Back against the wall?

DISB can help

Foreclosure Mitigation Kit

DISB

Government of the District of Columbia
Department of Insurance, Securities and Banking

Letter From the Commissioner

Dear District Resident:

I am pleased to share with you this Foreclosure Mitigation Kit targeted to District residents who may be having trouble keeping up with mortgage payments, or who may be facing foreclosure of their homes. This kit is also available on our Web site at www.disb.dc.gov.

The delinquency rate for all mortgages, especially subprime or high-cost mortgages, has increased in the District of Columbia over the past year. These higher delinquencies have resulted in more home foreclosures in certain wards of our city. Increased delinquency and foreclosure rates are critical issues for hundreds of District families who may lose their homes. The effect of foreclosures on our community is a major concern and we want to mitigate this issue before it affects all facets of the economy.

That is why the D.C. Department of Insurance, Securities and Banking (DISB) released this kit, a step-by-step guide for consumers on what you need to do if you are facing foreclosure. It describes the pre-foreclosure and foreclosure phases, loan refinancing, how to prevent foreclosure, and what to do after your home has been saved. The kit also includes several pieces of materials from federal government agencies.

DISB released this information as a direct response to the agency's 2008 commissioned study, *Subprime Mortgage Lending in the District of Columbia*, which showed that subprime loans disproportionately went to certain households in wards 4, 5, 7 and 8. The study concluded that those who had subprime or high-cost mortgages were more likely to be delinquent, which resulted in more home foreclosures.

As the District's premier financial regulator, DISB is undergoing an exciting transformation as it continues to be more consumer-oriented and transparent in its operations.

I hope you find this kit to be informative, easy to read and valuable. We look forward to your feedback and your continued support of our work to protect the public's financial interests.

Please contact our office at (202) 727-8000 with questions.

Sincerely,

Thomas E. Hampton
Commissioner

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Foreclosure Mitigation Kit

Does this sound like you?

- Are you having trouble keeping up with your mortgage payments?
- Have you received a notice from your lender asking you to call about your late payments?
- Are you about to go into foreclosure?

Don't despair!

The District of Columbia's Department of Insurance, Securities and Banking (DISB) has put together a *Foreclosure Mitigation Kit,* which contains the information you will need to help you with your foreclosure problems.

Introduction

The Department of Insurance, Securities and Banking (DISB) regulates the activities of financial institutions operating within the District of Columbia to protect consumers from unfair practices, promote economic development, and provide a fair financial market that benefits District consumers and businesses.

DISB's Banking Bureau strives to provide a sound and thriving financial-services community that provides the products, credit and capital vital to the needs of District of Columbia residents and businesses. The Banking Bureau charters and regulates District of Columbia banks and non-depository financial institutions such as mortgage lenders and brokers, money transmitters and check cashers.

This *Foreclosure Mitigation Kit* was prepared by the Banking Bureau to assist D.C. residents who may be facing foreclosure. The kit contains information provided by experts in the field to answer questions, and act as a guide to help you through the process of saving your home from foreclosure.

Information Provided:

- Pre-foreclosure
- Foreclosure
- Loan refinance
- Understanding your foreclosure prevention options
- After your home has been saved from foreclosure
- District of Columbia housing agencies

Remember, DISB's primary goal is to ensure residents of the District of Columbia have access to a wide choice of insurance, securities and banking products and services, and that they are treated fairly by the companies and individuals that provide these services.

For more information, contact DISB at (202) 727-8000 and ask for the Consumer Complaint staff in the Banking Bureau, or visit our Web site at www.disb.dc.gov.

Pre-Foreclosure

In the District of Columbia, the delinquency notice you receive from your lender or loan servicer may contain valuable information about foreclosure prevention options that can help you weather financial problems.

You may also receive a **Notice of Intent to Foreclose** or a **Notice of Foreclosure Sale** on your home, which contains important information about pending legal action, and about how you might cure the problem. ***Please do not ignore these notices.***

Contact your lender as soon as you realize you may have a problem.

Remember, in most cases lenders do not want your home. They offer options to help borrowers through difficult financial times. Your failure to open the mail or to pick up a certified letter from the Post Office, will not be an excuse in foreclosure court. *Contact your lender and discuss the situation immediately*.

A D.C.-licensed lender may be willing to work with you in one of several ways.

The most common options offered by lenders are:

- Refinance
- Special Forbearance Package
- Loan Modification

By working on the problem early, using the resources made available to you by the District of Columbia, and the options offered by your lender, you may be able to avoid foreclosure.

Foreclosure

In the District of Columbia, after you and your lender have exhausted all attempts to bring your mortgage loan current (usually three payments in arrears) the lender is likely to send you a **Notice of Foreclosure Sale** by certified mail. This is your lender's official notification that on the date identified on the notice, your house will be sold at a foreclosure sale. The location of the sale and the person to contact about the sale will also be included on the notice.

Your home is your nest egg. DISB protects your financial interests.

How to Proceed

1. Contact your **lender** as soon as you realize you have a problem, to see what options he or she is willing to offer you.[1]

2. Contact a **D.C. HUD-Approved Housing Counseling Agency**.[2] Housing counselors can help you understand the law and your options, organize your finances and represent you in negotiations with your lender. If you need this assistance, call one of the agencies on the attached list or call (800) 569-4287 or TTY (800) 877-8339.

3. If you have questions regarding broker and lender licensing or need to file a consumer complaint, contact DISB at (202) 727-8000 or send an e-mail to bankingbureau@dc.gov.

4. It is always a good idea to seek the advice of an attorney to protect your interests. Contact Neighborhood Legal Services for free legal services in your area.[3]

5. **Avoid foreclosure prevention companies.** You don't need to pay fees for foreclosure prevention. Many companies will contact you promising to negotiate with your lender on your behalf. While these may be legitimate businesses, they may charge you a hefty fee. For information and services, contact your lender or a HUD-approved housing counselor. They will provide the information free of charge.

[1] Please see the attached brochure entitled "How to Avoid Foreclosure" by the Department of Housing and Urban Development (HUD)

[2] Please see the attached list of DC HUD Approved Housing Counseling Agencies

[3] Please see the attached telephone numbers for Neighborhood Legal Services

Loan Refinance [4]

Refinancing involves paying off your current mortgage and replacing it with a new mortgage. It often involves many of the same steps and expenses that were required when you received your original mortgage.

Refinancing may be a good option for homeowners who:

- Want to get out of a high interest rate loan to take advantage of lower rates. This is a good idea only if you intend to stay in the home long enough to make the additional fees worthwhile.
- Have an adjustable-rate mortgage (ARM) and want a fixed-rate loan to have the certainty of knowing exactly what the mortgage payment will be for the life of the loan.
- Want to convert to an ARM with a lower interest rate or more protective features (such as a better rate and payment caps) than the ARM you currently have.
- Want to build up equity more quickly by converting to a loan with a shorter term.
- Want to draw on the equity built up in your home to get cash for a major purchase or for your children's education.

If you decide not to refinance, ask your lender whether you may be able to obtain all or some of the new terms you want by agreeing to a modification of your existing loan instead of refinancing**.**

Should You Refinance Your Adjustable Rate Mortgage (ARM)[5]?

In deciding whether to refinance an ARM, you should consider these questions:

- Is the next interest rate adjustment on your existing loan likely to substantially increase your monthly payments?
- Will the new interest rate be two or three percentage points higher than the prevailing rates being offered for either fixed-rate loans or other ARMs?
- Will refinancing to a new ARM or a fixed-rate loan enable you to pay your loan in full by the end of the term?

[4] Please see the attached brochure entitled "A Consumer's Guide to Mortgage Refinancing"
5 Please see the attached brochure entitled "Consumer Handbook on Adjustable Rate Mortgages"

Understanding your foreclosure prevention options

If your problem is *temporary*, call your lender to discuss these possibilities:

1. Reinstatement: Your lender may be willing to accept the total amount owed in a lump sum by a specific date to cure the delinquency.

2. Forbearance: Your lender may allow you to reduce or suspend payments for a short time and then agree to another option to bring your loan current. A forbearance option is often combined with a reinstatement when you know you will have enough money to bring the account current at a specific time. The money might come from a hiring bonus, investment, insurance settlement or tax refund.

3. Repayment plan: You may be able to get an agreement to resume making your regular monthly payments, plus a portion of the past due payments each month until you are caught up.

If it appears that your situation is *long term* or will permanently affect your ability to bring your account current, call your lender to discuss the possibility of a loan modification.

Loan Modification: If you can make payments on your loan but don't have enough money to bring your account current or you can't afford your current payment, your lender may be willing to change the terms of your original loan to make the payments more affordable.

Your loan could be permanently changed in one or more of the following ways:

a. Adding the missed payments to the existing loan balance.

b. Changing the interest rate, including making an adjustable rate into a fixed rate.

c. Extending the number of years you have to repay.

After your home has been saved from foreclosure

Make it a point to learn about your mortgage rights

a. Find your loan documents and read them so you know what your lender may do if you can't make your payments.

b. File your loan documents in a safe place, just in case you need to refer to them in the future.

c. Learn about the D.C. foreclosure laws and what you can do to protect yourself and your home.

d. Make a list of the names and numbers of the people who helped you avoid foreclosure this time, and keep them handy.

