Why Owning a Home and Paying Off a Mortgage is a Good Idea

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Home ownership in the United States is a popular topic of discussion, and it has deep roots in our country. Modern home ownership really began with the passing of the GI Bill in 1944. The GI Bill created the VA loan, which afforded service men and women the ability to borrow money at reasonable rates to buy or build homes. As a result, home ownership in the United States jumped from 43.6% in 1940 to 61.9% in 1960. (www.census.gov) Since 2000 the overall percentage of home ownership in the United States remains between 63%-69% of the population. (www.census.gov)

Concerns have arisen surrounding the question of whether home ownership is still desirable. Renting is easier and perhaps more flexible for people. Many Millennials graduated from college with tremendous amounts of debt and are hesitant to add hundreds of thousands more in mortgage obligations. Home prices in many metro areas are very high and even "starter homes" are tough for individuals to afford. Finally, recent adjustments to the IRS standard deduction amounts negated many taxpayers' ability to deduct their mortgage interest payments from their taxes.

I believe that buying and paying off a home is and will remain one of the best financial actions one can take. However, I want to be clear and state that this recommendation is not absolute. Everyone's situation is different and things like job security, job transfer, cash flow and general affordability should always be carefully considered.

Historically, Homes Have Been a Good Store of Wealth

Homes prices can be tracked in two basic ways: (1) adjusted for inflation or (2) not adjusted for inflation. I am only concerned with home prices that are adjusted for inflation. The reason is that inflation erodes value over time and I want to deal with real growth.

Inflation can erode home values but typically doesn't. From 1890 to 2012, inflation-adjusted home prices increased by 150%. (www.dallasfed.org) Over the past 20 years, the only time when homes dropped in value was between 2007 to 2012 due to the credit crisis. (www.fred.stlouisfed.org) More likely than not, buying a home will not only preserve one's wealth, but actually increase it in real terms. Of course, each market is different and bad timing is always a risk.

I want to draw a distinction between homes as a store of wealth versus an *investment*. I do not consider one's primary residence an investment. Investments are items one acquires with the goal of generating income and/or appreciation. Homeowners invest time and money into buying, maintaining, and improving their home. But, unless the homeowner rents out a room or converts the property into a rental, then I do not consider it an investment. Yes, a home will likely appreciate, but that appreciation does not get used unless the home is sold, and then people will most often use those proceeds to buy a new primary residence, not invest the money in another financial instrument.

Buying a Home Can be Viewed as a Form of "Forced Savings"

I think it is generally accepted that Americans are not diligent savers. During the last 20 years, the personal savings rate in our country averaged less than 10% – much less in certain years. (www.fred.stlouisfed.org) Our ancestors came to the United States enjoy life, liberty and the pursuit of happiness. For most of us the pursuit of happiness means buying things we enjoy, not adding more to our savings and investments.

A mortgage is a great way to compel people to save. It is due every month, and with traditional mortgages, part of each payment is applied to the principal of the loan. The more principal one pays off, the more equity one has. I do not usually endorse people using the equity they have accrued in their homes, but it's nice that it exists. Sometimes situations arise when borrowing against or cashing out one's home equity is needed. And, as I mention above, usually home owners will have additional equity in the form of market appreciation.

Owning a Home Provides Security and Options

A house that is owned outright provides a great amount of security. Once the mortgage is completely paid, the only thing the homeowner is required to do is pay the property taxes each year, perhaps HOA fees and maintaining insurance on the home is obviously a best practice. Once those obligations are met, it is unlikely that you would lose the shelter of your home. Compare that with renting: You will never pay it off, probably have increased rent over time, and you could be evicted or simply asked to move once your lease is done.

A paid-for home provides options. Let's assume that the mortgage is 15% of your take-home salary and you completely pay it off – that's akin to getting a 15% pay raise at work! Once you are done paying mortgage payments, all that extra cash is now free to be used in other areas.

An additional option may come later in life. Many of my clients sell their homes and use the proceeds to move into independent living communities. These communities are nice, but they are not cheap. Selling a primary residence is a great way to come up with the deposits many of these places require. Often the sale of the primary residence is a tax-free transaction if the requirements of IRC Section 121 are met.

Isn't This All Just Common Sense?

One might react to this article in the same way my 9-year-old reacts to my asking him if he wants dessert: "Duh!" I tell my clients that saving and investing money is all about creating *optionality*. The more money you can save and invest, the more options you will have in life. Homes are great stores of wealth; mortgage payments force people to save money; and they provide security and options for individuals. People who don't save and who don't pay off their mortgages are significantly increasing their risk and limiting their future options for happiness.

***If you would like to discuss this topic or any other financial planning topics please reach out to me. I'd love to connect with you!

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