AMERICAN FINANCIAL SOLUTIONS

WHERE SHOULD MY EXTRA MONEY GO

MORTGAGE OR INVESTMENTS?

Everyone should ideally set money aside for savings, but it can sometimes be difficult to decide exactly where that extra money should go. Would it be best to put it in a savings account, invest it in the stock market, buy investment property or put it toward your retirement savings?

Or would it best serve you by paying down debt, like your mortgage, avoiding the accrual of more interest?

The correct answer to this question is different for most people, and there are an array of factors that should inform your decision.

THE MAIN FACTORS TO CONSIDER

- What is your mortgage interest rate? Is it a low fixed-rate, adjustable-rate or just plain high?
- Do you have good investments and a high-performing stock portfolio?
- How much are you benefiting from your home mortgage interest tax deduction?
- How do you feel about debt?

Let's delve further into these specific questions.

INTEREST

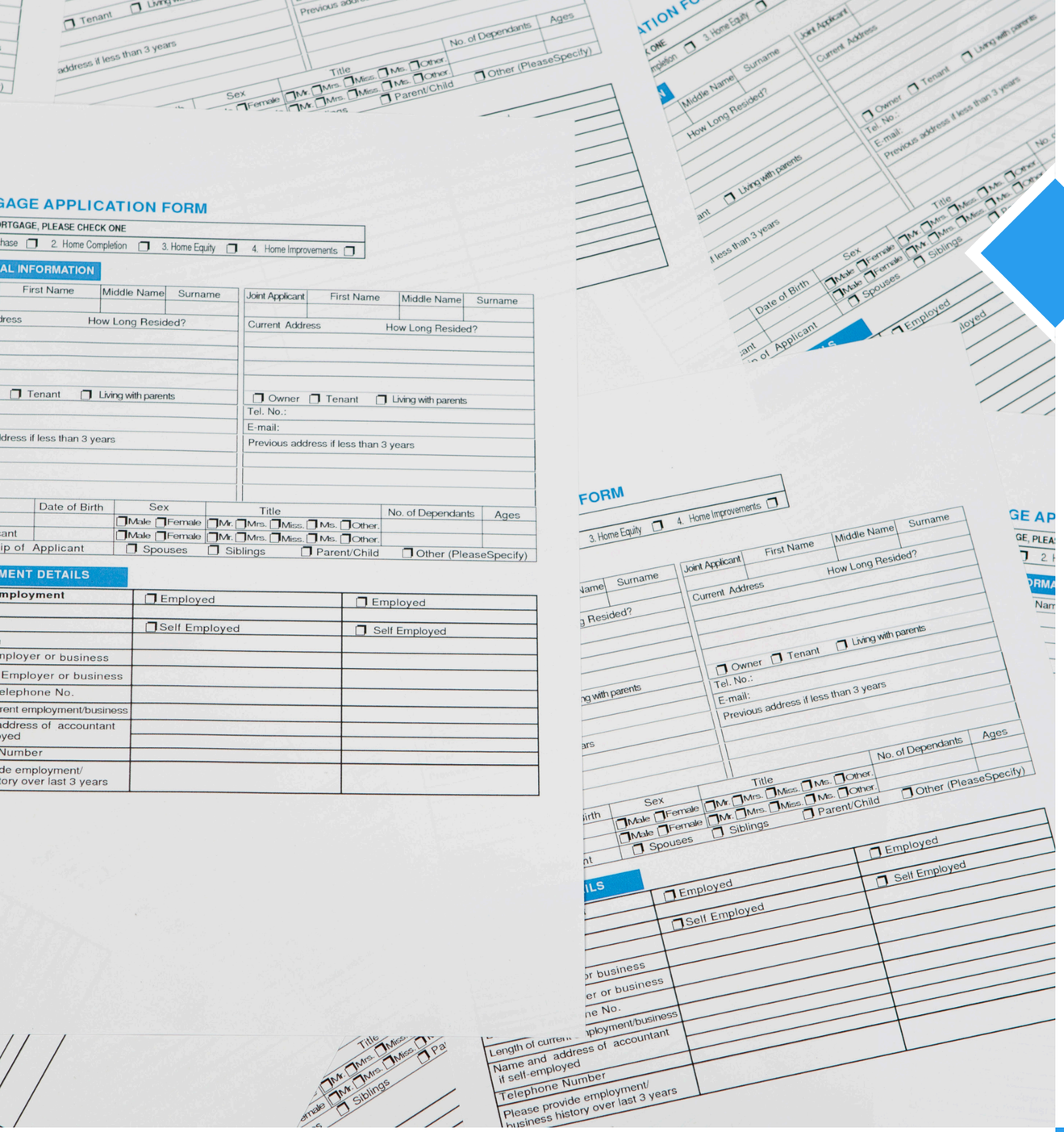
When paying off debt, interest is always an important thing to consider. For example, if you have two credit cards carrying a balance month-to-month it always makes sense to pay off the card with the higher interest rate first.

The same idea applies to mortgages. If you had less-than-stellar credit and could only qualify for a high interest rate on your mortgage it may make financial sense to get rid of that debt as soon as possible. If you were able to get a low rate there is less of an incentive to pay it off early, especially if you are able to earn more on the money through investments than you'd save by avoiding interest accrual on your mortgage.

INVESTMENTS

The effectiveness of your investment strategy should play a role in your ultimate decision regarding whether to invest disposable income or use it to pay off your mortgage early.

If you have a 3.63% APR 30-year fixed rate mortgage and a killer investment portfolio returning 8% annually you'd likely be better off putting your disposable income towards investments where it will earn a greater sum than you'd save by paying off your mortgage early.



MORTGAGE INTER-EST TAX DEDUCTION

Homeowners in the U.S. can deduct the **interest** they pay on their mortgage, up to $1 million, every year. There is no converse deduction for capital gains – quite the contrary in fact, as you may have to pay capital gains taxes on investment earnings.

That being said, you can only claim the mortgage interest tax deduction if you itemize your taxes. If you're better off with the standard deduction, then the pro argument in favor of the mortgage interest tax deduction is moot.

THE PEACE OF MIND OF BEING DEBT FREE

If you hate being in debt you're not alone. There are many people who simply don't like being in debt. For some people, paying off their home is a major life goal. If you sleep better at night knowing you don't owe a lender anything for the home you live in, you may live a more contented life by paying down your mortgage early.

It's hard to put a price on the feeling of independence and security some people feel by owning their home outright.

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GET ANSWERS TO YOUR FINANCIAL QUESTIONS

At American Financial Solutions, we offer an array of credit counseling and debt management services to Washington state residents who want to regain a stable financial footing. In addition to counseling borrowers on an array of debt issues, we also consult with prospective homebuyers to help them understand the process and their options. You can learn more about our pre-purchase counseling services by calling us at (888) 282-5844.