REAL ESTATE

Any Benefit of Weekly Home Mortgage Payments?

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Typical borrowers make their mortgage payments monthly. Some, however, make biweekly payments to reduce the term of their loans. Could weekly mortgage payments speed the payoff even further?

The answer in some cases is yes -- but usually not much more than with biweekly plans.

Converting to any schedule that increases payment frequency reduces the principal loan amount faster, resulting in less interest owed and a shorter mortgage term, says Jack Guttentag, professor emeritus of finance at the Wharton School of the University of Pennsylvania. The biggest benefit of weekly payments, however, is not cost savings, but convenience for people who are paid weekly and like to handle bills accordingly, he adds.

Biweekly payments save money over the lifetime of a loan because the schedule results in the equivalent of 13 monthly payments instead of 12 over the course of a year, says Lynn Fisher, vice president of research and economics for the

Mortgage Bankers Association (MBA). But paying weekly leads to no more savings than paying biweekly because 26 and 52 payments both add up to the same one extra month, or 13 mortgage payments, instead of 12, per year, she adds.

The first question to ask the lender is when the payment will be credited to the principal, says Mr. Guttentag, who offers tips on his Mortgage Professor website. Borrowers may assume that the weekly payment will be applied to the principal immediately when received, but most lenders apply all payments on the same monthly schedule even if a borrower makes more frequent payments, he adds.

Even if lenders credit the payment when it's received, the weekly payment schedule doesn't offer significant savings compared with a biweekly schedule.

For example, take a 30-year, fixed-rate $500,000 mortgage. At an interest rate of 4.18%, the monthly payment would be $2,439.26. A weekly payment would be one-fourth, or $609.82.

If the $609.82 payment is credited when received, a borrower would save about $63,000 in interest, Mr. Guttentag says. A biweekly payment applied when received would save $61,091.57, a difference about $2,000, he adds.

If the lender credits all payments monthly, a weekly or biweekly payment would yield the same amount of savings ($58,170.43), and a 30-year mortgage would be paid off in 26 years, according to a calculator on the Mortgage Professor website.

Lender fees imposed when borrowers formally switch to a weekly or biweekly schedule may also reduce savings, says John Walsh, president of Milford, Conn.-based Total Mortgage Services, which lends in 34 states. Several big lenders, such as Citibank, US Bank and TD Bank, have done away with biweekly payment plans in recent years, he adds.

Borrowers can just as easily, and usually without any fees, make weekly or any payments more frequent than monthly themselves, Mr. Guttentag says. If discipline is needed, they may want to schedule automatic payments or set up a dedicated bank account, he adds.

Or, because the goal is to effectively make 13 payments instead of 12, another option is to divide the monthly payment amount by 12 months and add that extra amount to the principal on each monthly payment, Mr. Guttentag says.

Before switching to any more frequent payment plan, however, borrowers always should consider their full financial picture and what else could be done with the money, says Mike Chadwick, president of Unionville, Conn.-based Chadwick Financial Advisors. Jumbo borrowers, with loan amounts above $417,000 in most parts of the country and $625,500 in high-priced areas, have enjoyed low interest rates of about 4% for the past few years. They may reap a greater return by maintaining monthly payments and instead putting that money into investments with higher returns, he says.

"For most people, it's more of a psychological decision than a financial decision to pay off the mortgage," Mr. Chadwick says. The benefits of a weekly or any more frequent payment plan, however, could increase as interest rates rise, especially if stock market yields decline, he adds.

Here are a few more options when deciding whether to switch to more frequent mortgage payments:

Prepayment penalties. Post-mortgage bust regulations have made these a rarity, but borrowers still should check with lenders to make sure, says Peter Grabel, managing director of Stamford, Conn.-based Luxury Mortgage Corp.

Variable income. Formal payment plans may not work well for someone with seasonal or fluctuating income or an annual bonus, Mr. Grabel says.

Tax savings. Borrowers may also want to consider that up to $1 million of annual interest on mortgage debt is tax-deductible, says Eric L. Green, a partner at Stamford, Conn.-based Green and Sklarz LLC, a law firm that specializes in tax matters.

For this reason, borrowers should prioritize paying off non-tax-deductible debt, such as credit cards and student loans, he adds.

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