How to pay down your mortgage wisely

Can't wait to be done with your mortgage payments? Here are some smart ways you could reach financial freedom - faster.

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Are you dying to go on a dream vacation or get behind the wheel of a new car, but your monthly mortgage payments are holding you back?

Good news: There are some smart ways you can pay off your mortgage faster and get closer to financial freedom.

Keep reading to learn more...

Refinance to a 15-Year Mortgage Term

It's pretty common for people to initially sign a traditional 30-year mortgage, meaning you have 30 years to pay back the amount owed.

However, if you can afford higher monthly payments, then you'll want to seriously consider refinancing to a shorter term loan, which generally has a lower interest rate, according to the Federal Reserve's mortgage refinancing guide, published on their website.

What's more, with a 15-year loan, "you pay off your loan sooner, further reducing your total interest costs. The trade-off is that your monthly payments usually are higher because you are paying more of the principal each month," the Federal Reserve adds.

Here's an example, courtesy of the Federal Reserve, to help prove out this point:

	Monthly payment	**Total interest**
30-year loan @ 6.0 percent	$1,199	$231,640
15-year loan @ 5.5 percent	$1,634	$94,120

As you can see, with a shorter-term loan, you'll pay off your mortgage faster, and save a ton of money in interest. That's a win-win situation, right?

Make Extra Payments, When Possible

Did you receive a raise or fall into some unexpected extra cash? Well, instead of spending it right away, consider making an extra mortgage payment or simply increasing the amount you typically pay.

Just consider this advice from the website of Massachusetts's Office of Consumer Affairs & Business Regulation:

"If you are unable to send a full extra monthly payment at one time, increase the monthly payment you are sending. To achieve the greatest benefit, the increase should be at least 1/12th of a normal monthly principal and interest payment."

And even if you can't do this every month, every little bit can help if you're smart about it, says Mitchell D. Weiss, an adjunct professor of finance at University of Hartford's Barney School of Business.

"When you pay more than your loan requires, and when you designate extra payments to be applied against the principal balance of your loan, you end up reducing that balance at an accelerated rate," he says.

Weiss emphasizes that the key is to direct whatever extra payments you make to be applied against the principal, or the total amount borrowed.

"Don't let the bank apply them against future payments or you'll be giving them the gift of interest they haven't yet earned," he adds.

Protest Your Property Taxes and Examine Your Insurance

"Your monthly mortgage payment includes four things: your principal, interest, property taxes, and insurance - which is collectively called your PITI," says Paula Pant, founder of AffordAnything.com, a money management website.

Most people tend to focus on the principal and interest when they're looking to pay down their mortgage faster, says Pant. The amount you pay in property taxes and insurance, however, is often overlooked and this could be a *big* mistake.

Why? Because "if your property tax rate was set during the heady boom days of 2007, you might be paying taxes based on an assessment that's no longer valid," Pant says.

For that reason, "it's worth it to protest the assessment with your county to see if your rate should be re-adjusted to reflect today's lower home values," adds Pant.

However, this does not mean you need an appraisal. In fact, Pant says that is one of the most common misunderstandings about how property taxes are charged.

Instead, you should have an assessment done by the county, as they're the ones that determine your tax rate, she says. To get the process started, call your local county line or send them an email with your intentions.

If your property taxes are lowered after the assessment, you can continue to make the same monthly payment, and more of your money will be applied towards the principal and interest, which will help you pay down that loan much faster, says Pant.

And as Pant mentioned earlier, you'll also want to review your home insurance.

"Re-investigate your insurance," says Pant. "If you opt for a higher deductible, you could get a lower premium, which will result in a lower monthly mortgage payment."

Similar to decreasing the amount you pay in taxes, this money will go directly toward the principal and interest, which...you guessed it: speeds up how long it'll take to pay back your loan.