District of Columbia Housing Agencies

D.C. Department of Housing and Community Development (DHCD)

The D.C. Department of Housing and Community Development (DHCD) provides a number of opportunities to low-to-moderate income residents seeking to become first-time homeowners in the District. DHCD also assists with qualified existing homeowners who need home repairs. For information on any of these programs, contact DHCD.
Located at 1800 Martin Luther King Jr. Avenue, SE
Washington, DC 20020
(202) 442-7200.
Web site: www.dhcd.dc.gov

D.C. Housing Finance Agency (DCHFA)

The District of Columbia Housing Finance Agency (DCHFA) was established 1979 to stimulate and expand homeownership and rental housing opportunities in Washington, D.C. DCHFA accomplishes its mission by issuing tax-exempt mortgage revenue bonds that both lower the cost of financing single-family housing, and the costs of acquiring and constructing rental housing. DCHFA also operates the Home Resource Center, which is Washington's one-stop shop for home-buying information.
Located at 815 Florida Avenue, NW
Washington, DC 20001
(202) 777-1600
Web site: www.dchfa.org

District of Columbia Housing Authority (DCHA)

DCHA provides and manages affording housing in the District of Columbia for people of low and moderate income through the promotion of economic development and self-sufficiency opportunities and the facilitation of other supportive services. It facilitates rental assistance and other home-buying opportunities.
Located at 1133 North Capitol Street, NE
Washington, DC 20002
(202) 535-1000
Web site: www.dchousing.org

Information Sources:
Federal Department of Housing and Urban Development (HUD) www.hud.gov
Federal Reserve Board (FRB) www.frb.gov

U.S. Department of Housing and Urban Development Foreclosure Booklet

U.S. Department of Housing and Urban Development

HOW TO AVOID FORECLOSURE

This booklet explains how property owners can avoid losing their homes because of delinquent payments.

Este folleto explica a los propietarios de casas como evitar perder su hogar debido al incumplimiento en los pagos. Para información en español llame a la entidad que le dió el préstamo.

www.hud.gov

hud

Q: WHAT HAPPENS WHEN I MISS MY MORTGAGE PAYMENTS?

Foreclosure may occur. This is the legal means that your lender can use to repossess (take over) your home. When this happens, you must move out of your house. If your property is worth less than the total amount you owe on your mortgage loan, a deficiency judgment could be pursued. If that happens, you not only lose your home, you also would owe HUD an additional amount.

Both foreclosures and deficiency judgments could seriously affect your ability to qualify for credit in the future. So you should avoid foreclosure if possible.

Q: WHAT SHOULD I DO?

1. DO NOT IGNORE THE LETTERS FROM YOUR LENDER. If you are having problems making your payments, call or write to your lender's Loss Mitigation Department without delay. Explain your situation. Be prepared to provide them with financial information, such as your monthly income and expenses. Without this information, they may not be able to help.
2. Stay in your home for now. You may not qualify for assistance if you abandon your property.
3. Contact a HUD-approved housing counseling agency. Call **1-800-569-4287** or **TDD 1-800-877-8339** for the housing counseling agency nearest you. These agencies are valuable resources. They frequently have information on services and programs offered by Government agencies as well as private and community organizations that could help you. The housing counseling agency may also offer credit counseling. These services are usually free of charge.

Q: WHAT ARE MY ALTERNATIVES?

You may be considered for the following:

Special Forbearance. Your lender may be able to arrange a

repayment plan based on your financial situation and may even provide for a temporary reduction or suspension of your payments. You may qualify for this if you have recently experienced a reduction in income or an increase in living expenses. You must furnish information to your lender to show that you would be able to meet the requirements of the new payment plan.

Mortgage Modification. You may be able to refinance the debt and/or extend the term of your mortgage loan. This may help you catch up by reducing the monthly payments to a more affordable level. You may qualify if you have recovered from a financial problem and can afford the new payment amount.

Partial Claim. Your lender may be able to work with you to obtain a one-time payment from the FHA-Insurance fund to bring your mortgage current.

You may qualify if:

1. your loan is at least 4 months delinquent but no more than 12 months delinquent;
2. you are able to begin making full mortgage payments.

When your lender files a Partial Claim, the U.S. Department of Housing and Urban Development will pay your lender the amount necessary to bring your mortgage current. You must execute a Promissory Note, and a Lien will be placed on your property until the Promissory Note is paid in full.

The Promissory Note is interest-free and is due when you pay off the first mortgage or when you sell the property.

Pre-foreclosure sale. This will allow you to avoid foreclosure by selling your property for an amount less than the amount necessary to pay off your mortgage loan.

You may qualify if:

1. the loan is at least 2 months delinquent;
2. you are able to sell your house within 3 to 5 months; and
3. a new appraisal (that your lender will obtain) shows that the value of your home meets HUD program guidelines.

Deed-in-lieu of foreclosure. As a last resort, you may be able to voluntarily "give back" your property to the lender. This won't save your house, but it is not as damaging to your credit rating as a foreclosure.

You can qualify if:

1. you are in default and don't qualify for any of the other options;
2. your attempts at selling the house before foreclosure were unsuccessful; and
3. you don't have another FHA mortgage in default.

Q: HOW DO I KNOW IF I QUALIFY FOR ANY OF THESE ALTERNATIVES?

Your lender will determine if you qualify for any of the alternatives. A housing counseling agency can also help you determine which, if any, of these options may meet your needs and also assist you in interacting with your lender. Call **1-800-569-4287** or **TDD 1-800-877-8339**.

Q: SHOULD I BE AWARE OF ANYTHING ELSE?

Yes. Beware of scams! Solutions that sound too simple or too good to be true usually are. If you're selling your home without professional guidance, beware of buyers who try to rush you through the process. Unfortunately, there are people who may try to take advantage of your financial difficulty. Be especially alert to the following:

You may qualify if:

1. the loan is at least 2 months delinquent;
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General, the State Real Estate Commission, or the local District Attorney's Consumer Fraud Unit for this type of information.

Q: WHAT ARE THE MAIN POINTS I SHOULD REMEMBER?

1. Don't lose your home and damage your credit history.
2. Call or write your mortgage lender immediately and be honest about your financial situation.
3. Stay in your home to make sure you qualify for assistance.
4. Arrange an appointment with a HUD-approved housing counselor to explore your options at **1-800-569-4287** or **TDD 1-800-877-8339.**
5. Cooperate with the counselor or lender trying to help you.
6. Explore every alternative to keep your home.
7. Beware of scams.
8. Do not sign anything you don't understand. And remember that signing over the deed to someone else does not necessarily relieve you of your loan obligation.

Act now. Delaying can't help. If you do nothing, YOU WILL LOSE YOUR HOME and your good credit rating.

Visit our web site at www.hud.gov.

U.S. Department of Housing and Urban Development Approved Counseling Agencies

Agency Name	Phone Toll-Free Fax Number Email Website	Address	Counseling Services	Languages
HOMEFREE - U S A	**P:** 301-891-8404-0 **T:** **F:** 301-891-8434 **E:** williamw@homefreeusa.org **W:** www.homefreeusa.org	3401 A East West Highway Hyattsville, MD 20782	*Mortgage Delinquency and Default Resolution Counseling *Prepurchase Counseling	*English Only
HOMEFREE-USA OF THE WASHINGTON DC METROPOLITAN AREA, an affiliate of HOMEFREE – U S A	**P:** 301-891-8404 **T:** **F:** 202-891-8434 **E:** williamw@homefreeusa.org **W:** n/a	3401 East West Highway Hyattsville, MD 20782	*Homebuyer Education Programs *Money Debt Management *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Prepurchase Counseling *Renters Assistance	*Spanish
AARP FOUNDATION	**P:** 800-209-8085 **T:** **F:** 202-434-6068 **E:** rmcounsel@aarp.org **W:** n/a	601 E. Street, NW Washington, DC 20049	*Home Equity Conversion Mortgage Counseling	*Spanish
ACORN HOUSING, WASHINGTON, DC, an affiliate of ACORN Housing Corporation, an affiliate of ACORN HOUSING CORPORATION	**P:** 202-547-9295 **T:** **F:** 202-546-6849 **E:** ayoung@acornhousing.org **W:** www.acornhousing.org	737 1/2 8th Street, SE Washington, DC 20003-2802	*Home Equity Conversion Mortgage Counseling *Home Improvement and Rehabilitation Counseling *Homebuyer Education Programs *Loss Mitigation *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Predatory Lending *Prepurchase Counseling	*English *Spanish
CARECEN-CENTRAL AMERICAN RESOURCES CENTER, an affiliate of National Council of La Raza	**P:** 202-328-9799-15 **T:** **F:** **E:** ssolorzano@carecendc.org **W:** n/a	1460 COLUMBIA ROAD NW Washington, DC 20009	*Mobility and Relocation Counseling *Mortgage Delinquency and Default Resolution Counseling *Prepurchase Counseling *Renters Assistance	*Spanish
CATHOLIC CHARITIES, ARCHDIOCISE OF WASHINGTON, DC, an affiliate of Catholic Charities USA	**P:** 202-574-3442 **T:** **F:** 202-574-3474 **E:** Trinette.Hawkins@CatholicCharitiesdc.org **W:** n/a	220 Highview Place, SE Washington, DC 20032	*Loss Mitigation *Marketing and Outreach Initiatives *Mobility and Relocation Counseling *Money Debt Management *Mortgage Delinquency and Default Resolution Counseling *Prepurchase Counseling - Renters Assistance *Services for Homeless	*English Only
CCCS OF GREATER WASHINGTON, A DIVISION OF MMI	**P:** 800-747-4222 **T:** 800-747-4222 **F:** 202-393-7373 **E:** lori.johnson@moneymanagement.org **W:** www.creditcounselingnetwork.org/	1875 I Street NW Ste. 537 Washington, DC 20006	*Home Equity Conversion Mortgage Counseling *Homebuyer Education Programs *Loss Mitigation *Marketing and Outreach Initiatives *Money Debt Management *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Predatory Lending *Prepurchase Counseling *Renters Assistance	*Spanish

