

Another new twist

I have written before about Pay Option Arm mortgages (POA). These are loans that always have an adjustable rate with many choices of monthly payment amounts. Some are widely touted as the “1% loan” with further promises of “saving you hundreds of dollars a month!” Of course what is not shouted about is that these loans also have negative amortization (a **growing** instead of shrinking mortgage balance) when borrowers choose the artificially low payment based on 1%).

Typically a POA has an interest rate that is changing up or down (usually up) every month. This is one of the most important things to remember about this uncertain mortgage. By choosing the minimum 1% payment, you could be in for a very nasty surprise at the end of any year, realizing only then that your mortgage has grown by a far greater amount than you predicted 12 months earlier. It’s the adage: “*pay me now, or pay me later, but you **will** pay me.*” When you choose a payment amount based on less than the actual interest rate, what you underpay gets added to the mortgage balance.

Now there is something new to add to POA loans: the hybrid POA now offers an interest rate that is **fixed for the first 5 years**. That’s right, in the first 5 years of this loan, there are no surprises about how much negative amortization one will accumulate since the interest rate is fixed. Now you can actually control the amount of negative amortization accruing, based on the payment choices you make each month.

This hybrid POA now can be a reasonable choice for some homeowners. You will know precisely what your mortgage balance is with every payment you choose to make and you can easily control the negative amortization. This initial fixed rate feature really stabilizes an otherwise rollercoaster ride to an uncertain future.

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