How to Manage Your Mortgage

Description

For most homeowners, your mortgage payment is by far your biggest monthly expense. So we think it's completely justifiable to spend some time learning how to better manage it. In fact, don't be surprised if this brief exercise does wonders for your budget. Let's take a look under the hood and see whether we can find you some savings.

Explore the potential savings of refinancing

The rule of refinancing is relatively straightforward: If you can chop a percentage point off the interest rate on your mortgage, you should consider it. However, that's just a rule of thumb — and, as you know, we Fools never blindly follow the conventional wisdom without doing some due diligence. Do some quick calculations to confirm whether you can actually save by refinancing (and don't forget to include fees!). Even reducing your mortgage payment by just $100 a month can save you thousands over the years.

Calculate the real cost of prepaying your mortgage

Owning a home outright can be a huge financial advantage, but there's no rush. In most cases, you will come out ahead by sticking to a 30-year payment schedule and investing your extra money in a market-matching index fund. Calculate how much you would save by paying off your loan early, and then compare your savings with how much your extra payments could earn if invested in an index fund earning 6%-8%.

Tap into your equity

With caveats aplenty, the equity in your home (what it's worth minus what you owe) can be a good source of low-interest funds for major purchases. Consider refinancing (a good first choice), a home equity loan (a feasible second choice), or a home equity line of credit (the most flexible, but often the one with the highest interest rates) to generate cash if you need to finance home improvements or have other major expenses to cover. In addition, if you're carrying a lot of high-interest debt (like credit cards

), you can use your equity to reduce the interest you pay. Just don’t go overboard. Mortgage debt is still considered “good” debt, but it’s still debt, so don’t abuse your equity. *Remember, the collateral for these loans is your home*.

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Date
2025/06/27
Date Created
2012/12/21
Author
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