

## What Is A Bi Weekly Payment Plan?

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In a bi weekly payment plan you are not getting any type of new loan or doing anything drastic to your current loan. What you are doing is making your payment in a different way. Instead of making one payment every month for a total of 12 payments per year, you are making one payment every two weeks. The benefit here comes in with the fact that you will actually make 26 payments per year which ends up being the same as making 13 regular monthly payments per year. The goals here are quite simple. Make a payment every two weeks and you will make one full extra payment every year without realizing that you are doing it or even feel the difference in money.

Most programs are set up directly through your mortgage lender. In some cases you may have to pay a fee to have the program set up for you or you may need to pay your mortgage ahead of time. The goal is that you will pay a good amount of money on your home that will be applied to your principle (be sure that it is!) and you will cut down the term of the loan and the amount it will cost you in the long run. This saves you thousands of dollars in the process.

## Why Does A Bi Weekly Program Help You?

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The best way to show you just how this will benefit you will be to give you an example. You can use a mortgage calculator to help you to get this information yourself for your own loan needs too. Here's an example of how much you could save.

Original loan amount: \$200,000

Interest rate: 6.5 percent

Term of the loan: 30 years

One payment per month: \$1264 per month

Two payments per month: \$632 every two weeks

Here are the benefits of paying in these terms. Consider this for your loan.

- If you started this loan in June of 2011, you would be paid off with the original terms in May of 2041
- If you started this loan in June of 2011, you would be paid off with the bi weekly program in June of 2041.
- If you paid off the loan through the original terms, you would pay \$255,088 in interest only on the loan.
- If you paid off the loan through the biweekly terms, you would pay \$196,307 in interest only on the loan.

As you can see, the benefits are there. You would pay off your loan just one month shy of 6 years early. More importantly, you are going to save over \$58,782 on that loan in interest. That is a remarkable amount of money. What would you do with that amount? The goal is to use the money

that you make in a better way by making the payments every two weeks. The extra payment that you end up making per year can help you to save thousands of dollars on your loan.

## A few more helpful details:

### Biweekly Payment Plans

With biweekly payments, you pay half of the monthly mortgage payment every 2 weeks, rather than the full balance once a month. This is comparable to 13 monthly payments a year, which can result in faster payoff and lower overall interest costs. For example, the biweekly mortgage payment process can pay off a \$200,000 30 year fixed loan at 7% in approximately 24 years (75 months sooner than a standard payment plan), with a total of \$68,925 in interest savings.

Your lender might offer several biweekly payment options, where you make a payment that equals half of your normal monthly payment every two weeks. There is a considerable difference between different payment plans, so you should check with the lender to find out how they will treat your biweekly payments, exactly.

What most borrowers get when they convert their loan from monthly to biweekly payments is a **pseudo biweekly** (or **standard biweekly**) payment plan. On the pseudo biweekly, the biweekly payments are credited to an account managed by your lender. Once a month, as with standard payments, the monthly payments are made out of that account. The excess amount accumulated in the account by the end of each year is equal to a full monthly payment. At this point your lender makes a double payment.

In order to set up a **true biweekly** (or **simple interest biweekly**) payment schedule, you must have a lender that will immediately credit each 1/2 monthly payment upon receipt. The lender must calculate interest for two-week intervals and apply the biweekly payments less the interest to reduce principal every two weeks.

Biweekly payments should not be confused with **bi-monthly** payments.

### Semi-Monthly or Bi-Monthly Payments

The payment option commonly called '**bi-monthly**' is a **biweekly** payment option, however, some lenders offer a true bi-monthly payment service to

homebuyers.

With **true bi-monthly** (or **semi-monthly**) payments, you pay half of the monthly payment twice a month (for example, you pay 1/2 of the monthly payment on the 1st of the month, and the other half on the 15th). There will be a total of 24 semi-monthly payments in a twelve-month period and the lender must not hold the payment until the end of the month and apply it to the loan balance right away.

Semi-monthly or bi-monthly payment plans don't achieve the same results as the biweekly payment plan and are rarely used. On a 30 year fixed mortgage, for example, it will take 29 years and 11 months to pay off (1 month sooner than a standard payment plan), and you will save only one month's interest.

Please note that if your lender withdraw half of the monthly payment from your bank account every half of the month, but apply the payments to your loan only once a month (as they did before), you will save nothing at all. This kind of bi-monthly payments, however, allow you the flexibility to schedule your monthly payments in a way that works better with your personal finances.

### 'Do it Yourself' Biweekly

If your lender does not offer a biweekly program and you are interested in paying it off early, you can open a bank account, arrange for it to make your monthly mortgage payment every month and pay half the monthly payment into the account every two weeks. At the end of each year, write a check on this account for an amount equal to your monthly payment and send it to the lender.

There is another simple method for prepaying a mortgage loan. Add an amount equal to 1/12 the monthly mortgage payment to each monthly payment and you will pay off the loan a little earlier than if you take out a standard biweekly.

### Payment Plans Comparison Chart

Loan Term: **30 Years** | Loan Amount: **\$100,000.00** | Interest Rate: **7.000%**

Regular Monthly	Bi-Monthly	Additional 1/12 of	True	Standard
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	Payments	Payments	Monthly Payments	Biweekly	Biweekly
Monthly Payment:	\$665.30		\$665.30		(\$665.30)
Biweekly Payment:				\$332.65	\$332.65
Bi-monthly Payment:		\$332.65			
Monthly Pre-Payment:			\$55.44		
Annual Pre-Payment:					(\$665.30)
Total Interest Paid:	\$139,508.90	\$139,146.09	\$105,367.50	\$105,046.26	\$106,660.63
<b>Total Interest Saved:</b>		<b>\$362.81</b>	<b>\$34,141.39</b>	<b>\$34,462.64</b>	<b>\$32,848.27</b>
Loan will be paid off:	in 360 months	in 359 months	in 285 months	in 284 months	in 288 months

### Involving a Third Party

There are intermediary companies that can set up a pseudo biweekly payment plan for you, for a fee. They usually debit your account every two weeks, but only pay your lender once a month, so the extra payment doesn't get applied to your loan until the end of the year. A third party will probably have an enrollment and bimonthly transactions fees and will hold your money, earning

interest from the deposit. If you decide to use a third party review carefully any promises of savings, and be sure to weigh any savings on your loan against their fees.