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SHOULD YOU PAY YOUR HOUSE OFF EARLY?

Before I get into this whole "paying your house off early" thing, let me state this loud and clear. If you don't have enough money to buy a house for cash, you really don't need to buy one. Let me repeat that again. **If you don't have the money to purchase a house CASH, then you really don't need to take that loan out!!** I know that may hurt some people's feelings, BUT... if the economy drops and banks start "recalling" the money that they have loaned out, you may find yourself in a world of trouble. This scenario has happened before during depressions. A lot of people will say that this can't happen and I won't argue the point. But you heard it here first. So, if you go out and buy a house and end up in a world of trouble, **DON'T ACT LIKE A VICTIM**. Ok... Moving right along…

The Controversy

There are a lot of gurus out there who disagree on whether or whether not one should pay his/her house off early. Many a world war, fought with bloodshed and tears, have taken place over this issue. Me personally, I'm a numbers person. You see, figures don't lie. And even though liars DO know how to use figures, I will be very honest in my approach in presenting numbers, to prove beyond a shadow of a doubt, whether it is good or bad to pay off your house prematurely.

The Numbers

Let's look at the numbers. I will give you two different scenarios regarding the same fictitious people. Lets say that Kevin and Shandra have just borrowed… oops.... I mean bought… a house. They took out a loan for **$100,000** at **8% interest** and the payment is **$734/mo**. After they pay their note, they have an extra **$300** left. Should they invest it for retirement, or should they put the extra money on the house and THEN invest the rest for retirement after the house is paid off?

Now, historically up to this point, mutual funds have averaged approximately 12%. This includes all of the crashes. Now, notice I said AVERAGE. This includes all of the jacked up funds that lasted three weeks and finished in the negative. Now if you would educate yourself on mutual funds, you could get at least that much if not more. So I will use **12%** in the illustration and I will explain more in depth after the illustration. For these illustrations I will use a period of **30 years**.

Scenario #1

As I said, this loan is for $100,000 at 8% interest and the payment is $734/month. Now Kevin and Shandra decide to pay that extra $300/month on the mortgage so the total payment will be **$1034/mo**. If they make this payment every month, they will be out of their mortgage in **13 years**! Wow! So, Kevin and Shandra then decide to invest that total payment of $1034/mo in a 12% investment for the remaining 17 years (the amount of time it would have taken them to pay off their house). After 30 years Kevin and Shandra will have **$683,792.21**.

30 years = $683,792.21.

Scenario #2

Kevin and Shandra, instead of paying the extra amount on the house, decide to invest that $300 in a 12% investment, so they pay the minimum payment of $734 for the entire 30 years. If Kevin and Shandra invest $300/mo in a 12% investment, they will accumulate **$95,718.47 after 12 years**! After 12 years, the balance on their home will be **$83,630.47**. If they continue to invest the $300/mo, they will have **$1,048,489.24 after 30 years**!

30 years = $1,048,489.24.

Conclusion

As you can see, by putting that $300 towards the house note instead of investing it, Kevin and Shandra cost themselves over $350,000! Also, if you look in the second scenario you will see that after 12 years Kevin and Shandra could have paid their house off and had over **$12,000** left. That is even faster than the 13 years they paid it off in the first scenario. Any way you slice it, scenario #2 wins!

Now some people will argue me down to the ground and say that 12% is too high. To that I will say this, you can use any interest rates that you want in this type of illustration and the ones who opt to invest rather than pay off their mortgages will **ALWAYS** have more money in the end… **unless**… the interest that you are paying on your house is **HIGHER** than the interest you are getting on your investment.

Now remember this. If you are paying 8% interest on your home, there are two things that you should consider.

1. Your house will normally appreciate by 4-5%. So you are really only paying 3-4% interest on the house.
2. The interest that you pay on your house is tax deductible (if you choose to pay tax). That will knock off another percent or two.

So if you are paying 8% interest on your home, you are really only paying 2-3% interest when it is all said and done. This was not even taken into account in my illustration. Now…**IF YOU**

CAN'T GET 2-3% INTEREST ON AN INVESTMENT YOU MAY AS WELL HANG IT UP!!

Question: What if I am not disciplined enough to invest the difference?

Answer: Then you won't be disciplined enough to invest after the home is paid off, and **you will die broke** anyway. So there is no need to even consider this issue. I will also say this to those insurance agents who "claim" that people are not disciplined enough to buy term insurance and invest the rest.

Listen, I understand the "ideology" of getting rid of debt and being debt free, but from a strategical standpoint, it just doesn't make since. And if your house is THAT big of a monkey on your back, then you probably shouldn't have bought it in the first place. After all, I've already exposed the **conspiracy of home loanership**. I am not here to tell you that you are right or wrong in trying to pay off your house. I am only here to show you the numbers. You make your own decision.

Until next time,

Free Your Mind… Online

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