A **balloon mortgage** is a mortgage that is amortized over a period that is longer than the term of the loan, leaving a large final payment due at maturity. The final payment is called a **balloon payment.**

<div style="border:1px solid #000; display:inline-block; background:#1a6fb5; color:white; padding:4px 10px;">EXAMPLE 4</div>   **Analyzing the Cost of a Balloon Mortgage**

You take out a 10-year balloon mortgage for $250,000. The monthly payment is equal to that of a 30-year mortgage with an annual percentage rate of 6%. Find the balloon payment and the total interest that you pay.

SOLUTION

From Example 1(b), the monthly payment for a 30-year mortgage for $250,000 with an annual percentage rate of 6% is $1498.88. Use a spreadsheet to amortize the mortgage for 10 years using this monthly payment.

	A	B	C	D	E
1	**Payment Number**	**Balance before Payment**	**Interest on Balance**	**Monthly Payment**	**Balance after Payment**
2	1	$250,000.00	$1,250.00	$1,498.88	$249,751.12
	2	$249,751.12	$1,248.76	$1,498.88	$249,501.00
	3	$249,501.00	$1,247.51	$1,498.88	$249,249.63
	4	$249,249.63	$1,246.25	$1,498.88	$248,997.00
	5	$248,997.00	$1,244.99	$1,498.88	$248,743.11
	6	$248,743.11	$1,243.72	$1,498.88	$248,487.95
	7	$248,487.95	$1,242.44	$1,498.88	$248,231.51
	8	$248,231.51	$1,241.16	$1,498.88	$247,973.80
	9	$247,973.80	$1,239.87	$1,498.88	$247,714.79
		$247,714.79	$1,238.57	$1,498.88	$247,454.49
		$212,321.49	$1,061.61	$1,498.88	$211,884.22
		$211,884.22	$1,059.42	$1,498.88	$211,444.77
		$211,444.77	$1,057.22	$1,498.88	$211,003.12
	117	$211,003.12	$1,055.02	$1,498.88	$210,559.25
119	118	$210,559.25	$1,052.80	$1,498.88	$210,113.17
120	119	$210,113.17	$1,050.57	$1,498.88	$209,664.86
121	120	$209,664.86	$1,048.32	$1,498.88	$209,214.31
122	**Total**		**$139,079.47**		

Balloon payment

After making 120 payments, you must make a balloon payment of $209,214.31. The total interest that you pay over the 10 years is $139,079.47.

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You take out a 5-year balloon mortgage for $200,000. The monthly payment is equal to that of a 20-year mortgage with an annual percentage rate of 6.5%. Find the balloon payment and the total interest that you pay.

Study Tip

A balloon mortgage lets you make small monthly payments, but at the end of the mortgage you must make a large final payment.