Agency Name	Phone Toll-Free Fax Number Email Website	Address	Counseling Services	Languages
			*Services for Homeless	
DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY	**P:** 202-777-1635 **T:** **F:** 202-986-6705 **E:** gadams@dchfa.org **W:** dchfa.org	815 Florida Ave.,NW Washington, DC 20001	*Loss Mitigation *Marketing and Outreach Initiatives *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Prepurchase Counseling	*English Only
EDUCATIONAL ORGANIZATION FOR UNITED LATIN AMERICANS	**P:** 202-483-5800 **T:** **F:** 202-483-5801 **E:** alirene@eofula.org **W:** www.eofula.org	1842 Calvert Street, NW Washington, DC 20009	*Renters Assistance	*Spanish
GREATER WASHINGTON URBAN LEAGUE, an affiliate of the National Urban League	**P:** 202-265-8200 **T:** **F:** 202-265-8929 **E:** kimhenderson@gwul.org **W:** n/a	2901 14th St NW Washington, DC 20009	*Home Equity Conversion Mortgage Counseling *Homebuyer Education Programs *Marketing and Outreach Initiatives *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Predatory Lending *Prepurchase Counseling *Renters Assistance	*Spanish
HOUSING COUNSELING SERVICES, INCORPORATED	**P:** 202-667-7006-108 **T:** **F:** 202-667-1939 **E:** mariansiegel@housingetc.org **W:** n/a	2410 17th St NW Adams Alley Entrance Washington, DC 20009	*Fair Housing Assistance *Home Equity Conversion Mortgage Counseling *Home Improvement and Rehabilitation Counseling *Homebuyer Education Programs *Loss Mitigation *Marketing and Outreach Initiatives *Mobility and Relocation Counseling - Money Debt Management *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Predatory Lending *Prepurchase Counseling *Renters Assistance *Services for Homeless	*Arabic *Chinese Mandarin *French *Portuguese *Spanish
LATINO ECONOMIC DEVELOPMENT CORPORATION	**P:** 202-588-5102-16 **T:** **F:** 202-588-5204 **E:** egutierrez@ledcdc.org **W:** www.ledcdc.org	2316 18th Street NW Washington, DC 20009	*Mortgage Delinquency and Default Resolution Counseling *Prepurchase Counseling *Renters Assistance	*English *Spanish
LYDIA'S HOUSE	**P:** 202-373-1050 **T:** **F:** 202-373-5270 **E:** lydiashouse2@hotmail.com **W:** www.lydiashouse@hotmail.com	3939 S. Capitol Street, SW Washington, DC 20032	*Fair Housing Assistance *Home Equity Conversion Mortgage Counseling *Homebuyer Education Programs *Mobility and Relocation Counseling *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Prepurchase Counseling *Renters Assistance	*English Only

Agency Name	Phone Toll-Free Fax Number Email Website	Address	Counseling Services	Languages
MANNA, INC., an affiliate of STRUCTURED EMPLOYMENT ECONOMIC DEVELOPMENT CO.	**P:** 202-832-1845 **T:** **F:** **E:** grothman@mannadc.org **W:** n/a	828 Evarts Street, NE Washington, DC 20018	*Homebuyer Education Programs *Marketing and Outreach Initiatives *Postpurchase Counseling *Prepurchase Counseling	*Spanish
MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION	**P:** 202-396-1201-122 **T:** **F:** 202-396-4106 **E:** BWILLIAMS@MHCDO.ORG **W:** www.mhcdo.org	3939 Benning Road, NE Washington, DC 20019-2662	*Home Equity Conversion Mortgage Counseling *Mortgage Delinquency and Default Resolution Counseling *Prepurchase Counseling *Renters Assistance	*Spanish
NACA (NEIGHBORHOOD ASSISTANCE CORPORATION OF AMERICA) WASHINGTON, DC, an affiliate of NACA (NEIGHBORHOOD ASSISTANCE CORPORATION OF AMERICA)	**P:** 202-328-6333 **T:** 888-297-5568 **F:** **E:** kjohnson@naca.com **W:** www.naca.com	1716 14th Street, NW Washington, DC 20009	*Fair Housing Assistance *Homebuyer Education Programs *Loss Mitigation *Money Debt Management *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Predatory Lending *Prepurchase Counseling	*English *Hindi
NATIONAL COMMUNITY REINVESTMENT COALITION, an affiliate of HOMEFREE - USA	**P:** 202-628-8866 **T:** **F:** **E:** snelms@ncrc.org **W:** n/a	727 15th Street, NW Suite 900 Washington, DC 20005	*Homebuyer Education Programs *Marketing and Outreach Initiatives *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Prepurchase Counseling	*English Only
NATIONAL CREDIT UNION FOUNDATION	**P:** 202-508-6752 **T:** 800-356-9655 **F:** 202-638-3912 **E:** sbosack@ncuf.coop **W:** www.ncuf.coop	601 Pennsylvania Ave. NW South Building, Suite 600 Washington, DC 20004-2601	*Fair Housing Assistance *Home Equity Conversion Mortgage Counseling *Home Improvement and Rehabilitation Counseling *Homebuyer Education Programs *Marketing and Outreach Initiatives *Money Debt Management *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Predatory Lending *Prepurchase Counseling	*English Only
NEAR NORTHEAST COMMUNITY IMPROVEMENT CORP.	**P:** 202-399-6900 **T:** **F:** 202-399-6942 **E:** ipholmes@nnecic.org **W:** n/a	1326 Florida Ave NE Washington, DC 20002-7108	*Home Equity Conversion Mortgage Counseling *Mortgage Delinquency and Default Resolution Counseling *Prepurchase Counseling *Renters Assistance	*English Only
SOCIETY FOR FINANCIAL EDUCATION, an affiliate of HOMEFREE – U S A	**P:** 301-292-3528 **T:** **F:** **E:** tdaniels@sfepd.org **W:** n/a	P.O. Box 23558 Washington, DC 20026	*Money Debt Management	*English Only
THE NATIONAL COMMUNITY REINVESTMENT	**P:** 202-628-8866 **T:** **F:** 202-628-9800	727 15th Street, NW Suite 900 Washington, DC 20005-6027	*Fair Housing Assistance *Homebuyer Education Programs	*English *Spanish

Agency Name	Phone Toll-Free Fax Number Email Website	Address	Counseling Services	Languages
COALITION, INC.	**E:** **W:** www.ncrc.org		*Loss Mitigation *Money Debt Management *Mortgage Delinquency and Default Resolution Counseling *Prepurchase Counseling	
UNIVERSITY LEGAL SERVICES	**P:** 202-547-4747 **T:** **F:** 202-547-2083 **E:** mbeard@uls-dc.org **W:** n/a	220 I St NE Ste. 130 Washington, DC 20002-4389	*Fair Housing Assistance *Home Equity Conversion Mortgage Counseling *Home Improvement and Rehabilitation Counseling *Homebuyer Education Programs *Loss Mitigation *Money Debt Management *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Prepurchase Counseling *Renters Assistance *Services for Homeless	*English Only
UNIVERSITY LEGAL SERVICES	**P:** 202-547-4747 **T:** **F:** 202-547-2083 **E:** jbrown@uls-dc.com **W:** n/a	3220 Pennsylvania Ave. SE Suite 4 Washington, DC 20020	*Fair Housing Assistance *Home Equity Conversion Mortgage Counseling *Home Improvement and Rehabilitation Counseling *Homebuyer Education Programs *Loss Mitigation *Mobility and Relocation Counseling *Money Debt Management *Mortgage Delinquency and Default Resolution Counseling *Postpurchase Counseling *Predatory Lending *Prepurchase Counseling *Renters Assistance *Services for Homeless	*English Only

This listing is current as of **07/12/2008**.

Source: U.S. Department of Housing and Urban Development
451 7th Street, SW, Washington, DC 20410
Telephone: (202) 708-1112 or 1-(800) CALL-FHA
Web: www.hud.gov or www.fha.gov

FREE LAWYERS TO HELP WITH FORECLOSURES IN DC

NLSP

NEIGHBORHOOD LEGAL SERVICES PROGRAM FORECLOSURE CLINIC

<u>FAR NORTHEAST/SOUTHEAST OFFICE</u>

4645 NANNIE HELEN BURROUGHS AVE., NE 20019

(202) 399-1346

Beginning August 2008

3rd Thursday Monthly, <u>3 PM-5 PM SHARP</u>!!!

Clinic provides a free educational workshop on the foreclosure process, and offers free attorneys' assistance for eligible clients to abate and stop the foreclosure procedure. Questions are answered such as:

- HELP! What happens in foreclosure?
- HOW to avoid foreclosure?
- HOW to stop foreclosure once started?

Attorney Intake provided on site
www.nlsp.org

Neighborhood Legal Clinics

FREE LAWYERS AVAILABLE

TO ELIGIBLE RESIDENTS IN WASHINGTON, DC

NLSP

NEIGHBORHOOD LEGAL SERVICES PROGRAM

CIVIL CASES ONLY - ALL DC COURTS AND AGENCIES- NO CRIMINAL CASES

➢

➢ NORTHEAST - HEADQUARTERS

680 RHODE ISLAND AVE., NE 20002

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Federal Reserve Board Consumer's Guide to Mortgage Refinancing

A Consumer's Guide to Mortgage Refinancing

This booklet was prepared in consultation with the following organizations:
American Bankers Association
Appraisal Institute
Comptroller of the Currency
Consumer Federation of America
Credit Union National Association, Inc.
Federal Deposit Insurance Corporation
Federal Home Loan Mortgage Corporation
Federal National Mortgage Association
Federal Reserve Board's Consumer Advisory Council
Federal Trade Commission
Independent Bankers Association of America
Mortgage Bankers Association of America
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National Association of Federal Credit Unions
National Association of Home Builders
National Association of Realtors
National Credit Union Administration
Office of Special Adviser to the President for Consumer Affairs
Savings and Community Bankers of America
The Consumer Bankers Association
U.S. Department of Housing and Urban Development
Veterans Administration

The Federal Reserve Board and the Office of Thrift Supervision prepared this booklet on refinancing your mortgage in response to a request from the House Committee on Banking, Finance and Urban Affairs and in consultation with many other agencies and trade and consumer groups. It is designed to help consumers understand an important aspect of home financing.

We believe a fully informed consumer is in the best position to make a sound financial choice. If you are considering refinancing your home loan, this booklet will provide useful basic information about refinancing. It cannot provide all the answers you will need, but we believe it is a good stoning point.

A Consumer's Guide to Mortgage Refinancing

If you are a homeowner who was lucky enough to buy when mortgage rates were low, you may have no interest in refinancing your present loan. But perhaps you bought your home when rates were higher. Or perhaps you have an adjustable-rate loan and would like to obtain different terms.

