

Which is Better: A long or a short-term fixed rate Mortgage?



It really depends on your situation and your financial goals. If you think this article is just for newbies in the home-buying market, it's not. Please read to the end to see how a mortgage re-fi can be beneficial even when nearing the finish line.

As the name implies, with a fixed rate mortgage, the interest rate is set at the time you take out the mortgage, and it remains constant over the life of the mortgage. The monthly payment also remains constant. Knowing what your payment will be can be highly reassuring, and allows you to budget an exact amount every month for the duration of the loan.

Each monthly payment is comprised of interest and principal, with early payments going primarily against the interest on your mortgage; payments toward the end of the term are paying off mostly principal. The biggest part of the mortgage principal pay-down comes late in the mortgage term.

[Log in and use the helpful calculators located at
<https://www.blackhawkbank.com/calculator/calc-menu>.](https://www.blackhawkbank.com/calculator/calc-menu)

[There, you can get a good picture of payments
associated with the amount and term of a mortgage loan.](#)

The benefit of a shorter-term mortgage is that in half the time, you will have paid off the mortgage loan and own your home free and clear. You will also pay less interest over the life of the mortgage. The negative is that your monthly payment will be higher. Often the interest rate on a shorter-term mortgage may be a bit lower than the rate on a long-term mortgage.

Choosing the term of a fixed rate mortgage is usually determined by what level of monthly payments you can afford, how anxious you are to pay off the entire mortgage, and a possible rate difference with the different terms.

Here's that last part for seasoned homebuyers: a retirement planner recently suggested refinancing a home loan for another term rather than paying it off. Here's why:

You'll be eligible for a tax advantage:

The interest rate may be lower than your current interest rate. A long-term mortgage can lower your monthly payment and free up money to invest.

Or...

- Use the money you'd have spent to pay off the mortgage to pay off other high interest-rate debt, like credit cards.
- Use that money to pay tuition for your college-bound child.

Blackhawk Bank's Mortgage Team is standing by to help you determine the right program for your personal finances and your lifestyle. Get in touch today!