FannieMae

Is now a good time to refinance?

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Our Business Is The American Dream®

At Fannie Mae, we are in the American Dream business. Our Mission is to tear down barriers, lower costs, and increase the opportunities for homeownership and affordable rental housing for all Americans. Because having a safe place to call home strengthens families, communities, and our nation as a whole.

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Owning your own home is a major part of the American dream—a dream that you worked hard to achieve. When you bought your home, you probably assumed that the payments you agreed to make under the terms of your mortgage would continue for the duration of the loan. Even though most mortgage loans are originated for a term of 10 to 30 years, few borrowers keep the loan for that long. In most cases, mortgages are paid off when the home is sold. Some homeowners also refinance their loans for a variety of reasons. When you refinance your mortgage, you pay off your existing loan and take out a new one. Making a decision to refinance your mortgage depends on many factors and requires a lot of thought. Fannie Mae wants to help you understand just what's involved in the process of refinancing.

You may not be familiar with us. Fannie Mae is the nation's largest source of funds for home mortgages. Our mission is to expand homeownership opportunities for all families and individuals, but we don't lend money directly to home buyers. Instead, we provide mortgage lenders across the country access to the funds they need to make loans to home buyers and to homeowners refinancing their mortgages. We continually work with our partners in the housing finance industry to develop innovative and affordable mortgage products that meet the unique needs of homeowners.

Mortgage lenders are Fannie Mae's customers. Helping lenders make mortgages—to home buyers or to homeowners who are refinancing their current mortgages—is our business. That's why we want to give you objective information that will help you decide if now is a good time to refinance your mortgage.

How this guide can help you determine if now is a good time to refinance

Millions of Americans refinance their mortgage loans every year. Like them, you want to fully understand the process and costs involved.

For many homeowners, the monthly mortgage payment is the largest expense in the monthly budget. That's why refinancing to take advantage of lower interest rates is the first option many homeowners take to cut costs.

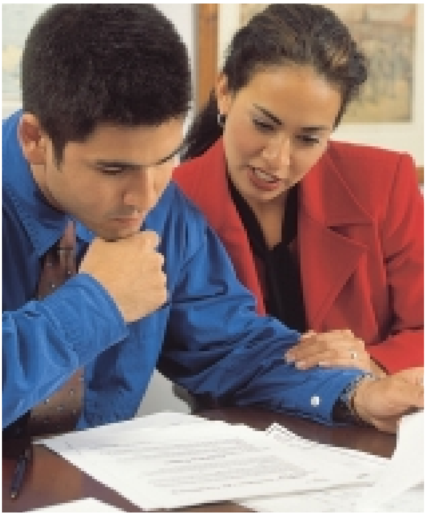
However, other homeowners refinance with a different goal in mind. They want to get cash out of their homes because their homes have increased a lot in value. For them, refinancing is a means to tap into the value in their homes.

For some homeowners, refinancing is a chance to do both!

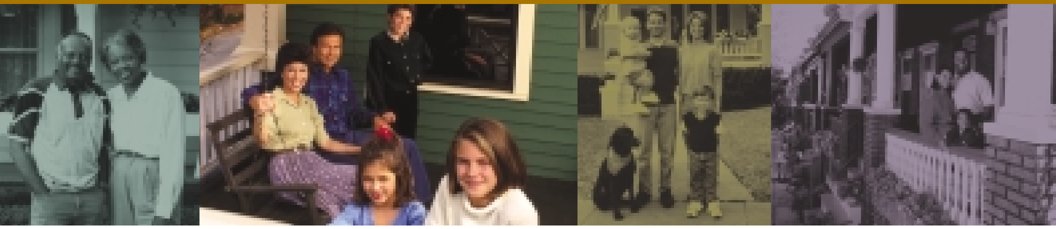
So when does it make sense to refinance? What's involved? What will it cost? How do you determine the best type of mortgage, rates, and terms for your situation?

When you finish reading this guide, you will have answers to these questions—and more. It is important that you understand your reasons for refinancing and your choices. Being prepared will help you ask the right questions of lenders and make the best choices for yourself and your home.

Refinancing your mortgage will affect your financial future. So let's spend some time understanding what's in store.



Question 1:
When does it make sense to refinance?



Homeowners refinance their mortgage loans for many reasons, including to lower their interest rate and monthly payment, to build equity in their home faster by shortening their loan term, or to draw on the equity already built in their home through a "cash-out" refinance. You should carefully consider the following before making a final decision:

- your reasons for refinancing,
- the interest rate of the existing mortgage,
- the interest rate of the new mortgage,
- the cost of refinancing,
- how much equity you have built up in your home,
- how long you plan to remain in your home, and
- your current income and credit status.

Being eligible to refinance

To be eligible to refinance a mortgage, lenders usually require that you have at least 5 percent equity accumulated in your property. Equity is the difference between what your property is worth and the amount you still owe on the mortgage. For example, if your house is valued at $100,000, and your mortgage balance is $90,000, you have $10,000 equity in your home. In this example, that equals 10 percent equity.

