

SUBJECT: Biweekly Mortgage Loan Payments

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INTRODUCTION

This release applies to all credit unions offering real estate loans. It describes biweekly payment plans for mortgage loans.

EXECUTIVE SUMMARY

Biweekly payment arrangements can save members thousands of dollars on their mortgage loans. The regular monthly payment is divided by two to yield the biweekly payment. However, there are two or three months per year where there are three payrolls in the month. These extra payments reduce principal quickly.

Loan documents may be written requiring only the traditional monthly payments, with the member voluntarily making biweekly payments by payroll deduction or other arrangements.

BIWEEKLY MORTGAGE PAYMENTS

If you are looking for a way to make your real estate loans more attractive to your members, consider offering a biweekly mortgage payment option.

Biweekly mortgage loan repayment offers those borrowers who are paid every other week a convenient way to help budget the family income. It encourages thrift and eases the burden of having such a large payment due at a particular time of the month. Of course, twice-a-month payments have this same benefit.

However, the distinct advantage of biweekly payments is that it will reduce the time it takes for your member to pay off the mortgage loan, saving money on finance charges. For example, a \$100,000 loan at 9.0% with a monthly principal and interest payment of \$804.62 takes 30 years to repay. Biweekly payments of \$402.31 (\$804.62 divided by 2) would repay the same loan in less than 22 years. The interest saved would amount to \$60,369.13.

The reason the numbers improve with biweekly payments is simple. The regular monthly payment is divided by two to yield the biweekly payments. But there are 26 biweekly periods in a year (not 24). In effect, the borrower is making two, and sometimes three, extra biweekly payments per year.

Do biweekly payment plans work with other programs? Certainly, mortgage loans just catch the most interest because their large balances offer the greatest opportunity for savings.

EXAMPLES

Consider the following charts, showing the effect of biweekly payments on \$100,000 loans normally taking 30 and 15 years to repay, respectively:

No. 1	Monthly	Biweekly
Principal	\$100,000.00	\$100,000.00
Rate	9.00%	9.00%
Term (months)	360	263
No. of Payments	360	570
Payment Amt.	\$804.62	\$402.31
Payoff Period	30 years	21.9 years
Interest Paid	\$189,664.14	\$129,295.01
Interest savings = \$60,369.13		

No. 2	Monthly	Biweekly
Principal	\$100,000.00	\$100,000.00
Rate	9.00%	9.00%
Term (months)	180	153
No. of Payments	180	332
Payment Amt.	\$1,014.27	\$507.14
Payoff Period	15 years	12.8 years
Interest Paid	\$ 82,567.99	\$ 68,387.90
Interest savings = \$14,180.09		

What's in it for the credit union? As an alternative financing option, biweekly payments can improve your matching sources and uses of funds while at the same time offering your members a real opportunity to quickly build equity. It also provides you with numerous cross-selling benefits, like payroll deduction, direct deposit, savings plans, etc. Of course, keep in mind that you will earn less interest.

IMPLEMENTATION

Once you have decided to offer the biweekly payment option and you have a member who wants to sign up for it, how do you implement the plan? The typical approach is to write the note and disclosure with a normal monthly payment schedule, with the member signing up for biweekly payments through payroll deduction. Thus, the member is legally obligated only to make monthly payments, but is voluntarily making biweekly payments.

This way the member gets all of the previously mentioned benefits of biweekly payments without being permanently locked into the schedule. If the member later needs to opt out, he merely needs to terminate the payroll deduction. It is not necessary to rewrite the loan.

The loan documentation is usually written with the normal 30 or 15 year monthly payment schedule, not to reflect the biweekly payments and any resulting shorter term. Payroll deduction does the job.

PERIODIC STATEMENTS

Various Reg. Z and Reg. X rules affect how credit unions must service mortgage loans. The League's *ii Release No. B075* provides details on these rules. They include Reg. Z §1026.41(a), which applies to any closed-end consumer loan secured by a dwelling (with a few exceptions). "Small servicers" are exempt from this rule. (A credit union is a small servicer if it, together with any affiliates, service 5,000 or fewer mortgage loans, and the credit union (or an affiliate) is the creditor or assignee for all of them.)

Under the rule, servicers must provide a periodic statement each billing cycle that shows (among other things) the payment due and how past payments were applied. The periodic billing statement must meet certain timing, form, and content requirements.

Servicers do not need to send statements more than once a month. If a loan has a billing cycle shorter than 31 days (biweekly, for example), the servicer may send a periodic statement covering an entire month. (Reg. Z §1026.41(a)(2).) The statement must show payment due and how past payments were applied, but a creditor can combine that information from more than one billing cycle in one statement. (Comment 1026.41(a)-2.) For example, if a biweekly mortgage was paid on March 6 and 20, the servicer may send a single statement showing both biweekly payments.

See The League's *ii Release No. B075* for more information.

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Legal Affairs Department
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