

Negative Amortization Overview

Date: [Insert Date]

To: [Recipient Name]

From: [Your Name]

Subject: Understanding Negative Amortization

Dear [Recipient Name],

As part of our financial education initiative, I would like to provide you with an overview of negative amortization, a concept that may affect borrowers in certain loan scenarios.

What is Negative Amortization?

Negative amortization occurs when a borrower's payments are not sufficient to cover the interest that accrues on a loan. As a result, the remaining unpaid interest is added to the principal balance, causing the total amount owed to increase over time.

How Does It Work?

- When a borrower makes a payment, a portion goes toward interest and any remaining amount reduces the principal.
- If the payment is lower than the accrued interest, the unpaid interest is added to the principal.
- This can lead to owing more than the original loan amount over time.

Risks of Negative Amortization

Borrowers should be aware of the potential risks associated with negative amortization, including:

- Increased debt burden over time.
- Higher payments in the future as the loan amount grows.
- Potential foreclosure if the loan becomes unaffordable.

Conclusion

Understanding negative amortization is essential for making informed financial decisions. If you have any further questions or wish to explore this topic in more depth, please feel free to reach out.

Sincerely,

[Your Name]

[Your Contact Information]