Should you refinance? This brochure will answer some questions that may help you decide. If you do refinance, the process will remind you of what you went through in obtaining the original mortgage. That's because, in reality, refinancing a mortgage is simply taking out a new mortgage. You will encounter many of the same procedures-and the same types of costs-the second time around.

Would Refinancing Be Worth It?

Refinancing can be worthwhile, but it does not make good financial sense for everyone. A general role of thumb is that refinancing becomes worth your while if the current interest rate on your mortgage is at least 2 percentage points higher than the prevailing market rate. This figure is generally accepted as the safe margin when balancing the costs of refinancing a mortgage against the savings.

There are other considerations, too, such as how long you plan to stay in the house. Most sources say that it takes at least three years to realize fully the savings from a lower interest rate, given the costs of the refinancing. (Depending on your loan amount and the particular circumstances, however, you might choose to refinance a loan that is only 1.5 percentage points higher than the current rate. You may even find you could recoup the refinancing costs in a shorter time.)

Refinancing can be a good idea for homeowners who:

* want to get out of a high interest rate loan to take advantage of lower rates. This is a good idea only if they intend to stay in the house long enough to make the additional fees worthwhile.

* have an adjustable-rate mortgage (ARM) and want a fixed-rate loan to have the certainty of knowing exactly what the mortgage payment will be for the life of the loan.

* want to convert to an ARM with a lower interest rate or more protective features (such as a better rate and payment caps) than the ARM they currently have.

* want to build up equity more quickly by converting to a loan with a shorter term.

* want to draw on the equity built up in their house to get cash for a major purchase or for their children's education.

If you decide that refinancing is not worth the costs, ask your lender whether you may be able to obtain all or some of the new terms you want by agreeing to a modification of your existing loan instead of a refinancing.

Should You Refinance Your ARM?

In deciding whether to refinance an ARM you should consider these questions:

* Is the next interest rate adjustment on your existing loan likely to increase your monthly payments substantially? Will the new interest rate be two or three percentage points higher than the prevailing rates being offered for either fixed-rate loans or other ARMs?

* If the current mortgage sets a cap on your monthly payments, are those payments large enough to pay off your loan by the end of the original term? Will refinancing to a new ARM or a fixed-rate loan enable you to pay your loan in full by the end of the term?

What Are the Costs of Refinancing?

The fees described below are the charges that you are most likely to encounter in a refinancing.

* Application Fee. This charge imposed by your lender covers the initial costs of processing your loan request and checking your credit report.

* Title Search and Title Insurance. This charge will cover the cost of examining the public record to confirm ownership of the real estate. It also covers the cost of a policy, usually issued by a title insurance company, that insures the policy holder in a specific amount for any loss caused by discrepancies in the title to the property.

Be sure to ask the company carrying the present policy if it can re-issue your policy at a re-issue rate. You could save up to 70 percent of what it would cost you for a new policy.

Because costs may vary significantly from area to area and from lender to lender, the following are estimates only. Your actual closing costs may be higher or lower than the ranges indicated below.

Application Fee $75 to $300

Appraisal Fee $150 to $400

Survey Costs $125 to $300

Homeowner's Hazard Insurance $300 to $600

Lender's Attorney's Review Fees $75 to $200

Title Search and Title Insurance $450 to $600

Home Inspection Fees $175 to $350

Loan Origination Fees 1% of loan

Mortgage Insurance 0.5% to 1.0%

Points 1% to 3%

* Lender's Attorney's Review Fees. The lender will usually charge you for fees paid to the lawyer or company that conducts the closing for the lender. Settlements are conducted by lending institutions, title insurance companies, escrow companies, real estate brokers, and attorneys for the buyer and seller. In most situations, the person conducting the settlement is providing a service to the lender. You may also be required to pay for other legal services relating to your loan which are provided to the lender. You may want to retain your own attorney to represent you at all stages of the transaction including settlement.

* Loan Origination Fees and Points. The origination fee is charged

for the lenders work in evaluating and preparing your mortgage loan. Points are prepaid finance charges imposed by the lender at closing to increase the lender's yield beyond the stated interest rate on the mortgage note. One point equals one percent of the loan amount. For example, one point on a $75,000 loan would be $750. In some cases, the points you pay can be financed by adding them to the loan amount. The total number of points a lender charges will depend on market conditions and the interest rate to be charged.

* Appraisal Fee. This fee pays for an appraisal which is a supportable and defensible estimate or opinion of the value of the property.

* Prepayment Penalty. A prepayment penalty on your present mortgage could be the greatest deterrent to refinancing. The practice of charging money for an early pay-off of the existing mortgage loan varies by state, type of lender, and type of loan. Prepayment penalties are forbidden on various loans including loans from federally chartered credit unions, FHA and VA loans, and some other home-purchase loans. The mortgage documents for your existing loan will state if there is a penalty for prepayment. In some loans, you may be charged interest for the full month in which you prepay your loan.

* Miscellaneous. Depending on the type of loan you have and other factors, another major expense you might face is the fee for a VA loan guarantee, FHA mortgage insurance, or private mortgage insurance. There are a few other closing costs in addition to these.

In conclusion, a homeowner should plan on paying an average of 3 to 6 percent of the outstanding principal in refinancing costs, plus any prepayment penalties and the costs of paying off any second mortgages that may exist.

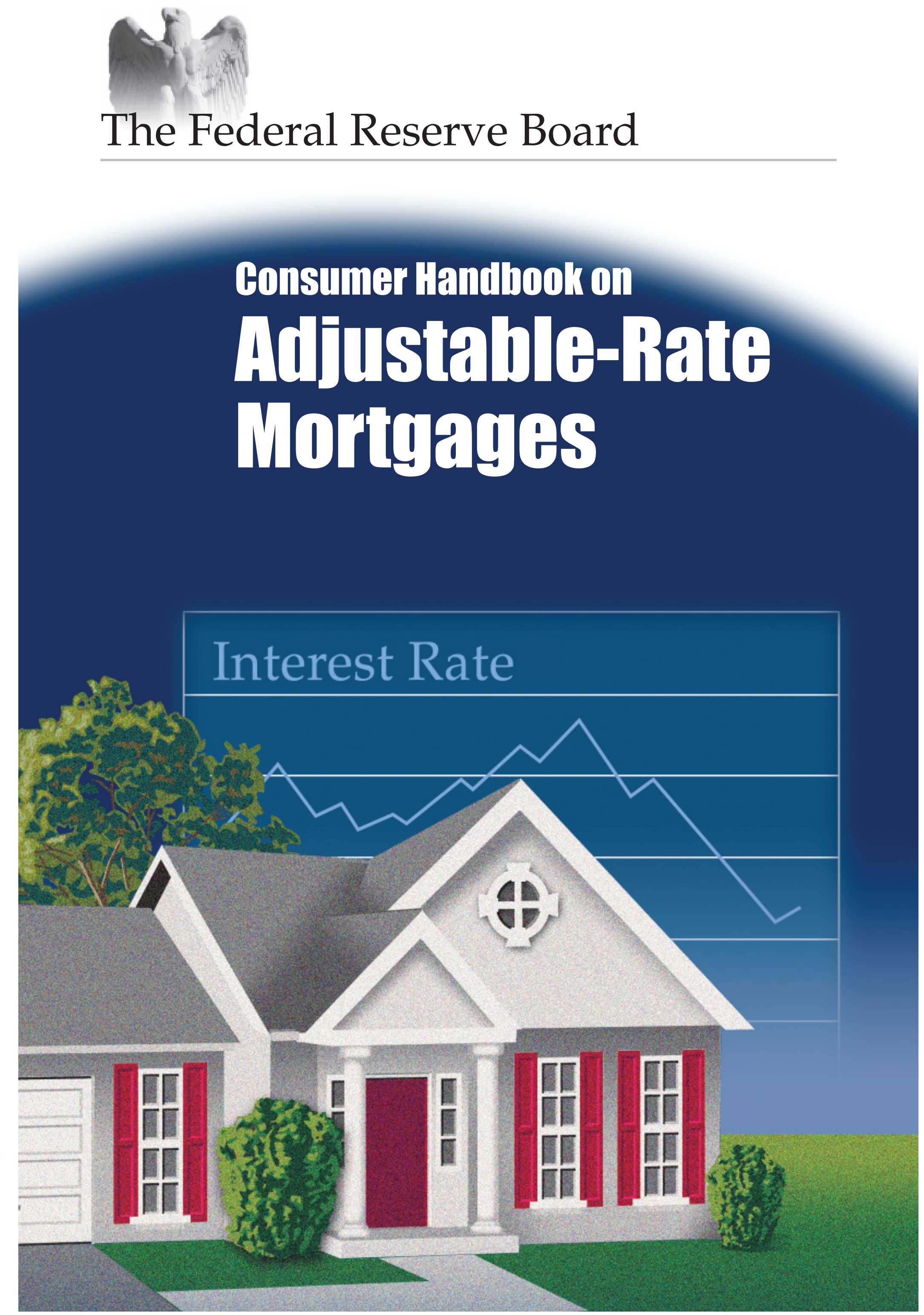
One way of saving on some of these costs is to check first with the lender who holds your current mortgage. The lender may be willing to waive some of them, especially if the work relating to the mortgage closing is still current. This could include the fees for the title search, surveys, inspections, and so on.

The information contained in this brochure is intended to help you ask the right questions when considering a possible refinancing of your loan. It is not a replacement for professional advice. Talk with mortgage lenders, real estate agents, attorneys, and other advisors about lending practices, mortgage instruments, and your own interests before you commit to any specific loan.