Reasons for refinancing

To get a lower interest rate mortgage One of the main reasons homeowners refinance their mortgages is to take advantage of lower interest rates. For example, suppose you have a fixed-rate mortgage, but interest rates have declined since you first obtained your loan.

You may find that now you can get a new loan at a lower rate of interest. You can reduce your monthly payments when you refinance a higher rate loan for one with a lower rate. If you plan to remain in your home for several years, the savings you will realize in the form of a lower monthly mortgage payment could justify the costs of refinancing your home. Some lenders may offer a low- or no-cost refinancing (see page 13), in which case your recovery of upfront loan costs may be less of a concern.

How much lower should interest rates be before you consider refinancing? You may have heard a general rule of thumb that your new interest rate should be at least 1 percentage point lower than your current rate for the new loan to result in significant savings. However, this is just a rule of thumb—you need to consider how long you plan to stay in your home and whether that amount of time will justify your upfront costs in refinancing your mortgage loan. If you're only a few years away from paying off your current mortgage, it may not make sense to refinance.

You also may wonder when to lock in your interest rate. Usually, you can do so at loan application or approval, or you can float the interest rate until the loan closes. Ask your lender how long he or she will hold a quoted rate for you. You also should ask what happens if rates fluctuate before closing.
If rates have fallen, must you close at your locked-in rate or can you get the lower rate? What if rates have risen?

Some homeowners think that each time the Federal Reserve lowers the federal funds rate, mortgage rates will decrease as well. This often isn't the case, because most mortgage rates are not tied to the Federal

Reserve's well-publicized overnight borrowing rates. Fixed-rate mortgage interest rates typically track longer term rates set by the bond markets. So when deciding when to refinance your home and lock in your new interest rate, be sure you look at the movement of interest rates for the type of mortgage you want, as opposed to just news headlines about Federal Reserve actions.

Build equity faster Many homeowners want to build the equity in their homes more quickly and choose to refinance a longer term mortgage with a shorter term mortgage. Each month, a certain part of your payment goes to the interest expense on your loan, with the remainder being applied against the principal, or loan balance. With shorter term loans, a greater percentage of your monthly payment goes to the principal. For example, if you currently have a 30-year fixed-rate loan, you might consider refinancing for a 10- , 15- , or 20-year loan, which will lower the total amount of interest you will pay over the life of the loan and speed up the growth of equity in your home. However, remember that as you shorten the term of your loan, your monthly payment likely will increase.

To switch from an adjustable-rate loan to a fixed-rate loan
During those times when interest rates are higher, homeowners often choose adjustable-rate mortgages (ARMs), which traditionally have lower interest rates during their early years than fixed-rate loans. When rates drop, you may want to refinance for a fixed-rate loan, which provides the stability and predictability of knowing exactly what your

mortgage payment will be for the life of the loan. Some ARMs have conversion periods that allow you to convert your loan to a fixed-rate mortgage for a one-time conversion fee. If you have an ARM now, be sure to ask your lender about this option.

To get a loan that recognizes your improved creditworthiness If you had a history of credit problems when you took out your current mortgage, you may find that you can now refinance into a new mortgage that recognizes your improved credit by offering you a more competitive interest rate. People with a history of credit problems often have to pay higher mortgage interest rates. However, credit records change over time. So if your credit has improved since taking out your current mortgage, talk to a lender about refinancing into a loan that recognizes your current improved credit status. Before visiting a lender, you may want to call a credit bureau to get a copy of your credit report and make sure everything is reported correctly.

Ask lenders about Fannie Mae's Timely Payment Rewards℠ mortgage. It's a new mortgage designed for people with less than perfect credit that offers a competitive interest rate—plus up to a 1 percentage point drop in your interest rate when you make your mortgage payments on time over a two-year period. If you can qualify, it may prove to be a better deal than your current mortgage.

Draw on the equity already built up in your home Often referred to as a "cash-out" refinance, you can tap a portion of the equity that has accumulated in your home and receive cash at your loan closing. Equity is what your home is worth minus the amount you still owe on your mortgage. You can use this equity to pay for expenses such as your children's education, or home improvements, or to consolidate other debt payments. For example, if your home is now valued at $150,000 and your loan balance is $80,000, you might be able to get a new $135,000 mortgage (cash-out refinances generally are limited to 90 percent of the total value of your home).

That would allow you to repay the existing $80,000 balance and use the $55,000 for other financial needs.

Is there any risk in a cash-out refinance? Many homeowners like the flexibility that comes with a cash-out refinance. However, the more you tap into the equity in your home, the more your monthly mortgage payments may increase. In some cases, lenders may offer you a loan amount that is 95 percent, 100 percent, or even 110 percent of the value of your home. You may find that you're being persuaded to use all the equity in your home to borrow money to pay off higher interest credit card bills, or to make home repairs, or even to take that round-the-world dream vacation.

