Managing Your Mortgage

Is Interest-Only Home Financing Right For You?

(NAPSA)—A financial option allowing homeowners to pay only the interest part of their mortgage term is quickly being embraced by many homebuyers and homeowners.

As interest rates are predicted to rise and home values increase in many parts of the country, loans offering the Interest-Only payment feature provide customers with a lower monthly payment, potentially making a home more affordable. But, homebuyers need to understand the benefits—and the downside—of this type of payment feature. For example, while the monthly payment may be lower, equity cannot grow if principal payments are not made.

Although loans like these were available decades ago, they have resurfaced and garnered more appeal in recent years, especially in high-cost housing markets such as California, Florida and New York.

If you consider purchasing a home or refinancing your existing property, ask yourself some key questions to determine if Interest-Only financing is right for you.

- Do you make monthly payments into investments such as a retirement fund that could potentially offer a high return?
- Do you receive seasonal income or bonuses you plan to use during the year to make principal payments on your mortgage loan?
- Are you confident your personal income will continue to grow?
- Are you confident that the value of your home will continue to appreciate over the next several years?

Many homebuyers are contemplating an intriguing way to make lower mortgage payments.

- Are you planning to purchase a home in a market that has witnessed a consistent increase in home values?
- Are you intending to move within 10 years and expect to see continued home value appreciation to compensate for the lack of principal pay down?

"If you can answer 'yes' to several of these questions, the Interest-Only payment feature may be something to consider," says Joe Rogers, executive vice president for Wells Fargo Home Mortgage. "But homebuyers need to make sure they give careful thought to their individual situation, identify their current and future financial picture and fully understand all the home-financing options available."

The Interest-Only payment feature lets customers pay the interest on their home loan for an initial period of time, such as seven or ten years. Because customers are qualified based on only the interest payment that must be paid each month, they could potentially qualify for a larger loan amount. Customers can make equity or principal payments on the loan at any time and their payment is recalculated to reflect the increased equity in the home.

"The best candidate for the Interest-Only payment feature is really the consumer who has the financial capability to afford a full principal and interest payment but opts for the Interest-Only feature for sound reasons which fit into their overall long term financial plan," said Rogers.

Lenders such as Wells Fargo offer the Interest-Only payment feature on fixed-rate or adjustable, rate mortgages for purchase or refinance on primary residences and second/vacation homes.

After the initial fixed-rate, Interest-Only period ends, the loan is reevaluated and a new monthly payment is calculated. The new payment is based on the amount of equity in the home, the remaining term of the loan and the new interest rate. Principal and interest payments are made through the end of the loan term.

"While the Interest-Only payment feature may be a good option for some homeowners, it is not for everyone," adds Rogers. "The Interest-Only feature is not for a homebuyer who can barely afford the house they are buying, a buyer in a market where home values are declining or a buyer who tends to be a free spender by nature."

Since there's no 'one-size-fits-all' approach to home financing, it's smart to work with a lender that offers a wide range of home-financing solutions.