15-year mortgage rate Vs. 30-year mortgage rate

There is no shortage of decisions to be made when applying for a new mortgage loan. Consumers have to select a lender and then decide between a fixed or an adjustable rate, and then make the biggest decision of all, 30 year or 15 year loan.

A 30-year mortgage financing loan has always been the most popular for consumers purchasing a house, but as interest rates remain at record low levels, consumers are slowly turning to 15-year loans because of how affordable they have grown since 2010.

Statistics from the Mortgage Bankers Association show that a 15-year loan accounted for 23 percent of refinancing applications in November of last year. This is up 51 percent from a year earlier. For the whole year, 15-year mortgages made up 35 percent of all refinance loans. In 2007, 15-year mortgage loans made up for only 8.5 percent of the refinance market.

Rates are becoming extremely affordable for a 15-year loan, so more consumers do not mind the higher monthly payment because of amount that they are saving in the long run. Consumers are saving themselves in the tens of the thousands in interest over the life of the loan vs. the life of a 30-year loan.

The chart below illustrates the savings generated from obtaining a 15-year mortgage vs the traditional 30-year one. On a median priced home of $366,930, a homeowner could save up to $117,000. Figure 1 breaks down payment and interest schedule for the two types of loans.

The saving is the result of the historically low rates, which are also lower for 15-year loans. While the mortgage rates are not going to stay this low, as Frank Nothaft, chief economist at Freddie Mac, said "a 15-year fixed is three-quarters of a percentage point even lower....You can lock that in and never have to worry about refinancing again."

There are advantages in selecting either a 15-year mortgage or a 30-year mortgage. The main advantages for selecting a 15-year loan are that: consumers pay off mortgage faster, save money in interest and build equity much faster. While these are great advantages, more Americans find using a traditional 30-year loan gives them the advantages of: having a lower monthly payment and having extra cash to increase their savings.

Home Price: $366,930
Down payment (20%): $73,000
Program rate: **30-year fixed**
Current rate: **3.452%**

Payment Breakdown
Total mortgage payment: **$1,744**
Principal & Interest: $1,310
Property taxes: $367
Homeowners insurance: $67
Private mortgage insurance: $0
Homeowners Association dues: $0

Payment Schedule

	1st Year	15th Year	30th Year
Principal	$5,680	$109,651	$293,544
Interest	$10,044	$126,202	$178,161

Home Price: $366,930
Down Payment (20%): $73,000
Program rate: **15-year fixed**
Current rate: **2.679%**

Payment Breakdown
Total mortgage payment: **$2,416**
Principal & Interest: $1,982
Property taxes: $367
Homeowners insurance: $67
Private mortgage insurance: $0
Homeowners Association dues: $0

Payment Schedule

	1st Year	7th Year	15th Year
Principal	$16,119	$122,438	$283,889
Interest	$7,667	$44,063	$61,005

* Please note that payments after fixed periods are estimates and may change based on rates at the time of reset.

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