Be sure you carefully evaluate all the terms of the refinance loans being offered to you, especially those that will exceed 90 percent of the value of your home. Such a refinance loan may have a higher monthly payment than your current loan and may carry additional upfront fees. Be sure to ask the lender about any prepayment penalties, which could cost you thousands of dollars if you decide to pay off your mortgage early. If you decide to opt for a prepayment penalty, you should receive some benefit for doing so—such as a lower interest rate. Make sure you know of any large balloon payments that may come due at the end of a loan period. If not carefully evaluated and understood, these loan features could cost you more than you ever intended to pay.

When thinking about a cash-out refinance, it's also important to know whether you're really getting your debt under control or, in fact, taking on more debt. For example, interest rates on consumer loans and credit cards are usually higher than mortgage interest rates. It's true that you may be able to pay off these higher interest debts by consolidating balances into a mortgage loan requiring monthly payments at a lower interest rate. However, by adding to your total mortgage debt, you're borrowing additional money against the value of your home. Although debt consolidation through cash-out refinances may be appropriate in some circumstances, you should carefully assess the pros and cons of such a transaction, including tax consequences.

Although many homes increase in value over time, this doesn't mean home values can't or won't decrease. If your property goes down in value, you may not be able to sell it at a profit and get the funds you need to pay back your refinanced loan amount. And if you lose your job and can't find another, you need to know that you will have sufficient resources available to make the monthly mortgage payments. So don't take on more of a monthly mortgage payment than you feel comfortable making. You don't want to do anything that is going to increase the amount of your debt beyond what you are able to repay and risk losing your home.

Question 2:
What is involved in refinancing a mortgage?

When you refinance, you pay off an existing mortgage and take out a new one. An important factor in deciding if you should refinance your mortgage is understanding just what's involved in the process, the costs and fees you'll have to pay, and how long it will take you to recover those costs.

When you refinance, you generally will repeat many of the same steps, provide the same information, and encounter the same types of costs that were involved the first time around. The lender's decision whether to approve your loan application will be determined by an evaluation of:

Your financial situation and credit history (since this helps the lender assess your ability and willingness to repay the debt).

Property value (based on current market value and how much your home is worth).

The amount of equity in your home (the difference between the fair market value of your home and the amount you still owe on your mortgage).

Information the lender will need

About you Because refinancing involves applying for a new mortgage loan, the lender will likely need verification of your employment and income; information about your debts and assets; and the account numbers and balances for your savings, checking, and other accounts.

About your present mortgage The lender will require information about your present mortgage, including your current monthly payments, the outstanding mortgage balance, current status of your property tax and insurance payments, your lender's name and address (if you are not applying to refinance through your present lender), and the loan number. The lender also may investigate your payment history to determine that your mortgage payments are made on time.

The lender may order a title search to verify that you own the property. As part of determining your ownership, the lender also may require a copy of a site survey. A copy of the survey completed when you first bought your home may be acceptable.

Finally, the lender will need to know what your house is worth. The lender may require an appraisal of the property. In some cases, an exterior-only appraisal is all that will be required.

Costs involved in refinancing

Because you are applying for a new loan, you may have to pay many of the same fees associated with the original purchase of your home, including an application fee, title search and title insurance fees, the cost of an appraisal, a loan origination fee and any discount points, prepayment penalties, and any legal services relating to your loan.

Application fee This fee covers the lender's cost to process your loan request.

Appraisal fee This is the fee charged by the appraiser to determine the value of your home.

Credit report The lender orders a credit report on you and any co-borrowers to verify the information you've already supplied on your loan application and to see how you've handled past debt and credit accounts.

Title search and title insurance This charge will cover the cost of examining the public record to confirm your ownership of the property and the cost of a title insurance policy. You should ask your settlement company to ask the company carrying your present title insurance policy if it can reissue the policy at a reissue rate, which may save you money.

Survey The lender may order a new survey of your property to ensure that nothing has changed to the land and physical structures that would affect a future sale.

Loan origination fee This fee covers the lender's work in evaluating and processing the loan. It usually is expressed as a percentage of the loan.

Discount points Discount points represent the additional money you can pay to the lender at closing. In return, the lender will provide you a lower interest rate on your loan. A point is equal to 1 percent of the mortgage loan amount.

Legal services The lender usually will charge you for fees paid to the lawyer or company that conducts the closing. You also may want to hire your own attorney to review documents and represent you throughout all stages of the transaction. If so, try to hire an attorney who specializes in real estate.

Miscellaneous fees Depending upon the type of loan you have and other factors, expenses you might face include the fee for a Department of Veteran's Affairs (VA) loan guarantee, Federal Housing Administration (FHA) mortgage insurance, or private mortgage insurance. You should also ask about recordation and document preparation fees, including any costs for courier fees, notary fees, and tax service fees.

