

Important Information About Interest-Only and Reduced Documentation Mortgages

Whether you are buying a house or refinancing your mortgage, this information can help you decide if an interest-only mortgage or a reduced documentation mortgage is right for you.

Interest-Only Mortgages

An "interest-only" mortgage allows you to pay only the interest on the money you borrowed for the first several years of the mortgage. This is known as the "interest-only period" (for example, the first 10 years of the loan). If you only pay the amount of interest that's due, once the interest-only period ends:

- You will still owe the original amount you borrowed.
- Your monthly payment will increase - even if interest rates stay the same - because you must pay back the principal as well as interest.

Ask what the payments on your loan will be after the end of the interest-only period. If you are considering an adjustable rate mortgage (ARM), ask what your payments can be if interest rates increase. Refer to the chart on page 2 for a comparison of sample mortgage features.

Reduced Documentation Mortgages

Lenders often charge more for "reduced documentation" loans. These loans, also referred to as "no doc/low doc loans", typically have higher interest rates or other costs compared to "full documentation" loans that require you to verify your income and other assets. (By verifying your income, you help the lender to be sure that you can afford the loan payments.)

If you are considering a loan with a reduced documentation feature, ask if you will be required to pay more (in interest and/or fees) for not submitting income and asset documentation.

Additional Information

Home Equity. Home equity is created when the value of your home increases and/or when you reduce the amount you owe on your home through your loan payments. If your home does not increase in value and you make interest-only payments, you are not building equity. This may make it harder to refinance your mortgage, or to receive funds from the sale of your home. In fact, if the amount you owe on your home, along with the costs associated with selling it (such as the real estate sales commissions and closing costs) exceeds the sales price, you will not receive any cash when you sell, and will have to pay additional funds to your lender or to other parties when you pay off your mortgage.

Prepayment Penalties. Some mortgages have prepayment penalties. If you sell your home or refinance your loan during the prepayment penalty period, you could owe additional fees or a penalty. Most mortgages let you make extra, additional principal payments with your monthly payment --this is not "prepayment" of the entire loan, and there usually is no penalty for these extra amounts.

Ask whether your mortgage has a prepayment penalty and, if so, how much it can be.

COMPARISON OF SAMPLE MORTGAGE FEATURES
(For illustrative and educational purposes only - does not represent actual terms of loans available.)

A Typical Mortgage Transaction

Loan Amount \$180,000 - 30 Year Term

	Mortgage with a Fixed Interest Rate		Mortgage with an Adjustable Interest Rate (ARM)	
	Principal and Interest Fixed Rate (6.75%)	Interest Only Fixed Rate (6.75%) Interest Only for First 5 Years	5/1 ARM Fixed Rate for First 5 Years; Adjustable Each Year After First 5 Years (Initial Rate For Years 1 to 5 Is 6.5%; Maximum Rate is 11.5%)	Interest Only Interest Only and Fixed Rate for First 5 Years; Adjustable Rate Each Year After First 5 Years (Initial Rate For Years 1 to 5 Is 6.6%; Maximum Rate is 11.6%)
Minimum Monthly Payment Years 1-5, except as noted.	\$1,168*	\$1,013	\$1,138	\$990
Monthly Payment Year 6 - no change in rates	\$1,168	\$1,244**	\$1,138	\$1,150
Monthly Payment Year 6 - 2% rise in rates	\$1,168	\$1,244	\$1,357	\$1,397
Maximum Monthly Payment Year 8 - 5% rise in rates	\$1,168	\$1,244	\$1,783	\$1,796
How Much Will You Owe After 5 Years?	\$168,976	\$180,000	\$168,500	\$180,000
Have You Reduced Your Loan Balance After 5 Years of Payments?	Yes Your loan balance was reduced by \$11,024	No You did not reduce your loan balance.	Yes Your loan balance was reduced by \$11,500	No You did not reduce your loan balance

* This illustrates an interest rate and payments that are fixed for the life of the loan.

** This illustrates payments that are fixed after the first 5 years of the loan at a higher amount because they cover both principal and interest