

What Length of Mortgage Should I Choose?



One of the key decisions you make when you select a mortgage is to choose how long your mortgage should be

- Lenders typically offer mortgages with 10, 15, 20, 25, 30 and 40 year terms, with the 30 year term being the most popular



Understanding how mortgage term impacts what size mortgage you can afford, your monthly mortgage payment and total interest expense over the life of your mortgage will help you select the term that is right for you



The table below outlines some basic guidelines on mortgage term:

Guideline	Explanation
Shorter term = lower interest rate	A shorter term means less risk for the lender providing you the loan and less risk means a lower interest rate for you
Shorter term = higher mortgage payment	Even though mortgages with a short term have lower interest rates, they have higher monthly payments because you are repaying the principal amount of the mortgage over a shorter period of time
Longer term = larger mortgage you can afford	For example, if you can afford to spend a maximum of \$3,000 on your monthly mortgage payment, you will be able to afford a larger mortgage amount with a longer term than you could with a shorter term
Longer term = more interest expense	Even though your mortgage payment is higher with a mortgage with a shorter term, you pay much less in total interest expense over the life of the mortgage because you pay off your mortgage faster

The table below demonstrates how you can afford a larger mortgage with a longer mortgage term. Note how the monthly mortgage payment does not change while the mortgage size increases significantly as the mortgage term increases

- The table is an example as mortgage size and monthly mortgage payment vary depending on interest rates

Mortgage Term				
	10 Years	15 Years	20 Years	30 Years
Interest Rate	3.00%	3.25%	4.00%	4.25%
Mortgage Size	\$310,000	\$427,000	\$495,000	\$610,000
Monthly Mortgage Payment	\$3,000	\$3,000	\$3,000	\$3,000

What Length of Mortgage Should I Choose? (continued)



In the table below, we hold the mortgage size constant at \$300,000 to demonstrate how the monthly mortgage payment decreases as the mortgage term increases but total interest expense over the life of the mortgage increases as the mortgage term increases

- This example illustrates how getting a mortgage with a shorter term can save you hundreds of thousands of dollars in interest expense over the life of the mortgage

	Mortgage Term			
	10 Years	15 Years	20 Years	30 Years
Interest Rate	3.00%	3.25%	4.00%	4.25%
Mortgage Size	\$300,000	\$300,000	\$300,000	\$300,000
Monthly Mortgage Payment	\$2,900	\$2,110	\$1,820	\$1,475
Total Interest Expense	\$48,000	\$80,000	\$136,000	\$231,000



Now that you have an understanding of how mortgage term impacts your interest rate, mortgage payment and total interest expense, we can return to the question of "What length of mortgage should I choose?"



The answer to that depends on your financial goals

- If you are seeking to maximize your mortgage amount and minimize your mortgage payment, then you should go with a 30 year mortgage term
- If you can afford a higher monthly mortgage payment and want to save tens of thousands or even hundreds of thousands of dollars in interest expense over the life of your mortgage, then you should choose a shorter mortgage term, such as a 15 year mortgage



At FREEandCLEAR we recommend that you pay off your mortgage as soon as possible so that you can start paying yourself instead of paying interest to the bank

- Although most people select a 30 year mortgage term, consider choosing the shortest term that will also allow you to feel comfortable with your monthly mortgage payment



One creative way to think about mortgage term is to get a mortgage with a 30 year term but make the same payment that you would with a 15 year mortgage, so a higher mortgage payment than what is required



That way you maintain the flexibility of having a lower required monthly mortgage payment that goes along with a longer mortgage term (in case you cannot afford to make the higher payment), but you pay off your mortgage in 15 years and save hundreds of thousands of dollars in interest expense