

Interest Only Mortgage

An interest only mortgage involves the borrower taking out a 30 year mortgage and opting to pay interest for a predetermined amount of time, such as 3, 5, 7 or 10 years. At the end of the interest only period the monthly payments readjust to include the principal and the loan is re-amortized for the remaining years which can cause the monthly payment to increase dramatically. At this point, usually the borrower will either refinance, start paying off the principal, or sell the property. According to research studies homes are sold on average every 5 to 7 years. An interest only mortgage is a good fit if you plan to sell within that period, why pay principal when the first 10 years of a mortgage payment are mostly towards interest.