

High speed mortgage payoff

Some mortgage accelerators say they can help borrowers retire their loans early and save lots in interest.

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NEW YORK (CNNMoney.com) -- For borrowers who want to pay off a mortgage faster, there's a plan from the land Down Under that can add a little extra discipline.

It's a mortgage accelerator loan program pioneered in Australia. Home-buyers get a variable-rate, home equity line of credit (HELOC) instead of a fixed-rate loan for their first mortgage. They deposit their paychecks into the account and can draw on it to pay expenses and bills - including the mortgage.

Any extra cash above what the borrower takes out is put toward the HELOC.

"The money put into the account beyond interest owed applies against the mortgage loan balance, accelerating payoff and potentially saving tens of thousands in interest," said Michael Barrett, Executive Director of Macquarie Mortgages USA, one of the companies that offers the loan.

That's not the only benefit. When the account holder deposits a check, the debt immediately falls for a lower balance used to calculate interest. If the paycheck arrives on the first of the month, and the mortgage isn't due until the 28th, the balance falls by the size of the paycheck for all the days between.

If you net \$1,500 every two weeks, you could save \$12 or \$13 a month, which could knock 10 months off the term of the loan and save almost \$10,000.

The loan is suitable only for borrowers who generally have more money coming in than going out, according to Kern Lewis, a marketing director for CMG Mortgage. Borrowers with negative cash flow would just keep adding to their debt.

Lenders scrutinize applicants to make sure they're good candidates, according to Lewis. Usually they want a loan-to-value ratio - the amount owed compared with what the property is worth - to be 80 percent or better.

"We strongly train our brokers they make sure that people have positive cash flow before recommending this product," he said.

CMG offers the accelerator for refinancing as well as for new home purchases and has marketed it in the United States for about two years.

"Our CEO came across the idea on a visit to Australia," said Lewis. "Nothing like it existed here." In Australia, as many as a third of all mortgage borrowers use this kind of mortgage accelerator, he said.

CMG needed a couple years to get the system going and to find a partner-lender. It eventually got one of the biggest - [General Motors Acceptance Corp.](#) Meanwhile, Macquarie opened up its stateside operation and launched a similar product.

Not every financial advisor believes mortgage accelerators are a good idea. Some recommend their clients invest extra cash in higher-yield securities, like equities, than use it pay off low-interest debt like a prime mortgage. The variable interest rate can also be higher on a HELOC than on a fixed rate loan.

It can also be tough to figure out if a mortgage accelerator makes sense for any given borrower, according to Keith Gumbinger, of HSH Associates, a mortgage information publisher.

"It's an interesting concept," he said, "but looking at the amortization is very complicated. It's almost impossible to know if it works out for you. You can't see how the actual borrower's behavior affects it."

If borrowers increase their spending to the point where their cash flow goes into negative territory, that would slow the pay-off, not accelerate it. But for many borrowers who need a little imposed discipline, it may be a good deal.

According to a CMG calculator, a borrower with a \$200,000 mortgage, who takes home \$2,000 every two weeks and saves 20 percent of net pay could be mortgage-free in 12 years using the accelerator compared with a conventional 30-year fixed rate loan. The interest would also drop by \$125,000.

Both CMG and Macquarie said their businesses are increasing rapidly. But Gumbinger doubts they'll win a wide clientele.

"Other mortgage products have come and died on these shores," he said. "Americans like the old, fixed-rate loans. Oh, we'll take an [ARM](#) if we have to but that's not what we prefer."

"High-end, sophisticated borrowers who are intent on quick amortization will probably support these mortgage accelerator products." ■