



## Interest-only (I/O) Mortgages – Look Before You Leap!

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Sure, an I/O mortgage can help you afford a more expensive property. But beware: eventually it'll slap you with a much higher monthly payment.

**With an I/O mortgage, you don't make any payments on the principal for the first 10 years.** Then, your payment rises, and the payment must cover both interest and principal for the remaining term of the loan.

**Consider, for example, a \$300,000 I/O 30-year mortgage when the non-I/O rate is 6.25%.**

First, your lender charges a premium of 0.5% for the privilege of an I/O mortgage, yielding a rate of 6.75%. You'd pay \$1,687/month for the first 120 months vs. \$1847/month on a traditional, fixed-rate 30-year mortgage.

But after ten years, your monthly payment on the I/O mortgage would jump to \$2,281.09 for the remaining 20 years while the other mortgage payment would remain the same. Why such a big leap? **Because you're cramming 30 years of principal payments into 20 years.** If your income hasn't risen sufficiently over the preceding decade, you might struggle.

**An I/O mortgage might make sense if you:**

- Intend to sell the property within ten years
- Feel confident about boosting your income
- Believe that interest rates are falling, so you can refinance at a more attractive rate before the interest-only period ends

**But buyer beware: Even in these specific situations, I/O mortgages can be risky.** As always, consult a financial planner or mortgage professional to ensure that the product you choose is tailored to your circumstances.



*Got questions about real estate financing?*

Contact Debbie!

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