

Rate of Return on a 15 Year Fixed vs. a 30 Year Fixed

The analysis below shows the guaranteed ROI on the difference in payment between a 30 year fixed loan vs. a 15 year fixed. Although we are using fully amortizing loans in this comparison; the concept doesn't change for interest only loans; the quicker that you get rid of your mortgage the better [even when we consider the tax benefits of mortgage financing]. This is particularly beneficial for high income customers that are subject to the Alternative Minimum Tax.

Two things in particular stand out

1. If you pay \$2,186 per month for 15 years your net worth is \$725,591 more than if you chose the 30 year fixed option; a return of 7.53%
2. Because of the nature of amortization; your return is even greater if you sell before the loan comes to term.

Note: The return is GUARANTEED; all you have to do choose the 15 Year Fixed.

Assumptions:

- The difference in monthly payment is treated as monthly annuity payment
- The difference in loan balance at the end of the year is treated as savings.

Loan Amount \$1,000,000

Loan Product	Interest Rate	Monthly Payment	Difference
30 Year Fixed	6.50%	\$6,321	
15 Year Fixed	6.00%	\$8,506	+ \$2,186

Year	Loan Balance at end of Yr. <u>30 Yr. Fixed</u>	Loan Balance at end of Yr. <u>15 Yr. Fixed</u>	Difference in Loan Balance [Savings]	Difference in Cumulative Monthly Payments	Return on 15 vs. 30
1	\$988,823	\$958,009	\$30,814	\$26,227	34.60%
2	\$976,897	\$913,373	\$63,524	\$52,454	19.49%
3	\$964,172	\$865,925	\$98,248	\$78,681	14.77%
4	\$950,596	\$815,487	\$135,108	\$104,907	12.46%
5	\$936,110	\$761,872	\$174,237	\$131,134	11.10%
6	\$920,654	\$704,880	\$215,774	\$157,361	10.19%
7	\$904,162	\$644,297	\$259,866	\$183,588	9.55%
8	\$886,567	\$579,897	\$306,670	\$209,815	9.07%
9	\$867,793	\$511,440	\$356,353	\$236,042	8.70%
10	\$847,761	\$438,670	\$409,091	\$262,268	8.41%
11	\$826,388	\$361,316	\$465,072	\$288,495	8.17%
12	\$803,584	\$279,089	\$524,495	\$314,722	7.97%
13	\$779,252	\$191,682	\$587,571	\$340,949	7.80%
14	\$753,291	\$98,768	\$654,524	\$367,176	7.65%
15	\$725,591	\$0	\$725,591	\$393,403	7.53%