



# PAY OFF YOUR MORTGAGE SOONER BY MAKING EXTRA PAYMENTS EARLIER

THINKSTOCK IMAGE

By Ilyce Glink and Samuel J. Tamkin  
*Tribune Content Agency*

**Q**: I have always heard you say that if you make one extra mortgage payment per year, you can knock off seven years on the back end of a loan. If we put \$1,800 (two payments) toward principal only next month how many payments can we knock off? Does the math work the same? We are in year 13 of a 30-year mortgage. Our loan balance is about \$75,000.

**A**: You're asking for a simple answer to a more complicated question. In general, if during the entire term of a 30-year loan you make an extra payment each year to the lender, you will shorten the length of the loan term by about seven years.

But you're not at the beginning of your loan. You're almost halfway through

paying off your loan. Most of the interest you owe is front-loaded, meaning that the vast amount of the cash you pay is for interest and relatively little is toward repaying the balance. In the later years, the opposite is true, and most of your payment will go toward the principal balance with little interest repaid.

We'd suggest you find a mortgage loan repayment calculator online to put in your exact loan details to see what an extra two payments will do for you. We don't know your interest rate or your monthly payment. When people talk about making an extra annual payment on a loan, they usually mean the amount of principal and interest you pay on a monthly basis to your lender. Most borrowers' monthly payment is comprised of principal, interest,

homeowner's insurance escrow deposit and real estate tax escrow deposits.

While your principal and interest payment may be \$500 per month, your monthly mortgage payment may be \$900 when you include your real estate taxes and insurance deposits with your lender. Consider the following: If you borrow \$100,000 for 30 years, interest on the amount borrowed will have to be repaid over 30 years. If your interest rate is 4 percent on that loan, your monthly payment (principal and interest) will be about \$477. Over the life of the loan, you will pay about \$72,000 in interest.

If you rounded up your monthly payment from \$477 to \$500, the interest you pay over the life of your loan would be about \$65,000 or almost \$7,000 in interest payment savings

and you'd shorten the life of your loan by a year or so. Now if you pay an extra \$40 per month on this loan (about \$480 per year or one extra yearly payment), you'd save about \$11,000 in interest payments and finish paying off your loan in the 26th year.

The earlier in the loan that you make a prepayment, the more benefit you get from that prepayment. For example, if you plan to make a prepayment once per year during the loan, you get more bang for your buck if you make that prepayment earlier in the year than at the end of the year. Due to interest compounding, if you make a prepayment in January, you won't pay interest on that amount all year than if you were to make that prepayment in December.

We hope this helps. Thanks for the question.