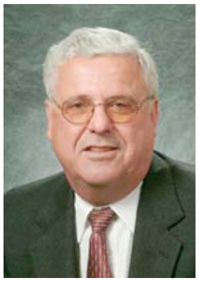

Bi-Weekly Mortgages—Everybody Wins

Borrowers pay off mortgages years faster while paying thousands less in interest while lenders increase loan efficiency and support lower-risk loans.

By Richard Maxstadt, *Senior Vice President/Chief Operating Officer, CUC Mortgage*

BI-WEEKLY MORTGAGES HAVE BEEN AROUND FOR DECADES, but have only recently been embraced by homeowners. This is because the technology for automating the bi-weekly payments is now more readily available; the convenience and reliability of having payments automated has been a big factor in moving many borrowers to a bi-weekly product. Estimates for the industry place the total number of current subscribers to bi-weekly programs between one and two million borrowers.

However, some industry experts are pushing for an even greater use of bi-weekly mortgages to save homeowners time and money and help them "finish rich." By using automated processes to handle bi-weekly payments, homeowners strengthen their fiscal discipline while keeping onerous bi-weekly payments "out-of-sight" and "out-of-mind." These financial experts argue that by making mortgage payments automatic, the temptation to spend money earmarked for bills is removed. Thus, homeowners are supported in achieving the three crucial objectives for finishing rich: saving wisely, eliminating debt, and owning a home free and clear.

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Borrower benefits

A bi-weekly payment schedule is a formal method of mortgage prepayment. On this schedule, borrowers make a payment on their mortgage every two weeks. Each payment is roughly equal to one-half of a monthly payment. When borrowers maintain the schedule, they make one extra monthly payment over the course of each year (i.e., 26 bi-weekly payments equal 13 monthly payments, or one additional monthly payment per year). Borrowers will also pay less interest because their payments are applied to the principal balance more frequently, thus paying the loan off in a shorter period of time and building home equity at a faster pace. Convenience is another benefit—by setting up a bi-weekly mortgage payment plan the money is automatically withdrawn from the borrower's checking account every two weeks. No more checks to write, no worrying about payments while on vacation, and no late fees.

Just how much money can you save using this method, and how many years can you shave off your mortgage? For typical borrowers, the answer may surprise you.

As an example, let's assume a borrower has a 30-year mortgage of $150,000 at a six percent interest rate. The normal monthly payment is $899 (rounded to whole dollars). Over the 30-year term, the borrower will pay about $323,755 in total, with $150,000 of that being a return of principal, and the rest, $173,755, being interest paid. But if the borrower arranges a bi-weekly payment schedule, he or she will pay $136,534 in interest, saving a total of $37,221 in interest. Moreover, the borrower will pay off the loan in 24.5 years instead of 30. That's owning your home free and clear five-and-a-half years sooner!

Lender benefits

Lenders also benefit from the bi-weekly program, even though the thought of a performing loan paying off early may not, at first, seem appealing. However, considering that the average servicing life of a loan is only seven years, the additional fee revenue the lender receives today can be more valuable than any loss of future revenue that may not be realized for decades. Moreover, when borrowers use the bi-weekly payment schedule, loan performance tends to be stronger with fewer delinquencies, and overall the servicing is seamless with very little borrower interaction.

The most significant factor motivating lending organizations to offer this service seems to be revenue. With the decline in residential mortgage loan originations, financial institutions are looking inward at their lending departments to increase income. Eliminating paper billing and automating payments brings down loan costs and increases overall lending efficiency. Automating mortgage payments around the borrower's payday every two weeks is a great way to help create and support good budgeters and consistent payers. History has shown that borrowers who pay their loans with an automated draft from their checking account tend to leave those arrangements in place

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even through various interest rate cycles. As a result, prepayments are lower because borrowers refinance at a slower pace. Many borrowers are becoming more sophisticated about financial planning and when the stock market goes through turmoil they see a safe haven in their homes—and the bi-weekly product helps them build equity in their homes more quickly.

Bi-weekly mortgages can bundle automatic payment convenience with the financial benefits of significant savings on interest (often in the tens of thousands of dollars) and the promise of loan payoff many months, even years, earlier. When you add in member loyalty and cost savings to the lender, it's easy to see why bi-weekly mortgages are a win for everybody. □

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