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Can your Mortgage be your Savings Account?

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Summary:
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Article Body:
It is becoming increasingly popular to use a mortgage in lieu of a low-interest savings account. Is this a good idea?

The latest version is a home-equity line of credit that is used to buy a home. It is marketed as a way to pay down your mortgage faster than the traditional mortgage. But it only works at this if you use it correctly. It could be both good and bad that you can use the funds from the account whenever you want to. All you have to do is write a check.

It is basically an adjustable-rate home-equity credit line that is based on the value of the property. You make interest-only payments for the first 10 years. The balance is then fully amortized over the next 20 years. You will pay both the interest and the principal at this time.

If you go ahead and own the home for ten years, you could be facing amazing monthly payments. Your monthly payment could more than double on you. Yet, there is no negative amortization on this loan program. The interest is capped for five years and high-credit score borrowers are currently looking at a cap of 8% over the starting rate. In today's world, the maximum the interest rate could hit is in the 14% range. Yet, after five years, the cap could revert to either 21% of the state's usury.

This plan could work well for the dedicated purchaser who puts all extra money and bonuses into the mortgage account as payment on the balance. The interest is then lowered and the loan is paid off much faster. Most borrowers must have a score of over 660 to be approved.

Many advisors suggest the use of a 30-year fixed-rate mortgage with interest-only payments for the first ten years instead. Yes, the payment will go up after the inital ten years, but the interest rate won't. The concern against the equity-line to purchase is that borrowers would simply write checks without thinking about the addition to their mortgage balance. Plus, the interest rate is adjustable -- always a risk.

If you are considering an alternative loan program for the purchase of your home it is important that you sit down and do all of the necessary math. For example, you should calculate how high the payment could go due to rising interest rates on an adjustable rate mortgage. You should be able to afford the worst. If you can't, you probably should look to a less expensive home.

If you only plan on living in a home for three to five years, a loan in which the interest is fixed for five years is perfect for you. You get the lower rate, but you have to be sure that you are going to want to move in the time period. It still remains that the best long-term bet for a mortgage is the 15-year fixed rate mortgage. You pay less interest and build equity faster.

Other new trends to watch for in the marketplace include mortgages that can be automatically converted into reverse mortgages and longer fixed-rate term mortgages.