



NEWS & MEDIA

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Simple Trick Saves Buyers Thousands of Dollars

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If a buyer pays half their monthly payment every two weeks, they'll pay off a 30-year loan in less than 26 years and save \$20K in interest (\$200K loan, 4.1% APR).

KANSAS CITY, Kansas – Have you heard of the cool way to make an extra mortgage payment every year? No, not the one where you make a full extra payment at the end of the year. That's not a secret, and coming up with an additional full mortgage payment – especially in December – is not that cool.

By default, mortgage payments are made once per month, equating to 12 full mortgage payments in a year, but what would happen if you were to make biweekly payments? Using this strategy, either you or your lender would split your monthly payment in half and submit a payment every two weeks. A quirk in our calendar allows you to get ahead.

There aren't a uniform number of days in each month, so by making biweekly mortgage payments, you'll make 26 "half-payments," or 13 "full" payments per year instead of the normal 12 payments.

In other words, you make one extra full payment per year, and you won't even feel it because you've budgeted for it.

It's important to distinguish here that we are talking about equal payments every two weeks – not two equal payments per month. That would equal 24 half payments, or 12 full payments. That's fine if you just want to avoid a large withdrawal around the first of the month. But it's the 26 half payments that really begin to offer additional benefits such as:

Paying less interest over time

When you make a mortgage payment, the bank actually splits up the money and divides it out to various things. During the first few years after you take out your mortgage, most of the money will be going toward interest and very little will be going to reducing the balance

of your loan (sadly). This process is called amortization, and anyone who's ever had a loan literally had to pay their dues, especially during those first few years. But here's where making biweekly mortgage payments can really help you. Since you'll be making an extra payment each year, you'll pay down the principal even faster. This means that each interest payment thereafter will be smaller than if you hadn't made that extra payment. Over the course of your loan, this can save you a significant amount of money.

Building equity faster

Continuing that thought, one of the biggest benefits of making biweekly mortgage payments is that you build home equity faster. When you make biweekly payments and manage to squeeze in that extra payment each year, you'll be making extra payments toward reducing the balance of your loan. And that extra payment will give you a small push toward building equity. There are a lot of advantages to having as much home equity as possible. For example, if you have enough home equity, you can take out a home equity loan to finance things like repairs or remodels, or you can increase your proceeds when and if you sell your home.

Dropping your PMI sooner

In 2017, the average homebuyer bought their home with a 10% down payment. That's not bad, but for most conventional loans (not including FHA, VA and USDA loans), you'll need a down payment of at least 20% to avoid paying for private mortgage insurance (PMI) each month. Once you reach 20% equity in your home, you can ask your conventional lender to cancel your PMI payments. If you make biweekly payments, you can actually get there a lot faster because you'll be paying down the balance of your loan quicker than normal.

Paying off your mortgage sooner

By now, you get the idea so I won't belabor the point. But when you make an extra payment, you'll pay off your loan quicker. Let's look at a quick example. This scenario assumes a \$200,000 loan with a 30-year fixed term at 4.125% APR.

Monthly payment – biweekly payment

- Payment amount: \$775.44 – \$387.72
- Number of payments per year: 12 – 26
- Total paid per year: \$9,305.28 – \$10,080.72
- Number of years to pay off: 30 years – 25 years, 10 months
- Total interest paid: \$119,158.25 – \$100,077.57
- Total cost: \$325,158.25 – \$306,077.57

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