



Season 1 Episode 3 – Managing Mortgages: Be INFORMED

March 6, 2023

Speaker 1:

It's time for Alabama Money with Cynthia White and Portia Johnson. We'll have financial tips from financial experts from across the state and extension specialists at Auburn University.

Portia Johnson:

Hello and welcome to Alabama Money where we talk finance facts fun and fast. We are Portia Johnson and Cynthia White at Auburn University. Today we're discussing money and your mortgage payment. This is the first episode in a three-part series on being informed, prepared, and proactive. Today we're going to focus on being informed.

Cynthia White:

A lot of people think making mortgage payments is straightforward and easy. To some degree, yes it is, but a huge amount of people never read their mortgage documents at the closing table or afterward. How do you catch the errors? Those lender errors can cost home buyers thousands of dollars.

Portia Johnson:

And paying mortgage isn't so straightforward when you can't make the monthly payment or if something about your loan servicer or your terms change. People need to know what to do in both those situations. So they need to be informed about their mortgage. They need to be prepared when the unexpected strikes and proactive to mitigate any bad outcomes.

Cynthia White:

Topic number one, every month when someone gets a mortgage statement in the mail or in their email inbox, for those paperless lovers... Speaking of paperless billing, which do you prefer?

Portia Johnson:

Well, I personally prefer a paper bill myself. How about you?

Cynthia White:

Myself, I prefer paperless. I would prefer just getting the email.

Portia Johnson:

Okay. Well, one pro to getting the paper in the mail is you can understand what your bill looks like because you actually have to see it. It's not out of sight and out of mind. But back to what we were saying about the monthly mortgage payment. Know the servicer. The servicer is the company that manages your loan. It also manages the payment. They are the ones sending you the statement every month. It may be different from the company you originated the loan with when you signed all that endless paperwork at the closing table. They can change, and that is not uncommon.

Cynthia White:

I had a loan on a one house where the mortgager changed three times in two years.

Portia Johnson:

Yeah, similar situation. So yes, loans get bought and sold all the time. Always check the mortgage servicer every single time. The servicer name is usually listed at the very top of your mortgage statement, and their contact information will be somewhere on the document too. Check the back if you don't see it on the front.

Cynthia White:

Topic number two, explanation of amount due. Of course, you want to check the amount that is due. That amount will be in a section usually called explanation of amount due. It not only tells you what you owe but how your payment will be applied,

Portia Johnson:

That's a really important piece because it impacts your taxes, your insurance, how long it will take you to pay off the loan, a lot of different factors. So the principal, the principal is the amount you pay toward what you originally borrowed from the lender. The interest on the other hand, is actually the cost of borrowing. It's the money you pay to the borrower for the privilege to borrow their money.

Cynthia White:

That part, the interest, goes to the lender. It is not paying down your actual loan balance.

Portia Johnson:

At all. And escrow is the money put aside to help pay your property taxes and your homeowner insurance every year. Think of escrow like a piggy bank or a savings account.

Cynthia White:

Not every mortgage has an escrow account. Some people choose to pay their property taxes and insurance directly themselves. Escrow accounts are probably a good idea for most first-time home buyers, especially because it makes saving for taxes and insurance a little easier. Most mortgage lenders require borrowers to have insurance.

Portia Johnson:

Next topic. What else is on that statement? There will be sections on the account information and a basic overview of your account. Those sections might include things like account number, payment due date, the amount that's due, your total outstanding principal balance, and the current interest rate. Each statement will be just for that billing cycle, so there will be a statement date, and you'll get a statement every month.

Cynthia White:

Now the details info. Details about past payment activity and breakdown should be at the bottom or the back of the statement. Speaking of the statement date, any transaction that happens since the last statement date will be in the activity section. Transactions might include any payment that you made, fees, charges like a late fee. The date and amount of the activity will also be listed there.

Portia Johnson:

Right, so this is the place you want to check for errors. When you're checking for errors, check the activity section. You'll be looking for any new or unexpected fees or charges that you weren't anticipating, and if your payment was credited to your account on time for the last time you paid the bill.

