These loans, usually adjustable rate loans, may contain several options for payments. For example, a loan may provide options for a payment that is lower than the interest due, a payment to pay only the actual interest due, a payment based on a 15-year fully amortizing loan, or a payment based on a 30-year fully amortized loan. By paying the lowest payment, you will increase your loan balance for each month that you choose that option. Negative amortization loans may also be based on a very low "payment rate"—the rate at which the lowest payment option is calculated. This may be different than the actual interest rate charged on the loan and contribute to the negative amortization. After a certain number of years, as set forth in the loan contract, these low payments are no longer available as an option and the payments will increase to fully amortize the loan over the remaining time left at an interest rate that may change each month. This can result in much higher payments than those with which you started. If you cannot make the higher payments, you may not be able to refinance if the loan balance is higher than what your home is worth and you may have to sell the home for less than the balance owed. This can result in your having to pay the difference to the lender from other assets. If you are unable to sell the home or refinance, you could lose the home in foreclosure.

If a broker offers you a loan with an extremely low interest rate and/or payments, ask if the loan contains negative amortization. These loans should be discussed in detail with a broker or lender before you make a decision to enter into a transaction. Again, a broker owes you a full and honest description of the loan terms and the advantages and disadvantages of this type of loan for your situation.

HOW DO I DECIDE ABOUT THE LENGTH OF LOAN TERM?

The term of the loan is the number of years you have to repay it. First mortgages usually have terms of 15, 30, or even 40 years. Junior mortgages typically have terms of one, three, five, or perhaps 10 or more years. With a fully amortized loan, the longer the loan term, the lower your monthly payments. With an interest-only or partially amortizing loan, a longer loan term means you have more time before you have to pay the balloon payment. In any event, the longer the loan term the more total interest you will pay, assuming you do not prepay the principal of the loan.