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50-year Mortgage Not the Best Option

Becoming a homeowner in many parts of the country has become extremely difficult for the average American during the past several years. Mortgage lenders have become very creative with loan programs in order to help buyers afford homes. These include interest-only and pay option ARM programs. Some extended long-term loans to 40 years to make payments affordable. When even these measures were not enough to get some people into their desired homes, lenders unveiled the 50-year mortgage.

The program is self-explanatory. A mortgage loan is fully amortized over a 50 year period of time. The advantage of this program is that the monthly payments on the loan are smaller than they would be on a traditional 30-year fixed rate mortgage loan. And as past president of the California Association of Mortgage Brokers, John Marcell has said, “You’ll be able to buy a more expensive home than you could qualify for otherwise.”

Many lenders contend that the 50-year loan is also a better program than the interest-only or options ARM mortgage, because however slowly, the borrower is still actually paying down the principal. With an interest-only loan, borrowers only pay the interest due for a certain amount of time, after which the payments jump up as they begin making principal contributions. With the option ARM, a borrower might even be experiencing negative amortization if he pays less than the interest owed for many months.

Yet others are not sold on the idea. George Hanzimanolis, president-elect of the National Association of Mortgage Brokers says, “I don’t think the average consumer will benefit from a 50-year mortgage, because of all the interest over the long term.”

And borrowers will end up paying a great deal more in interest than they would on a traditional loan. To start with interest rates on these very long-term loans are consistently one-fourth to one-half a percentage higher than 30-year mortgages. Here is an example of how that will affect the interest. Say you need a $200,000 home loan. You can get a 30-year fixed loan at 6% or a 50-year fixed loan at 6.25%. With the 30-year loan your monthly payment would be $1,199.10, and you would pay $231,676.00 in interest over the entire course of the loan. With the 50-year loan your monthly payment would be $1089.95, a monthly savings of only $109.15, but the amount of total interest you would pay would be almost double, $453,978.00! It is hard to see how paying a hundred dollars less each month is worth the 20 extra years of payments and the $200,000 extra in interest charges.

Another disadvantage of the home is how slowly the borrower builds interest in her home. Because the payments are low and so spread out, it will take these buyers much longer to develop a real stake in their own home. If they had to sell sooner than planned, there would be little equity to roll over into the next home purchase.

Still, these loans were created for a reason – to help people afford homeownership. The 50-year loan may be helpful for first-time buyers that plan to refinance after a while into a shorter term loan. If you feel this program may be a viable option for you, talk with your financial professional or your trusted mortgage lender to discuss all the pros and cons and to determine whether the 50-year mortgage is the right choice for you.