

the Mortgage Bulletin

Week of December 19th, 2005

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Don't you wish



Robert Redford
Wish again

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Ashley Judd
We can dream

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Bi-weekly mortgage payments

Consumers get lots of offers in the mail every day, most of which can be categorized as junk mail. One such offer, which seems to arrive around the first of each year, is the one that promises great savings by enrolling in a bi-weekly mortgage payment plan. So this week's Mortgage Bulletin is a preemptive strike against the bi-weekly mortgage payment offer that you may be receiving in the next month or so. For it truly is an offer without value – in the truest sense, junk mail.

The firm making the offer usually asks for an initial enrollment fee for the program and sometimes an annual fee as well. The complete offer goes something like this.

By paying an "enrollment fee" of \$150 or so, and making payments every two weeks in an amount equal to one half of your monthly payment, you can cut years off your thirty year loan and save thousands in interest.

That sounds like a pretty good deal, and who isn't interested in saving money? But, are these offers legitimate? Do they make sense? Are the figures right?

Answers to these questions can be found in the figures. Sorry, but figures are necessary to clearly explain what's going on. Figures will be based on a thirty year mortgage of \$600,000 at 6%.

Monthly payments required to amortize this loan over thirty years are \$3,597.30. The total amount you pay each year is thus \$43,167.60. You will need to refer back to this figure shortly. So remember it.

Half of the \$3,597.30 monthly payment is \$1,798.65. This is the amount you must pay every other week according to the bi-weekly plan.

NOTE — YOU MAKE THIS PAYMENT EVERY OTHER WEEK, NOT TWICE PER MONTH.

If you pay \$1,798.65 every other week, the total you pay in a year is \$46,764.90. Subtract the \$43,167.60 we told you to remember and you get \$3,597.30.

Does this figure sound familiar? It should

because it is your original thirty year monthly payment. Obviously, even the mathematically challenged can see that all the bi-weekly payment plan does is get you to make one extra payment per year.

Does it make sense to do this – to make one extra payment per year? Yes, it does if you want to reduce the term of your loan. Making an extra monthly payment each year will reduce your thirty year loan to twenty four and a half years.

But (and this is why the bi-weekly payment plans are junk) you can do it all by yourself for free by simply adding 1/12th of your payment to your normal payment each month. You get the same result and you are not paying anyone to set up the plan and take your money.

There's one more important thing to know. The terms of a thirty year amortizing mortgage call for the payments to be distributed — first to accrued interest, using 30 days as the factor, and the rest of the payment goes to reduce principal. This means that the principal is reduced only once each month.

The typical offer of converting to a bi-weekly payment does nothing to change the terms of the note. Your principal balance is not reduced every two weeks as you make the payments. Therefore you pay the loan off quicker only because you are paying one more monthly payment each year.

Is it a legitimate offer? Technically, yes, it may be. But it does not change the terms of your original note such that you get credit against your principal every other week.

You absolutely can accomplish the same thing by yourself without paying for the service.

So, set up your own payment plan as outlined and when this offer appears in your mailbox, toss it and you will not only save on your mortgage interest, but also you'll save money you would have paid these people --- for nothing.

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