

Balloon Mortgages

For Informational and Educational Purposes Only

A balloon mortgage is a type of fixed-rate mortgage loan in which the principal and interest payments are amortized over a longer period (30 years) than the actual term of the mortgage. For example, a 7-year balloon mortgage has a term of 7 years, but the payments are calculated as if the term of the loan was 30 years.

At the end of the balloon period, you must pay off the outstanding balance with a lump-sum payment or may be able to refinance for the remaining term of 23 years. The option to refinance is conditional, meaning you have to meet certain conditions (as described below).

Loan Features

- The refinance option is not automatic: you must exercise it by making a written request.
- You generally must occupy the property as a principal residence or second home (some exceptions may apply).
- Refinancing conditions may include payment of closing costs and a lender fee, as well as no 30-day late payments in the previous 12 months and no other liens against your property except for taxes and special assessments not yet due and payable (some exceptions may apply).
- Generally, no need to re-qualify when refinancing at the end of 7 years, as long as the new interest rate is not more than 5 percentage points above the loan's original interest rate.
- Available for conventional fixed-rate, first mortgages, including the purchase of a principal residence, second home or investment property (some restrictions may apply).

Considerations

- The interest rate on a balloon mortgage may be lower than the interest rate on a comparable 30-year fixed-rate mortgage.
- You will be responsible for paying off or refinancing the full amount of the outstanding loan balance at the end of the loan term (when the "balloon payment" becomes due).
- May be a good choice if you plan to sell or refinance your home within 7 years and you want a relatively low monthly payment during that time.
- The refinance option may provide a "safety net" if a planned relocation does not take place or economic conditions prevent you from moving to a larger home (as long as you meet all of the required conditions needed to exercise the refinance option).

This document is provided free of charge courtesy of:

<http://www.downpaymentsolutions.com/>

The document is the exclusive property of its original author and our supplying this document to you in no way infers the authors support of our free site, nor does it infer the author promotes our site in any way. We have no relationship with the author, nor does the author have any relationship with the above referenced sites.