



The Benefits of 15-year Home Loan

If you have been looking into buying a home or refinancing your current loan, you may have heard the term “15-year loan” thrown around. While the typical home loan is paid back over the course of 30 years, for those with the financial ability and budgeting skills, a 15-year fixed rate mortgage may be a much better deal in the long run.

A 15-year loan is just what it sounds like: a home loan that must be repaid in full within 15 years. It carries a fixed interest rate throughout the course of the loan. Because it has to be repaid twice as fast as a 30-year mortgage, the monthly payments will be greater on a 15-year loan.

While this may sound too expensive for you to afford, you should realize that because the loan is shorter, you will typically get a lower interest rate on a 15-year loan than you would on a 30-year mortgage. This means you will pay less interest in total because the term is shorter and because of the lower rate. This lower rate may help offset the higher monthly mortgage cost.

For example, let's compare the difference in payments and interest between a 30-year \$100,000 fixed rate loan at 8% and a 15-year \$100,000 fixed rate loan at 7.5%. For the 30-year loan, your monthly payment would be \$734. You would pay \$924 a month with a 15-year loan. In terms of interest over the course of the loan, with the 30-year loan you would end up paying \$164,165, whereas you would only pay \$66,862 in interest with a 15-year loan. That is a savings of \$97,293!

Plus you would own your home free and clear at the end of those 15 years. Can you imagine the freedom? What would it be like to have no more monthly mortgage payments? For some, the benefits are definitely worth the higher payment.

Consider another benefit: With a fifteen-year loan you will be building your own home equity much quicker than you would with a 30-year loan. This is because your initial payments go mostly to interest, but because the interest on a 15-year loan is so much lower and the payments you are making are greater, more of your money goes to paying down the principal and increasing your ownership. If you decide to sell the house before your fifteen years are up, you will have more equity to put towards your next purchase.

Perhaps you might think that you could do just as well by taking out a 30-year mortgage and putting away the extra \$200 a month into a savings account. If you put that much away each month for 15-years with an interest rate of 4%, you will have saved roughly \$50,000. You'll see that's only about half of what you would have saved in interest with a 15-year mortgage loan.

If you think this program sounds like a good fit for your needs, talk with a mortgage professional to discuss the possibilities. For as much as you would save, it is definitely worth exploring!