https://www.unionleader.com/news/business/money_sense/marc-a-heberts-money-ense-should-i-invest-or-pay-off-my-mortgage/article_deb8674d-1157-5c10-b0c4-e0098b9a3c44.html

Marc A. Hebert's 'Money $ense': Should I invest or pay off my mortgage?

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With low interest rates, now is a good time to review whether you should pay your mortgage down or continue to make your regular payments. So is allocating money toward the mortgage or investing the funds in the market the better decision?

Each of these choices has advantages and disadvantages associated with it. One big advantage of paying off your mortgage is emotional. It might feel good to own your own home outright.

Each choice also has a financial impact. Often, the mortgage payment is the biggest monthly bill, so paying it off could greatly increase your cash flow. However, the starting point in making the best financial decision is evaluating the opportunity cost. This is the amount you would gain financially by choosing one option versus the cost of what you will give up.

Here's an example: If you have 20 years left on your mortgage with a $300,000 balance and a 6.25% interest rate, by paying an extra $400 per month you would save about $62,000 in interest over the remainder of the mortgage. Your loan would be paid off about six years early. This is a positive result. Even though you may have a lower interest rate, the benefit still applies. But is this the end of the story? Not really. You will still need to examine what you might be giving up if you go this route.

One factor often mentioned is that by paying off your mortgage you will no longer be receiving a tax deduction for mortgage interest. Often, though, the tax benefit is a moot point. Since the passing of the Tax Cuts & Jobs Act in 2017, the standard deduction has increased so fewer people are benefiting from itemizing deductions. Check your state tax deduction. It might have a different result than your federal return.

To continue our example: Assuming a mortgage rate of 6.25% and an income tax bracket of 24% (assuming you are able to itemize), the after-tax cost of the mortgage is 4.75%. If you took the money and invested it, could you earn a return better than 4.75%?

Deciding if you can earn a better rate of return is tricky. It depends on your mix between stocks and bonds and the investments you buy. There are risks and you might not be successful with your choices.

After looking at the numbers, you might want to consider some additional factors.

Are there any penalties for pre-paying your mortgage?

Paying off your mortgage provides a long-term benefit in terms of interest saved over time. If you aren't planning on spending many more years in the house, the extra payments don't have as much value.

By paying off the mortgage, you may also think you will have extra savings since you can save the money you would have used to make the mortgage payment. The question becomes: Are you really going to save the cash? If you aren't, then making the mortgage payment is perhaps the way to go.

Are there other uses for the extra cash? One to keep in mind is for an emergency reserve. It is hard to know when the car might need to be repaired. You might also want to establish a college fund for your children with the money.

You might have other loans you could pay off as well. You might consider paying off any high-balance, high-interest-rate credit cards first.

If the equity in your home is under 20%, you are probably paying mortgage insurance. You might want to consider paying off your mortgage to the point at which mortgage insurance is no longer a requirement and save some dollars there.

Finally, you might want to use the money to save for retirement instead. If your company is offering a match on your retirement plan contributions, you might want to use your extra cash to contribute to the plan to get the most out of your company match.

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