off your mortgage sooner is to have borrowed less, so that you can afford a shorter-term loan. In the example above, if \$2,367 is too steep a monthly payment but \$1,800 is doable, you might see [how much house](#) you can buy for \$1,800 per month. It turns out that at a 4% interest rate for a 15-year loan, you can buy a \$300,000 home, paying 20%, or \$60,000, down -- and have monthly mortgage payments of \$1,775.

The idea of moving is often unappealing, and you might like your home a lot. But spend a little time playing with numbers to see whether you might want to consider downsizing into a less costly home. Factor in the costs of moving, of course, along with the costs of selling and buying a home. It can still be well worth it, allowing you to have a shorter-term loan that's paid off much faster and to pay much less in interest, too -- leaving more of your valuable dollars for other purposes, such as retirement savings. A smaller home will probably also cost you less in utilities, property taxes, insurance, repairs, and maintenance.



WHY PAY MORE IN INTEREST THAN YOU HAVE TO? IMAGE SOURCE: GETTY IMAGES.

### Strategy No. 3: Refinance into a shorter-term loan

Another strategy is simply to refinance your current mortgage into a shorter-term one -- typically meaning going from a 30-year loan to a 15-year one. Check out the monthly payments below for some sample loans, comparing 15- and 30-year loans:

Home Price	Loan Amount	15-Year Monthly Payment at 4%	30-Year Monthly Payment at 4.5%
\$200,000	\$160,000	\$1,184	\$811
\$250,000	\$200,000	\$1,479	\$1,013
\$300,000	\$240,000	\$1,775	\$1,216
\$400,000	\$320,000	\$2,367	\$1,621
\$500,000	\$400,000	\$2,959	\$2,027

DATA SOURCE: BANKRATE.COM ONLINE CALCULATOR.

Clearly, the shorter-term loans will cost you a lot more each month. But they'll also cost you much less in interest over the life of the loan and will have you mortgage-free much faster. If this strategy interests you, look into it further and [compare mortgage rates](#) that are available to you.

**Strategy to avoid: Don't refinance into a shorter-term loan**

Here's an important word of caution, though: The refinancing strategy above can be dangerous. If you can manage a higher 15-year monthly payment, but with little wiggle room, you're at risk of trouble in case there's a job loss or income reduction in your household or in case a costly healthcare expense or car repair materializes.

In such a situation, you might instead opt to *pretend* you have the shorter-term loan. Just make the kinds of payments you'd make with the shorter loan while keeping your current loan -- as long as there's no prepayment penalty. That way, you'll pay off your mortgage much faster while not exposing yourself to any unnecessary risk. And if later on, you can't afford that higher payment, just switch back to making the lower one.

It's nice to be able to deduct mortgage interest, but really -- why pay more interest than you have to? Pay your loan off faster and you'll be left with more money in your pocket -- probably a *lot* more.



DON'T GET TRAPPED BY TOO-BIG PAYMENTS. IMAGE SOURCE: GETTY IMAGES.



**"This is great info that nobody else teaches you, but Myself, Real Estate Broker for 18 years."**

**Don't forget, I can help you analyzed your mortgage situation for Free!**

**Just Call me anytime:  
562-843-3707**

**Ruth Ortiz, Broker**



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