REFINANCING EXAMPLE

If your loan is held by Fannie Mae or Freddie Mac and you are current on your mortgage payments, you may be eligible to refinance your mortgage loan even if your LTV is up to 125%. LTV, or loan-to-value-ratio, is a measurement that compares the principal balance of your loan (the amount you currently owe) to the actual value of the house. For example, if your loan amount is $300,000 and the current value of your home is $240,000, your LTV is 300/240, or 125%.

Previously, under the Making Home Affordable Program for Fannie Mae and Freddie Mac loans, only homeowners seeking loans with a maximum LTV of 105% were able to refinance. The eligibility guidelines for refinancing have recently been expanded to allow more homeowners to participate. Now borrowers with LTVs up to 125% can take advantage of lower interest rates to lower their monthly payment or take the opportunity to move into a fixed-rate mortgage.

Refinancing to a lower interest rate will usually result in a lower monthly payment. Alternatively, if you can afford your current monthly payment, you may consider using the savings to get "above water" much quicker. It may be right for some homeowners to pay off their mortgage in less than the typical 30 years – which means building equity faster and paying less interest over the life of the loan.

If you refinance into a 20-year or 25-year fixed-rate mortgage loan, just like the standard 30-year mortgage, your total principal and interest payment will never change. Your monthly payment will be a little higher than with a traditional fixed-rate 30-year mortgage due to the shorter term. Ask your lender about this option – if you can commit to making slightly larger monthly payments, which may still be less than your current payment.

Let's say that your monthly principal and interest payment on your current mortgage is $1,857, and by refinancing into a 30-year mortgage, you reduce your payment by $200, to $1,657.

New Refinance			
Loan Amount	$300,000	Interest Rate	5.25%
House Value	$240,000	Principal & Interest Payment	$1,657 per month
LTV	125%	Savings vs. Previous Loan	$ 200 per month

For purposes of this example, assume that the 30-year mortgage rate is 5.25 percent and shorter-term mortgages carry a 5.125 percent rate. Of course, market rates will vary.

Assuming you can get an interest rate reduction of 0.125% by committing to a monthly payment of $1,776 – which is $81 *less than your current payment* – you will pay off your mortgage 5 years sooner and pay about $63,000 *less* in interest over the life of the loan. Or you could get a 20-year mortgage with a higher monthly payment to pay off your mortgage roughly 10 years sooner and save $116,000 in interest over the life of the loan.

(more)

	30-Year Term Interest Rate: 5.25%	25-Year Term Interest Rate: 5.125%
Monthly principal and interest payment	$1,657	$1,776
Home equity in 5 years	($36,448)	($26,268)
Home equity in 10 years	($5,845)	$17,293
Total interest paid	$296,380	$232,706

One advantage to these shorter loan terms is that your mortgage would be back “above water” sooner. If you may be considering selling your house in the next several years, getting the mortgage balance below the value of their house may be an important consideration. Continuing the example above, and assuming that the value of your house neither increases nor declines, the shorter the loan period, the sooner you would be “above water” on your mortgage.

Loan Term	Interest Rate	Number of months to be above water
30 years	5.25%	130
25 years	5.125%	98
20 years	5.125%	72
15 years	5.125%	49

You should understand that these examples are illustrative. Actual mortgage rates and fees will vary, and individual financial and personal circumstances need to be considered. Your lender, your financial advisor, or a HUD-approved housing counseling agency may be able to assist you in considering these options.