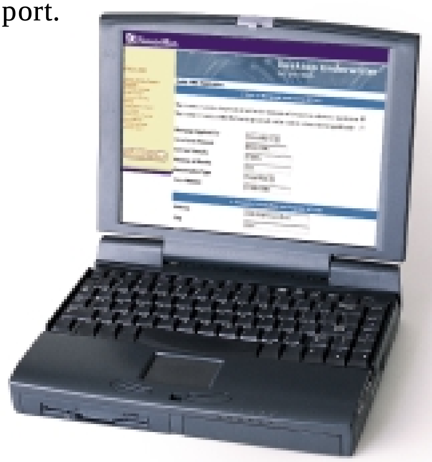
Prepayment penalty Your existing mortgage may have a prepayment penalty clause. This means that if you pay off your existing mortgage earlier than the terms stated in the loan documents, you may be required to pay an additional amount, usually a percentage of the outstanding principal, as a penalty. Laws in many states prohibit or limit mortgage prepayment penalties. Check your mortgage documents or ask your lender if your mortgage contains a prepayment penalty and if a prepayment penalty can be enforced in your state.

No- or low-cost refinance

Sometimes a new appraisal will not be necessary. In addition, some of the fees and closing costs may be waived. If you decide to refinance with your original lender, you may be able to negotiate a reduction of points or a waiver of the title search, application fee, credit check, or other fees. Even if you select a new mortgage lender, they may be willing to negotiate these fees as well. Some lenders offer "no-cost" refinancing, which means that you would not have to pay most of the upfront processing and closing fees generally required; however, lenders usually will charge a higher interest rate for this type of loan. Be sure to ask the lenders you contact if they offer no-cost refinancing or if some, or all, of the refinancing fees and costs can be waived.

When you go to refinance your current mortgage, you may be able to speed up the process and cut down on the amount of paperwork needed if you go with a lender that offers automated underwriting. Automated underwriting allows a lender to provide you with a loan approval decision in minutes. You may wish to ask lenders if they offer loan decisions through Fannie Mae's Desktop Underwriter® or another automated mortgage loan underwriting system.

In addition to saving you time and paperwork, automated underwriting could save you money. In some cases, you may not need a full appraisal of your home. Other options may include an exterior-only inspection or a property inspection report.



Question 3:
How do I determine what's best for me?

There are many types of mortgages available, and you should choose the one that is best for your particular situation. Whether you are considering refinancing to lower your current interest rate and monthly mortgage payment, to draw on the equity in your home, or to build up the equity in your home faster, you should plan to contact several mortgage lenders—including your present lender—to compare the mortgage types, rates, and terms they have available as well as their closing costs and other fees.

Lenders generally offer a variety of interest rates and terms. For example, you may be able to get a 6.75 percent mortgage with 1 point or a 7 percent mortgage with 0 points. (A point is equal to 1 percent of the loan amount.) A lower interest rate with higher points means a lower monthly payment but higher upfront costs. If you want to keep the upfront costs down, and can handle a larger monthly payment, you may want to look for a slightly higher interest rate with fewer points. Many lenders will allow you to finance your points and customary closing costs, which means that some of the costs of refinancing can be included in the loan amount.

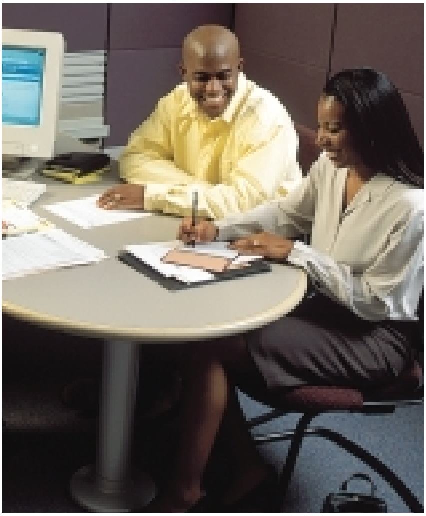
For example, let's assume the amount you are refinancing is $75,000 and your costs to refinance are $3,415. Some lenders, taking into account the equity in your home, would agree to a loan amount of $78,415 to include your refinancing costs. Be sure to ask the lenders you talk to if this is possible. As with any mortgage, however, the amount a lender approves will depend on your financial situation and on the appraised value of your property.

