10 Tips to Pay off Your Mortgage

1. Prepay Early
Prepay early in the mortgage: Make extra payments as early as you can after getting a mortgage because the loans are interest-heavy up front and the faster you get that whittled down the better, says Garton-Good. "The first five to seven years are the heaviest of interest and people are astounded to see that they've paid thousands but it's only reduced the principal by hundreds." Paying down your mortgage fast in the early years is especially important if you didn't put a large down payment down on your house. "Because the interest is so heavy early on and the principal is not reducing, prepaying will help you grow your equity faster."

Tip #2
Make an annual lump sum payment: Use your tax refund or a windfall such as an inheritance or work bonus, and apply it directly to your principal. Check your mortgage documents to find out how often you can prepay and in what amount. "A lot of loans don't prohibit you from doing so but they may put parameters on how many extra payments you can make," says Garton-Good. That's also a good thing to ask when first shopping for a loan.

Tip #3
Prepay a little every month: Garton-Good suggests getting a copy of your loans amortization schedule, which will show the breakdown of interest and principal. If you're making a payment for November, for example, then look at the next line down on the principal reduction line and you'll see that the principal reduction for the next month, December, is say $24. Making that $24 payment early means that your "true" mortgage balance is one payment less after the principal is prepaid. So in essence, you'd be making an extra payment each year.

Tip #4
Beware of bi-weekly pitfalls: A bi-weekly mortgage payment means you're making 26 half-payments instead of 12 monthly payments, so it enables you to pay down your mortgage faster and save thousands of dollars. But keep in mind that unless your initial mortgage is set up as bi-weekly, "some lenders charge an upfront fee of about $300-$400 to make bi-weekly payments and even though you're making a payment every two weeks, the lender only applies it once a month." To avoid getting slammed with the lender's fee, make the bi-weekly payments yourself, says Garton-Good, and check to make sure that any amount above the interest is applied to the principal.

Tip #5
Red flag your extra payments: It's always important to make sure your payments are being handled properly. "Because things are set up on a monthly cycle, sometimes when the lender receives payments out of the blue, they don't know what to do with them." She suggests making extra principal payments on a separate check and making a note in the memo line that it's to be applied to principal reduction only. Then, when you're doing your income taxes, tally up those payments and make sure they've been applied correctly.

Tip #6
Stay informed: Once you get a mortgage, aside from making the payments, it's easy to forget about it altogether. But staying up-to-date on interest rates and new products could save you money. "If you understand the nuances upfront (adjustable rate changes and prepayment penalties etc.) then you may want to shop for another product that better suits your needs," says Garton-Good. For example, to qualify for a mortgage you may have started out with a lower-rate adjustable rate mortgage but you may want to switch to a more long-term affordable fixed-rate mortgage later.

When it's Not the Right Move

While paying down a mortgage quickly may be a smart move for many homeowners, it's not for everyone. For example, it may not be the best financial move if you have a low-interest mortgage rate and could be putting extra money into a higher-yielding investment, such as a mutual fund or stock, says Garton-Good. Let's say your mutual fund returns are in the 10-12% range annualized range. You could grow your money there and use it to pay off a larger chunk of your home.

If you are planning on moving, hold off putting all that money into the old house because you may need it for a down-payment and closing costs on the new one, should your old one take longer to sell. You could use an equity line as a downpayment, but you still would have to pay “rent” on that money. Of course, you might be in a position to pay it all down, plus put money down on another house. But if you are still reading this article, then, er, you probably aren’t.