

SPECIAL REPORT—**OUTLOOK 2008** P. 87

Money

Make Money in 2008

**A Month-
by-Month Plan**
to Save Smarter
Invest Better
and Live Richer
Next Year P. 103

**The Best
Little Deal in
Banking**
P. 107

**The Quiet
Rally in Tech
Stocks**
P. 82



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Question of the Month

New "Offset" Loans Sound Great. Are They?



Q I've heard that American lenders are now offering something called an **offset mortgage**, which is popular in the U.K. **Do you think this is a good deal?** —Jeffrey S. Kallas, Columbus, Ohio

Answer It depends. Here's how it works in Britain. You get a mortgage linked to a non-interest-bearing savings account whose deposits "offset" your loan balance. So if you owe \$200,000 on your home but have \$50,000 on deposit, the bank calculates your monthly interest as if you borrowed only \$150,000. The bank gets its back scratched by getting to use your deposit interest-free. You pay off your mortgage faster because more of your monthly payment is applied to principal—and you can get your hands on your savings any old time. Because this deal would give you an extra weensy tax break under U.S. law, however, no offset mortgages are allowed here.

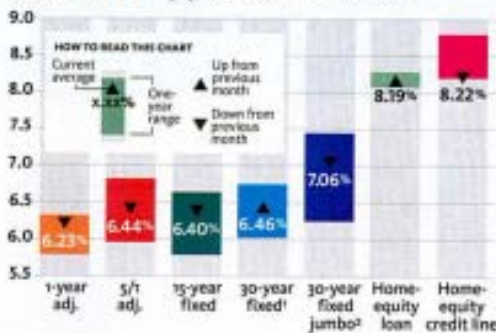
But two U.S. companies—CMG Financial Services and Macquarie Mortgages

USA—have introduced a version that passes muster with the IRS. You take out an adjustable-rate mortgage and deposit your paycheck into the mortgage account. Doing that gives you an offset on the principal, which lowers your interest. The arrangement could be useful if you receive big bonuses; you'll be reducing your interest until you use the money. But here's the real benefit: If you manage not to spend all your pay, you cut your costs. Say you save 5% of take-home pay of a gross income of \$150,000—about \$460 a month. On a \$300,000 7% mortgage, you'd slash your interest by \$197,300 and be paid off in only 18 years—and you'd still have the money you saved. But if you spend more than you put in, the difference adds to your loan balance. —CAROLYN BIGGA

MORTGAGE FILE

► HOME-LOAN RATES

Narrowing gap The spread between jumbo and standard 30-year fixed mortgages has narrowed to 0.6%.



NOTES: As of Oct. 19. ¹\$27,000 or less. ²More than \$27,000. **SOURCE:** HSH Associates.

► DEALS: Jumbo 30-year fixed-rate mortgages

Use these top local rates and terms as benchmarks when you shop for a home loan.

Wells Fargo Home Mortgage

Wayne, N.J.; 877-282-2045
Rate: 6.375%; no points
\$375 application fee
20% down payment
Maximum loan: \$1,000,000

M&T Bank Mortgage

Greenwood Village, Colo.; 303-779-8858
Rate: 6.5%; 1 point
\$363 application fee
20% down payment
Maximum loan: \$1,000,000

NOTES: As of Oct. 19. Rates and terms subject to change. **SOURCE:** HSH Associates.