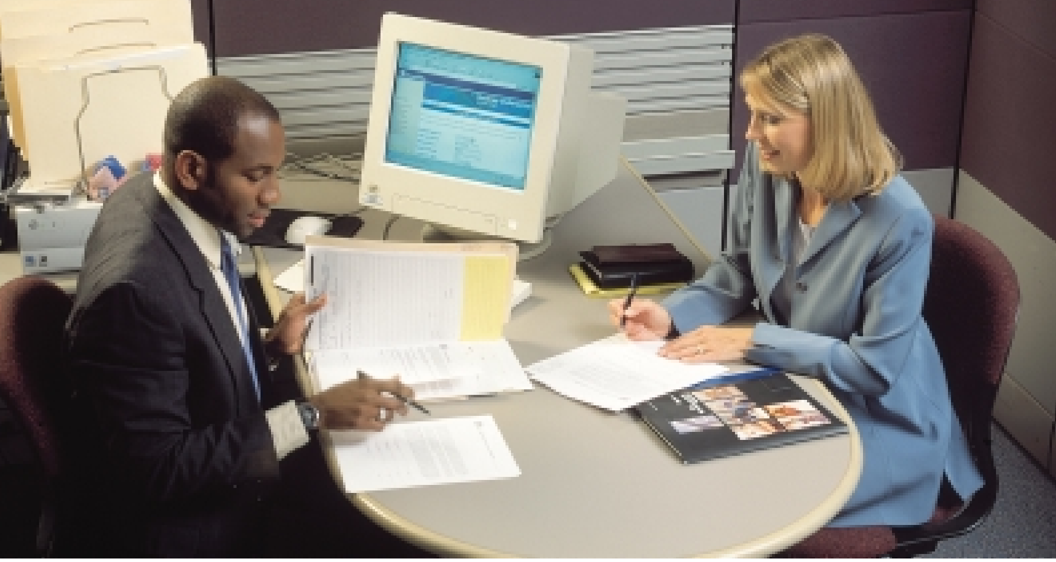
What type of mortgage loan should I get?

There are many different types of mortgage loans available in today's market, and you should take the time to shop for the type that will best suit your financial needs. The type of mortgage loan you select will depend on how long you expect to continue living in your current home, your reasons for refinancing, and the amount of the monthly payment you can comfortably afford.

Fixed-rate mortgages When interest rates decline, some homeowners choose to refinance an adjustable-rate mortgage (ARM) to a fixed-rate mortgage or to convert a longer term, fixed-rate loan to one with a shorter term. If you expect to remain in your home for several years, you may want a fixed-rate mortgage that will ensure that your interest rate will remain the same for as long as you have your loan. If you want the stable, predictable payments of a fixed-rate loan, then you must choose from a variety of payment terms—15 and 30 years are the most common. Some people who currently have a 30-year fixed-rate mortgage choose to refinance to a 15- or 20-year fixed-rate loan. Although the amount of your monthly payment may increase with a shorter term loan, you will reduce the total interest you will pay over the life of your loan, while building up the equity in your home faster.

Adjustable-rate mortgages Homeowners refinance with ARMs for many reasons. During times when interest rates are higher, homeowners may trade in a higher fixed-rate mortgage for a lower rate ARM. Because the index values fluctuate, homeowners also may change from one type of ARM to another or refinance with the same type of ARM to get a lower rate (see the checklist of adjustable-rate mortgage shopping terms on page 22 for an explanation of the index values). ARMs feature an interest rate that moves up and down as market conditions change. Although an ARM usually offers a lower initial rate, your mortgage payments will





change periodically (usually once a year). Interest rate changes typically are subject to a limit or "cap" for each adjustment and for the life of the loan. A typical ARM that adjusts annually may have a per adjustment cap of 2 percentage points and a lifetime cap of 6 percentage points. For example, if your mortgage starts at 4 percent, it could increase to 6 percent after one year. Over time, however, it would not be higher than 10 percent because of the 6 percent lifetime cap.

When considering refinancing with an ARM, it is important to understand how often your mortgage will adjust and how much your payment can change with each adjustment and over the life of the loan.

If you expect to spend more than just a few years in your home, you may want to consider a "fixed-period" ARM. This type of ARM will give you a fixed interest rate for the first 5, 7, or 10 years—lower than a 30-year rate. At the end of that fixed period, the mortgage will adjust its interest rate annually.

Government-insured loans If you meet the qualifications, consider the mortgages offered by the Federal Housing Administration (FHA) or the Department of Veteran's Affairs (VA). Consider the Farmers Home Administration (FmHA) for homes in rural areas. Properties refinanced under these programs must meet certain minimum standards, loan limits, and income limits.

Other types of mortgages If you are planning to move within the next few years, you might want to consider an InterestFirst℠ mortgage, in which you will get a lower monthly payment because you pay only interest and no principal each month during the initial 15 years of the loan. Also consider Fannie Mae's Two-Step® Mortgage. The Two-Step Mortgage will give you a lower interest rate than a 30-year mortgage for the first 5, 7, or 10 years. At the end of the term, if you are still in the house, the mortgage will make one automatic adjustment based on the market rate at that time, then remain fixed for the remaining term of the mortgage.

You also might consider a biweekly mortgage, which requires loan payments every two weeks but pays off more quickly. A biweekly mortgage saves you thousands of dollars in interest and builds up the equity in your home faster.

