

Why You Should Not Pay Off Your Mortgage



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You may be inclined to pay off your mortgage as soon as you can to lower your monthly payments and eliminate the debt. However, there are several reasons why you may not want to pay off your mortgage. By carrying a mortgage, you can get certain tax benefits and use your extra funds to invest toward potential gains that are more than your [mortgage interest rate](#). Learn more about why you may not want to pay off your mortgage quickly.

Key Takeaways

- The money you save from not paying off your mortgage early can give you more financial flexibility.

- Investing extra funds can potentially earn higher returns than you would save on mortgage interest.
- With extra cash flow, you can work toward other financial goals, such as saving for retirement.

Benefits of Not Paying Off Your Mortgage

When you pay off your mortgage, you can save money in total interest and own the home outright sooner. However, there are several financial advantages to not paying off your mortgage.

More Liquidity

Using your extra funds to pay off your mortgage reduces the amount of money you have for other expenditures. For example, you may need to build an [emergency fund](#), pay off other high-interest debt, or buy a new car. You'll also have less money to pay for necessary expenses, including groceries, as well as discretionary items, such as vacations.

Opportunity Cost

Putting extra money toward your mortgage means you may miss out on other financial opportunities that could be greater than the benefits of paying off your housing debt early. Instead, you could use those funds to try to generate higher returns. Many investments have the potential to earn more than you would save in interest by paying your [mortgage](#) off early.

Tax Advantages

You can usually deduct mortgage-related items like interest and property taxes from your taxable income when you file your [tax returns](#) every year.¹ If you pay off your mortgage, you won't get this benefit come tax time.

Downsides of Not Paying Off Your Mortgage

Interest Payments

By paying off your mortgage early, you eliminate your remaining interest payments. Making payments over the total life of your loan can cost you a significant amount of money. For example, say you have a \$360,000 mortgage with a 30-year term and a 3% interest rate, which means you'll pay \$186,398.83 in interest over the life of the loan. If you repay that loan over 15 years at the same rate, [you can calculate](#) that you'll pay \$87,496.90 in interest—saving you almost \$100,000.

Your credit score is based on several factors, including the amount of debt you have, your payment history, your credit mix, the length of your credit history, and any new credit.²

Potential Losses

If you use your extra money to invest, keep in mind that investing your funds in the stock market doesn't guarantee returns. You do have the potential for greater gains, but you could also lose money. So if you're thinking of investing money you would otherwise spend paying down your mortgage, research your investment choices carefully and ensure they align with your [risk tolerance](#) level.

Personal Financial Goals

Everyone has different financial goals. A debt repayment strategy that works for some may not work for others. Some people would benefit more from achieving the financial freedom of not being responsible for making payments on a home. Without a mortgage, you could potentially retire earlier or work fewer hours.

Good Debt vs. Bad Debt

While generally it's better to have no debt, some debt can be considered better than others. [Debt that can be considered "good"](#) is debt that helps put you in a better financial position or helps you build wealth. For example, [student loans can be good debt](#) if they help you get the career path and income that you want. Similarly, a mortgage can be good debt in that it can help you build an asset.

Bad debt is debt that doesn't benefit your financial situation in the long term. Debt with high interest rates like credit cards and [payday loans](#) can be costly. You may end up paying a significant amount in interest without building an asset.

Is It a Good Idea to Pay My Mortgage With a Credit Card?

Some mortgage lenders only allow payments made from a bank account. And if you do have the option to make a mortgage payment with a credit card, it's not always a good idea. You'd be paying your mortgage interest rate as well as your credit card interest rate if you carry a balance from month to month. That's an expensive home payment you'd be better off avoiding, if possible.

What Happens When You Pay Off Your Mortgage?

After you pay off your mortgage, you'll receive your mortgage release documents. This is official paperwork confirming your loan is paid in full and you're no longer responsible for payments. Your [escrow account](#) will be closed, and all other fees that come out of that account will be your responsibility. This includes [homeowners insurance](#), property taxes, and any homeowners association (HOA) fees, if applicable.³

What Is the Best Way to Pay Off Your Mortgage?

You don't have to devote all your extra funds to paying off your mortgage

early. But there are some ways you can boost your mortgage payments without diverting away from other financial necessities.

For instance, you can make one or two additional payments on your mortgage every year, making sure those payments go toward your principal balance, not your interest. You can make bi-monthly or weekly payments, where you make mortgage payments based on when you get your paycheck. These aren't huge changes, but they can make a difference in what you ultimately pay in interest over the life of your mortgage.

The Bottom Line

Getting rid of debt can help you improve your credit score and cash flow. However, some debt, like mortgage debt, can be considered "good debt" because it can help you achieve your financial goals.

Take the time to fully understand the tradeoffs between paying off any debt early and putting that money toward other uses before you do so. Consider consulting a financial advisor for more information about how to handle debt in your specific situation.