LOANS WITH NEGATIVE AMORTIZATION

Although negative amortization loans are only available in limited circumstances, and in some cases are illegal, there could be an instance where such a product is appropriate. But great care should be exercised before agreeing to a negative amortization loan.

"Negative amortization" or "deferred interest" is a term used when the principal balance of your loan (the amount you owe) goes up instead of down. A fully amortizing loan has payments that include interest and principal each month until the loan is paid off (fully amortizing). A negative amortizing loan contains payment options that may not pay the full amount of interest due each month and pay nothing toward lowering the principal balance. If a mortgage payment does not satisfy the total amount of the interest due, the difference between the payment made and the interest due is added to the loan balance, hence the term "negative amortization" or "deferred interest." The interest will eventually have to be paid, usually by much higher payments depending on the terms of your loan contract.