

Balloon/Reset Mortgages



Balloon/reset mortgages have monthly mortgage payments based on a 30-year amortization schedule, and you have a choice at the end of the 5- or 7-year term to either pay off the remaining balance or reset the mortgage. So you have the advantage of a low monthly payment, like someone with a 30-year loan, but you must pay off the loan at the end of the specified term.

Many balloon mortgages have a "reset" option. That means you can reset the interest rate of your mortgage to the current market rate for the remainder of the amortization period. This option is typically only available if:

- You are still the owner and occupant of the home.
- You have paid your mortgage on time for at least a year prior to the balloon note maturity date.
- You have no other liens against the property.
- If you do not qualify for a reset, you may qualify to refinance your balloon/reset mortgage.

There are additional considerations to be aware of with balloon/reset mortgages:

- If you plan to sell your home before the balloon maturity date of the balloon/reset mortgage, this type of mortgage, like an ARM, may be a good option.
- Balloon/reset mortgages usually come with a slightly lower initial rate than most other fixed-rate mortgage types. You may qualify for a larger loan amount with a balloon/reset mortgage than you would with a fixed-rate mortgage.

If interest rates rise sharply during the term of the balloon loan, you could face a large increase in your monthly payments when you reset or refinance your mortgage.

- If your financial condition has changed at the end of the balloon term because of a decline in income, family medical problem, etc., you may have difficulty refinancing.

What the numbers mean. There are 2 types of balloon/reset mortgages: 7/23 and 5/25. The two numbers together are the total number of years (30) the payments will be based on. The 1st number (7 or 5) is the number of years before the balloon maturity date. The 2nd number (23 or 25) is the balance of the term.

Maryland-specific. NOTE: There are laws in Maryland that regulate extensions for balloon loan payments under some circumstances. Be sure to consult with a Maryland real estate attorney for details.

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Source: FreddieMac.com

