

To biweekly or not to biweekly...



In the flurry of mail you receive after closing, you will almost certainly receive a sounds-to-good-to-be-true solicitation for a bi-weekly payment plan. How can paying half a payment twice a month save you thousands of dollars and cut years off of your loan term? Well, it's because you're not paying twice a month...you're actually paying a half a payment every other week. With 52 weeks in the year, you'll be paying 26 half payments annually or (drumroll) 13 full payments. The savings from a bi-weekly plan comes from adding this extra payment.

Financial planning

You can pay extra loan payments on your own, so should you bother with a bi-weekly plan? First, ask yourself if paying extra money toward your loan is something you want to do. This could be a good time to talk to a financial planner. If you still have some catching-up to do with your retirement investing, maybe extra money should be directed to an IRA or some other investment. Mortgage interest is, after all, at a pretty low rate and (generally) tax-deductible.

Consider a DIY version

Even if you decide paying down your loan is a goal, a bi-weekly plan still may not be right for you. If you are organized and disciplined enough to pay that extra payment each year on your own, maybe don't bother. Not only can save the fees of a bi-weekly plan, you can create additional savings by paying your extra payment early in the year (after all, the sooner you reduce the principal, the more interest you save). Or you can spread it out by adding an extra twelfth of your payment to each monthly check you write.

Sometimes it's a good idea

When would we recommend a bi-weekly plan? If you want to pay down your loan, but you know yourself well enough to know that you just won't do it on your own, an automatic debit via a bi-weekly plan enforces those extra payments—no self-discipline required. And if you are on bi-weekly pay periods with your employer, it can be nice to pay a half a payment out of each paycheck. Then the extra principal reduction and interest savings are an added bonus.

Caveat Emptor!

If you decide to go for it, read the fine print. Does the plan have set-up fees or per-transaction fees? Most all third-party plans do. Call your loan servicer directly and see if they offer a plan with no or lower costs. Also, ask when your payments are posted to your principal. If the plan debits your account, but holds the funds until your payment due date before posting them to your loan, you are giving up much of the benefit of the plan.



EMPLOYEES OF GUARANTEED RATE INC.
WORKSHOP
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guaranteedRate[®]

Julee Felsman • VP of Mortgage Lending
juleef@rate.com • (503) 799-3711
NMLS#120831 
CA - CA-DBO120831 • OR - Licensed • WA - MLO-120831