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Real Estate

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MORTGAGES

Less Interest in Interest-Only

By BOB TEDESCHI

BORROWERS have had fewer mortgage choices in recent years, and now the list is shrinking further.

Freddie Mac, one of the two government-sponsored companies that set lending standards for mortgages, announced last month that in September it would stop backing interest-only mortgages, or loans that give borrowers the option of paying only the interest on the principal balance for a period of time.

Michael Cosgrove, a Freddie Mac spokesman, said the company had actually begun phasing out the loans last year, after big losses on the mortgages in the previous three years.

At the end of 2009, Mr. Cosgrove said, nearly 18 percent of the interest-only loans in Freddie Mac's portfolio were at least three months delinquent, versus 7 percent for all of the company's loans.

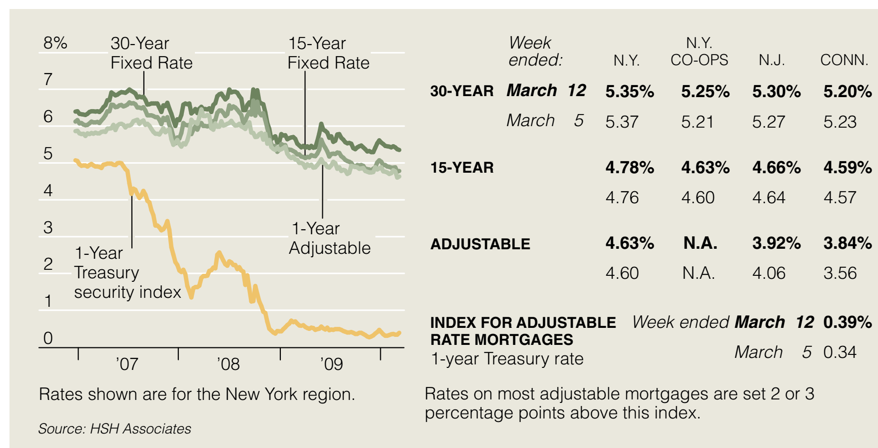
Fannie Mae, too, has announced huge losses on interest-only mortgages, but a spokeswoman would not say whether the company might shut off these loans.

Borrowers will still have options. Smaller lenders say they will most likely continue making interest-only mortgages, but only to the borrowers best suited to them.

"For the right people, an interest-only loan is a great product," said Michael Moskowitz, the chief executive of Equity Now in Manhattan. The loans work best, he said, for wealthier and financially disciplined borrowers.

In a typical interest-only mortgage, borrowers choose a fixed- or variable-rate loan, and they pay only the interest on the mortgage for the first 10 years. They then pay the principal and interest for the next 20 years.

The monthly mortgage bill, therefore, can jump in the 11th year. On a $500,000 loan with a 5 percent fixed rate for 30 years, the monthly payment for the first decade is $2,083, but then it jumps to $3,300 for the remaining 20. (Payment on a traditional 30-year mortgage would be $2,684.)



Week ended:		N.Y.	N.Y. CO-OPS	N.J.	CONN.
30-YEAR	March 12	5.35%	5.25%	5.30%	5.20%
	March 5	5.37	5.21	5.27	5.23
15-YEAR		4.78%	4.63%	4.66%	4.59%
		4.76	4.60	4.64	4.57
ADJUSTABLE		4.63%	N.A.	3.92%	3.84%
		4.60	N.A.	4.06	3.56

INDEX FOR ADJUSTABLE RATE MORTGAGES 1-year Treasury rate	Week ended March 12	0.39%
	March 5	0.34

Rates shown are for the New York region.

Source: HSH Associates

Rates on most adjustable mortgages are set 2 or 3 percentage points above this index.

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Because such loans are considered riskier than conventional ones, fewer lenders offer fixed-rate interest-only mortgages, and the rates from those that do are typically a percentage point higher.

But interest-only ARMs, or adjustable-rate mortgages, still carry attractive rates. In mid-March, Mr. Moskowitz said, borrowers with good credit could get a 4.5 percent initial rate that would remain fixed for five years, then increase a maximum of five percentage points over the following five years.

These days, borrowers cannot qualify for the loan unless they show they can pay that 9.5 percent rate, known as the "fully indexed" rate. Before the mortgage crisis, borrowers often could qualify for the loans simply by showing that they could afford the lowest rate.

John P. Bonora, a vice president of Fairfield County Bank in Ridgefield, Conn., says that an interest-only loan is most appropriate for someone who doesn't intend to keep his home for many years, or who needs greater cash-flow options.

But many of those who took out interest-only loans at the peak of the market did so because that was the only way they could afford the payments, he and other mortgage executives say.

These borrowers assumed, given the market's seemingly unyielding ascent, that they could simply sell their homes for a hefty gain before the interest-only period ended. Or, they reasoned, they might refinance the loan into a conventional fixed-rate mortgage as their earning power increased with time.

Financing out of an interest-only loan may not be easy.

Regina Mincey-Garlin, an owner of RCG Mortgage Solutions in Montclair, N.J., says laws in New Jersey stipulate that interest-only borrowers (and all other borrowers, for that matter) refinance only if their payments are going down, or they are adopting a fixed-rate loan.

Marissa Aquila, a staff lawyer with Bankers Advisory in Belmont, Mass., says similar laws exist in many states, including New York and Connecticut.

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