

A SMART PAYOFF STRATEGY

How Extra Principal Payments May Shorten a Mortgage and Reduce Interest

This illustration walks through how one extra principal-only payment may reduce the total interest paid on a mortgage and shorten the length of the loan. Every borrower is different — this is an educational example, not a prediction of results.

\$450,000	6.25%	30 years	\$2,770.73
Loan amount	Interest rate	Loan term	Regular monthly payment

If the regular monthly payment of \$2,770.73 is made every month for the full 30 years, the borrower will have paid a total of \$997,462.80 to the lender.
That is \$450,000.00 in principal (the amount borrowed) plus \$547,462.80 in interest on top.

First payment is due October 1, 2026. The regular monthly payment is \$2,770.73, of which \$2,343.75 is interest and \$426.98 is principal in the very first month. In other words, in month 1, about 85% of the payment goes to the bank as interest, and only about 15% actually reduces the loan balance. That ratio is what the strategy below works against.

The Idea in One Sentence

Every mortgage payment is split into interest (money the bank keeps) and principal (money that reduces what is owed). When an extra payment is sent separately and labeled “apply to principal only,” it reduces the loan balance directly and skips the interest that would have been charged on the months whose principal was prepaid.

Two ground rules first.

- 1) Extra principal payments have nothing to do with the regular monthly payment schedule. They do not replace, delay, or reduce any monthly payment that is already owed.
- 2) Always make the regular monthly payment on time, regardless of any extra principal payments. Extra payments are additional — never a substitute.

THE EXAMPLE

Walking Through One Extra Principal Payment

Assume the borrower makes the regular October 1, 2026 payment of \$2,770.73 on time. That month, the borrower finds that they have \$900.00 extra available to put toward the mortgage. Here is how the strategy works with that amount.

Month	Payment	Interest	Principal	Balance
Oct 2026	\$2,770.73	\$2,343.75	\$426.98	\$449,573.02
Nov 2026	\$2,770.73	\$2,341.53	\$429.20	\$449,143.82
Dec 2026	\$2,770.73	\$2,339.29	\$431.44	\$448,712.38
Jan 2027	\$2,770.73	\$2,337.04	\$433.69	\$448,278.69

Green cells = principal amounts to prepay. Amber cells = interest that would have been charged on those months.

The Walkthrough

1	Make the regular October 1, 2026 payment first. Send the normal scheduled payment of \$2,770.73 on or before the due date. This keeps the loan current and satisfies the monthly obligation.
2	Identify how much extra is available this month. In this example, the borrower has \$900.00 available to put toward the mortgage above and beyond the regular payment.
3	Look at the amortization schedule for the next month(s). The principal portion of the November 2026 payment is \$429.20. Add the principal portion of the December 2026 payment, \$431.44. Together: \$900.00 is enough to cover both, since $\\$429.20 + \\$431.44 = \\$860.64$. That leaves \$39.36 unspent from the extra funds.
4	Send a separate payment for exactly the combined principal. Send \$860.64 to the lender as a separate transaction (a separate check or a separate electronic payment). Do not combine it with the regular monthly payment. On the memo line, write: "Apply this whole payment to principal."
5	When the payment posts, the balance drops. Because the principal for November and December is now prepaid, the interest that would have been charged for those two months ($\\$2,341.53 + \\$2,339.29 = \\$4,680.82$) would no longer be scheduled to be charged. In this example, the loan schedule shifts forward by 2 months. Actual results depend on how the lender applies the payment; see Step 5 in the Method section.

THE RESULT

What One Extra Principal Payment Did

The borrower sent \$860.64 above the regular payment, in a separate transaction labeled “apply to principal only.” Here is the outcome, based on the amortization math for this loan:

\$860.64Extra principal sent
(one-time)**\$4,680.82**Interest not charged
in this example**2 months**Loan finishes earlier
in this example

How the math works

Interest on a mortgage is charged on the outstanding balance, month by month. When the principal for November and December is prepaid (\$860.64), those two rows would be removed from the loan, so the interest scheduled for those months ($\$2,341.53 + \$2,339.29 = \$4,680.82$) would no longer be scheduled to be charged.