Ask your lender or real estate agent for the following related pamphlets:

* A Consumers Guide to Mortgage Settlement Costs
* A Consumer's Guide to Mortgage Lock-Ins
* Consumer Handbook on Adjustable Rate Mortgages

Federal Reserve Board Consumer's Guide to Adjustable Rate Mortgages



Adjustable-rate mortgages (ARMs) are loans with interest rates that change. ARMs may start with lower monthly payments than fixed-rate mortgages, but keep the following in mind:

- Your monthly payments could change. They could go up—sometimes by a lot—even if interest rates don't go up. See page 20.
- Your payments may not go down much, or at all—even if interest rates go down. See page 11.
- You could end up owing more money than you borrowed—even if you make all your payments on time. See page 22.
- If you want to pay off your ARM early to avoid higher payments, you might have to pay a penalty. See page 24.

You need to compare features of ARMs to find the one that best fits your needs. See the Mortgage Shopping Worksheet on page 2.

This handbook explains how ARMs work and discusses some of the issues that borrowers may face. It includes ways to reduce the risks and gives some pointers about advertising and other ways you can get information from lenders and other trusted advisers. Important ARM terms are defined in a glossary. And the Mortgage Shopping Worksheet can help you ask the right questions and figure out whether an ARM is right for you. Ask lenders to help you fill out the worksheet so you can get the information you need to compare mortgages.

Mortgage Shopping Worksheet

Consumer Handbook on Adjustable-Rate Mortgages | 3

Ask your lender or broker to help you fill out this worksheet.

	Fixed-Rate Mortgage	ARM 1	ARM 2	ARM 3
Name of lender or broker and contact information				
Mortgage amount				
Loan term (e.g., 15 years, 30 years)				
Loan description (e.g., fixed rate, 3/1 ARM, payment-option ARM, interest-only ARM)				
Basic Features for Comparison				
Fixed-rate mortgage interest rate and annual percentage rate (APR) (For graduated-payment or stepped-rate mortgages, use the ARM columns.)				
ARM initial interest rate and APR How long does the initial rate apply?				
What will the interest rate be after the initial period?				
ARM features How often can the interest rate adjust?				
What is the index and what is the current rate? (See chart on page 8.)				
What is the margin for this loan?				
Interest-rate caps What is the periodic interest-rate cap?				
What is the lifetime interest-rate cap? How high could the rate go?				
How low could the interest rate go on this loan?				
What is the payment cap?				
Can this loan have negative amortization (that is, increase in size)?				
What is the limit to how much the balance can grow before the loan will be recalculated?				
Is there a prepayment penalty if I pay off this mortgage early?				
How long does that penalty last? How much is it?				
Is there a balloon payment on this mortgage? If so, what is the estimated amount and when would it be due?				
What are the estimated origination fees and charges for this loan?				
Monthly Payment Amounts				
What will the monthly payments be for the first year of the loan?				
Does this include taxes and insurance? Condo or homeowner's association fees? If not, what are the estimates for these amounts?				
What will my monthly payment be after 12 months if the index rate… …stays the same?				
…goes up 2%?				
…goes down 2%?				
What is the **most** my minimum monthly payment could be after 1 year?				
What is the **most** my minimum monthly payment could be after 3 years?				
What is the **most** my minimum monthly payment could be after 5 years?				

What Is an ARM?

An adjustable-rate mortgage differs from a fixed-rate mortgage in many ways. With a fixed-rate mortgage, the interest rate stays the same during the life of the loan. With an ARM, the interest rate changes periodically, usually in relation to an index, and payments may go up or down accordingly.

Shopping for a mortgage is not as simple as it used to be. To compare two ARMs with each other or to compare an ARM with a fixed-rate mortgage, you need to know about indexes, margins, discounts, caps on rates and payments, negative amortization, payment options, and recasting (recalculating) your loan. You need to consider the maximum amount your monthly payment could increase. Most important, you need to know what might happen to your monthly mortgage payment in relation to your future ability to afford higher payments.

Lenders generally charge lower initial interest rates for ARMs than for fixed-rate mortgages. At first, this makes the ARM easier on your pocketbook than a fixed-rate mortgage for the same loan amount. Moreover, your ARM could be less expensive over a long period than a fixed-rate mortgage—for example, if interest rates remain steady or move lower.

Against these advantages, you have to weigh the risk that an increase in interest rates would lead to higher monthly payments in the future. It's a trade-off—you get a lower initial rate with an ARM in exchange for assuming more risk over the long run. Here are some questions you need to consider:

- Is my income enough—or likely to rise enough—to cover higher mortgage payments if interest rates go up?
- Will I be taking on other sizable debts, such as a loan for a car or school tuition, in the near future?
- How long do I plan to own this home? (If you plan to sell soon, rising interest rates may not pose the problem they do if you plan to own the house for a long time.)
- Do I plan to make any additional payments or pay the loan off early?

Lenders and Brokers

Mortgage loans are offered by many kinds of lenders—such as banks, mortgage companies, and credit unions. You can also get a loan through a mortgage broker. Brokers "arrange" loans; in other words, they find a lender for you. Brokers generally take your application and contact several lenders, but keep in mind that brokers are not required to find the best deal for you unless they have contracted with you to act as your agent.

How ARMs Work: The Basic Features

Initial rate and payment

The initial rate and payment amount on an ARM will remain in effect for a limited period of time—ranging from just 1 month to 5 years or more. For some ARMs, the initial rate and payment can vary greatly from the rates and payments later in the loan term. Even if interest rates are stable, your rates and payments could change a lot. If lenders or brokers quote the initial rate and payment on a loan, ask them for the annual percentage rate (APR). If the APR is significantly higher than the initial rate, then it is likely that your rate and payments will be a lot higher when the loan adjusts, even if general interest rates remain the same.

The adjustment period

With most ARMs, the interest rate and monthly payment change every month, quarter, year, 3 years, or 5 years. The period between rate changes is called the *adjustment period*. For example, a loan with an adjustment period of 1 year is called a 1-year ARM, and the interest rate and payment can change once every year; a loan with a 3-year adjustment period is called a 3-year ARM.

Loan Descriptions

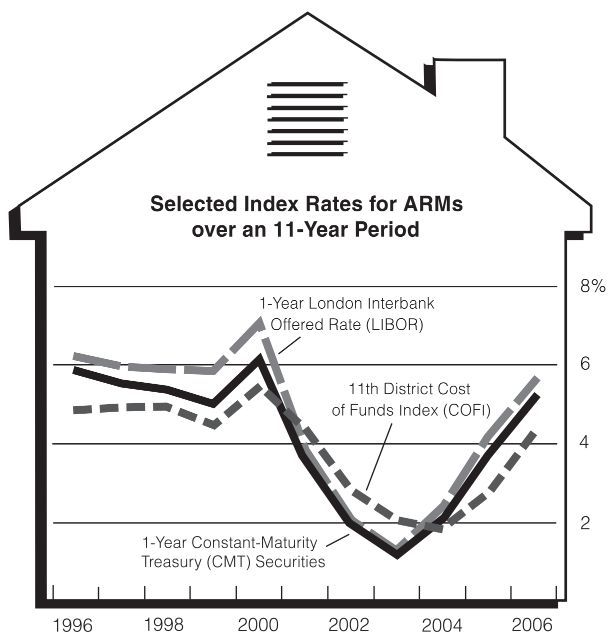
Lenders must give you written information on each type of ARM loan you are interested in. The information must include the terms and conditions for each loan, including information about the index and margin, how your rate will be calculated, how often your rate can change, limits on changes (or *caps*), an example of how high your monthly payment might go, and other ARM features such as negative amortization.

The index

The interest rate on an ARM is made up of two parts: the index and the margin. The index is a measure of interest rates generally, and the margin is an extra amount that the lender adds. Your payments will be affected by any caps, or limits, on how high or low your rate can go. If the index rate moves up, so does your interest rate in most circumstances, and you will probably have to make higher monthly payments. On the other hand, if the index rate goes down, your monthly payment could go down. Not all ARMs adjust downward, however—be sure to read the information for the loan you are considering.

Lenders base ARM rates on a variety of indexes. Among the most common indexes are the rates on 1-year constant-maturity Treasury (CMT) securities, the Cost of Funds Index (COFI), and the London Interbank Offered Rate (LIBOR). A few lenders use their own cost of funds as an index, rather than using other indexes. You should ask what index will be used, how it has fluctuated in the past, and where it is published—you can find a lot of this information in major newspapers and on the Internet.

To help you get an idea of how to compare different indexes, the following chart shows a few common indexes over an 11-year period (1996–2006). As you can see, some index rates tend to be higher than others, and some change more often. But if a lender bases interest-rate adjustments on the average value of an index over time, your interest rate would not change as dramatically.



The margin

To determine the interest rate on an ARM, lenders add a few percentage points to the index rate, called the *margin*. The amount of the margin may differ from one lender to another, but it is

usually constant over the life of the loan. The *fully indexed rate* is equal to the margin plus the index. If the initial rate on the loan is less than the fully indexed rate, it is called a *discounted index rate*. For example, if the lender uses an index that currently is 4% and adds a 3% margin, the fully indexed rate would be

Index	4%
+ Margin	3%
Fully indexed rate	7%

If the index on this loan rose to 5%, the fully indexed rate would be 8% (5% + 3%). If the index fell to 2%, the fully indexed rate would be 5% (2% + 3%).

Some lenders base the amount of the margin on your credit record—the better your credit, the lower the margin they add—and the lower the interest you will have to pay on your mortgage. In comparing ARMs, look at both the index and margin for each program.

No-Doc/Low-Doc Loans

When you apply for a loan, lenders usually require documents to prove that your income is high enough to repay the loan. For example, a lender might ask to see copies of your most recent pay stubs, income tax filings, and bank account statements. In a no-doc or low-doc loan, the lender doesn't require you to bring proof of your income, but you will usually have to pay a higher interest rate or extra fees to get the loan. Lenders generally charge more for no-doc/low-doc loans.

