

Interest Only Home Loans

While watching television lately or even listening to the radio or spending time online you may have heard of a type of loan that you had never heard about before: the interest only home loan. These home loans are very appealing to many borrowers, and while they have some advantages as well as some risks associated with them, there are a lot of people out there that are finding these loans to be exactly what they are looking for. If you are interested in this type of loan you should be sure to do a lot of research and have all of your questions answered before you sign on the dotted line.

Understanding Interest Only Loans

Interest only home loans are growing in popularity because they allow for many people to qualify for a larger loan amount that they might have been able to qualify for otherwise. For instance, if you know that you are only going to be paying interest on the loan for the first few years you may be able to buy a \$300,000 home instead of a \$200,000. To many people this is the single best benefit of these loans and for some people this is worth the risk.

Other people like interest only home loans because it allows for them to step into home ownership with very small monthly payments for the first few years. When you are only paying interest you are paying significantly less than if you were paying for both the interest and principal balance of the loan. You can save hundreds or even thousands of dollars per month when you have one of these loans, depending on the cost of the home.

While this sounds like a really good deal, there is also a lot of risk that is involved with these loans. With an interest only loan you don't continue to pay just the interest forever, instead you will pay only interest for a set period of time. After this time is over you will then begin to pay for both the interest and the principal balance of the loan, which can increase the monthly payment by more than double what it once was! If you were not prepared for this it could mean that you can't make your payment at all!

Interest only loans are often a great option for those that have a lot of liquid cash but would rather not put all of their liquid funds into a home. During the interest only period the person may invest their money in something more interest bearing and then when the time comes to start paying the principal due on the loan they will be able to pull out some of their money and start making the payments.

Other people that often find that these home loans are a great option are those that know for certain that their income will increase greatly in a few years time. Buying a home with an interest only mortgage will allow them to afford the home on a current income and then by the time the amount increases they will be making more money and will be able to afford the difference between the two amounts. While there is some risk in these loans the risk is worth the savings for many, but before you jump into the loan you should make sure that you understand all of the details, both big and small.

About the Author

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