Advantages, disadvantages seen

Short mortgages offer benefits

Cutting mortgage terms to 15 years can be an inviting alternative to buyers who equate 30-year loans with eternity.

Shorter-term mortgages do have a place among the broad selection of home-financing options, according to analysts for the National Association of Realtors.

On the surface, a 15-year, fixed-rate mortgage compares favorably to a 30-year mortgage. A homeowner can use one to pay for his house in half the time and accumulate equity faster than with a 30-year plan. The shorter-term loans often are offered with slightly lower interest rates.

"The major difference between a 15-year mortgage and a 30-year mortgage is you pay down the principal quicker with less interest," said John A. Tuccillo, NAR's chief economist. The quicker equity build-up lowers the amount owed on the loan when he property is sold and increases the seller's profit.

"The main disadvantage is the monthly payments are higher," Tuccillo said. "A marginal buyer might no qualify for a 15-year loan." Shorter-term loans likely are not suitable for a person looking to "mortgage himself to the hilt," or obtain a loan for as much as he can possibly afford, he added.

Fifteen-year financing is impractical for buyers with just enough income to make payments if the mortgage stretches over 30 years. People can buy more expensive homes with 30-year plans because the qualify for larger loans, Tuccillo said.

For example, fixed-rate, monthly principal and interest payments on the current national median mortgage amount of $65,900 would be about $530 if financed with a 9 percent interest rate for 30 years. Payements on the same loan would be about $659 if financed with an 8.75 percet interest rate for 15 years.

"Choosing between a 15-year and a 30-year mortgage boils down to the financial situation. First-time buyers don't tend to consider 15-year loans. They aren't thinking as carefully in terms of keeping the mortgage. They are just trying to buy, to get on the first rung of homeownership," said NAR President-elect Nestor R. Weigand Jr.

After five years, the principal on a 30-year mortgage with a 9 percent interest rate is reduced by 4.1 percent. During the same period, the principal on a 15-year mortgage with an 8.75 percent interest rate is reduced by 20.3 percent. After 10 years, the principal is reduced by 10.6 percent for the 30-year mortgage and by 51.6 percent for the 15-year one.

After 15 years, 79.3 percent of the principal is still owed on teh 30-year mortgage; the 15-year loan is paid off.

In choosing between ahorter- and longer-term financing, buyers shoud consider the loss of tax-deductible mortgage interest with a 15-year plan. Since more of the monthly payment goes toward the principal, a homeowner will not be paying as much interest to use to reduce taxable income.

Some buyers, particularly those who plan to keep their mortgages only a few years, may feel that larger interest write-offs are more beneficial. Others may find equity buildup more advantageous.

"People who intend to keep their mortgage for the full term are the typeof buyers most interested in 15-year loans," Weigand said. "We are finding that they appeal to the more mature buyers, people who are in a position to pay more each month. People who are looking at retirement see the 15-year mortgage as a prudent way to buy their last home" he said.

Changes in th federal tax code could cause the 15-year mortgage to be more appealing to high-income people who can afford to limit their financing terms, Tuccillo said. Before the tax reform act took effect this year, the interest paid on mortgages had a greater impact on the tax savings of people with higher incomes.

Some buyers formerly in thetop tax bracket of 50 percent found higher interest, 30-year mortgages more advantageous since they could use 50 percent of the mortgage interest payments to lower their taxable income.