FEDERAL HOUSING FINANCE AGENCY

NEWS RELEASE

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FHFA AUTHORIZES FANNIE MAE AND FREDDIE MAC TO EXPAND HOME AFFORDABLE REFINANCE PROGRAM TO 125 PERCENT LOAN-TO-VALUE

Washington, DC - The Federal Housing Finance Agency has authorized Fannie Mae and Freddie Mac to expand the Home Affordable Refinance Program (HARP) to homeowners who are current on their mortgage payments from the present loan-to-value ratio ceiling of 105 to 125 percent. With these expanded refinance opportunities, qualified borrowers whose mortgages are currently owned or guaranteed by Fannie Mae and Freddie Mac will be allowed to refinance those loans according to the terms of the Home Affordable Refinance Program established earlier this year.

"I am pleased to join Secretaries Donovan and Geithner in announcing this expansion of the Obama Administration's Making Home Affordable program," said FHFA Director James Lockhart. "The higher LTV refinancings will allow more homeowners to strengthen their finances by taking advantage of lower mortgage rates. The Enterprises are also incenting these borrowers to combine a lower mortgage rate with a faster amortization schedule, which will enable them to get 'above water' on their mortgages more quickly. This program could assist many homeowners who otherwise would have difficulty refinancing due to declining house prices," Lockhart said.

The program provides borrowers with an incentive to reduce the term of their loan from 30 years to a shorter-term, fixed-rate mortgage and therefore pay down the principal more quickly and reduce lifetime interest payments. Borrowers who refinance may see lower monthly payments and a more sustainable mortgage which will reduce the risk of default. This expansion of HARP will assist the Enterprises in managing the credit risk associated with these higher loan-to-value mortgages.

(see attached Fact Sheet)

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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.