

Important Facts About Interest-Only Mortgages

Whether you are buying a house or refinancing your mortgage, this information can help you decide if an interest-only mortgage is right for you. These mortgages can be complicated. If you do not understand how they work, you should not sign any loan contracts, and you might want to consider other types of loans.

Interest-Only Mortgages allow you to pay only the interest on the money you borrowed for the first few years of the mortgage (the “interest-only period”).

If you pay only the amount due, then at the end of the interest-only period:

- You will still owe the original amount you borrowed.
- Your monthly payment will increase because you must pay back the principal as well as interest. Your payment could increase even more if you have an adjustable rate mortgage (“ARM”) and interest rates increase.

Additional Information

- ▶ **Home Equity** – if you make interest-only payments, your payments are not building home equity. This may make it harder to refinance your mortgage or to obtain funds from selling or refinancing your home.
- ▶ **Prepayment Penalties** – Some mortgages require you to pay a lump-sum prepayment penalty if you sell your home or refinance during the first few years of the loan. You should find out if your mortgage has a prepayment penalty, how it works, and how much it can be.
- ▶ **No Doc/Low Doc Loans** – “Reduced documentation” or “stated income” loans usually have higher interest rates or other costs compared to “full documentation” loans that require you to verify your income and assets.