Comparing mortgage loan terms among lenders

You should plan to contact several mortgage lenders, including the lender to whom you presently make your payments, to discuss the mortgages they have available, their rates, closing costs, and other fees. A good place to start is in the real estate section of your local newspaper. You may want to use popular search engines on the Internet to locate mortgage lenders and current interest rates.

Because there are so many variables, you'll need a systematic approach. The following mortgage comparison charts will help you ask lenders questions about the terms of the mortgages they offer. Use these charts to get the information you need and to make an informed decision on which mortgage lender offers the best deal for you. Remember, some information (especially interest rates) can change daily. So try to call each lender you plan to contact on the same day to get a consistent comparison.

Each item on both charts is numbered. If you don't understand a specific item, refer to the checklist of mortgage shopping terms that follows each chart.

Fixed-rate mortgage comparison chart

1. Company name / phone number / loan officer's name:

2. Mortgage type and terms:

Mortgage type:
Mortgage terms (15, 20, 30 years, etc.):

3. Interest rate and points:

Interest rate quoted on ___/___/___ is:
Number of points:
Can points be financed?
Annual percentage rate (APR):

4. Interest rate lock-ins:

Upon application? At approval?
Lock-in costs? Effective how long?
Lower lock-in if rates drop?

5. Minimum amount of equity in home required:

Without mortgage insurance? With mortgage insurance?
Is mortgage insurance required? Up-front costs?
Monthly premiums? Can it be financed?

6. Prepayment of principal:

Is there a prepayment penalty on current mortgage loan?
If yes, percentage of outstanding principal:
Will there be a penalty on the new loan?
Duration of penalty? Extra principal payments allowed?

7. Loan processing time:

How many days estimated from:
Application to approval?
Approval to closing?

8. Closing costs / fees:

Application fee
Loan origination fee
Credit report fee
Appraisal fee
Title search / title insurance (Is reissue rate available?)
Survey fee
Lender's attorney fee
Transfer taxes
Any other closing costs quoted (such as tax service fees, recordation fees, document preparation fees, courier and notary fees)?
Does lender offer no-cost / no-point refinancing?
Will lender waive any closing costs or fees?

Lender 1	Lender 2	Lender 3

Checklist of fixed-rate mortgage shopping terms

Note: Each item in this checklist is numerically coded to the mortgage comparison chart on the previous page. So if you don't understand an item on the chart, this list of terms will help you when asking questions of various mortgage lenders.

1. Company name / phone number / loan officer's name Write down the name of the loan officer with whom you speak, so you can get back in touch if you decide to apply for a loan at that financial institution.

2. Mortgage type and terms When comparing mortgages among lenders, compare the same loan among the lenders you call—in other words, a 30-year fixed-rate with a 30-year fixed-rate, a one-year Treasury ARM with a one-year Treasury ARM, etc.

3. Interest rate and points Interest rates change often, even daily. Make sure you record the date of your rate quote. Try to call all lenders on the same day, so you have an accurate comparison. Another way to evaluate rates is by examining the Annual Percentage Rate (APR). It indicates the "effective rate of interest paid" per year. The figure includes points and other closing costs and spreads them over the life of the loan. While the APR provides you with a common point for comparison, it's important to look at all features before deciding which mortgage to get. Also, be sure to ask the lenders you contact if points can be financed.

4. Interest rate lock-ins When a lender agrees to hold the quoted rate for you, this is called a "lock-in." Ask when can the rate be locked in—at the time of application or only upon approval? Will the lender lock in both the interest rate and points? Can you get a written lock-in agreement? How long does the lock-in remain in effect? Is there a charge for locking in a rate? If the rate drops before closing, must you close at your locked-in rate or can you get the lower rate?

5. Minimum equity in home required Ask the loan officer about the lowest allowable amount of equity you need in your home to refinance—with and without private mortgage insurance. If private mortgage insurance (MI) is required, ask how much it will cost. Find out how much is due up-front at closing and the amount included as monthly premiums. Ask if you can finance the closing cost of MI. Also ask how long MI will be required. In some cases, you may be able to cancel the MI when your loan balance drops below 80 percent of the appraised value of the property relied upon to originate the refinanced loan, or when a new appraisal establishes that your mortgage is 80 percent or less of the new appraised value. When your loan value is scheduled to drop below 78 percent, MI is automatically canceled if your loan payments are current.

6. Prepayment of principal Some lenders charge borrowers a prepayment penalty if they pay off the loan early. You first should find out if there is a prepayment penalty on your current mortgage loan; if there is a penalty, find out how much you will have to pay if you refinance your loan. Next, if you think you may sell your home before the loan is paid off (most mortgages are repaid early) or plan to make principal payments before they are actually due, you need to know if there will be a penalty on the refinanced loan and how long it will remain in effect. Some penalties are in effect only for the early years of the loan.

