7 Ways to Pay Off Your Mortgage Early

Own your home faster without getting conned

Your home is a huge source of comfort and joy – that is, until you think about the mortgage and how the bank has you by the short hairs. You'd love to be debt-free, but short of winning the lottery you're on the hook for the next 15 to 30 years, depending on your loan's terms. What's a homeowner to do, you ask? Is there any way to get this monkey off your back?

Yes! Many financial experts extoll the virtues of not just reducing debt but, where possible, eliminating it altogether. Including your mortgage. Thanks to the still-fresh memory of the 2008 housing bust and the bruising foreclosure crisis that followed, more and more people now want the peace of mind and security that come with owning their home outright.

Paying off your mortgage early can save you thousands in interest compared to carrying the loan to term. If you really want to retire that monthly nut quickly there's no shortage of advice out there on how to do it. Some tactics are faster, safer or more painless than others, but all will help cut your housing costs, freeing money for other things.

But beware mortgage-payoff con artists lying in wait for folks like you. Perhaps you've seen ads such as "pay off your mortgage in 14 days" or "pay off your debt using the government's money." Scam, scam, scam, from which you should scram, scram, scram. True mortgage-accelerator programs do exist, and they charge for their services. But here's the secret: You can do the same thing yourself – for free. Here's how:

Just pay more.

One of the easiest ways to say *buh-bye* to your mortgage is to simply pay more. It's amazing what an extra $100 or $500, added to the principal, can do to shorten the life of your loan. Not convinced? Play with an early mortgage payoff calculator to see how a few dollars more each month can wipe years off your loan and reduce your interest. Even rounding up your monthly payment helps. Really, no amount is too little and every penny counts, though the more you pay the faster you'll pay off.

Refinance.

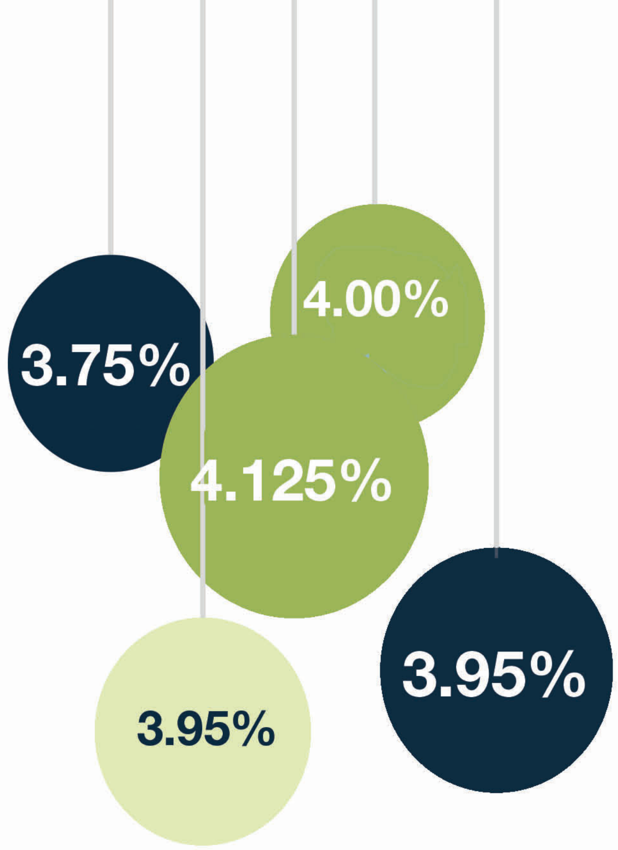
To a lower rate.

If your current mortgage rate is high – today that means anything above 4.75% – take advantage of this unique moment in mortgage history to refinance to a lower rate. A smaller monthly note frees up money that you can apply to principal, thus discharging your loan sooner.

To a shorter term.

With interest rates this low, many homeowners are refinancing into shorter-term mortgages. You can opt for a 10-, 15- or 20-year mortgage, but 15-year loans are most popular. Your monthly payment will increase but the lower rate often results in a smaller bump than you expect. Plus, you'll pay less interest over time and build equity faster. Play with a refinance calculator to see how the numbers might work for you.

Keep in mind that refinancing, like any loan, incurs closing costs, typically 3% to 6% of principal. If you already have a low-interest 30-year loan but fancy a 15-year note, just pretend like you have one. Pay your 30-year as if it were a 15-year loan and you'll retire your mortgage quicker and without the cost of a refi.



