Managing Your Mortgage

Mortgage Payments—On The Rise?

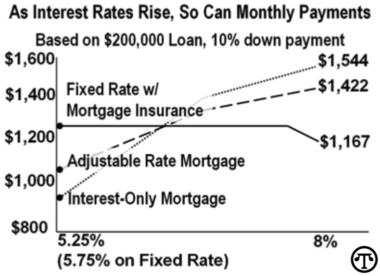
(NAPSA)—The combination of historically low interest rates and creative new mortgage products has pushed homeownership in America to a record high of 69 percent. Many recent home buyers have opted for new or "exotic" mortgages—Adjustable-Rate Mortgages (ARMs), Interest-Only Loans (IOs) or Option ARMs—that require as little as zero down payment and feature ultra low monthly payments. But as interest rates rise and the real estate market cools, economists and government officials warn that these "exotic" loans may have created a looming nightmare.

"Interest-only adjustable rate mortgages are dangerous," says financial expert and television host Suze Orman. "If the only way you can afford to buy is with one of these loans…you can't afford to own just yet."

Why be alarmed?

According to the Mortgage Bankers Association, 63 percent of all new mortgages nationwide in the second half of 2004 were of this "exotic" or "high-risk" category. The low monthly payments that these mortgages offer are only possible because it is only for a short introductory period, after which the loan converts to the current interest rate, which will likely be higher.

For example, the monthly payments on a $200,000 interest-only mortgage go up substantially when a 5.25 percent interest rate adjusts to 6.5 or 8 percent. In this case, the monthly payment jumps from $875 to as much as $1,544, which might be difficult for many first-time homeowners to afford. Locking in a 30-year fixed-rate mortgage at a slightly higher interest rate ends up the better deal and can be obtained with a low down payment when mortgage insurance is added. In this example, for an additional $86 per month, mortgage insurance alleviates the risks that face home buyers who opt for piggyback or combo mortgages with Adjustable Rate or Interest Only features.



Economists advise that traditional fixed-rate mortgages may be better than riskier ARMs for most homeowners.

"The fact that so many homebuyers are using these risky mortgages is frightening. People need to do their homework and compare monthly payments and how they can fluctuate, especially as interest rates creep up" said Stella Adams, Executive Director of North Carolina Fair Housing Center. "Think about it—the only thing that can happen to the monthly payment on an insured mortgage is that it will go down when the insurance is cancelled, which is usually possible after only three years. It's a win-win situation."

More can be learned by visiting www.privatemi.com.