

15-Year, 30-Year, or a Biweekly Mortgage?

In the past, the 30-year, fixed-rate mortgage was the standard choice for most homebuyers. Today, however, lenders offer a wide array of loan types in varying lengths--including 15, 20, 30 and even 40-year mortgages.

Deciding what length is best for you should be based on several factors including: your purchasing power, your anticipated future income and how disciplined you want to be about paying off the mortgage.

What are the benefits of a shorter loan term?

Some homeowners choose fixed-rate loans that are less than 30 years in order to save money by paying less interest over the life of the loan. For example, a \$100,000 loan at 8 percent interest comes with a monthly payment of around \$734 (excluding taxes and homeowner's insurance). Over 30 years, this adds up to \$264,240. In other words, over the life of the loan you would pay a whopping \$164,240 just in interest.

With a 15-year loan, however, the monthly payments on the same loan would be approximately \$956--for a total of \$172,080. The monthly payments are more than \$200 more than they would be for a 30-year mortgage, but over the life of the loan you would save more than \$92,000.

What are the advantages to a 30-year loan?

Despite the interest savings of a 15-year loan, they're not for everyone. For one thing, the higher monthly payment might not allow some homeowners to qualify for a house they could otherwise afford with the lower payments of a 30-year mortgage. The lower monthly payment can also provide a greater sense of security in the event your future earning power might decrease.

Furthermore, with a little bit of financial discipline, there are a variety of methods that can help you pay off a 30-year loan faster with only a moderately higher monthly payment. One such choice is the biweekly mortgage payment plan, which is now offered by many lenders for both new and existing loans.

Biweekly mortgages

As the name implies, biweekly mortgage payments are made every two weeks instead of once a month--which over a year works out to the equivalent of making one extra monthly payment (compared to a traditional payment plan). One extra payment a year may not sound like much, but it can really add up over time. In fact, switching from a traditional payment plan to a biweekly mortgage can actually shorten the term of a 30-year loan by several years and save you thousands in interest.

If you're interested in a biweekly payment plan, make sure to check with your lender. In many cases, lenders also offer direct payment services that automatically withdraw funds from your bank account, saving you the trouble of having to write and mail a check every two weeks.

Making extra payments yourself--do it early!

Another way to pay off your loan more quickly is to simply include extra funds with your monthly payment. Most lenders will allow you to make extra payments towards the principal balance of your loan without penalty. This is especially attractive to homebuyers who are concerned about their future earning power, but still want to be aggressive about paying off their loan.

For example, if you had a 30-year loan, you might decide to send the equivalent of one or two extra payments a year (which could shorten the overall length of the loan by many years). But if your financial situation suddenly took a turn for the worse, you could always fall back on the regular monthly payment.

One important note, though, is that if you do decide to send extra funds, make sure to do it EARLY in the life of the loan. This is because most home loans are calculated in such a way that the first few years of payments are almost entirely interest, while the last few years are mostly applied towards the principal balance. Thus, you can get the most bang for your buck by making the extra payments early in the life of the loan.