The past payment breakdown is another section to catch these types of errors. This section shows how your previous payment was applied to your principal, the interest, the escrow, and any fees. If you see an error, which will probably be there, call the servicer immediately and have them correct it.

Cynthia White:

Now, sometimes we know working with customer service can be a pain. If you aren't getting help over the phone, put the issue in writing. Send a written letter detailing the issue to the company. Send it to the emailing

address for errors and information. That address may be different from the one where you send your checks and payments.

That is very important. Companies have different departments with completely different mailing addresses. If you don't get your info to the right department, it's often the same as never sending it in at all.

Portia Johnson:

Exactly. Always have a copy of your records, too, because things get lost and overlooked all the time. One time I sent a power of attorney to a mortgage company two times before they told me they accepted it, and it took another three times before it was actually on record.

Cynthia White:

If you still aren't seeing progress after writing that mortgage company, contact the Consumer Financial Protection Bureau at (855) 411-CFPB, that's (855) 411-2372, or online at www.consumerfinance.gov. On the CFPB site, you can also download a sample letter to use when contacting mortgage companies to explain an error or request more information,

Portia Johnson:

And then there is actually making the mortgage payment. After you reviewed the statement, you've made sure that all of your past payments were applied on time, now it's time to pay the bill on time so you can avoid any fees.

Cynthia White:

That means if you pay by mailing a physical check or sending bill pay directly from your bank account, do it early enough to account for the days it takes for the actual transfer to occur.

Portia Johnson:

Setting up automatic payments is a good way to avoid getting any late fees. You can set up automatic payment with the mortgager directly and have them deduct the money from your bank monthly, or if you don't feel comfortable with that, you can set up an automatic payment with your bank or credit union to have them send it directly on your behalf. There are a few tips and tricks to paying down your mortgage a little faster, and we'll talk about some of those.

Cynthia White:

That's where the difference between principal and interest kicks in and why looking at the section on past payment breakdown is really important. Making just one extra payment each year toward the principal can save you money and knock years off your mortgage term.

Portia Johnson:

This is really one of my favorite topics, so let's get into it. Let's break down this golden rule. Say you have a loan for \$300,000 with a 30-year term and a 4% interest rate.

Cynthia White:

Now, this means you originally borrowed \$300,000 from your lender. You promised to pay the loan back over 30 years, and the lender is charging you 4% to borrow their money.

Portia Johnson:

Exactly. Your monthly mortgage payment might look something like \$1,350 a month without adding the taxes and the insurance. If you paid that bill on time every time for 30 years, making no extra payments at all, you will end up paying \$492,000 when it's all said and done.

Cynthia White:

Now, that is the \$300,000 that you originally borrowed plus \$192,500 in interest.

Portia Johnson:

Exactly. But say you make an extra payment of \$250 every month and you make that payment just to your principal, if you do that, you'll knock seven years off of that 30 years.

Cynthia White:

So you finish paying the loan in 23 years instead of 30 years.

Portia Johnson:

And you avoid paying almost \$60,000 of that \$192,000 in interest.

Cynthia White:

That's the power of paying principal payments. You can make an extra principal payment each month. You can make an extra principal payment once a year whenever possible, getting a large tax refund, a bonus at work, a financial gift, or just from your savings account, making that extra payment counts.

Portia Johnson:

Some people who get paid biweekly opt to make biweekly mortgage payments. However you choose, just be sure to specify to the mortgage the extra payment is for principal only. That is very important. Otherwise, they might choose to use that extra payment toward interest, and that won't help you at all.

Cynthia White:

Well, that's all we have time for today. In the next episode, we will discuss other ways to save on your mortgage over time and prepare for changes in the loan.

Portia Johnson:

To recap, we covered understanding what your monthly mortgage payment includes, checking for any errors, reporting any concerns to the CFPB, and paying your monthly mortgage payment on time, making extra payments when you can. Check the listener toolkit for links to resources mentioned in today's podcast.

Cynthia White:

I'm Cynthia White.

Portia Johnson:

I'm Portia Johnson,

Cynthia White:

And this is Alabama Money where we talk finance facts fun and fast.

Speaker 1:

This has been a production of Alabama Extension at Auburn University.