

Should I pay off my mortgage so I can be free of debt?

Photo: pixabay.com

Q. What do you think about paying off my house and then getting a home equity loan for cash if I need it? Doesn't a home equity line of credit have a better interest rate? My current mortgage rate is 3.8%. — Figuring it out

A. There are a lot of issues to consider when making this type of decision.

Based on your question, it sounds like you do have the cash available to [pay off your mortgage](#).

If you do have the cash, the first question is what are you currently doing with the cash?

“If the cash is currently sitting in a checking or savings account earning less than 1% — hypothetically — and you can instead use the cash to pay off a mortgage costing you 3.8%, then there is a significant benefit to [paying off your mortgage](#) since the rate is 2.8% higher than the rate you are earning on your cash, said Marnie Hards, a certified financial planner with Aznar Financial Advisors in Morris Plains.

If, however, you are considering [investing this cash](#) in a well-diversified portfolio that could potentially earn well in excess of the 3.8% you are currently paying on your mortgage, the answer to the question changes, she said.

If you anticipate earning more than 3.8% on your cash, you should invest the cash and not use it to pay off your mortgage, Hards said.

The other consideration is your overall comfort level with debt.

Hards said some people feel extremely comfortable [carrying a mortgage](#) and others cannot stand to have that payment come due every month.

“If you feel like it would be a huge weight off your shoulders and would make you feel more comfortable about your financial life, then this factor should weigh heavily on your decision on how to proceed,” she said. “Sometimes, regardless of what the numbers tell you, you may decide to do what is going to feel best for you mentally and emotionally.”

The other option of course is to take a portion of your cash to [pay down a chunk](#) of your mortgage and then invest the balance, she said.

It never hurts to have a home equity line of credit available for emergencies, but it won't be cheaper than the mortgage you have now.

“The average rate on a home equity line of credit is currently about 4.89%, so the interest rate that you have on your mortgage is actually a bit lower than the rate you would likely be able to secure on a home equity line of credit at this time,” she said.

Email your questions to Ask@NJMoneyHelp.com.

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