

# MORTGAGES WITH “PAYMENT SHOCK”

Mortgages like these can give you a “payment shock”:

- **2/28 and 3/27 Mortgages.** A 2/28 or 3/27 adjustable rate mortgage gives the borrower a fixed payment for the initial two- or three-year period before adjusting the mortgage up as often as every six months. After the initial “teaser rate” period, your mortgage payments typically adjust up every six months.
- **Interest-Only Mortgages.** An interest-only mortgage lets you pay only the interest on the loan for the first 5 or 10 years and nothing to pay off the loan amount (principal). After the interest-only period, the mortgage requires much higher payments covering both interest and principal that must be repaid over the remaining years of the loan.
- **Payment Option Adjustable Rate Mortgages.** Payment option mortgages let the borrower decide how much to pay each month. You can even pay less than the interest, and add the unpaid interest to the total amount of principal you owe. Or you can pay just the interest or an amount sufficient to pay off the loan in 15 or 30 years. These mortgages can have an especially big payment shock.

Be careful if your mortgage has any of the following features:

- A “teaser rate” or “no interest” period that expires and leads to a big jump in your monthly payment.
- An option to pay less than the full interest due in any given month. Taking that option makes the amount you owe go up instead of down, since the interest you don’t pay is added to your loan balance.
- An adjustable interest rate with very high or no limits on the amount your payment can go up.
- A payment that doesn’t include an amount for paying property taxes and homeowners insurance. This means you may be hit with big bills you didn’t expect.