Why This Is Not Refinancing or a Trick

This is not a loophole, refinancing, or a new loan. Most U.S. residential mortgages allow the borrower to prepay principal without penalty, though borrowers should always confirm this against their own loan agreement. When prepayment is allowed, the regular monthly payment continues on the same schedule; the amount owed to the lender is simply lower.

How Much and How Often

To keep the math clean, the extra payment should equal the principal portion of the next scheduled month — or the sum of the next two, three, or more months of principal. That is the core of the method described here. It is not an arbitrary round number like \$100, \$500, or \$1,000. It is a specific dollar amount pulled directly from the amortization schedule.

Send this kind of payment once, every few months, every year, or every month. The frequency scales with the household budget; the amount of each extra payment is always tied to the schedule.

Why this specific amount, and not just any round number?

Matching the extra payment to a whole number of upcoming principal rows makes the result easy to verify. If the lender applies it correctly, the balance drops by that exact amount and the loan schedule moves forward by that many months — the borrower can confirm both on the next statement. An arbitrary round number offers no such reference point. The borrower is then left chasing the lender: how was it applied, and did the balance owed and the length of time to the payoff date actually get shorter? Tying every extra payment to the schedule keeps the strategy clear, clean, and easy to check.

THE METHOD

How to Send an Extra Principal Payment

The mechanics are the same whether the extra payment covers one month of principal or twelve. Follow these five steps each time an extra payment is sent.

- | | |
|---|--|
| 1 | Make the regular monthly payment first.
Pay the normal scheduled amount (\$2,770.73 in this example) on time. Do not skip or delay the regular payment for any reason. |
| 2 | Look at the amortization schedule for the next month(s).
The extra payment should equal the principal portion of the very next month — at a minimum. To prepay more months, add the principal amounts of the following months together and send that exact total. Do not send an arbitrary round number — the amount should match a whole number of upcoming principal rows on the schedule. |
| 3 | Send the extra payment as a separate transaction.
Write a separate check, or make a separate electronic payment. Do not combine the extra amount with the regular monthly payment. Keeping them separate helps prevent the lender from misapplying the funds toward a future scheduled payment. |
| 4 | Label the extra payment clearly.
In the memo line of the check, or in the online payment note, write: “Apply this whole payment to principal.” This instructs the lender to reduce the loan balance directly. |
| 5 | Check that the balance dropped by the full amount.
After the payment posts, check the next statement to verify the loan balance decreased by the full extra amount. If it did not, contact the lender and reference the “principal only” instruction. |

Three things to confirm with the lender before starting.

- 1) The loan has no prepayment penalty. Most U.S. residential mortgages do not, but always check the loan agreement.
- 2) The lender accepts principal-only payments and has a clear way to designate them (online, by check memo, or by phone).
- 3) A healthy emergency fund stays in place. Once money is applied to principal, it is not easily taken back — the lender generally cannot return it as cash.

MORTGAGE VAULT

How Mortgage Vault Supports the Strategy

Mortgage Vault generates the full amortization schedule for a loan, shows how each payment splits between interest and principal, and allows the user to model extra principal payments before making them. The user chooses the amount and the timing; Mortgage Vault performs the math and keeps the records. Mortgage Vault does not provide financial, tax, or legal advice.

Disclosure

Other ways of making extra payments toward principal are not wrong. This document describes what Mortgage Vault believes is the cleanest and clearest way to apply extra payments to principal, so the borrower can easily verify what the lender did and how much the loan was shortened.

This document is an illustrative educational example and is not financial, tax, legal, or investment advice. The loan terms, dollar amounts, amortization schedule, and interest projections shown are sample calculations based on the stated inputs (\$450,000 principal, 6.25% fixed interest rate, 30-year term, first payment October 1, 2026) and are not results from a specific borrower or loan. Actual outcomes vary based on the actual loan terms, interest rate, lender policies, payment history, escrow arrangements, taxes, insurance, prepayment penalties (if any), and the borrower's ability to make additional payments over time. Nothing in this document guarantees any specific reduction in interest, reduction in loan term, or financial outcome. Extra principal payments may not be appropriate for every borrower or every loan. Borrowers should review the actual loan agreement and consult a licensed financial, tax, or legal professional before making any changes to a payment strategy. Mortgage Vault provides tools for organizing loan records and modeling payment scenarios; Mortgage Vault is not a lender, broker, financial advisor, tax advisor, or law firm, and does not provide financial, tax, or legal advice.