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Wanted: A 15-Year Home Loan

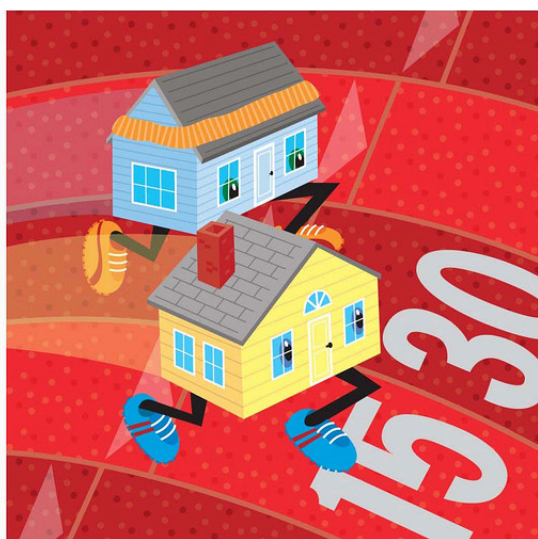
By Amy Hoak

Updated July 22, 2012

Average rates on 15-year fixed-rate mortgages have been below 3% since May, leading more borrowers to consider swapping their current home loan for one with a 15-year term.

Not only are interest rates on the 15-year mortgage at record lows, but the difference between the 15-year and the 30-year mortgage is unusually wide, says Freddie Mac Chief Economist Frank Nothaft.

The rate on the 30-year mortgage averaged 3.53% in the week ending July 19, compared with 2.83% for the 15-year, a difference of 0.7 percentage point, according to Freddie Mac. In 2007, the spread was 0.31 percentage point.



TIM GOLDMAN

"There's no question, the interest-rate differential has been much higher over the past year than at any other time," Mr. Nothaft says. (Freddie Mac's records for the 15-year mortgage go back to 1991.)

Thank Federal Reserve policy for the low rates: "They have pushed short-term interest rates as close to zero as they can," Mr. Nothaft says, and "that keeps other short-term lending rates fairly low."

The yield on the 10-year Treasury is often the benchmark used to set rates on 30-year fixed-rate mortgages, while the five-year Treasury is the benchmark for 15-year fixed-rate mortgages. The spread between the 10- and five-year Treasury has been wider in recent years than at any other time dating back to 1962, says Mr. Nothaft.

Many see an opportunity for significant savings.

Thirty-one percent of those who refinanced during the first quarter paid off a 30-year fixed-rate mortgage and swapped it for a shorter-term loan, according to Freddie Mac's most recent statistics.

Some people are seeking to pay off their mortgages before they retire; others are scarred from the financial crisis and want to chip away at debt as fast as they can, says Karen Mayfield, national sales manager for the mortgage-banking division of Bank of the West.

"We've all...watched the 401(k)s get killed, [home] equity get killed," Ms. Mayfield says. "Debt is less sexy today."

Not only do these borrowers get a lower rate, but when a mortgage is amortized over a shorter term the borrower pays less interest over the life of the loan. The trade-off is that your monthly mortgage payment likely will be higher since you're paying off the same principal over a shorter period.

Say you have a mortgage of \$300,000, and your financing options are a 30-year mortgage at 3.75% or a 15-year at 3%. The 15-year would cost you \$683 more a month, Ms. Mayfield says, but in five years, you'd save \$14,735 in interest and have \$55,679 more in equity. By year 15, you'd have saved more than \$68,000 in interest.

That doesn't mean financing into a shorter-term loan is right for everyone.

First-time home buyers, for example, often don't fully understand the costs involved in home maintenance and taxes, Ms. Mayfield says.

Those who have to stretch to make payments on a 15-year mortgage probably shouldn't do it. Ditto for those who wouldn't be able to keep up with payments if they lost their job or suffered a reduction in income, says Rich Arzaga, a certified financial planner and founder of Cornerstone Wealth Management in San Ramon, Calif.

Remember, it's always possible to chip away at a 30-year mortgage by making an extra payment when you can.

Before deciding on a 15-year mortgage, crunch some numbers.

Pay attention not only to interest rates and monthly payments but also to where you are in the life-cycle of your current loan and how long you plan to keep the property, Mr. Arzaga says. Calculate how long it will take to recoup closing costs.

Consider whether forking over extra cash each month for a mortgage payment is the best use of your funds. If you have a mix of investments that can produce a 6% return, it might make more

sense to put the extra cash toward that if you have a current mortgage rate of, say, 4%, Mr. Arzaga says

Still, an increasing number of people are listening to the voice in their head that tells them it's better to own a home free and clear before retirement, says Len Hayduchok, president of Dedicated Senior Advisors, in Princeton, N.J.

People are tapping into their rainy-day funds to pay off part of their mortgages, even if there are more lucrative investments out there, Mr. Hayduchok says. "The trend is to reduce the time [to pay off the mortgage], more so than any time I've seen in the profession."

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