

# Should You Pre-Pay Your Mortgage?



Many people look forward to the day they will make the last mortgage payment on their home, particularly if they are close to retirement. Experts often suggest that paying off your mortgage is a smart way to reduce overhead in preparation for retirement. But does this strategy always make sense? Which is better: saving your money or pre-paying your mortgage?

One key consideration: the interest rate on your loan. If you obtained your current mortgage when interest rates were low, it may not be a huge cash drain, especially since you can deduct some or all of the interest from your income taxes. If you are in the 25% tax bracket with a mortgage at 4% and can claim the deduction, for example, your mortgage rate is effectively 3%, for example.<sup>1</sup>

But if you have held your mortgage for a number of years, you're most likely paying off principal now rather than a lot of interest, which means that you may no longer be benefitting from a significant interest deduction. Mortgage interest is calculated daily, based on the amount of principal left in the loan. Over time, the interest portion of the payment decreases as more and more of your monthly payment goes towards principal. So the tax advantages of holding a mortgage will decrease over time.

If this is your situation, prepayment may seem more attractive. Assuming your mortgage contract has no pre-payment penalty, you could make extra payments each year or pay it off in a lump sum. As you develop a plan as part of your overall retirement-planning strategy consider the following:

- 1) Real estate is not a liquid investment, so think carefully before you put all your available cash towards paying off your mortgage. Similarly, it's rarely a good idea to raid your retirement account to free up funds to pay off a mortgage.
- 2) Pay off high-interest consumer debt such as car loans and credit card balances before attacking your mortgage. Also, make sure you have a sufficient "rainy-day fund"

to tap for unforeseen expenses. And if you have taken out loans to pay for your children's education, they should be paid off, too, before you pre-pay your mortgage. We can work with you to put together a debt-repayment schedule.

3) Think carefully before you liquidate investments to prepay your mortgage. Some experts suggest this rule of thumb: When the average total return on your investments is more than your mortgage rate, you're better off keeping your extra dollars in the market.<sup>1</sup> Bear in mind, however, that rates of return fluctuate. That underperforming investment may be worth holding and you may face tax consequences for unloading it. Also, you should consider if you do not pay off your mortgage, it may make you feel uncomfortable. That is important as well as it's not just about the math.

4) If you have college-age children who may need to qualify for financial aid, owning your home outright could count against you. Home equity is typically considered money in the bank for college aid.<sup>2</sup>

If after meeting with us, we agree that it makes sense to prepay your mortgage, you can do so in baby steps. One approach is to make an additional payment each year. (Mark the payment "Apply to Principal" to ensure that it is properly credited.) Take, for example, a 30-year mortgage for \$200,000 at 4.5 percent. If you make one additional payment each year, you would end up paying off the mortgage 4 years and 3 months early and save more than \$27,000 in interest.<sup>2</sup>

Have a great weekend!

Source: Efficient Advisors

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## **Golf Tip of the Week**



## Control Your Drive in Crosswinds

Golfers fighting wind that zips and zags across the fairway commonly affects their normal shot shape. And for golfers who tend to slice, this scenario will create an even bigger uphill battle. To overcome this challenge and control your drive, golfers need to hit low in order to keep the ball in play.

Here's how you can overcome crosswinds by driving low:

**Step 1:** When teeing the ball, position it lower than normal by a ½ inch.

**Step 2:** Grip lower on the handle than you usually do, around 1 inch.

**Step 3:** Shorten your backswing just a bit.

**Step 4:** Strike the ball level by moving the clubhead low through impact, directly above the ground.

Tip courtesy of GolfDigest!

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## Recipe of the Week



### Classic Chicken Parmesan

*A simple, tasty take on a classic dish!*

**Serves 4**

#### **Ingredients:**

- ½ cup Italian seasoned breadcrumbs
- ½ cup Parmesan cheese, grated
- 4 chicken breasts (about 1.5 pounds), halved
- 2 large eggs, beaten
- ¾ cups marinara sauce

6 ounces mozzarella, shredded  
Olive oil for cooking

**Directions:**

*Preheat oven to 450°F*

1. Mix together breadcrumbs and Parmesan cheese, and set aside.
2. Heat olive oil in a 12" skillet on medium high.
3. Coat each piece of chicken breast in egg and cover them with the breadcrumbs.
4. Place coated chicken breasts in skillet and fry on both sides until it browns.
5. Move fried chicken breasts to a baking dish and cover completely with the marinara sauce and shredded mozzarella.
6. Place baking dish in oven and bake for 20 minutes. Remove and serve.

Recipe adapted from Good Housekeeping<sup>ii</sup>

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## Health Tip of the Week



### Control Pinkeye at Home

Pinkeye is the common term for conjunctivitis, which occurs when the mucous membrane lining your eyes and eyelid becomes red and swollen. While the condition may require medical care, you can also take measures at home to manage the pain and discomfort. Here are some home treatments that can help:

- **Avoid wearing contacts:** Switch to wearing eyeglasses until your eyes heal. You will also want to thoroughly clean your contact lens and cases.
- **Use a cold or hot compress:** Choose the temperature that feels most soothing and put the cold or hot compress over your eyelid to control swelling and redness. Pinkeye caused by an infection can spread, so be sure to use new compresses on each eye, and never reuse a compress.
- **Wipe your eye without spreading germs:** To control infection, wipe your eye with a clean tissue or cloth by moving from the inner-corner of your eye outward toward

your cheek. Always discard used tissues or immediately clean cloth wipes in order to avoid further germ contamination.

Tip courtesy of WebMD<sup>iii</sup>

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**Footnotes:**

<sup>1</sup>[Investopedia: Should you pay down your mortgage early?](#)

<sup>2</sup>[Bankrate.com: Four ways to pay off your mortgage early](#)

**Additional Sources:**

[The Motley Fool: 3 reasons not to pay off your mortgage](#)

[Mortgage Calculator: Saving from bi-weekly home loan payments](#)

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<sup>i</sup> <http://www.golfdigest.com/story/tom-watson-drive-it-lower-in-crosswinds>

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ii <http://www.goodhousekeeping.com/food-recipes/easy/a36266/classic-chicken-parmesan/>

iii <http://www.webmd.com/eye-health/tc/pinkeye-topic-overview#1>