Should Pete sell mutual fund to pay down the mortgage?

Selling high returns for low-rate debt doesn't add up

by Janet Gray
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Q. I have $103,490 left on my mortgage and I pay $325 bi-weekly on it @2.89% fixed rate (mortgage is being renewed shortly). I have the ability to pay off up to 15% ($18,700) of the original mortgage annually in a lump sum without fees. Should I pull money out of my mutual funds (averaging 7% annual return) to put down a lump payment? Or, keep everything as it is? I can also pay down up to double the required bi-weekly payment without charges also, so possibly increasing the biweekly payment would be better? Any advice?

Thanks, *Pete*

A. Pete, this is actually a common question. People want to know where their money will be most effective. You have had a low rate on your mortgage and even with renewal, it will remain relatively low. Meanwhile, your mutual funds are earning 7%.

I do not recommend withdrawing from a higher earning investment to pay down a lower cost debt. That would not be effective and there may be other fees associated with that strategy including possible deferred sales charge fees or maybe taxes (if RRSP money is involved).

If you have surplus cash flow, and no other high-interest consumer debt, then it could be a good strategy to increase the bi-weekly payment up to double the base amount. You can increase the payment off contract—and without including the new accelerated amount in the renewal contract. That way, you could stop the accelerated portion of your payments if your circumstances changed.

Just make sure you find an additional top-up amount that will be consistent and not cause any hardships elsewhere in your finances. A mortgage professional will be able to provide you with all the options to consider.