Interest-rate caps

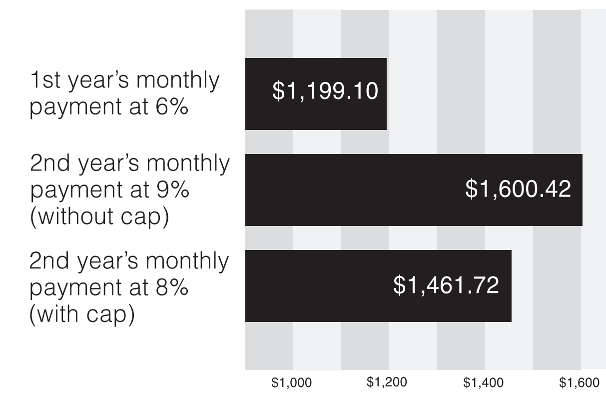
An interest-rate cap places a limit on the amount your interest rate can increase. Interest caps come in two versions:

- *periodic adjustment caps,* which limit the amount the interest rate can adjust up or down from one adjustment period to the next after the first adjustment, and
- *lifetime caps,* which limit the interest-rate increase over the life of the loan. By law, virtually all ARMs must have a lifetime cap.

Periodic adjustment caps

Let's suppose you have an ARM with a periodic adjustment interest-rate cap of 2%. However, at the first adjustment, the index rate has risen 3%. The following example shows what happens.

> **Examples in This Handbook**
>
> **All examples in this handbook are based on a $200,000 loan amount and a 30-year term. Payment amounts in the examples do not include taxes, insurance, condominium or home-owner association fees, or similar items. These amounts can be a significant part of your monthly payment.**



Difference in 2nd year between payment with cap and payment without = $138.70 per month

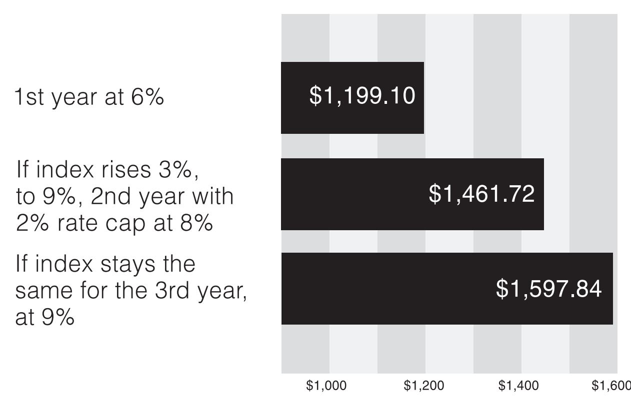
In this example, because of the cap on your loan, your monthly payment in year 2 is $138.70 per month lower than it would be without the cap, saving you $1,664.40 over the year.

Some ARMs allow a larger rate change at the first adjustment and then apply a periodic adjustment cap to all future adjustments.

A drop in interest rates does not always lead to a drop in your monthly payments. With some ARMs that have interest-rate caps, the cap may hold your rate and payment below what it would have been if the change in the index rate had been fully applied. The increase in the interest that was not imposed because of the rate cap might carry over to future rate adjustments. This is called *carryover.* So at the next adjustment date, your payment might increase even though the index rate has stayed the same or declined.

The following example shows how carryovers work. Suppose the index on your ARM increased 3% during the first year.

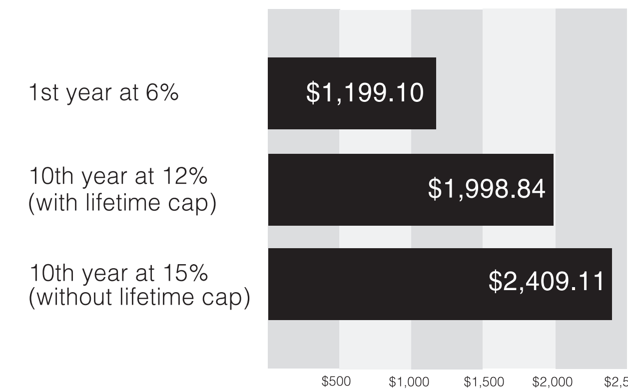
Because this ARM limits rate increases to 2% at any one time, the rate is adjusted by only 2%, to 8% for the second year. However, the remaining 1% increase in the index carries over to the next time the lender can adjust rates. So when the lender adjusts the interest rate for the third year, the rate increases by 1%, to 9%, even if there is no change in the index during the second year.



In general, the rate on your loan can go up at any scheduled adjustment date when the lender's standard ARM rate (the index plus the margin) is higher than the rate you are paying before that adjustment.

Lifetime caps

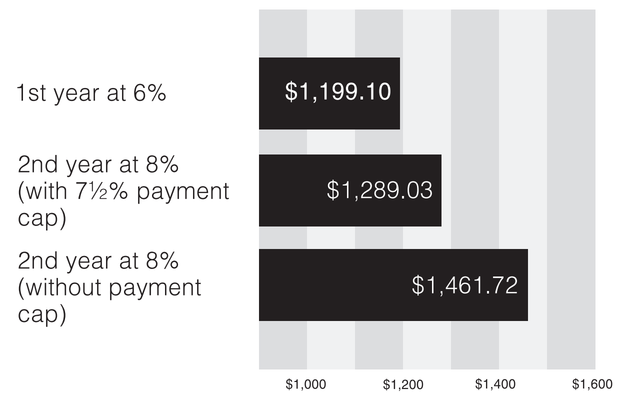
The next example shows how a lifetime rate cap would affect your loan. Let's say that your ARM starts out with a 6% rate and the loan has a 6% lifetime cap—that is, the rate can never exceed 12%. Suppose the index rate increases 1% in each of the next 9 years. With a 6% overall cap, your payment would never exceed $1,998.84—compared with the $2,409.11 that it would have reached in the tenth year without a cap.



Payment caps

In addition to interest-rate caps, many ARMs—including payment-option ARMs—limit, or cap, the amount your monthly payment may increase at the time of each adjustment. For example, if your loan has a payment cap of 7½%, your monthly payment won't increase more than 7½% over your previous payment, even if interest rates rise more. For example, if your monthly payment in year 1 of your mortgage was $1,000, it could only go up to $1,075 in year 2 (7½% of $1,000 is an additional $75). Any interest you don't pay because of the payment cap will be added to the balance of your loan. A payment cap can limit the increase to your monthly payments but also can add to the amount you owe on the loan. (This is called *negative amortization*, a term that is explained on page 22.)

Let's assume that your rate changes in the first year by 2 percentage points but your payments can increase no more than 7½% in any one year. The following graph shows what your monthly payments would look like.



Difference in monthly payment = $172.69

While your monthly payment will be only $1,289.03 for the second year, the difference of $172.69 each month will be added to the balance of your loan and will lead to negative amortization.

Some ARMs with payment caps do not have periodic interest-rate caps. In addition, as explained below, most payment-option ARMs have a built-in recalculation period, usually every 5 years. At that point, your payment will be recalculated (lenders use the term *recast*) based on the remaining term of the loan. If you have a 30-year loan and you are at the end of year 5, your payment will be recalculated for the remaining 25 years. The payment cap does not apply to this adjustment. If your loan balance has increased, or if interest rates have risen faster than your payments, your payments could go up a lot.

Types of ARMs

Hybrid ARMs

Hybrid ARMs often are advertised as 3/1 or 5/1 ARMs—you might also see ads for 7/1 or 10/1 ARMs. These loans are a mix—or a hybrid—of a fixed-rate period and an adjustable-rate period. The interest rate is fixed for the first few years of these loans—for example, for 5 years in a 5/1 ARM. After that, the rate may adjust annually (the 1 in the 5/1 example), until the loan is paid off. In the case of 3/1 or 5/1 ARMs

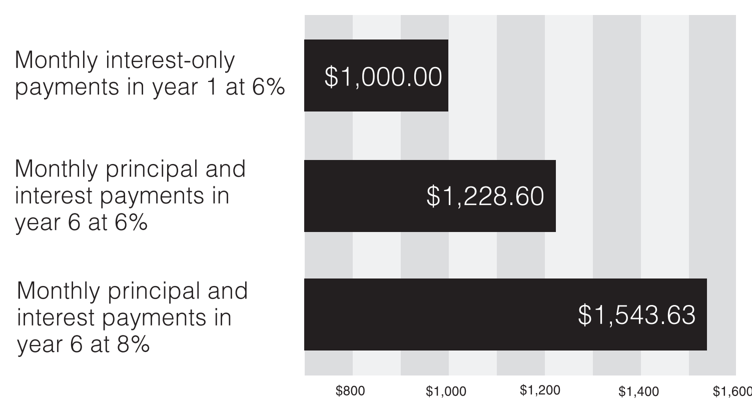
- the first number tells you how long the fixed interest-rate period will be and
- the second number tells you how often the rate will adjust after the initial period.

You may also see ads for 2/28 or 3/27 ARMs—the first number tells you how long the fixed interest-rate period will be, and the second number tells you the number of years the rates on the loan will be adjustable. Some 2/28 and 3/27 mortgages adjust every 6 months, not annually.

Interest-only ARMs

An interest-only (I-O) ARM payment plan allows you to pay only the interest for a specified number of years, typically between 3 and 10 years. This allows you to have smaller monthly payments for a period of time. After that, your monthly payment will increase—even if interest rates stay the same—because you must start paying back the principal as well as the interest each month. For some I-O loans, the interest rate adjusts during the I-O period as well.

For example, if you take out a 30-year mortgage loan with a 5-year I-O payment period, you can pay only interest for 5 years and then you must pay both the principal and interest over the next 25 years. Because you begin to pay back the principal, your payments increase after year 5, even if the rate stays the same. Keep in mind that the longer the I-O period, the higher your monthly payments will be after the I-O period ends.



Payment-option ARMs

A payment-option ARM is an adjustable-rate mortgage that allows you to choose among several payment options each month. The options typically include the following:

- *a traditional payment of principal and interest*, which reduces the amount you owe on your mortgage. These payments are based on a set loan term, such as a 15-, 30-, or 40-year payment schedule.

- *an interest-only payment*, which pays the interest but does not reduce the amount you owe on your mortgage as you make your payments.
- *a minimum (or limited) payment* that may be less than the amount of interest due that month and may not reduce the amount you owe on your mortgage. If you choose this option, the amount of any interest you do not pay will be added to the principal of the loan, **increasing the amount you owe and your future monthly payments**, and increasing the amount of interest you will pay over the life of the loan. In addition, if you pay only the minimum payment in the last few years of the loan, you may owe a larger payment at the end of the loan term, called a *balloon payment*.

