A SMART PAYOFF STRATEGY

# How One Extra Payment Can Eliminate Months of Mortgage Interest

A simple, legal, and widely available technique that turns a modest extra payment into thousands of dollars in interest savings — shown here with an illustrative $1.7M loan example.

| | | |
|---|---|---|
| **$1,700,000** | **$11,258.48** | **$62,982.04** |
| Original loan amount | One-time extra payment | Interest eliminated |

## The Idea in One Sentence

Every mortgage payment is split into two parts — interest (money the bank keeps) and principal (money that reduces what is owed). One extra payment that goes 100% to principal does not just pay down the loan — it skips the interest that would have been charged on those months. That interest is gone forever.

## The Example

This illustration uses a $1.7 million, 30-year mortgage at 6.38% and applies the method on the very first month. Here are the loan terms and the action taken:

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|---|---|
| Loan amount | $1,700,000 |
| Interest rate | 6.38% |
| Term | 30 years (360 months) |
| Regular monthly payment | $10,605.79 |

## The Method — Step by Step

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|---|---|
| 1 | **Make the regular first payment.** In month 1, the borrower makes the normal scheduled payment of $10,605.79. Nothing unusual — just following the loan agreement. |
| 2 | **Look ahead on the amortization schedule.** The borrower looks at the principal column for the next several months on the schedule (the amounts highlighted in green in the sample below) and adds them together: $1,582.90 + $1,591.31 + $1,599.77 + $1,608.26 + $1,616.81 + $1,625.40 + $1,634.03 = $11,258.48. |
| 3 | **Send a second payment for exactly that amount.** Right after the regular first payment, the borrower sends the bank a second payment of $11,258.48. This is the total principal that would have been paid across the next 7 months. |
| 4 | **Label the payment clearly.** On the payment memo, write: “Apply to principal only.” This tells the bank the money must reduce the loan balance directly — it is not a prepayment of a future monthly bill. |
| 5 | **The bank skips ahead 7 months on the schedule.** Because the principal for months 2–8 is now fully paid, the interest that would have been charged during those months never gets charged. The next interest calculation begins from the new, lower balance. |

# The Payment Schedule — What to Look At

Below are the first months of the loan. The Principal column (highlighted in green) is what to add up to build the one-time extra payment. The Interest column (highlighted in amber) is what disappears when that principal is prepaid.

| Month | Payment | Interest | Principal | Loan Balance |
|---|---|---|---|---|
| Jan 2026 | $10,605.79 | $9,031.25 | $1,574.54 | $1,700,000 |
| Feb 2026 | $10,605.79 | $9,022.89 | $1,582.90 | $1,698,425 |
| Mar 2026 | $10,605.79 | $9,014.48 | $1,591.31 | $1,696,843 |
| Apr 2026 | $10,605.79 | $9,006.02 | $1,599.77 | $1,695,251 |
| May 2026 | $10,605.79 | $8,997.52 | $1,608.26 | $1,693,651 |
| Jun 2026 | $10,605.79 | $8,988.98 | $1,616.81 | $1,692,043 |
| Jul 2026 | $10,605.79 | $8,980.39 | $1,625.40 | $1,690,426 |
| Aug 2026 | $10,605.79 | $8,971.76 | $1,634.03 | $1,688,801 |
| Sep 2026 | $10,605.79 | $8,963.07 | $1,642.71 | $1,687,167 |
| Totals for the 7 highlighted months | | $62,982.04 | $11,258.48 | |

Sample amortization schedule for a $1.7M, 30-year loan at 6.38%. Full 360-month schedule available on request.

> **Result: one $11,258.48 payment eliminated $62,982.04 of future interest.**
> By prepaying the principal for months 2 through 8, those seven months of interest charges were never applied to the loan. The bank shifts the schedule forward, and the loan finishes 7 months earlier.

## Why This Works

A mortgage charges interest on the outstanding balance, month by month. In the early years, almost every dollar of the regular payment goes to interest, and only a small amount goes to principal. When an extra payment is sent labeled “principal only,” it skips past those small-principal months in one shot. The bank never gets to charge the interest that was scheduled for those months, because that principal is already gone from the balance.

This is not a trick, a loophole, or refinancing. It is a right that almost every U.S. mortgage gives the borrower: the ability to prepay principal without penalty.

## How To Do This on Your Own Loan

1. **Ask the lender for a full amortization schedule.**
   It lists every month of the loan and how each payment splits between interest and principal. Mortgage Vault generates this automatically.

2. **Choose how many months of principal to prepay.**
   It can be 3 months, 6 months, 12 months — whatever fits the budget. Add the principal amounts for those months together. That total is the extra payment.

3. **Send the extra payment as a separate transaction.**
   Do not combine it with the regular monthly payment. Send it as its own payment so the bank does not mistake it for next month's bill.

4. **Label it clearly.**
   In the memo or online-payment note, write: “Apply to principal only.” After it posts, check the next statement to confirm the balance dropped by the full amount.

5. **Repeat whenever possible.**
   This can be done once, once a year, or every month. Every extra dollar to principal early in the loan removes many dollars of future interest.

> **Before doing this — three things to confirm with the lender.**
> 1) The loan has no prepayment penalty (most U.S. residential mortgages don't, but always check). 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 goes to principal, it is not easily taken back — the bank cannot be called and asked to return it as cash.

## How Mortgage Vault Helps

Mortgage Vault builds the full amortization schedule, shows exactly which months to target, and calculates the interest eliminated with each principal-only payment. The borrower chooses the amount and the timing; Mortgage Vault does the math and keeps the records. Every dollar saved is a dollar the bank doesn't get.

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This document is an illustrative example. The loan terms, dollar amounts, and outcomes shown are sample calculations, not results from a specific person's loan. Actual savings depend on your loan terms, interest rate, and lender policies. This document is educational and does not constitute financial, tax, or legal advice. Please review your loan agreement or consult a licensed professional before changing your payment strategy.