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The Outlook

THE MORTGAGE CORNER

“Bi-weekly Mortgage Payments”

You’ve probably heard the claim that you will save thousands of dollars over the life of your mortgage if you make your payments bi-weekly, instead of monthly. This is true – but you will need to be aware of a few things, as not all biweekly payments are set up the same.

Some financial institutions will calculate a smaller bi-weekly payment by taking $1/26^{\text{th}}$ of your annual mortgage payment (there are 26 biweekly periods in a year). Other places will divide your annual payment by $1/24^{\text{th}}$, or in other words simply divide the monthly payment by one-half. This slightly larger payment can make a big difference. The examples we will look at will be based on dividing your monthly payment in half, and then applying it as a biweekly payment, for the greatest interest-saving results.

We’ll look at a scenario with a \$100,000 mortgage amortized over a 25 year period at a 6% interest rate. (These figures are approximate and may vary slightly due to how business days fall on the calendar, etc. The payments are principal and interest only and do not include property taxes, life insurance, etc.).

With monthly payments of \$639.81 you would pay \$91,943 in interest over 25 years.

With biweekly payments of \$319.91 interest would total \$74,455 and you would pay the loan off in 20 years and 11 months. That’s savings of \$17,488.

The interest savings come from the fact that you will make two biweekly payments before your first monthly payment comes due – so you are always paying ahead. As well, there are 26 biweekly payments during a year, so you are making an extra full payment on your loan each year. Every extra dollar goes toward reducing the principal balance on your loan, which in turn reduces the balance that interest is calculated on.

Something you may want to consider when you are setting up a payment frequency on a new mortgage is the frequency of your paycheck. If you don’t get paid biweekly (note - semi-monthly doesn’t count!) it may be difficult to keep track of what day your payment is coming out of your account. In this case, it may be easier to choose a weekly payment, which has the same interest savings.

If you want to switch from monthly to biweekly payments during the term of your mortgage, you will be asked to effectively make two payments in the month you make the switch – something you may need to plan ahead for.

Talking to your mortgage broker can help you determine which payment frequency would best suit your situation.

Midwestern Mortgage