



Why Interest-Only Loans?

Mark Dodson, president of The Private Capital Group has mastered his niche in Georgia by providing creative financing for borrowers with “jumbo”-size loans. The company does private mortgage banking, working with loans starting at \$250,000 and going up to \$5 million. The average loan size is \$841,000. The Private Capital Group’s excellent customer service, great rates and creative financing have continued to make the company one of Atlanta’s top mortgage bankers year after year. Dodson alone closed \$90 million in loans for 2003.

Since starting his company in 1998, Dodson has expanded his parameters. Interest rates are at a 40-year low, so people are taking the opportunity to buy their dream home on Florida’s beaches, refinance their existing mortgages, or both. This has prompted Dodson to become licensed in Florida in an effort to serve his clients who have second homes in that area. “With interest rates so low and the stock market’s demise, more clients are purchasing second homes in Florida,” said Dodson. *Business Week Magazine* reports that second home investments were up over 25 percent and featured Seaside, Florida, as one of the most popular areas in the country. Low interest rates and interest-only products are cutting mortgage payments in half and making vacation homes more feasible as well as saving customers thousands of dollars on existing mortgages.

“Who would’ve thought we would see interest rates at 2.75 percent?” That is exactly what The Private Capital Group is offering, making those desirable beach homes much more attainable.

The 2.75 percent is the one-month libor rate, London Interbank offering rate. Dodson says almost all of his customers are going with interest-only products. The products allow customers to pay a minimum payment of interest only and pay down principal at their discretion. Longer terms are available; however, this is the most popular program for the company.

Here is how the products compare: Let’s say you have a mortgage amount of \$500,000. The 30-year fixed rate is approximately 5.75 percent. A 30-year principal and interest payment would be \$2,917.86. Only \$522.03 is being applied to the principal. If you ever decide to pay down the principal your payment will remain \$2,917.86.

A \$500,000 mortgage at 2.75 percent will have a payment of \$1,145.83.

That is a savings of \$1,772.03 a month! Also, if you make a principal payment your loan will be re-cast and reflect a lower payment the following month. This will allow you to buy a larger home, buy your dream vacation home, or save thousands of dollars on your existing mortgage to pay for tuition, pay off credit card debt or just take a vacation. What are you waiting for?

If you are not comfortable with a monthly adjustable rate, The Private Capital Group can still help. The next best option would be the 5/1 ARM with a rate that is fixed for five years. A \$500,000 mortgage at 3.875 percent would have a payment of \$1,614.58. That is a monthly savings of \$1,303.28 and a five-year savings of \$78,196.80. Remember, the rate is locked for 60 months.

Another advantage to the interest-only products is based on research most people only stay in their homes for five to seven years. Despite this, many homeowners still opt for a 30-year fixed rate loan and pay thousands of dollars in excess interest. Very little principal is paid during the first seven years of a 30-year loan. In fact, after seven years of payments, less than 10% of the balance has been paid down. Why make payments that are at least 40% higher when you are not paying off your loan during that time? Let the appreciation of your property build your equity. If you have invested your monthly savings and accrued interest, this will allow you to have a larger down payment for your next home. Given these current low interest rates, it is obvious why The Private Capital Group’s clients are investing in second homes rather than the stock market, paying off a current home or upgrading to more expensive homes without increasing their monthly payment.

Dodson likes to practice what he preaches. “People ask me all the time what would you do? Now I can tell them I refinanced my primary residence with the libor product and purchased a condo in Seagrove, Florida. My payments are cheaper than a three-bedroom apartment in Atlanta. Not too bad.”

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