

Managing Your Mortgage

Mortgages That Offer Low Payments Can Be Risky Business

(NAPSA)—Shopping around for a home loan or mortgage can help you to get the best financing deal. But the best deal may not be the mortgage that starts with the lowest monthly payments.

If you are tempted by the low monthly payments of adjustable-rate and interest-only mortgages, think carefully. While these loans can make home ownership affordable, they come with a risk of higher payments in the future.

For example, if your interest-only payments on a \$150,000 mortgage at 5 percent are about \$625 a month, after five years, you would have paid close to \$37,000 and would still owe \$150,000. You could see your monthly payments jump to around \$875 after the fifth year.

Adjustable-rate mortgages can be just as risky—the mortgage payment on that same \$150,000 loan at 5 percent for the first year would be about \$805 a month. If interest rates go up, your payment will rise as well. If the rate goes to 7 percent, your monthly mortgage payment would be \$994.

Shopping around for a home loan can help you to get the best financing deal. A mortgage is a product, just like a car, so the price and terms may be negotiable.

The experts at the Federal Reserve offer these tips:

- Be realistic about what you can afford, both now and in the future.
- Compare all the costs



Some apparently affordable mortgages come with the risk of higher payments in the future. Shopping around can help you to get the best deal.

involved for a mortgage—interest rates, points, fees and other charges.

- Contact several lenders—banks, thrift institutions, credit unions and mortgage companies—to make sure you're getting the best price.

- Take the time to shop around and negotiate the best deal that you can.

It's also a good idea to review your credit report for accuracy and completeness before you apply for a loan.

To order a copy of your credit report, visit www.annualcreditreport.com or contact Equifax: 800-685-1111, TransUnion: 800-888-4213 and Experian: 888-397-3742.

To learn more about this and other personal finance issues, visit www.federalreserve.gov.