



## Interest-Only Loans

Interest-only loans are making a comeback since disappearing from the market during the Great Depression of the 1930s. What are they, who are they for, and could this be the right choice for you?

### **What are they?**

An interest-only mortgage is a loan where you pay only interest for the first few years (3-10 years, depending on the loan) and then after the interest-only period is up you begin paying principal. Most interest-only loans allow you to pay principal during the interest-only period without a prepayment penalty, so you have the option to pay as much as you can afford.

One of the most popular loans today is the 30 year fixed rate loan, with the first 10 years interest-only. People like it because they have low, unchanging payments for the first 10 years, and even though their payments skyrocket after that, they expect the change and know beforehand exactly how much the higher payments will be.

### **Who are they for?**

If you plan to be in your home for only a few years, interest-only loans are a great way to keep your payments low before selling. Or, if you foresee a significant increase in your income in the next 10 years, an interest-only loan could be a nice way to pay for your home as you are able to afford it. It is also an attractive option if you have commission- only or seasonal employment, since you will be able to adjust your payments based on your budget.

### **Is it right for you?**

Interest-only loans don't have a catch, but there are a few things to remember. One downfall is that you cannot build equity in your home as quickly as you would if you were paying principal. Another important thing to remember is that, although the low initial monthly payments appear very attractive, the jump in payments once you start paying principal can be devastating if you are not prepared for it. Be wise and realistic in your budget and don't buy a house you cannot afford just because of its low initial payments.