

Cashflow Interest-Only Loan



Gain greater control over your monthly cash flow with an interest-only loan.

Your mortgage loan is the lowest cost source of credit available to you. Yet each month you are forced to pay down your loan.

What if instead you could use the money normally allocated for principal payments for other purposes, such as investing or paying off high cost debt?

Now you can with our Cashflow Interest-Only Loan.

Our Cashflow Interest-Only Loan gives you greater control over one of your largest monthly expenses to help you better manage your cash flow and potential tax deductions.² For the first 15 years, each month you have the option of only paying the interest due on your loan.

By taking advantage of the interest-only option each month, you can use the principal portion of your mortgage payment for other purposes, such as investing or paying off high-cost credit obligations.

Interest-only payments can also assist you in moving into your dream home sooner. You may be able to trade up to the larger home you need, without increasing the amount of money you allocate towards your monthly mortgage payment. Since you are only paying the interest each month, you realize the potential tax advantage and personal satisfaction that accompany new home ownership.

Why Should You Choose An Interest-Only Loan?

- Mortgage payment flexibility to better manage your monthly cash flow without deferring interest.
- Purchase a larger house without increasing your monthly mortgage expense.
- A guaranteed interest-only payment produces monthly cash flow savings to invest or reduce high cost credit obligations.
- More flexibility in managing the mortgage interest payment to maximize your tax advantages.²
- Make an additional principal payment and see it reflected in your next monthly payment.

Two Payment Options Each Month

Our Cashflow Interest-Only Loan gives you the option each month for the first 15 years of the loan to make one of the following payments:

Interest-Only Payment Defer paying principal on your loan and improve your monthly cash flow. The money you normally use for the principal portion of your mortgage payment can be used for other needs, such as paying off high cost credit or diversifying your investments. (After the initial 15 years, your loan will be amortized for the remaining 15 years and your required payment will be principal and interest).¹

Principal and Interest If you prefer to reduce your loan balance each month, you can make a principal and interest payment. Any additional principal paid towards your loan balance will be reflected in your next monthly payment.¹

Interest-Only Payment Strategies

Strategy 1: Reduce your monthly mortgage payment

Take advantage of the interest-only payment option to reduce your mortgage expense and increase your monthly cash flow. The money freed up each month can then be allocated towards paying off high cost credit obligations, used to invest, or to take a much deserved vacation.

The chart below shows the payment savings that could be realized each month when you choose to make the interest-only payment versus the fully amortizing payment on a \$400,000 loan amount at an interest rate of 3.65%.

30-Year Amortizing Payment	Interest-Only Payment	Monthly Savings	Annual Savings
\$1,830	\$1,217	\$ 613	\$7,356
Savings over 1st 3 years:		\$22,068	
Savings Invested at 8%:		\$24,855	

The example assumes the interest rate remains constant throughout the life of the \$400,000 loan amount. The 30-year amortizing payment is based on 360 amortizing payments of principal and interest for \$1,830 at 3.65% (3.681% APR). The interest-only payment is based on a payment of interest, with no principal, for \$1,217 at 3.65% (3.684% APR). Once the 15-year interest-only period ends, the loan will amortize for the remaining 15 years. Rates are as of 5/31/03 and subject to change without notice.

Strategy 2: Buy more house for the same monthly payment

Have a larger home without increasing the money you allocate to your mortgage payment. Let's assume that you would like to initially allocate \$1,700 a month towards your mortgage payment (excluding the cost of taxes and insurance). How much more home could you obtain by making an interest-only payment each month?

The chart below shows loan amounts and corresponding purchase prices that would be available based on a 30-year amortizing payment versus an interest-only payment at the same interest rate of 3.65% and a down payment of 25%.

	Interest Rate	Monthly Payment	Loan Amount	Purchase Price
Amortizing Payment	3.65%	\$1,700	\$371,618	\$495,490
Interest-Only Payment	3.65%	\$1,700	\$558,904	\$745,205

The example assumes the interest rate remains constant throughout the loan. The amortizing loan amount is based on 360 payments of principal and interest for \$1,700 at 3.65% (3.683% APR). The interest-only loan amount is based on a payment of interest, with no principal, for \$1,700 at 3.65% (3.68% APR). Once the 15-year interest-only period ends, the loan will amortize for the remaining 15 years. The corresponding purchase prices are based on a 25% down payment. Rates are as of 5/31/03 and subject to change without notice.

Equity Still Builds

It is also important to remember that your house will most likely still be appreciating in value regardless of how little or how much principal you pay on your loan each month. Plus, if you choose to invest the money you normally would pay towards principal each month, this investment may grow to the point where you can pay off considerably more of your loan principal in the future.

Important Disclosures:

¹ This example illustrates payment terms for a 30-year adjustable-rate Cashflow Interest-Only Loan, based on a \$400,000 home purchase with a 25% down payment and a \$300,000 mortgage. Rates are current as of 5/31/03 and are subject to change without notice. The interest rate is adjusted monthly based on the 1-month LIBOR index plus a margin (2.30%). Current rate is 3.65%, 3.689% APR (APR may vary). The following payment examples assume that the fully indexed rate, the Index plus the Margin, remains constant throughout the life of the loan; rates can increase during the life of the loan. Rates used in this example are not guaranteed and are subject to change without notice.

Using the assumptions above and a fully indexed rate that remains constant throughout the life of the loan, here are examples of the payment choices:

- The Interest-Only payment for the first 15 years would be \$913. After the first 15 years of the loan, fully amortizing payments are required.
- You also have the option of making 360 monthly payments of \$1372.

2 Consult your tax advisor regarding the deductibility of interest paid on your mortgage.

