

Pre-Paying Principal On A Waterfront Home

by Joe Catalano

Chances are you don't own the waterfront home you are living in. While owning a home is the American dream, most people really never do. When they move or die, it's the bank that usually owns most or at least part of the property because of the outstanding mortgage that still remains.

However, you **can** own the entire house free and clear - and sooner than you think - if you make it a habit to prepay principal. Prepayment is nothing more than mailing in extra principal along with one or more of your mortgage payments each year. You not only pay off your loan sooner, but you also save a fortune in interest.

For example, on a 30-year loan of \$200,000 written at 6.5 percent, the monthly principal and interest payment is \$1,264.14. The total amount of interest paid on that loan if held full term is an astounding \$255,086.02. This means that the \$200,000 loan is actually costing \$455,086.03, but send in just an extra \$15 each month with your regular payment and you'll save \$10,679 in interest and end the loan a year sooner. Send in an extra \$100 per month - probably what you spend on Starbucks coffee each morning during that period - and you save \$55,945 in interest and end the loan 5 years and 7 months early.

Most people know that each monthly payment is composed of interest and principal. In the loan's early years, the payment is comprised mostly of interest. Halfway through the loan's term, it's about 50 percent interest and 50 percent principal. The last payment is 99 percent principal.

Loan payments are set up this way so that the lender can make as much interest, also known as profit, as quickly as possible. Even if you refinance or sell your

home a few years after purchasing, the lender still has collected a lot of interest. As a loan nears the end of its term, lenders often mail out a letter saying that the homeowner can end his mortgage by sending in the remaining principal. You end up owning the home free and clear a few months sooner, but at this point you've paid most of the interest on the loan. There's really no benefit to you. In fact, it's better to keep the loan going and have someone pay your taxes and insurance via the escrow account.

When you send in extra principal in the early years of the loan, it is applied to the back end or final payment. As the lender receives the extra money, the final loan payment advances forward, which is how the loan ends sooner. The more extra principal you send, the more quickly the loan ends and the more interest you save. You can prepay by sending extra principal monthly or in one lump sum annually. However, the earlier in the year that you prepay, the faster the loan's term is reduced. Many use their tax refunds to prepay principal. Even sending in as little as \$1 a day can save about \$20,000 in interest on a \$100,000 30-year loan. (It should be noted that you can't really send in \$1 a day. Lenders want the extra funds included with each mortgage payment.)

Think of prepayment as a forced savings plan where the return is your mortgage interest rate. In addition, you are building equity in your home faster. Mortgage coupons usually have a place for designating how much extra principal is being sent. If the coupon doesn't have a space, then include a note stating that this is what the extra money is for. This is so that the lender doesn't think you are just sending money

continued on page 59

NY STATE INSPECTIONS

T Riverhead
TRAILER
Inc. WHOLESALE TO THE PUBLIC



DRAW-TITE
HITCHES

Sales & Service

- Boat Trailers
- Enclosed Cargo Trailers
- Landscape Trailers
- Utility Trailers
- ATV Trailers
- Snowmobile Trailers
- Motorcycle trailers
- Car Trailers
- Horse Trailers

ALL TRAILERS IN STOCK!

FREE REPAIR ESTIMATES

Bearings • Brakes • Hubs • Lights • Jacks
Pintal Hooks • Rollers • U-Bolts • Springs • Axles
Free 3 Year Service On Any Trailer

HOT DEALS!

Boats 21' - 23' 5000 lb cap.

Aluminum Roller Trailer • Poly Rollers

Tandem Axle Brakes \$2,995

Call 631-727-6230

330 Flanders Road, Riverhead, NY

GUARANTEED LOWEST PRICES AVAILABLE

Visit Our Website at www.riverheadtrailerinc.com

S&S MARINE AFFILIATES, INC.

Established 1953

Located on the famous Nautical Mile in Freeport

INSURANCE QUOTES



on all vessels with no obligation!

Frank T. Abbey // Certified Marine Surveyor
Member ACMS: ABYC & Boat US Tech. Exchange

**Survey On All
Types of Vessels**



Call For Prompt and Efficient Service

102 Woodcleft Ave., Freeport, NY

516-378-2008

Fax: 378-2476

or e-mail @ SSMarine@aol.com

Pre-Paying Principal On A Waterfront Home

by Joe Catalano

continued from page 57

in earlier to apply to the next month's payment or to go into your escrow account. Another option is to write a separate check for the prepayment amount and label it as such so that there is no confusion.

