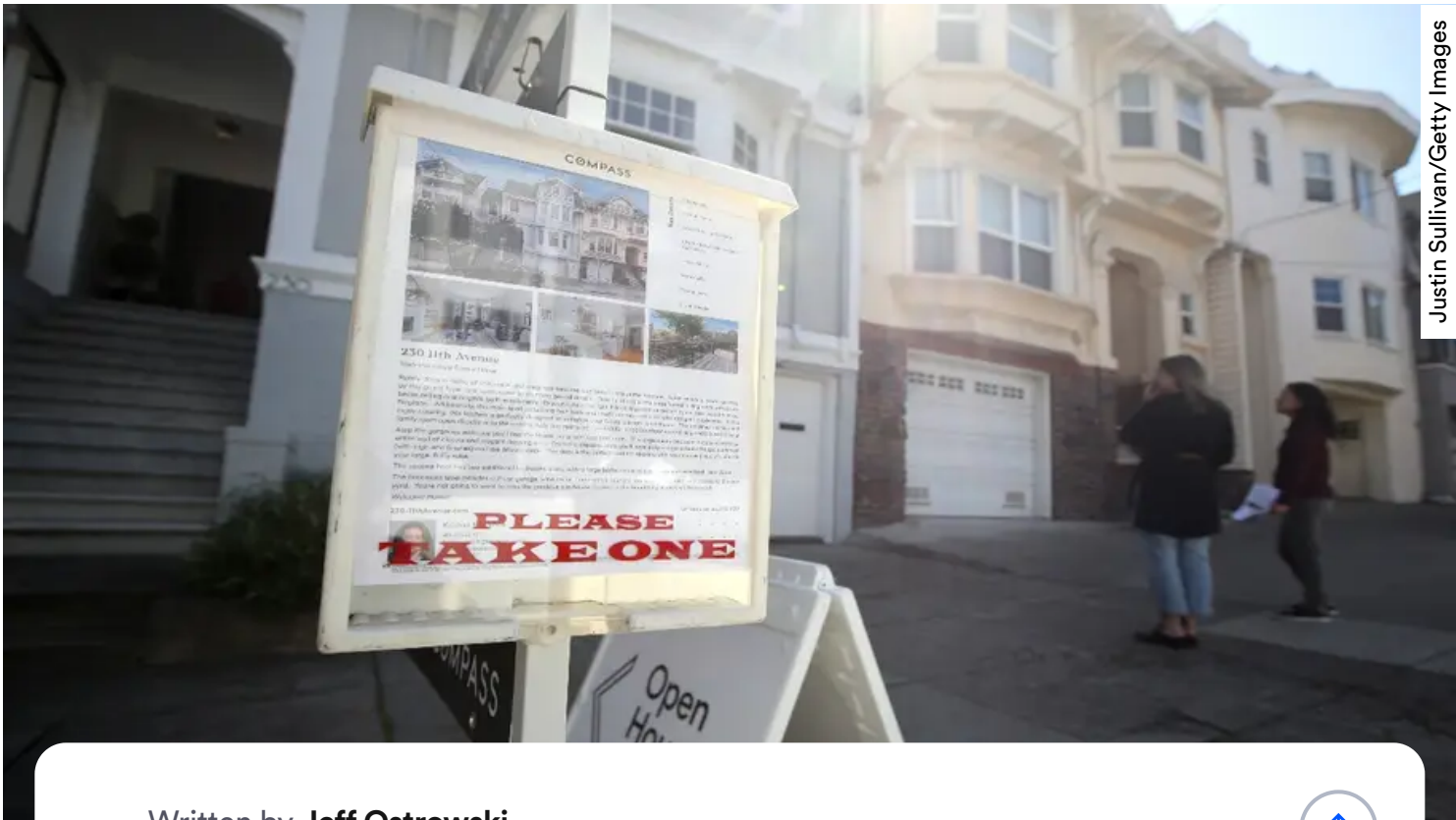


Pay down your mortgage or borrow against your home to invest? The answer depends on your risk tolerance



Justin Sullivan/Getty Images

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credit cards, but when it comes to mortgages, the calculus is complicated.





Some financial advisors tell clients to maximize their mortgage debt by taking out a [30-year mortgage](#), rather than a [15-year loan](#), for 80 percent of their home's value. Rather than making extra payments or aiming to [pay down the loan early](#), these contrarians say, you should devote extra cash flow to investments.

Claire Mork, director of financial planning at Edelman Financial Engines, urges clients to borrow as much as they can against their homes for the longest term possible, and to view a mortgage as a savvy way to use leverage.







Current Mortgage Rates for July 5, 2022

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| | | | |
|----------------------------------|--|---|---|
| Purchase | Refinance | Zip Code 33431 Boca Raton, FL  | Property Value \$ 406,250 |
| Loan Amount \$ 325,000 | Cash-out  Yes No | Loan Term 30 year fi...  | Credit Score 740+  |

[Show more options](#) 

| Lender  | APR  | Rate  | Mo. payment  | Sort by  |
|--|---|--|---|---|
| 15 Year Fixed NMLS: #240415 ★★★★★  (5) 📞 (877) 390-5114 | 3.76% Jul 5, 2022 | 3.50% Points: 0.862 | \$2,323 Fees: \$5,801 | Next |



(4.8)

Jul 5, 2022

Points: 1.978

Fees: \$6,469

15 Year Fixed
NMLS: #1067



(4.9)

4.37%

Jul 5, 2022

4.13%

Points: 1.625

\$2,424


Fees: \$5,281

Next

15 Year Fixed
NMLS: #2289



(4.9)

 (855) 846-7672
4.75%

Jul 5, 2022

4.75%

Points: 0

\$2,528

Fees: \$24

Next

1 - 4 of 9


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“Mortgages are the cheapest money anybody could ever borrow,” says Mork. “I think of it as a financial tool.”

