

## In The News

### Mortgage for the Disciplined

by Kathleen Pender

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At a time when most homeowners are trying to pay off their loans as slowly as possible, CMG Financial Services of San Ramon is introducing a mortgage that's designed to help borrowers accelerate their principal payments as painlessly as possible. That sounds like a worthwhile goal, but the loan is complicated and carries an above-average, adjustable interest rate. Called the CMG Home Ownership Accelerator, the product marries a mortgage with a checking account. Homeowners directly deposit their entire paycheck -- along with other checks they get each month -- into their mortgage instead of their checking account.

These deposits reduce their principal balance. Throughout the month, they can access their money by writing checks or using an ATM card, just like they would with a checking account or a home equity line of credit. These expenditures increase their loan balance. At the end of each month, interest is assessed on the daily loan balance. The monthly interest charge is added to principal. The homeowner does not write a check to pay interest or principal. Even so, "the loan pays off faster than a traditional mortgage because with a lower average balance, there is less interest charged and therefore more of the person's income can stay in the mortgage in the form of principal," says Doug Nesbit, a vice president with CMG. How much faster it pays off depends on how much a person makes, how much he spends and what happens to interest rates.

People who earn substantial incomes and save a lot will pay off the loan far more quickly than people with modest incomes that barely exceed their expenses. People who continuously spend more than they earn will keep adding to the principal and their mortgage will end up like a negative amortization loan.

Nesbit says those kind of people should not get this new loan. CMG says its accelerator loan "is ideally suited for homeowners with a stable salary, good credit and financial discipline." **Joyce Franklin**, a financial planner with **JLFranklin Wealth Planning**, says "a borrower with financial discipline who wanted to pay down principal could do so on her own, without a fancy product" that charges a premium rate.

The new CMG loan carries an adjustable rate that varies monthly. It is set at 3.25 percentage points over the one-month London Interbank Offered Rate. That margin is a full percentage point higher than the margin on a traditional adjustable-rate mortgage. If taken out today, the rate on the CMG loan would start at 6.34 percent. If short-term interest rates continue to rise, it could shoot up quickly. The lifetime cap is 5 percentage points higher than the initial rate.

By comparison, the average rate on a 30-year fixed-rate mortgage was 5.71 percent last week and the average rate on a one-year Treasury-indexed adjustable-rate mortgage was 4.26 percent, according to Freddie Mac. Nesbit says CGM needs to charge a higher rate because its mortgage is more "transactional" than most. Even with the higher rate, he says, most disciplined borrowers will save money over a conventional mortgage because they will pay it off faster. Kacy Gott, a financial planner with Kochis Fitz, says his firm often advises sophisticated investors to minimize their mortgage payments and put the money they would have devoted to principal into something with a higher expected return. "It's cheap money," he says. The problem is, many people who minimize their mortgage payment -- by using interest-only loans, for example -- spend their forgone principal payments "shopping the sales at Nordstrom or taking a vacation,"

Gott says. Those people, he says, would be better off paying down their principal. But like Franklin, he's not sure the new CMG mortgage is the best way to do it. Gott says borrowers would need to make sure they don't jeopardize their federal tax deduction for mortgage interest with the new loan. Nesbit says borrowers would need to keep good track of monthly expenditures to make sure they don't lose the deduction.

This is a complicated issue, and CGM says borrowers should consult their tax advisors. Although the new loan is being pitched as a way to pay down a mortgage quickly, it is technically an interest-only loan for the first 10 years, with the principal being amortized over the next 20 years. Nesbit says "interest-only" is a bit of a misnomer because "you are making principal payments whether you know it or not" in the first 10 years. GMAC has agreed to buy and service the loans, Nesbit says. CMG says similar products have been available in Britain and Australia, but never before in the United States.

My sources confirm that this may well be the first of its kind in the United States, but are not sure whether it will be a success. "The last British product that tried to make it over here was the annuity mortgage," says Keith Gumbinger, vice president with HSH Associates. That product never caught on. "My suspicion is it's going to be too complicated to most audiences," Gumbinger says. "It's an interesting concept, but I don't think that it's got legs."