

'Mortgage accelerator' loans come to U.S.

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A different type of mortgage, called a "[mortgage accelerator](#)" loan, has migrated to the United States. It uses home equity borrowing and the borrower's paycheck to shorten the time until a mortgage is paid off, saving tens of thousands in interest expense.

Not to be confused with a biweekly mortgage loan that shortens a mortgage by paying an extra mortgage payment once a year, the mortgage accelerator loan program is based on an approach common in Australia and the United Kingdom, where borrowers deposit their paychecks into an account that, every month, applies every unspent dime against the mortgage loan balance.

In Australia, more than one-third of homeowners use a mortgage accelerator program. In the U.K., it's about 25 percent. In the U.S., the two firms currently offering these mortgages are Macquarie Mortgages USA, where it is called the Macquarie Asset Manager, and CMG Financial Services, whose offering is called the Home Ownership Accelerator.

The premise is that borrowers finance a new property or refinance existing property using a home equity line of credit, or HELOC. Borrowers then begin directly depositing their entire paychecks into the HELOC. Monthly expenses, other than mortgage payments, are funded by draws against the line of credit, whether that is by using bill pay, check writing, ATM withdrawals or a credit card tied to the line of credit. Even if you don't wind up making additional principal payments in a month, you still capture some interest savings because your average balance is less than it would have been with a conventional loan.

Example

As a simple example, let's say your mortgage payment on a conventional fixed-rate mortgage is \$2,000 and your monthly net income is \$5,000. With the mortgage accelerator, even if you spend the \$3,000 difference, your average mortgage balance for the month is \$1,500 less than it was with the conventional mortgage. That's because the entire \$5,000 is deposited in the loan account and you made draws of \$3,000 for living expenses spread over the month. At a 7¾ percent loan rate, that saves you about \$10.00 in interest expense that month.

Now \$10 here and \$10 there does add up over time, although both loan programs have annual fees of \$30 to \$60, but the accelerator part of the mortgage lies in having all your net pay going against the mortgage and an assumption that you have positive monthly cash flow -- meaning you don't spend as much as you make. The [simulation calculator](#) on the CMG Web site has stock assumptions that you have 10 percent, 20 percent or even 25 percent of your net pay leftover each month that you can apply to your mortgage balance. The Macquarie site has its own [simulation calculator](#).

Not for the financially undisciplined

Of course, all borrowers already have that money available with a conventional mortgage, too -- and without the cost of refinancing. A borrower would simply need the financial discipline to use all that money as an additional principal payment.

For the undisciplined, the mortgage accelerator program makes the additional principal payments automatically. That's the real hook to this program -- unless you spend the money by drawing against the line of credit, your paycheck goes toward paying off the house.

Where a mortgage accelerator loan program gives the homeowner additional flexibility, however, is in having the line of credit available if there is an emergency need for cash. Make additional principal payments on a conventional 30-year fixed-rate loan and you can't borrow that money without taking out a home equity line of

credit or home equity loan. With the mortgage accelerator program you already have the line in place. That gives homeowners confidence that they can be aggressive in repaying the loan and money will still be readily available if a financial emergency crops up.

Homeowners could cobble together a payment plan similar to a mortgage accelerator on their own by taking out a conventional HELOC, but a mortgage product specifically structured for this approach to consumer finances has some advantages.

Some of the product attributes of the Home Ownership Accelerator and Macquarie Asset Manager are shown in the following table.

Accelerator mortgage comparison		
	Macquarie "Asset Manager" loan	CMG "Home Ownership Accelerator" loan
Loan type	first lien HELOC	first lien HELOC
Index	Prime 1-month LIBOR	1-month LIBOR
Direct deposit of income required	No	Yes
Deposits/ payments	Funds transfer "to" (ACH Credit)	Funds transfer "to" (ACH Credit) Funds transfer from (ACH Debit) Direct deposit Wire transfer to account Bank by mail
Withdrawals	Checks	Checks ATM (STAR\CIRRUS network, 8 free\month) VISA point-of-sale card Online bill pay
Life cap	21%	5% over initial rate
Minimum FICO score	660	680
Maximum debt-to-income ratio	45%	48%

Sources: CMG Home Ownership Accelerator comparison chart, Macquarie Asset Manager flier, MGIC Insight Features (March 2006)

Mortgage accelerator loans have interest-only minimum payments during the first 10 years -- although that goes against the idea of paying off your mortgage as fast as you can. After 10 years, the line of credit decreases by 1/240 each month over the remaining loan term (20 years x 12) forcing principal repayment until the loan is paid off at the end of the loan term.

Another argument for this approach to financing is that your idle cash is saving you the mortgage interest rate versus earning a low [passbook savings rate](#). While short-term investing alternatives that pay higher rates do exist, the savings are automatic with the mortgage accelerator program.

A HELOC is a variable rate and the interest rate will fluctuate with changes in the underlying pricing index. Lifetime caps limit the homeowner's exposure to higher interest rates with the Home Ownership Accelerator limiting that risk to 5 percent over the start rate as a lifetime interest rate cap. The Macquarie Asset Manager loan program has a lifetime interest cap of 21 percent.

These loan programs aren't available in all 50 states. As of November 2006, [CMG's Home Ownership Accelerator program](#) is currently available in more than 20 states and [Macquarie's Asset Manager program](#) is available in about 24 states with availability in a half-dozen more states on a correspondent lending arrangement.

Brooke Barnett, "ownership accelerator specialist" at Rancho Funding, a San Ysidro, Calif., mortgage broker that offers the CMG loan program, sees this loan program as ideal for financially savvy homeowners who are spending less than they make each month.

The savvy part, being able to earn the mortgage interest rate on idle cash instead of the low rates paid on checking and savings accounts, attracts customers that take a big-picture view of their finances. Money that isn't going toward expenses is reducing the balance on the mortgage, and by doing that, reducing the interest expense.

Barnett suggests that a Home Ownership Accelerator loan could also be used in lieu of taking out a [reverse mortgage](#) on a home. With enough equity in the property the homeowner could avoid minimum payments over time using negative amortization up to the amount of the HELOC.

While these loans are HELOCs, they are also first mortgages on the property, so the closing costs are about equal to the closing costs on a conventional 30-year fixed-rate mortgage. Like any refinancing decision, closing costs are a factor, and the longer you plan to be in the house the easier it is to justify refinancing your mortgage loan.

The lenders expect homeowners to be less rate sensitive about these accelerator mortgages because of the interest savings available by using the program. The product is new enough in the U.S. market that it will take some time to validate that expectation.

Interest savings are still available the old-fashioned way by making additional principal payments on a conventional fixed-rate mortgage. Bankrate's [mortgage payment calculator](#) allows you to make additional principal payment assumptions on your mortgage and you can then compare the interest savings with the results of the simulation calculators offered by [Macquarie](#) and [CMG](#) because their simulators don't make any assumptions about the homeowner in a fixed-rate mortgage making additional principal payments.