

Interest Only Mortgages: Should You Take Advantage Of Them?

Interest only mortgages are just what they sound like. Here, you will pay for your loan in terms of just interest, with very little principle. The benefit is that you lower your mortgage payment, making it more affordable for you to make your monthly payments. For many people, this is an ideal type of loan that offers several benefits. It is up to you to determine if this is the right type of loan for your situation though. To do that, use a [mortgage calculator](#) to help you. Fully understand how this loan works before jumping into it!

How Does It Work?

In a traditional loan, you will make a payment each month that is split. Part of the payment is paying for the principle of the loan or the amount of money that you actually borrowed. The rest is used to pay the interest on the loan. In most loans, you will pay much more interest at the beginning of the loan than you will interest and that is what makes lending so lucrative to lenders. In an interest only loan, you pay a very small principle payment or even just interest only. The principle is held off and is to be paid in other ways.

In most cases, people will use this type of loan if they do not have a steady income or they do not want to remain in the home for a very long time. Here, the cost reduction of the monthly payment is well worth it. But, there is more to think about here. For example, you will need to pay the principle that you borrowed at some point if you plan to every own the home. Usually this is done by the homeowner in payments when it is available to them. Others will require payments at certain times during the lending process or even a balloon payment at the end of the loan period.

For those that work in sales or in seasonal jobs, this type of loan can be helpful. For example, perhaps you sell homes. When you sell a home you can put more towards the cost of the mortgage and when you do not have a sale, then you can make the interest only payment. This type of set up works well for many people because it allows them to make larger payments when they can and smaller payments when they have to. Of course, you do need to meet strict qualifications for this type of loan.

For those that are not looking to remain in the home for a long period of time, this type of loan can help them to save money by not making any principle payments at all. For example, if you plan to live in your home for just a few years, you may want to consider this type of loan which can lower your monthly payments considerably so that you do not put more into the home's cost than you need to.

How Much Will It Save You?

When considering an interest only mortgage, it is important to see what the real benefits of this type of loan will be for you. It is also important to carefully consider just how well this loan will fit into your lifestyle. For many people, it is ideal and it may be for you, too. Here is an example of how much you can save per month on an interest only type of loan.

Total Mortgage Amount: \$250,000

Annual Interest Rate: 6.5 percent

Term of the Loan: 30 Years

With a standard loan, your monthly payment would be about \$1580. If you secured an interest only payment, your monthly payment would be about \$1354. This is a savings of \$266 a month on the loan or nearly \$3200 per year in payments. That is a considerable difference to many people.

You will want to consider how this will work in your specific situation. The interest rate that you are charged on your interest only mortgage is based on your specific qualifications. Often times, a good credit score is necessary to obtain this type of loan because it helps to show that you will make payments. More so, because the loan will be lower in terms of monthly payment, you may qualify for a higher loan amount if you have a good credit score. You also should figure out the right situation for you in terms too. A longer term will lower the monthly payment but will cost you more. A shorter term costs more per month but saves in you in the long run on the total cost of the home.

What's important to remember is that just because you are saving that amount per year does not mean that you will never have to repay it. In fact, you will. If you plan to keep your home and to own your home, you will still need to make principle payments every year or at the end of the lending term. For many others, this type of loan is a good

option if they are improving their credit score. If you know that in a year or so you will have a better credit situation, you may be planning to refinance your loan. Therefore, paying this lower amount per year can help you to accomplish that. You can later refinance the loan to get a better interest rate and a fixed rate loan in traditional methods.

Learn how well an interest only loan can work for you. Take the time to go through the process of securing a loan that fits your overall lifestyle. Use a mortgage calculator to help you to see just how well this type of loan will work for your situation. You may be impressed with just how affordable it can be for your situation. It can often open doors to those that otherwise may not feel they can afford a home loan. [Interest only loan calculators](#) are readily available to help you to see the benefits.

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