7. Loan processing time Loan approvals used to take 30 days or more, but lenders that use automated underwriting systems such as Fannie Mae's Desktop Underwriter® often can provide loan approvals within minutes. Peak business periods, particularly when rates are dropping and many homeowners are refinancing, can affect a lender's response time. Ask each lending institution for its estimate, and see which can promise very short approval and closing times.

8. Closing costs / fees Closing costs are fees required by the lender at closing and can vary considerably from one financial institution to another. Ask specifically about the application fee, loan origination fee, points, credit report fee, appraisal fee, survey fee (if required), lender's attorney fee, cost of title insurance, transfer taxes, recordation fee, tax service fee, and document preparation fee. Be sure to ask each lender you contact if they offer no-cost/no-point refinancing or if they are willing to waive any of the closing costs or fees.

Adjustable-rate mortgage comparison chart

1. Financial index and margin:

Treasury, Cost of Funds (COFi), Certificate of Deposit, LIBOR, or other?
What is the margin over the index used by the lender to calculate the fully indexed rate (e.g., Prime Interest Rate + 1%)?

2. Initial interest rate:

3. Adjustment interval:

What is the interest adjustment interval (six months, one year, three years, etc.)?

4. Rate caps:

Lifetime interest rate caps? Periodic interest rate caps?

5. Payment caps:

6. Conversion to fixed-rate loan:

When can the loan convert?
How is the new converted rate determined?
Are there any conditions under which a conversion option will not be offered to me?
Is there a conversion fee?

Checklist of adjustable-rate mortgage shopping terms

If you're shopping for an ARM, ask the additional questions that follow. The most important thing to discover is the maximum amount by which your payments might increase.

1. Financial index and margin The interest rate on an ARM is determined by adding a margin or spread to a specified financial index. This is called the fully indexed rate. Find out both the financial index used (Treasury, Certificate of Deposit, LIBOR, Cost of Funds, etc.) and the margin (that is, how much higher is the ARM rate than the index rate?).

2. Initial interest rate Is the initial rate quoted the fully indexed rate or a lower introductory rate, sometimes called a teaser or discount rate? A teaser rate may sound like a bargain today, but it may turn out to cost you more in the long run. This low rate may last only until the first adjustment. After that, you could be charged a higher rate based on the index, at which point your payments may become higher than you expected.

3. Adjustment interval How often can the interest rate be adjusted—every six months, one year, three years? A loan that adjusts its interest rate after six months is called a six-month ARM; after one year, a one-year ARM; etc. Ask about special "fixed-period" ARMs that adjust only once, usually at five, seven, or ten years.

Lender 1	Lender 2	Lender 3

4. Rate caps Rate caps limit how much your interest rate can move, either up or down. Periodic caps limit the change per adjustment period, and a lifetime cap governs the maximum amount the interest rate can increase or decrease over the life of the loan.

5. Payment caps Payment caps may appear similar to rate caps, but don't be misled. While they can limit how much your monthly payment increases, they don't restrict the interest rate from going up. Many ARMs with payment caps have no corresponding interest rate caps. As a result, you may end up paying the lender less than the amount of interest you owe each month. If this happens, this unpaid interest is added to your loan balance, and the principal amount you owe increases rather than decreases with each payment. This is called negative amortization—and you should be sure you understand how it works, as well as options to avoid it, before taking out a loan that negatively amortizes.

6. Conversion to fixed-rate loan Some ARMs let you convert to a fixed-rate mortgage at specified times, typically during the first five years of the loan. Because the convertibility feature often is an added expense (some lenders charge an extra point, for example), find out the exact conversion terms and how much it would cost you to convert your ARM to a fixed-rate loan. You'll want to compare this cost with the costs incurred and the interest rate savings you might gain by refinancing your mortgage to a fixed-rate loan.

Question 4:
Is now the best time to refinance?

Making a decision to refinance your mortgage depends on many factors. Before deciding if and when to refinance, you should carefully consider your reasons for refinancing, the costs involved, and the type of loan and term that best meet your needs, as well as the other factors that have been discussed throughout this guide.

If you have a clear understanding of your refinancing objectives, have determined what the best mortgage type, terms, and rates are for your situation, and know what your costs to refinance the mortgage loan will be, you should calculate how long it will take you to recover your costs. In some instances, unless you plan to remain in your home for several years, you may see little or no savings. Therefore, you may choose not to refinance, or you may want to consider other options in the loan type, terms, and rate.

If you are refinancing to lower your interest rate and monthly mortgage payment, the worksheet on page 26 will help you determine how long it will take to recover your costs to refinance. You can also use a variety of online calculators to compare refinancing costs, terms, and the time needed to recoup your up-front loan expenses. Visit Fannie Mae's www.homepath.com to use its *True Cost Calculator*, as well as its *Is Now A Good Time To Refinance?* calculator to better understand all your options.

Divide your total costs to refinance by your total monthly savings. You will arrive at the approximate number of months it will take you to recover your up-front costs through savings on the lower payment.

