

# Should I Consider a 15 or 30 Year Mortgage?

Clients invariably ask the question: is a 15 year or 30 year mortgage better?

The conventional argument compares the interest paid in each scenario. The reasoning goes something like this: the 15 year option may be better because you will pay less interest to the bank than you will with a 30 year mortgage.



## The Example

Let's compare a \$400,000 loan, with a 15 and 30 year duration. The 15 year loan has an interest rate of 5.25% and the 30 year loan has an interest rate of 6%. Without any critical analysis, the conventional argument and numbers seem compelling.

### 15 year mortgage

180 payments, 5.25% interest

---

Monthly payment = \$3,216

Total payments = \$578,792

Interest payments = \$178,792

### 30 year mortgage

360 payments, 6% interest

---

Monthly payment = \$2,398

Total Payments = \$863,352

Interest payments = \$463,352

Off the bat, we see choosing the 15 year mortgage results in a 34% higher monthly payment, but the 30 year mortgage translates to 159% more interest paid. If you can afford the higher payment option, the 15 year may be the winner, right?

Let's assume the borrower selects the 30 year mortgage and deposits the difference between the monthly payments into a wealth accumulation account, an account used to systematically save to build wealth, with the objective of using the accumulated dollars to pay off the mortgage early.

\$3,216 monthly payment (15 year)  
- \$2,398 monthly payment (30 year)

---

\$818 /month to be deposited into a wealth accumulation account

So each year, the 30 year borrower can deposit \$9,816 into the wealth accumulation account. And, in 16 years and 11 months, if we assume a net 5% rate of return, the funds in the accumulation account would grow to \$261,151.

In year 16 and 11 months of the 30 year mortgage, the outstanding principal due is \$260,439.

At that point, assuming there is no pre-payment penalty (there is no prepayment penalty associated with most residential mortgages), our borrower could use the savings in the wealth accumulation account to pay off the loan.

In this scenario, the outcome is similar from a timing standpoint. The 15 year mortgage is paid off less than two years sooner than the 30 year mortgage (180 months vs 203 months) – only an 11% improvement.

## ***Other practical issues to consider***

**Deductible Interest.** With the 30 year mortgage, the borrower pays \$315,872 in interest over the first 15 years. With the 15 year mortgage, the total interest paid is \$178,792. If the homeowner is able to itemize deductions, the 30 year option provides 77% more in deductible interest (one of the few tax deductions the IRS still allows!)

**Lower Risk of default.** In a household that can afford the 15 year mortgage, but goes with the 30 year, there may be additional appeal. In the event of job loss, with the wealth accumulation account you have cash on hand to help make monthly payments, whereas with the 15 year mortgage, your equity is tied up in the home.

In our example, \$55,814 would be available after 5 years in the wealth accumulation account to handle an unforeseen difficulty such as job loss. \$127,443 would be available after 10 years.

**Opportunity.** The accumulated savings can also be accessed if other financial opportunities arise. With the 15 year mortgage, the accumulation of equity is in the home, and remember, real estate is not guaranteed to retain its value (we saw the real estate market depreciate in 2008).

So while the conventional argument for the 15 year over the 30 year option seems to make sense on its face, a deeper dive reveals that the 30 year mortgage provides the homebuyer more options. You may be better off taking the 30 year, saving the extra payments and ultimately pay off the mortgage in a lump sum. Along the way, you get the potential tax benefits and an overall improved level of accessibility and flexibility to your money.

In the end, the question is this – is a 15 year mortgage a bad tradeoff for the tax, accessibility, flexibility and control that come with establishing a wealth accumulation account? The ultimate consideration is the value you place on having personal control over your financial life.



The Living Balance Sheet® (LBS) and the LBS logo are service marks of The Guardian Life Insurance Company of America (Guardian), New York, NY.  
© Copyright 2005-2024 Guardian

Guardian nor its subsidiaries issue or service mortgage or real estate products.  
You should contact a mortgage professional for complete details for attaining a mortgage loan.

Guardian, its subsidiaries, agents, and employees do not give tax or legal advice.  
You should consult your tax or legal advisor regarding your individual situation.

This document is intended for general public use and is for educational purposes only. By providing this content, Park Avenue Securities LLC is not undertaking to provide any recommendations or investment advice regarding any specific account type, service, investment strategy or product to any specific individual or situation, or to otherwise act in any fiduciary or other capacity. Please contact a financial professional for guidance and information that is specific to your individual situation.