The interest rate on a payment-option ARM is typically very low for the first few months (for example, 2% for the first 1 to 3 months). After that, the interest rate usually rises to a rate closer to that of other mortgage loans. Your payments during the first year are based on the initial low rate, meaning that if you only make the minimum payment each month, it will not reduce the amount you owe and it may not cover the interest due. The unpaid interest is added to the amount you owe on the mortgage, and your loan balance increases. This is called *negative amortization*. This means that even after making many payments, you could owe more than you did at the beginning of the loan. Also, as interest rates go up, your payments are likely to go up.

Payment-option ARMs have a built-in recalculation period, usually every 5 years. At this point, your payment will be recalculated (lenders use the term *recast*) based on the remaining term of the loan. If you have a 30-year loan and you are at the end of year 5, your payment will be recalculated for the remaining 25 years. If your loan balance has increased because you have made only minimum payments, or if interest rates have risen faster than your payments, your payments will increase each time your loan is recast. At each recast, your new minimum payment will be a fully amortizing payment and any payment cap will not apply. This means that your monthly payment can increase a lot at each recast.

Lenders may recalculate your loan payments before the recast period if the amount of principal you owe grows beyond a set limit, say 110% or 125% of your original mortgage amount. For example, suppose you made only minimum payments on your $200,000 mortgage and had any unpaid interest added to your balance. If the balance grew to $250,000 (125% of $200,000), your lender would recalculate your payments so that you would pay off the loan over the remaining term. It is likely that your payments would go up substantially.

More information on interest-only and payment-option ARMs is available in the Federal Reserve Board's brochure titled *Interest-Only Mortgage Payments and Payment-Option ARMs—Are They for You?*

Consumer Cautions

Discounted interest rates

Many lenders offer more than one type of ARM. Some lenders offer an ARM with an initial rate that is lower than their fully indexed ARM rate (that is, lower than the sum of the index plus the margin). Such rates—called discounted rates, start rates, or teaser rates—are often combined with large initial loan fees, sometimes called *points*, and with higher rates after the initial discounted rate expires.

Your lender or broker may offer you a choice of loans that may include "discount points" or a "discount fee." You may choose to pay these points or fees in return for a lower interest rate. But keep in mind that the lower interest rate may only last until the first adjustment.

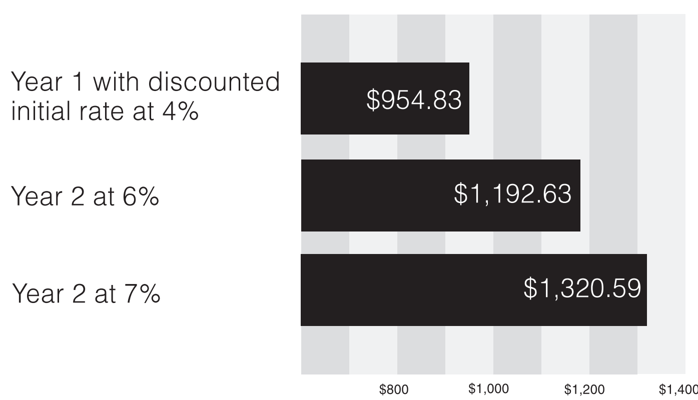
If a lender offers you a loan with a discount rate, don't assume that means that the loan is a good one for you. You should carefully consider whether you will be able to afford higher payments in later years when the discount expires and the rate is adjusted.

Here is an example of how a discounted initial rate might work. Let's assume that the lender's fully indexed one-year ARM rate (index rate plus margin) is currently 6%; the monthly payment for the first year would be $1,199.10. But your lender is offering an ARM with a discounted initial rate of 4% for the first year. With the 4% rate, your first-year's monthly payment would be $954.83.

With a discounted ARM, your initial payment will probably remain at $954.83 for only a limited time—and any savings during the discount period may be offset by higher payments over the remaining life of the mortgage. If you are considering a discount ARM, be sure to compare future payments with those for a fully indexed ARM. In fact, if you buy a home or refinance using a deeply discounted initial rate, you run the risk of payment shock, negative amortization, or prepayment penalties or conversion fees.

Payment shock

Payment shock may occur if your mortgage payment rises sharply at a rate adjustment. Let's see what would happen in the second year if the rate on your discounted 4% ARM were to rise to the 6% fully indexed rate.



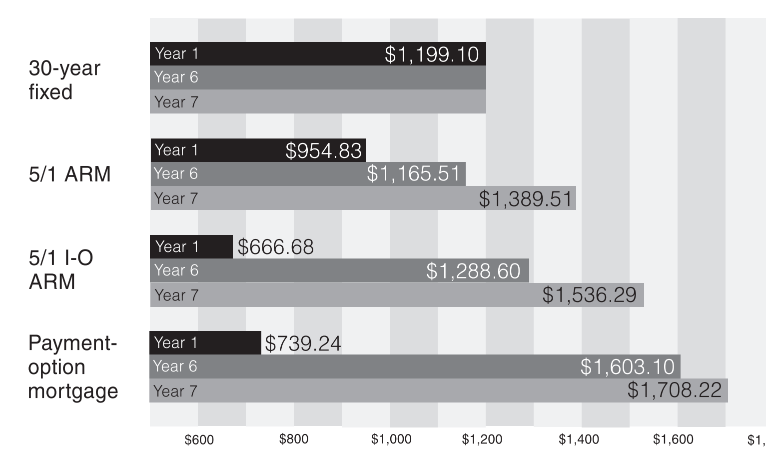
As the example shows, even if the index rate were to stay the same, your monthly payment would go up from $954.83 to $1,192.63 in the second year.

Suppose that the index rate increases 1% in one year and the ARM rate rises to 7%. Your payment in the second year would be $1,320.59.

That's an increase of $365.76 in your monthly payment. You can see what might happen if you choose an ARM because of a low initial rate without considering whether you will be able to afford future payments.

If you have an interest-only ARM, payment shock can also occur when the interest-only period ends. Or, if you have a payment-option ARM, payment shock can happen when the loan is recast.

The following example compares several different loans over the first 7 years of their terms; the payments shown are for years 1, 6, and 7 of the mortgage, assuming you make interest-only payments or minimum payments. The main point is that, depending on the terms and conditions of your mortgage and changes in interest rates, ARM payments can change quite a bit over the life of the loan—so while you could save money in the first few years of an ARM, you could also face much higher payments in the future.



Negative amortization—When you owe more money than you borrowed

Negative amortization means that the amount you owe increases even when you make all your required payments on time. It occurs whenever your monthly mortgage payments are not large enough to pay all of the interest due on your mortgage—the unpaid interest is added to the principal on your mortgage, and you will owe more than you originally borrowed. This can happen because you are making only minimum payments on a payment-option mortgage or because your loan has a payment cap.

For example, suppose you have a $200,000, 30-year payment-option ARM with a 2% rate for the first 3 months and a 6% rate for the remaining 9 months of the year. Your minimum payment for the year is $739.24, as shown in the previous graph. However, once the 6% rate is applied to your loan balance, you are no longer covering the interest costs. If you continue to make minimum payments on this loan, your loan balance at the end of the first year of your mortgage would be $201,118—or $1,118 more than you originally borrowed.

Because payment caps limit only the amount of payment increases, and not interest-rate increases, payments sometimes do not cover all the interest due on your loan. This means that the unpaid interest is automatically added to your debt, and interest may be charged on that amount. You might owe the lender more later in the loan term than you did at the beginning.

A payment cap limits the increase in your monthly payment by deferring some of the interest. Eventually, you would have to

repay the higher remaining loan balance at the interest rate then in effect. When this happens, there may be a substantial increase in your monthly payment.

Some mortgages include a cap on negative amortization. The cap typically limits the total amount you can owe to 110% to 125% of the original loan amount. When you reach that point, the lender will set the monthly payment amounts to fully repay the loan over the remaining term. Your payment cap will not apply, and your payments could be substantially higher. You may limit negative amortization by voluntarily increasing your monthly payment.

Be sure you know whether the ARM you are considering can have negative amortization.

Home Prices, Home Equity, and ARMs

Sometimes home prices rise rapidly, allowing people to quickly build equity in their homes. This can make some people think that even if the rate and payments on their ARM get too high, they can avoid those higher payments by refinancing their loan or, in the worst case, selling their home. It's important to remember that home prices do not always go up quickly—they may increase a little or remain the same, and sometimes they fall. If housing prices fall, your home may not be worth as much as you owe on the mortgage. Also, you may find it difficult to refinance your loan to get a lower monthly payment or rate. Even if home prices stay the same, if your loan lets you make minimum payments (see *payment-option ARMs* on page 33), you may owe your lender more on your mortgage than you could get from selling your home.

Prepayment penalties and conversion

If you get an ARM, you may decide later that you don't want to risk any increases in the interest rate and payment amount. When you are considering an ARM, ask for information about any extra fees you would have to pay if you pay off the loan early by refinancing or selling your home, and whether you would be able to convert your ARM to a fixed-rate mortgage.

Prepayment penalties

Some ARMs, including interest-only and payment-option ARMs, may require you to pay special fees or penalties if you refinance or pay off the ARM early (usually within the first 3 to 5 years of the loan). Some loans have *hard prepayment penalties*, meaning that you will pay an extra fee or penalty if you pay off the loan during the penalty period for any reason (because you refinance or sell your home, for example). Other loans have *soft prepayment penalties*, meaning that you will pay an extra fee or penalty only if you refinance the loan, but you will not pay a penalty if you sell your home. Also, some loans may have prepayment penalties even if you make only a partial prepayment.

Prepayment penalties can be several thousand dollars. For example, suppose you have a 3/1 ARM with an initial rate of 6%. At the end of year 2 you decide to refinance and pay off your original loan. At the time of refinancing, your balance is $194,936. If your loan has a prepayment penalty of 6 months' interest on the remaining balance, you would owe about $5,850.

