

New Loan Option Requires Discipline

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An East Bay financial company believes it has fashioned a one-of-a-kind tonic for people who want to keep their balance sheets healthy in a time of skyrocketing house prices and more costly home loans.

For homeowners who can control their spending, the loan offered by San Ramon-based CMG Mortgage Inc. enables people to pay off a 30-year adjustable rate loan in about 16 years. Executives with CMG believe the loan can be an alternative for people concerned about never reducing their loan balance because they have obtained an interest only loan.

"This is the first of its type, it is unique," Chris George, CMG's president, said Thursday. "Our loan is the first to combine a home mortgage, checking account and a line of credit in one package." CMG rolled out the loan in California, Oregon and Washington.

The new loan also could benefit homeowners who are worried about what might happen to the value of the equity they own in a house should home prices in the super-heated Bay Area market suddenly deflate. That's because the loan is structured to let borrowers build up equity more quickly.

Here's how the new loan would work. A homeowner would be obliged to deposit their entire paycheck in an account set up by CMG. The balance on the home loan would be reduced by the amount of the paycheck.

For everyday living expenses, people who get this loan could then use any equity they have built up as a line of credit to pay their bills. As they write checks or use an ATM card that comes with the loan package, that would then increase the amount of the loan.

The new loan also offers an online bill-pay feature. The accounts in the program are being handled by GMAC Bank, a unit of GMAC Financial Services. CMG may set up its own bank in the future to service the accounts.

CMG executives believe homeowners would be able to save thousands of dollars over the life of the loan and dramatically reduce the term of the mortgage because the structure of the loan would produce a lower daily balance for the mortgage. A lower daily balance would reduce the monthly interest on the loan, and is possible because the principle on the loan is reduced every time a borrower's paycheck gets deposited in the CMG mortgage account.

"A lower daily balance equals interest saved, and since interest saved equals more money for principle, they could build equity faster and own their home sooner, with no change in their spending habits," George said.

If a borrower has a shortfall in income and makes a reduced level of deposits into the account, the loan balance would shrink less quickly, or could even increase.

This type of loan could be a problem for consumers who are unable to control their

spending habits, warned Libby Mihalka, a financial consultant and principle owner of Livermore based Altamont Capital Management.

"About 85 percent of individuals move their lifestyle up to whatever their cash flow is and this is the kind of arrangement where you can get into a lot of trouble if your not disciplined," Mihalka said.

"It's an Interesting financing instrument," Mihalka said, "But you have to be in a savings mode and you have to be disciplined"

So there seems to be a benefit for Consumers. But what about CMG? By its own admission, the company stands to miss out on thousands and perhaps tens of thousands of dollars in revenue from each accelerated loan.

"We would earn less interest by half so we hope to make up the revenue by writing more loans" said Doug Nesbit, CMG's vice President of marketing. "I guess you could say we will make it up on volume."