

### Graduated Payment Mortgages

Graduated Payment Mortgage is a loan where the payment graduates (increases) annually for a predetermined period (e.g. five or ten years), and then becomes fixed for the duration of the loan. During times of high interest rate, borrowers use them as leverage to be able to more readily qualify (because the initial payment is less). But the downside is that even though the initial payment is less, the interest owed is not - and the payment shortfall in the early years is added back onto the loan, which can result in negative amortization.