

## INTRODUCTION

In an earlier Advisor Insights article, we assessed the pros and cons of paying off your mortgage early (see <https://www.eustaceadvisors.com/blog/should-you-pay-your-mortgage>). For readers of that earlier article who are compelled to move forward with an accelerated mortgage payoff, this article will review two common options:

1. Biweekly mortgage payments and
2. Additional principal-only mortgage payments.

Both of these options can help reduce the total amount of interest paid on the home mortgage and reduce the term of the loan. With 30-year home mortgage rates staying above 6% for the past two years, the impact of these accelerated payoff options could be especially lucrative for recent homebuyers who have mortgages with higher interest rates and the bulk of their repayment schedule in front of them.

## BIWEEKLY MORTGAGE PAYMENTS

### HOW THEY WORK

A biweekly mortgage allows the borrower to make payments every two weeks rather than once a month. Over the course of a year (12 months), the borrower makes 26 half payments which equates to 13 monthly payments within the 12-month period. The extra payment is applied to the loan's principal, which accelerates the payoff of the loan, and the total amount of interest paid on the loan.

### BIWEEKLY MORTGAGE PAYMENT EXAMPLE

Using the Bankrate calculator cited in the References section, let's look at the effect of a biweekly mortgage payment schedule on a 30-year, \$350,000 mortgage with a 6.5% interest rate.

Payment schedule	Monthly payments	Biweekly payments
Payments per year	12	26
Total interest paid on loan	\$446,405.71	\$340,253.34
Loan duration	30 years	~24 years

The biweekly payment option reduced the amount of interest paid by 24% (\$106,000 less interest paid), and the term of the loan payments by about 6 years. In addition, this payment method helps the mortgage holder build up their home equity faster by reducing the principal balance on the loan at an accelerated rate.

### ADVANTAGES OF BIWEEKLY MORTGAGE PAYMENTS

1. A primary advantage of a biweekly mortgage payment schedule is the reduction in the total amount of interest paid on the loan, as shown in the example above.
2. The other primary advantage of a biweekly mortgage payment schedule is the reduction in the term of the loan. By allowing you to pay off the loan sooner than the monthly payments will, you will free up that cash flow to be used for other financial goals.
3. Your home equity (i.e., the portion of the home's value minus the loan principal owed) will increase faster with the biweekly mortgage payments. Thus, if you sell the home before the loan is paid off, you will keep a higher portion of the sale proceeds. Also, if you had to pay Private Mortgage Insurance (PMI) when you first took out the loan, you will reach the equity level needed to drop this insurance coverage and eliminate those monthly payments.

### FACTORS TO CONSIDER RE: BIWEEKLY MORTGAGE PAYMENTS

1. Once you switch to a biweekly payment schedule, you are committed to that schedule. Thus, your budget needs to allow for the increase in your monthly expenses. If your budget is tight, you should consider starting with the optional principal-only mortgage payments which are discussed in the next section.
2. Make sure that that your mortgage lender allows prepayments and check to see if there are any processing fees or penalties associated with making prepayments.
3. Confirm that your mortgage lender will apply your biweekly payments against the loan when they are made, vs. once-per-month. This ensures that you get the full interest-reduction benefit of the biweekly payment schedule.

## OPTIONAL (ADDITIONAL) PRINCIPAL-ONLY MORTGAGE PAYMENTS

### HOW THEY WORK

Typically, your mortgage lender will allow you to make additional principal-only payments via their online banking portal. If their online portal does not offer a prepayment option, you can call the lender or visit one of their offices to make the additional payment toward your principal. You will need to have your loan account information and the information for the account that you will be making the payment from available. Tell the person you are speaking with that you want to apply the additional payment to your loan principal and be sure to get a confirmation for the transaction.

You can opt to make these payments at any time, as your budget allows. The extra payment is applied to the loan's principal, which accelerates the payoff of the loan, and the total amount of interest paid on the loan.

### ADVANTAGES OF EXTRA PRINCIPAL-ONLY MORTGAGE PAYMENTS

1. Compared to the Biweekly Mortgage Payment option, making optional principal-only payments allows you to customize the extra principal-only payment amounts and frequency. This affords you flexibility in case your financial situation does not allow for an extra payment at a given time or allows you to make a larger-than-planned extra payment.
2. Making extra principal-only payments will lead to reduced total interest paid over the course of the loan, a reduction in the loan term, and accelerated equity buildup in a manner similar to the biweekly mortgage payment schedule. These advantages will depend on the amount of your prepayments and their timing.

### FACTORS TO CONSIDER RE: EXTRA PRINCIPAL-ONLY MORTGAGE PAYMENTS

1. Once you make an extra principal-only payment, you cannot undo that action. Thus, you need to ensure that your budget allows for the extra payment.
2. Make sure that that your mortgage lender allows prepayments and check to see if there are any processing fees or penalties associated with making prepayments.
3. When making extra principal-only payments, make sure that the entire extra payment is applied to your principal, not interest.

## BOTTOM LINE

If your budget and financial plan allows, accelerating the payoff of a home mortgage can significantly reduce the amount of interest paid on the loan and the loan term. You may find it helpful to talk to a financial professional when assessing your home loan prepayment or refinancing options.

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## REFERENCES

The articles below were referenced in preparing this information and are excellent resources to better understand this topic.

1. <https://www.rocketmortgage.com/learn/biweekly-mortgage-payments>
2. <https://www.investopedia.com/terms/b/biweeklymortgage.asp>
3. <https://www.bankrate.com/mortgages/bi-weekly-mortgage-calculator/>
4. <https://www.chase.com/personal/mortgage/education/financing-a-home/how-to-pay-down-your-principal>
5. <https://fred.stlouisfed.org/series/MORTGAGE30US>