Some experts say that rather than prepay, you should refinance your loan and take a shorter term; for example, go from a 30 to a 20-year mortgage. However, rates have been on the rise, meaning that you will probably have to pay a higher rate of interest than you have now. Even when the rate is lower than what you are currently paying, there are closing costs to refinance. Your monthly payment also will be bigger even if rates are lower, because the term is shorter. In addition, you are locking yourself into making that larger payment each month. However, if you keep your existing loan and just prepay, you can skip sending in extra principal whenever you are short on funds, with no penalty. You then can make it up later when your cash flow is better. But, while prepaying sounds like the greatest way to own your home sooner and save interest, speak with your financial planner before doing this.

If you have other debt, such as credit cards, which carry a higher interest rate than your mortgage, you should pay this off before prepaying principal. In addition, some financial planners suggest funding a 401K or Roth IRA first as well as checking out other investments. When you prepay your mortgage, you are using money that could earn a greater rate of return elsewhere. Another drawback is that you will lose your mortgage interest write-off sooner, and some argue (if you are in the 30 percent tax bracket) that you are still paying 70 cents of each dollar to save only 30 cents in taxes.

While financial planners can give a multitude of reasons why it may be wiser to

use this extra money for another form of investing rather than prepaying principal, there's one other factor to consider: peace of mind. Depending on how much you prepay, you can actually own your waterfront home free and clear much earlier than expected. Once the mortgage is gone, your only housing expenses will be property taxes, utilities and insurance. You then can take the money you would have sent to your lender for the remaining five, eight or however many years and use it for vacations, eating out or buying a new boat. Should you need a new dock, siding or some other unexpected maintenance item, and you are short on funds, you can always tap the equity in your home, or better yet, save some of the money that would have gone toward the mortgage and put it into an emergency fund.

One option some lenders give instead of prepaying is to convert a current mortgage into a bi-weekly. The loan term remains the same, but half of your current monthly mortgage payment is automatically deducted from a specified savings or checking account every two weeks. This results in a 13th payment being made annually. A 30-year loan will be shortened by about 8 years. Equity is built more quickly and you save tens of thousands in interest. This is a great plan – especially for the bank.

These conversions usually have a one-time set-up fee from \$300 to \$500. Then there's a monthly fee of \$3 or more, all for something that you can do yourself just by sending in extra principal with your payment. You are better off taking the set-up charges and fees and using them to prepay additional principal. These bi-weekly conversions only make sense for people who can't remember to send in extra principal or don't have the discipline to do so.



When was your last Great Date?



Great Date Now

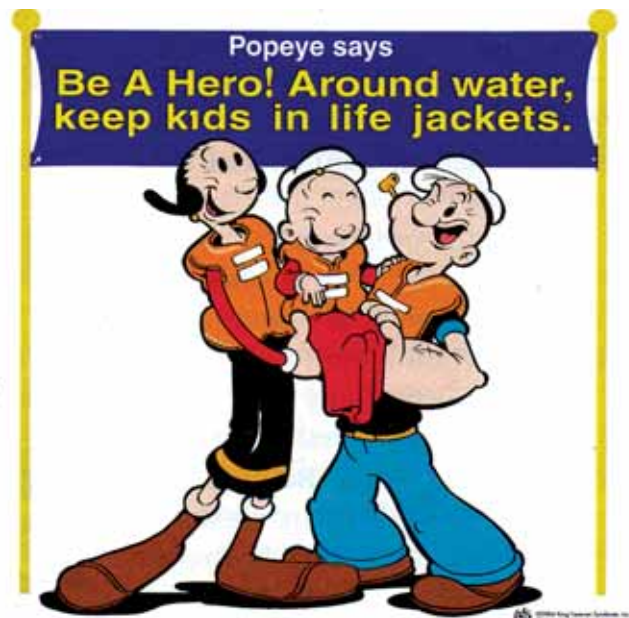
Hand Selected Introductions

For Upscale Attractive Singles

(516) 673-0777

Nassau • Suffolk • Westchester • Manhattan
Fairfield • New Haven • Bergen • Morris

GREATDATENOW.COM



**The US Power Squadrons,
Popeye & Olive Oyl
remind you to be a Hero!
Around water, keep kids in life jackets.**

For information on US Power Squadron boating courses or membership, please call 1-888-FOR-USPS or visit www.usps.org