Not everyone agrees with that approach. Chris Hogan, author of “Everyday Millionaires,” advises clients and audiences to pay down their mortgages as quickly as possible.

“I’m allergic to debt,” says Hogan, a Nashville-based financial coach and author. “I see debt as a threat.”

As [mortgage rates](#) have doubled in recent months, which approach is the correct one? Advocates for both strategies make compelling cases, and the reality is that the right answer for you depends on your tolerance for financial risk.

Both strategies are correct in theory, says Ken H. Johnson, a housing economist at Florida Atlantic University. Using debt as leverage to boost returns is a common practice in the financial world. On the other hand, there's much to be said for the cozy feeling created by an utter lack of creditors seeking monthly payments.

“You can't go broke if you don't have any debt,” says Johnson.

Which approach is right for you really depends on how you feel about debt and how comfortable you are with the stock market's inevitable swings.

CUSTOMER TOP PICK

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Sage Mortgage APR ⓘ

4.92%Jul 5, 2022
30 Year Fixed

Sage Mortgage Highlights

- Mortgages are confusing - talk to expert or lock in a rate online in minutes
- Sage has helped over 6,800 borrowers refinance **\$2.5 billion+** in loans¹
- Now more than ever speed matters - Sage borrowers close their loans **35% faster** than industry average²

“The average person has to fall back to, ‘What is my tolerance for risk?’” says Johnson. “It’s well established in academic research that different people have different tolerances for risk.”

Personal preference isn’t the only variable. Risk tolerance can shift with economic cycles, too. In an episode of “All in the Family,” Archie Bunker burned his mortgage after he paid it off. Archie was old enough to remember the Great Depression, and he adjusted his risk tolerance accordingly. Today’s generations are accustomed to low mortgage rates, and they’re more comfortable owing money on an asset that usually appreciates.

building emergency savings accounts with at least six months' of living expenses and urge investing for retirement. For homeowners who already have achieved homeownership and financial stability, however, the experts espouse very different approaches to using the value of your residence.

The traditional view: Pay down your mortgage

Hogan advises putting 15 percent of your income toward retirement savings and using excess cash to trim mortgage debt. He sees debt not as a tool, but as an insidious enemy that must be attacked.

“I know this about debt: It brings risk,” says Hogan. “Debt doesn’t care if your kid is sick or if you’re sick or if you lost your job. It just takes.”

Hogan interviewed millionaires for his most recent book, and he discovered a common theme: Many paid down their home loans as quickly as they could.

If you must have a mortgage, Hogan advises taking a 15-year loan, because you’ll retire the debt more quickly and pay much less interest than with a 30-year mortgage.

About 38 percent of owner-occupied homes in the United States were owned without a mortgage as of 2020, according to the U.S. Census Bureau. The other 62 percent of homeowners should accelerate the day they make the final payment, argues Hogan.

“When you get that deed to your house and you realize you own it now, it’s a game-changer,” says Hogan. “You get the gift of options.”

The opposing view: Use your home equity as an investment tool

A 30-year loan comes with pros and cons. On the upside, the payments are low. On the downside, you'll pay a lot in interest over the life of the loan. Advisors such as Mork say you should take advantage of the low payment on a 30-year loan. Instead of devoting extra money to paying down the mortgage, fatten up your retirement accounts. In this way, you're viewing the mortgage as a way to maximize savings, rather than as something to be paid off as quickly as possible.

"They feel like they have to pay off the house before they retire," says Mork. "That's not always the case."

That's especially true if you managed to refinance when rates were at historically low levels in 2020 and 2021. If you scored a 3 percent rate, there's no urgency to pay down the debt.

'The best money decision we've ever made'

Of course, debt is a deeply emotional topic, and even financial professionals who understand the pro-leverage strategy say it can be difficult to put into practice.

Morgan Housel is a Wall Street pro and author of the book "The Psychology of Money," but he admits he doesn't behave logically on this front. Housel and his wife carry no mortgage on their home — a money move he acknowledges is irrational.

"On paper, it's the dumbest thing you could possibly do," says Housel. "Even though it's the worst financial decision we've ever made, I think it's the best money decision we've ever made. It's one thing that gives us a level of independence and autonomy."

Housel underscores the emotional complexity of this decision. On the one hand, paying off the mortgage creates a feeling of security — the knowledge that the roof over your head is yours even if you lose your job or your investment portfolio craters.

“When we did it, it was like, high five, hug each other, this is so cool,” says Housel.

The lesson, says Housel: Maximizing every penny of returns can be emotionally exhausting.

“People should not just aim to be rational on a spreadsheet — rational on paper, I think, is not a good financial goal,” says Housel. “People should aim to be reasonable and manage their own financial decisions about what makes them happy, and what helps them sleep at night.”

Rising rates change the calculus

The idea behind leveraging your home is simple: Borrow against your home at 3 percent or 4 percent, then reap more than that from your investments.

However, the decision has changed as mortgage rates have doubled since August 2021. The average rate on a 30-year mortgage is currently 5.540%, according to Bankrate’s [survey](#) of large lenders.

Taking a mortgage now will complicate your decision. That’s because your mortgage rate is getting uncomfortably close to the investment returns you can expect to reap.

“If someone has a rate of 6 or 7 percent, that’s about the average return we count on in a moderate-risk portfolio,” says Mork.

Mork advises her clients to max out their mortgages only after diving into their financial situations and their feelings about debt.

That reflects the reality that there’s not always a right or wrong answer when it comes to deciding whether to pay off your mortgage or to invest those extra funds. The

can be the right one depending on your circumstances.

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[Read more From Jeff](#)

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