REFINANCING MY EXISTING FIXED RATE OR FULLY AMORTIZING MORTGAGE

Sometimes borrowers replace an existing mortgage with a new, larger first mortgage. Some things to consider in deciding whether to refinance an existing mortgage are:

- Refinancing may replace a fixed rate loan with an adjustable rate loan.
- Refinancing may replace a fully amortizing loan with a loan requiring a balloon payment or containing negative amortization.
- Refinancing may shorten the amount of time you have to repay by replacing a long-term loan with a short-term loan.
- A new junior mortgage in a smaller amount may cost less, in points and fees, than refinancing the existing first mortgage.

With an ARM, the interest rate—and your monthly payment—may increase with an increase in the index used in your mortgage. In an ARM, the current interest rate is calculated by adding a fixed margin (such as 2 percent) to an index such as the Cost of Funds Index published by the Federal Home Loan Bank Board: Index Rate + Margin = Mortgage Rate or Note Rate.

For adjustable rate loans, ask the lender or broker:

- How long is the initial interest rate in effect?
- How often can the interest rate change?
- What is the largest monthly payment you could face?
- How often can the payments change?
- Can the amount you owe increase through negative amortization? This can happen if your monthly payment is less than monthly interest costs.
- What is the formula that will be used to set the rate?
- What would the rate be today if it were set by that formula?
- What are the caps on how high or low the interest rate can go?
- Is there a cap on how high or low a payment can be adjusted when the interest rate adjusts?