Switch to biweekly payments.

Along the lines of “just pay more,” switching to a biweekly mortgage has the effect of making one extra monthly payment each year. On a biweekly schedule you remit half your regular mortgage amount every two weeks, totaling 13 full installments by the end of the year. Similarly, you can divide your regular payment by 12 and add that amount to your principal each month. Either way, you’ll typically shave about six years off your loan. Ask if your bank will set you up with a biweekly schedule. Some banks will do it for free, others will charge for the service.

Pay a lump sum.

Did you receive an inheritance, net a whopping tax refund, snag a bonus or win the lottery? If so – and assuming you don't have more expensive debt, such as a car or student loan or high-interest-rate credit cards – then applying a lump sum to your mortgage (as always, to principal) is a smart move. And since the windfall was unexpected, you'll never miss it. Instead, you'll achieve mortgage freedom faster.

Downsize your home.

This option may seem radical, but if you have a bigger, more expensive house than you need, a house that's appreciated even as you've built equity, then selling it and using the profit to buy a smaller, more affordable home for cash, or with a very small mortgage, will greatly enhance your financial flexibility.

Dip into your retirement.

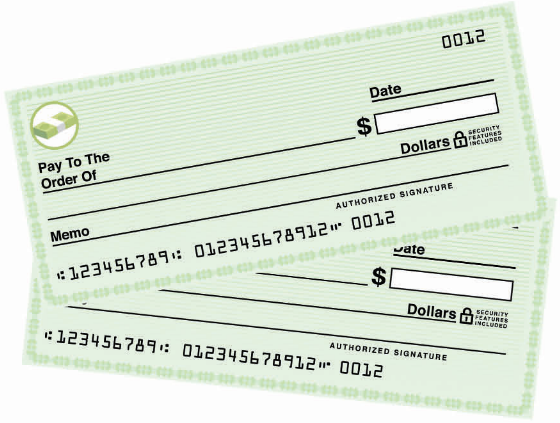
Because pending legislation in Congress would waive the early withdrawal penalty for funds taken out of a retirement account if the money is used to pay a home loan, this idea has gained in interest. But most financial experts discourage it. In fact, any early-payoff strategy should only be employed if you have no high-cost debt, you have enough rainy-day savings socked away to cover six months of expenses, and you're fully contributing to your retirement account(s).

Money merge accounts.

Money merge accounts, common in Australia, are becoming popular in America. With an MMA, your mortgage is set up like a home equity line of credit placed against your home and doubles as a checking account. When you get paid, you deposit your entire check into the account and draw from it as you spend money. At the end of the month, whatever's left goes first to pay the balance in your money merge account, and then the interest and principal of your home loan. Ideally, you want to put more money in each month than you take out to maximize your mortgage payoff.

To see how this works: Let's say your monthly mortgage payment is $1,500 and you regularly deposit $3,500 in paychecks. If you typically spend $1,200 per month, the remaining $2,300 would be applied to your mortgage – that's a whopping $800 more paid to principle. At that rate, a 30-year mortgage would be retired in 13 years and two months.

Most money merge programs cost an average of $3,000, which is applied to your principal. Making sure there's enough (or more) to cover your note at month's end requires discipline. On the other hand, with enough self-discipline you could achieve the same results without setting up an MMA.



Should you pay off early?

Knowing how to legitimately pay off your mortgage early is one thing. Knowing whether you should is another. As my mother would say, just because you can do something doesn't mean you ought to. What, if any, are the pitfalls of paying off your mortgage?

Some experts advise against early pay off if you already have a low-rate mortgage because, they reason, your extra money would be better invested in a diversified stock portfolio that, on average, would likely earn about 7% over time. For this group, the math of early pay off just doesn't add up. But for many homeowners, disposing of their mortgage has less to do with math than the peace of mind that comes with being debt-free.

Another consideration: Would you have enough in investments and savings to fund your retirement if your house were paid off? A good rule of thumb is to have a nest egg equal to twice your home's value, so if your house is worth $500,000 and you'd have $1 million socked away even after paying off your mortgage, then you're good to go.

Finally, remember that paying off your mortgage doesn't do away with property taxes, homeowner's insurance or home maintenance and repairs – you'll still have to pony up for those costs.