

BI-WEEKLY PAYMENTS

UNDERSTANDING BI-WEEKLY MORTGAGE PAYMENTS

Because you have recently taken a mortgage, you are likely to receive solicitations regarding bi-weekly mortgage payments. These solicitations are not generated by Trustmark National Bank. Third-party companies are obtaining your information from public county records.

Before rushing to sign up for a biweekly payment plan, let us explain how the program works and provide you with some no-cost options.

HOW IT WORKS

The terms of a typical mortgage requires one payment per month, which equals 12 payments per year. Therefore, a 30-year fixed rate mortgage requires 360 payments to pay the loan in full.

Each mortgage payment is split into two parts — a principal portion and an interest portion. The longer you have your loan, the balance between your mortgage payments' principal and interest shifts. In the early years, a significant portion of your payment is comprised of interest and just a small portion goes to paying down your principal balance. It's not until later in your loan's lifecycle that the principal portion of the payment begins to grow. This repayment schedule is the reason why after a few years your principal balance has been barely paid down. The technical term for this repayment schedule is amortization.

A bi-weekly mortgage payment program is meant to short-cut your loan's amortization schedule. Instead of making 12 payments per year, the bi-weekly payment plan asks for one payment every two weeks, which adds up to 13 payments per year.

With a mortgage, you pay a certain amount of interest on an annual basis and that amount is covered in your first twelve payments. The 13th payment has to go somewhere, so it gets applied to your principal balance.

This is how bi-weekly payment plans work. With each "13th payment", the principal on your loan is reduced by the entire amount of the payment and you reach your loan's payoff date sooner.

THE TRUTH ABOUT BI-WEEKLY PAYMENTS

Bi-weekly payments plans work; there's no doubt about that. It's just basic math. However, there are several reasons why you may want to avoid enrolling in a bi-weekly mortgage payment plan.

THE CONTRACT

Bi-weekly payments are a contract and once that contract starts, as a homeowner, you're obligated to make those 13 payments per year no matter what. By contrast, with a self-managed payment plan, you never have that obligation. You may pay extra principal at any time in any increments.

THE COST

It's common for these bi-weekly administration companies to charge enrollment fees that range from \$250 to \$500. Many also impose additional charges on every transaction. Fees average from \$4 to \$10 per month. You may want to carefully reconsider these offers. It should never cost you anything to make extra payments on your own loan. **You can achieve the same results (for free) by making a single extra monthly payment once each year on your own.**

THE CONFUSION

- **Myth #1: Paying twice a month reduces the interest on your mortgage.**

If you elect to enroll in a bi-weekly payment program, you will be sending your payments to a third-party – not to Trustmark. Although you're paying a third-party twice a month, they will hold your funds in an account and make one payment to Trustmark at the end of the month. Why? Because your mortgage payment can only be applied in one installment. Think of it another way... if you enroll in a biweekly plan, you'll pay a third-party company to hold half of your mortgage payment for at least two weeks every month.

You can reduce the amount of interest paid over the term of the loan. **However, this savings can also be realized by making one extra payment per year to your principal, on your own at no cost.**

- **Myth #2: Paying your mortgage twice a month gives you better credit.**

Simply put, credit scores improve when debts are paid on time. Third-party companies use an automatic bank draft for their biweekly plans. This means you will be enrolled in an automatic withdrawal plan that assures your payments are made on time. If you're the type of person who misses a payment periodically because you forgot to write a check, an automatic payment schedule will improve your credit because of the on time payments, **but you can get the same advantage with an automatic monthly payment that you set up through Trustmark at no cost to you. Trustmark can also draft extra principal payments on a monthly basis.**



EFFECTIVE ALTERNATIVES TO BI-WEEKLY PAYMENTS

HERE ARE FOUR OPTIONS:

1. Pay an additional one-twelfth of your total mortgage payment each month. Designate on your payment coupon that the additional amount should be applied toward principal.
2. Make one extra mortgage payment once a year. Again, indicate that the additional funds go toward principal.
3. If you get paid biweekly, take half of your mortgage payment from each check and put it in a separate checking or savings account. At the beginning of the month, write your mortgage check from that account. At least twice a year you'll be including the equivalent of an extra half-payment. Specify on your payment coupon that the additional money should be applied toward principal.
4. Sign up for Trustmark's Automatic Draft Program at no charge. Once you sign up with the automatic draft program, your mortgage payment will automatically deduct from your designated checking or savings account each month. Also, you may elect to draft an additional principal payment or additional escrow payment on a monthly basis.