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## MORTGAGES; Letting Your Paycheck Work for You

By BOB TEDESCHI

FOR borrowers who cannot face the prospect of paying more interest than principal over the course of a loan, mortgage lenders have begun to offer alternatives more aggressively.

Companies like Macquarie Mortgages USA, CMG Financial Services and others have unveiled mortgage products in the past year that allow borrowers with good credit and above-average incomes to accelerate their payoff schedule and reduce their overall interest liability, all without increasing their monthly mortgage payment.

"These aren't for everyone," said Tom LaMalfa, founding partner of Wholesale Access Research and Consulting, a financial industry consulting firm based in Columbia, Md. "But for those who are reasonably affluent and good savers, it makes a good deal of sense and reduces the overall loan cost."

Indeed, Mr. LaMalfa said, banks generally offer these loans, known as first-lien home equity lines of credit, to those with credit scores "comfortably in the 700s," which is well above average. Those who qualify for such loans typically deposit their paychecks directly with the lender until they need to pay their bills. That money, in the meantime, reduces the amount of principal on which mortgage interest is charged.

For instance, a homeowner with a \$400,000 mortgage might face a \$2,528 monthly payment, if he or she followed a conventional 30-year payoff schedule with a 6.5 percent fixed interest rate. If, however, on the first day of the first month the borrower deposited checks of \$10,000 into the mortgage account, interest would be charged on just \$390,000 until the borrower withdrew money to pay bills.

Assuming the borrower waited until the 21st of the month to pay, say, \$5,000 in nonmortgage bills and left the remaining money in the account, the loan amount at the end of the month would be \$397,092. (The bank would automatically deduct the mortgage interest amount of \$2,092 from the account.)

By contrast, the total on a 30-year fixed-rate loan at the end of the first month would be \$399,639, because in the early years of a loan a borrower's payment is weighted toward paying off interest. The first month's interest on the 30-year loan would, in this case, be \$2,167.

Borrowers with a first-lien home equity line can pay off loans much more quickly than they would otherwise, and reduce their overall interest burden. They may also gain access to that equity by writing a check, rather than executing a cash-out refinance.

These loans have been popular in Australia for decades, partly because Australians cannot deduct mortgage interest payments from their income taxes and are therefore eager to pay off their loans quickly.

In the United States, borrowers retain the tax advantages -- albeit at lower levels, since they generally pay less interest -- but they may give up some other options. For some banks, like Macquarie, borrowers must transfer money into their checking accounts to pay their bills, an additional step that some consumers may find burdensome.

A changing interest rate is another, possibly significant, downside. These mortgages are adjustable-rate products, and as such are tied to short-term interest rates. CMG has an interest rate cap of 9 percent to 11 percent, depending on how much a borrower pays for the loan. If short-term interest rates rise from their current level of about 5.35 percent to 11 percent and remain there, borrowers with a \$400,000 loan will pay off the loan in 29 years, but they will pay nearly \$500,000 more in interest than someone with a 30-year loan and a 6 percent fixed-interest rate.

But if interest rates remain on par with industry averages since the late 1980s, that same borrower will pay \$300,000 less in overall interest (\$175,000 total) and pay off the loan in just under 13 years. That payoff assumes the borrower has about 10 percent of his or her \$10,000 in net income left each month to reduce the loan's principal.