

## Understanding Pre-Paid Interest

Think of pre-paid interest the same as your house payment, only cheaper. When you purchase your home, every day the home sits, someone is paying interest on the home, (unless there is no loan). The seller/builder is paying interest every single day while he/she is waiting on the buyer to close their loan.

### From the Seller's Point of View:

**Example:** Whatever his loan amount is, multiply by the interest rate he used. You normally will not know this amount as it has nothing to do with the buyer. However, time is of the essence for the seller because every day the house sits waiting on your loan, it is costing him money.

If his loan amount is \$100,000, and he was charged a 6% interest rate. He is paying the bank, lender, creditor, someone, about \$600.00 per month for borrowing this money. **This is about \$20.00 per day while he is waiting on your loan to close.** If your loan gets delayed in closing for any reason, the seller is NOT a happy camper. Usually the seller makes a decision on his sales price based on the closing date that was presented to him at the time of signing his contract. If it starts costing him more money because of a delay on the buyer's part, the seller is usually not very happy about this as he is being cheated money that he was not planning on paying when entering into the contract.

### From the Buyer's Point of View:

When you actually close on your loan, interest starts THAT DAY. From the time the check is written to the closing title company to pay off the seller, you are being charged interest. If you close the last day of the month, your interest payment starts 30 DAYS LATER. You are getting a 30 day grace period because interest is always paid in arrears, (after the fact.)

If you close ANYTIME after the 30<sup>th</sup> or 31<sup>st</sup> of the month, (unless the lender gives an interest credit) you must pay the remaining days of interest that are left in the current month. HOWEVER, because you are paying ahead of time, your payment is still put off for another month.

**Example:** If you close June 10<sup>th</sup>. You must pay interest on the remaining days left in June. The person/company who loaned this money wants to be paid for these days. They are out the money on your behalf. At closing on June 10<sup>th</sup>, you would be paying interest for the rest of the month of June, your payment is put off for the month of July. Your payment would begin August 1<sup>st</sup>. On August 1<sup>st</sup>, you are paying for the month of July, (remember in arrears; after the fact.)

Although you will have to initially come up with more money to close, you are actually saving money because your remaining prepaid interest will always be cheaper than your house note. Remember your house note will include, taxes, insurances and usually mortgage insurance.

If you had closed May 31<sup>st</sup>, your payment would have begun on July 1st.