Sometimes there is a trade-off between having a prepayment penalty and having lower origination fees or lower interest rates.

The lender may be willing to reduce or eliminate a prepayment penalty based on the amount you pay in loan fees or on the interest rate in the loan contract.

If you have a hybrid ARM—such as a 2/28 or 3/27 ARM—be sure to compare the prepayment penalty period with the ARM's first adjustment period. For example, if you have a 2/28 ARM that has a rate and payment adjustment after the second year, but the prepayment penalty is in effect for the first 5 years of the loan, it may be costly to refinance when the first adjustment is made.

Most mortgages let you make additional principal payments with your monthly payment. In most cases, this is *not* considered prepayment, and there usually is no penalty for these extra amounts. Check with your lender to make sure there is no penalty if you think you might want to make this type of additional principal prepayment.

Conversion fees

Your agreement with the lender may include a clause that lets you convert the ARM to a fixed-rate mortgage at designated times. When you convert, the new rate is generally set using a formula given in your loan documents.

The interest rate or up-front fees may be somewhat higher for a convertible ARM. Also, a convertible ARM may require a fee at the time of conversion.

Graduated-payment or stepped-rate loans

Some fixed-rate loans start with one rate for one or two years and then change to another rate for the remaining term of the loan. While these are not ARMs, your payment will go up according to the terms of your contract. Talk with your lender or broker and read the information provided to you to make sure you understand when and by how much the payment will change.

Where to Get Information

Disclosures from lenders

You should receive information in writing about each ARM program you are interested in before you have paid a nonrefundable fee. It is important that you read this information and ask the lender or broker about anything you don't understand—index rates, margins, caps, and other ARM features such as negative amortization. After you have applied for a loan, you will get more information from the lender about your loan, including the APR, a payment schedule, and whether the loan has a prepayment penalty.

The APR is the cost of your credit as a yearly rate. It takes into account interest, points paid on the loan, any fees paid to the lender for making the loan, and any mortgage insurance premiums you may have to pay. You can compare APRs on similar ARMs (for example, compare APRs on a 5/1 and a 3/1 ARM) to determine which loan will cost you less in the long term, but you should keep in mind that because the interest rate for an ARM can change, APRs on ARMs cannot be compared directly to APRs for fixed-rate mortgages.

You may want to talk with financial advisers, housing counselors, and other trusted advisers. Contact a local housing counseling agency, call the U.S. Department of Housing and Urban Development toll-free at 800-569-4287, or visit www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm to find a center near you.

Newspapers and the Internet

When buying a home or refinancing your existing mortgage, remember to shop around. Compare costs and terms, and negotiate for the best deal. Your local newspaper and the Internet are good places to start shopping for a loan. You can usually find information on interest rates and points for several lenders. Since rates and points can change daily, you'll want to check information sources often when shopping for a home loan.

The Mortgage Shopping Worksheet may also help you. Take it with you when you speak to each lender or broker and write down the information you obtain. Don't be afraid to make lenders and brokers compete with each other for your business by letting them know that you are shopping for the best deal.

Advertisements

Any initial information you receive about mortgages probably will come from advertisements or mail solicitations from builders, real estate brokers, mortgage brokers, and lenders. Although this information can be helpful, keep in mind that these are marketing materials—the ads and mailings are designed to make the mortgage look as attractive as possible. These ads may play up low initial interest rates and monthly payments, without emphasizing that those rates and payments could increase substantially later. So, get all the facts.

Any ad for an ARM that shows an initial interest rate should also show how long the rate is in effect and the APR on the loan. If the APR is much higher than the initial rate, your payments may

increase a lot after the introductory period, even if interest rates stay the same.

Choosing a mortgage may be the most important financial decision you will make. You are entitled to have all the information you need to make the right decision. Don't hesitate to ask questions about ARM features when you talk to lenders, mortgage brokers, real estate agents, sellers, and your attorney, and keep asking until you get clear and complete answers.

Glossary

Adjustable-rate mortgage (ARM)
A mortgage that does not have a fixed interest rate. The rate changes during the life of the loan based on movements in an index rate, such as the rate for Treasury securities or the Cost of Funds Index.

Annual percentage rate (APR)
A measure of the cost of credit, expressed as a yearly rate. It includes interest as well as points, broker fees, and certain other credit charges that you are required to pay. Because all lenders follow the same rules when calculating the APR, it provides you with a good basis for comparing the cost of loans, including mortgages, over the term of the loan.

Balloon payment
A lump-sum payment that may be required when a mortgage loan ends. This can happen when the lender allows you to make smaller payments until the very end of the loan. A balloon payment will be a much larger payment compared with the other monthly payments you made.

Buydown
With a buydown, the seller pays an amount to the lender so that the lender can give you a lower rate and lower payments, usually for an initial period in an ARM. The seller may increase the sales price to cover the cost of the buydown. Buydowns can occur in all types of mortgages, not just ARMs.

Cap, interest rate
A limit on the amount your interest rate can increase. Interest caps come in two versions:

- *periodic adjustment caps*, which limit the interest-rate increase from one adjustment period to the next, and
- *lifetime caps*, which limit the interest-rate increase over the life of the loan. By law, virtually all ARMs must have an overall cap.

Cap, payment
A limit on how much the monthly payment may change, either each time the payment changes or during the life of the mortgage. Payment caps may lead to negative amortization because they do not limit the amount of interest the lender is earning.

Conversion clause
A provision in some ARMs that allows you to change the ARM to a fixed-rate loan at some point during the term. Conversion is usually allowed at the end of the first adjustment period. At the time of the conversion, the new fixed rate is generally set at one of the rates then prevailing for fixed-rate mortgages. The conversion feature may be available at extra cost.

Discounted initial rate (also known as a start rate or teaser rate)
In an ARM with a discounted initial rate, the lender offers you a lower rate and lower payments for part of the mortgage term (usually for 1, 3, or 5 years). After the discount period, the ARM rate will probably go up depending on the index rate. Discounts can occur in all types of mortgages, not just ARMs.

Equity
The difference between the fair market value of the home and the outstanding balance on your mortgage plus any outstanding home equity loans.

Hybrid ARM
These ARMs are a mix—or a hybrid—of a fixed-rate period and an adjustable-rate period. The interest rate is fixed for the first several years of the loan; after that, the rate could adjust annually. For example, hybrid ARMs can be advertised as 3/1 or 5/1—the first number tells you how long the fixed interest-rate period will be and the second number tells you how often the rate will adjust after the initial period.

Index
The economic indicator used to calculate interest-rate adjustments for adjustable-rate mortgages. No one can be sure when an index rate will go up or down. See the chart in the text for examples of how some common indexes have changed in the past.

Interest
The price paid for borrowing money, usually given in percentages and as an annual rate.

Interest-only payment ARM
An I-O payment ARM plan allows you to pay only the interest for a specified number of years. After that, you must repay both the principal and the interest over the remaining term of the loan.

Margin
The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

Negative amortization
Occurs when the monthly payments do not cover all the interest owed. The interest that is not paid in the monthly payment is added to the loan balance. This means that even after making many payments, you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments that are not high enough to cover the interest due or when the minimum payments are set at an amount lower than the amount you owe in interest.

Payment-option ARM
An ARM that allows you to choose among several payment options each month. The options typically include (1) a traditional amortizing payment of principal and interest, (2) an interest-only payment, or (3) a minimum (or limited) payment that may be less than the amount of interest due that month. If you choose the minimum-payment option, the amount of any interest you do not pay will be added to the principal of your loan (see *negative amortization*).

Points (may be called discount points)
One point is equal to 1 percent of the principal amount of your mortgage. For example, if the mortgage is for $200,000, one point equals $2,000. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages in order to cover loan origination costs or to provide additional compensation to the lender or broker. These points usually are collected at closing

and may be paid by the borrower or the home seller, or may be split between them. Discount points (sometimes called *discount fees*) are points that you voluntarily choose to pay in return for a lower interest rate.

Prepayment penalty
Extra fees that may be due if you pay off the loan early by refinancing your loan or selling your home, usually limited to the first 3 to 5 years of the loan's term. If your loan includes a prepayment penalty, be aware of the penalty you would have to pay. Compare the length of the prepayment penalty period with the first adjustment period of the ARM to see if refinancing is cost-effective before the loan first adjusts. Some loans may have prepayment penalties even if you make only a partial prepayment.

Principal
The amount of money borrowed or the amount still owed on a loan.

For More Information

Looking for the Best Mortgage—Shop, Compare, Negotiate
(at www.federalreserve.gov/pubs/mortgage/mortb_1.htm)

Interest-Only Mortgage Payments and Payment-Option ARMs—Are They for You?
(at www.federalreserve.gov/pubs/mortgage_interestonly/)

A Consumer's Guide to Mortgage Lock-Ins
(at www.federalreserve.gov/pubs/lockins/default.htm)

A Consumer's Guide to Mortgage Settlement Costs
(at www.federalreserve.gov/pubs/settlement/default.htm)

Know Before You Go . . .To Get a Mortgage: A Guide to Mortgage Products and a Glossary of Lending Terms
(at www.bos.frb.org/consumer/knowbeforeyougo/mortgage/mortgage.pdf)

Partners Online Mortgage Calculator
(at www.frbatlanta.org/partnerssoftwareonline/dsp_main.cfm)

This information was prepared by the Board of Governors of the Federal Reserve System and the Office of Thrift Supervision in consultation with the following organizations:

AARP
American Association of Residential Mortgage Regulators
America's Community Bankers
Center for Responsible Lending
Conference of State Bank Supervisors
Consumer Federation of America
Consumer Mortgage Coalition
Consumers Union
Credit Union National Association
Federal Deposit Insurance Corporation
Federal Reserve Board's Consumer Advisory Council
Federal Trade Commission
Financial Services Roundtable
Independent Community Bankers Association
Mortgage Bankers Association
Mortgage Insurance Companies of America
National Association of Federal Credit Unions
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