



NEWS RELEASE

For Immediate Release

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NON-TRADITIONAL HOME MORTGAGES INFORMATION HOMEBUYERS SHOULD CONSIDER

In an ongoing effort to promote financial literacy education in Idaho, and in conjunction with Financial Literacy Month, the Department of Finance urges prospective homebuyers to shop, compare, and negotiate before choosing a mortgage loan. "Buying a home may be the single, largest purchase a consumer makes", says Department Director Gavin Gee. The Department's goal is to arm prospective buyers with information, so that their home buying experience is positive and rewarding.

In the past, homebuyers had limited choices when funding their home purchase – choices included adjustable rate mortgage (ARM) or fixed-rate mortgage loans for 15 or 30-year terms. Today, prospective homebuyers have a wide variety of mortgage products from which to choose. Those choices may include an ARM or fixed-rate mortgage, as well as interest-only mortgage loans, mortgage loans with no down payment, or an option ARM (i.e. "flex ARM"). With these choices comes the need for homebuyers to make the right decision based on a repayment plan that best suits their needs – now and for the future.

Along with these considerations, homebuyers should realize that the home buying process is very complicated. Becoming a savvy home buyer before applying for a home loan is a must! New mortgage choices and non-traditional mortgage products can be beneficial for some, but hold serious pitfalls for others. Two types of non-traditional mortgage products are listed below – along with considerations and warnings for potential homebuyers.

INTEREST-ONLY MORTGAGES

Interest-only mortgages are usually adjustable rate mortgages that permit borrowers to pay only the interest portion of their loan payments, rather than interest and principal, for a specified term. After that, the borrower may be required to pay the balance in full, or begin paying both the interest and principal monthly for the remaining period - which may be only 20 to 25 years. Interest-only loans have become popular because it allows the borrower to "buy up" by paying only the interest portion for a short time. The risks of this type of non-traditional loan come when the homeowner reaches the end of the interest-only payment, and then must pay interest and principal – for a much higher monthly payment. If the borrower's income has not increased to meet the demands of a larger monthly mortgage payment, the borrower risks losing the home and still owing the lender a substantial portion of the loan.

Interest-only mortgages are for borrowers with the expertise and ability to make sound financial decisions. An interest-only mortgage may be suitable for a homebuyer who is new to a

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profession and anticipates a large increase in future income. In addition, a homebuyer that intends to move in a few years and is not interested in building equity may find this product more suitable than a 30 year fixed rate mortgage. However, if a homebuyer plans on staying in the house for the foreseeable future, a fixed rate mortgage may be the best choice.

OPTION ARMS

Option ARMs allow borrowers to decide how much to pay from month to month, for a specified term of the 'initial years' of the mortgage, based on a few choices. Options range from making a full monthly payment (principal and interest) to just making a minimum payment that may not cover monthly interest due, with the shortfall being added to the balance of the loan.

Option ARMs may benefit borrowers who make a substantial yearly income, but not a steady monthly income. Seasonal workers, commission-only workers, or those who rely on large year-end bonuses, may find that this mortgage product suits their needs. One of the pitfalls of choosing an Option ARM is that the loan may be negative amortized, resulting in a significantly higher than expected repayment at the end of the loan or greater than expected future monthly payments.

DO YOUR HOMEWORK BEFORE APPLYING FOR A HOME LOAN

The Department of Finance urges prospective homebuyers to research their options, consult with a financial advisor, and become savvy, educated consumers before applying for a home loan. Borrowers should be familiar not only with mortgage products, but also with mortgage terms such as: lock-ins, APRs, prepayment penalties, points, and ARMs. First-time homebuyers should be realistic about their future and refrain from "buying-up" if they cannot guarantee their future income will rise significantly.

This information is only a sample of the many choices offered to prospective homebuyers. For more information on homebuyer's mortgage choices call the Department or visit the Idaho Department of Finance's website (<http://finance.idaho.gov>). Callers may contact the Idaho Department of Finance at 208-332-8002 or toll-free in Idaho 888-346-3378. The Department's website provides information for potential homebuyers regarding their "rights" when buying a home. In addition, the Department's website includes valuable "links" to informational sites and tips on home buying.

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Department of Finance Press Releases and other information can be found on the Internet via the worldwide web at <http://finance.idaho.gov> or may be obtained by contacting the Department at (208) 332-8080 or Idaho toll-free at 1-888-346-3378.