If this length of time is longer than you plan to remain in your home, it may not make sense for you to consider refinancing.

Not every homeowner refinances just to lower the interest rate or monthly payment. For example, you may want to refinance to get a shorter term loan so you can pay off the mortgage before you retire, or you may want to convert your mortgage from an ARM to a fixed-rate loan. Because these refinances can result in a lower interest rate, but probably won't result in a lower monthly payment, there's no simple formula for determining when it makes sense to refinance.

Following are some of the things you need to consider if you want to refinance:

- How long do you plan to remain in your home?
- How many years remain on your existing mortgage loan?
- What costs are involved in the refinancing?
- How much will you save in total interest costs over the life of the loan if you choose a shorter term mortgage?
- How much of your tax advantage for mortgage interest deductions will you lose if you choose a shorter term mortgage?
- Would you be better off choosing a longer term loan with lower payments, but making extra principal payments now and then so that you achieve the same result without being obligated to make a higher payment every month?
- What value do you place on the "peace of mind" you might get from knowing that your payment for a fixed-rate loan won't change if interest rates go up?

Refinance cost recovery worksheet

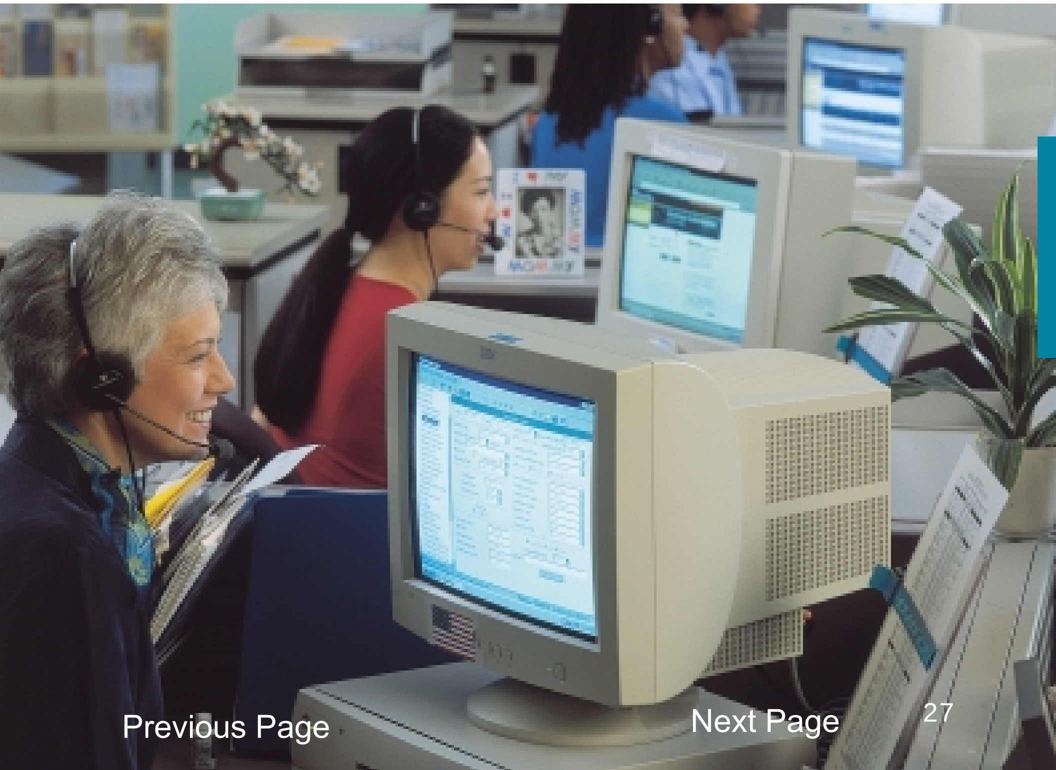
Current monthly payment		$
New monthly payment		$
Total monthly savings (subtract new payment from current payment)		$
Costs to refinance:		
Application fee	$	
Appraisal	$	
Credit report	$	
Title search/insurance	$	
Survey	$	
Loan origination fee	$	
Discount points	$	
Prepayment penalty	$	
Legal services	$	
Miscellaneous	$	
Total costs (add all costs to refinance)	$	
Months to recoup (divide total costs by total monthly savings)		
Current interest rate	%	
New interest rate	%	
Differential	%	
New mortgage amount		$
Balance on existing mortgage		$
Equity reduction		$

Call Fannie Mae toll free

If, after reading this guide, you still have questions about what's involved in refinancing your mortgage loan, call Fannie Mae's Consumer Resource Center at 1-800-7FANNIE (1-800-732-6643)

For more information about Fannie Mae, visit us at www.fanniemae.com

To learn more about Fannie Mae mortgages or to find a Fannie Mae lender, visit www.homepath.com

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This brochure compliments of

3900 Wisconsin Avenue, NW
Washington, DC 20016-2892

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