Interest Only Mortgage Companies

Interest only mortgage companies are a very different breed than the banking industry. These businesses are in the business for the sole purpose of making mortgages. They aren't bound by the same laws as your bank, but some of the regulations are consistent with those of a bank.

The mortgage company isn't a federal deposit location; they're only responsible for making mortgage loans. They greatest concern they have, is that the property they make a loan for is worth the loan amount, excluding the closing costs and appraisal, if that is not part of the closing costs.

Quite often, a mortgage company will require you to pay for the appraisal up front, or directly to the appraising company.

You would think that the mortgage companies would be reluctant to make loans that are interest only loans, but that's just the opposite of the truth. Mortgage companies were some of the first guys on the band wagon of support for the interest only loans. Why would this be?

I believe I can tell you why. The mortgage company pays their loan originators as they are called, not loan officers mind you, a commission on the loans they originate. They are not paid a straight salary or hourly rate. They're paid according to the number of loans they originate. What does this spell for the originators? Big money if they can produce on their end. So, mortgage companies have worked with every consumer in every way possible to provide them with a loan product that they can be approved for, because this is a paycheck for the originator.

The closing costs, or loan origination fees, as they're called by the mortgage company, are often quite high because the originator is making somewhere around 3 to 5% of the loan amount as a fee for his or her services. You won't be told this upfront, but when you receive your paperwork, if you'll read carefully it will be itemized.

The interest only loan allows the originator to fund larger loans, get approvals for larger loans, and receive larger commissions. Everybody wins, in the beginning. The consumer loses on the back end, when he needs to have equity established, and there is none, thanks to the mortgage company and the interest only loan.

Source: http://www.articlecircle.com

About the Author

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