What the Academics Say about Mortgages

Ric Edelman

"Thus, a homeowner with a long time horizon and a willingness to assume some risk will likely have a much higher net worth than someone who selects the less risky option of the 15-year mortgage."

"The Effects of Income Tax Rates and Interest Rates in Choosing Between 15- and 30-Year Mortgages." ***The CPA Journal*** **#65, 1995.**

"…home owners…may not be adequately considering the opportunity costs of the investment in their home. Individuals should not attempt to analyze the mortgage decision in isolation from their overall personal financial plan. Instead they should consider the mortgage decision along with their plans for long-term investing, insurance needs, tax planning and so forth. If the only way home buyers can afford the higher 15-year mortgage payment is by delaying long-term investments or by limiting the funds they commit to a long-term investment plan, they may be better off in the long run by taking the 30-year mortgage with the lower payment and investing the difference….

"….the 30-year mortgage is clearly the best financial choice for many home buyers."

"15-Year Versus 30-Year Mortgage: Which Is the Better Option?"
Journal of Financial Planning**, April 1998.**

"Planners must consider many factors when analyzing the 15-year versus 30-year mortgage option, but certain issues deserve mention. First, even if the mortgage is held to maturity, the argument that the 15-year option is optimal because fewer total dollars are spent to purchase the home is seriously flawed. The fact that a smaller total dollar expenditure is required for the 15-year loan is irrelevant to the maturity decision."

"Including a Decreased Loan Life in the Mortgage Decision"
Journal of Financial Planning, **December 2003.**

"Advantages of the 30-year mortgage include lower monthly payments and accumulated wealth, in an investment account available to help alleviate hardships. Withdrawals from the investment account would be free of penalties for the non tax-deferred accounts, and free of penalties for the tax deferred….The data showed that a borrower…willing to invest with a risk level associated with the S&P 500 would benefit from a 30-year mortgage."

"Effect on Net Worth of 15- and 30-Year Mortgage Term."
Journal, Association for Financial Counseling and Planning Education**, 2004.**

"When households have a substantial risk of unemployment — or of a big fall in income — a long-term fixed rate mortgage looks preferable."

"The long-term fixed-rate contract becomes more attractive as people start to borrow a lot."

"It is reasonable to expect that if consumers in the UK were helped to understand better the risk and cost profiles of different types of mortgages there would be more longer-term fixed-rate lending."

"UK Mortgage Market: Taking a Longer-Term View. Final Report and Recommendations." HM Treasury on behalf of the Controller of Her Majesty's Stationery Office, March 2004.

The popular press, following conventional wisdom, frequently advises that eliminating mortgage debt is a desirable goal. We show that this advice is often wrong…mortgage debt is valuable to many individuals.

"Mortgage Debt: The Good News." ***Journal of Financial Planning*****, September 2004.**

"Better financial results accrue to some borrowers when they select a 30-year mortgage coupled with a simultaneous investment plan rather than a 15-year mortgage term and a subsequent investment plan…for the vast majority of borrowers, there remains a significant probability that the 30-year mortgage is the better mortgage product even in higher mortgage rate scenarios. Further, the financial benefit associated with a 30-year mortgage increases as the borrower's marginal tax rate and risk tolerance increase."

"Is a 30-Year Mortgage Preferable to a 15-Year Mortgage?" ***Journal, Association of Financial Counseling and Planning Education*****, 2006, Volume 17 Issue 1.**

"…U.S. households that are accelerating their mortgage payments instead of saving in tax-deferred accounts are making the wrong choice…in the aggregate, these mis-allocated savings are costing U.S. households as much as $1.5 billion dollars per year."

"The Tradeoff between Mortgage Prepayments and Tax-Deferred Retirement Savings." ***Federal Reserve Bank of Chicago,*** **August 2006.**

Ric Edelman is the author of five books on personal finance, including the #1 *New York Times* bestseller "Ordinary People, Extraordinary Wealth." He is host of *The Ric Edelman Show* heard nationwide on the ABC Radio Networks, and also writes a nationally syndicated newspaper column for United Media. For more of his financial planning advice, visit RicEdelman.com. Edelman Financial is a marketing name for two affiliated registered investment advisers. Edelman Financial Services LLC primarily serves the Washington D.C. area; Edelman Financial Advisors LLC serves clients nationwide via its own advisors and unaffiliated registered investment advisers. Sanders Morris Harris Group (Ticker: SMHG) is majority owner of EFS. Ric Edelman is minority owner of EFS and majority owner of EFA. Ric is an Investment Advisor Representative. Securities offered through SMH Capital Inc., an independent broker/dealer, member FINRA/SIPC. Advisory services offered through Edelman Financial Services LLC, a registered investment adviser.