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Florida Mortgage Corporation Consumer Guide

Florida Mortgage Corporation offers the following consumer guide to borrowers considering *buying* or *refinancing* a Florida home.

When shopping for a mortgage, you have a wide variety of mortgage products to choose from. But how do you know which mortgage is right for you? This information, together with other disclosures provided to you, will help you decide.

Use the following checklist when determining what loan is best for you:

- Determine the purpose of your loan
- Do you want a fixed or adjustable rate loan?
- Do you want equal payments over the life of the loan or smaller payments initially with an interest only loan?
- How many monthly payments do you want to make?
- How much will your down payment be?
- Is there a chance you will pay off the loan early?
- Do you want to lower your interest rate with a one-time payment?
- Do you want to pay taxes and insurance separately or with the loan payment?

What is the Purpose of Your Loan?

Before deciding on a loan product, you should consider the purpose of your loan. You need to be sure the benefits of borrowing outweigh the risks.

Most loans are made for the following reasons:

Home Purchase - If you are purchasing a home or investment property, consider whether you will be comfortable making the payments on your loan, particularly if your payments may increase over the term of the loan. If not, consider reducing your loan size and payments by purchasing a less expensive property or by taking more time to save for a larger down payment.

Refinancing to Obtain Additional Cash for Home Improvements or to Consolidate Debts - If you are refinancing in order to obtain additional cash, carefully consider whether the benefits of obtaining the cash are worth the costs and risks of borrowing against your property. If you will use the cash to consolidate debts, consider which debts to consolidate and which debts you should continue to pay separately. Compare your new loan amount and terms with the current debts to be consolidated. Loans with low rates or small balances may be better paid under their current terms. In some cases, the overall cost of refinancing may be greater than keeping your current mortgage loan and obtaining an additional loan for the funds you want to borrow. Second mortgages, home equity lines of credit, and unsecured personal loans are other alternatives for obtaining additional cash that you may wish to consider.

Refinance to Change Rate or Payments - Again, carefully weigh the benefits of refinancing against the costs of refinancing, including the associated points, fees, other charges, and whether a prepayment penalty will be charged to pay off the current loan. Compare:

* All of the terms of your current loan to the terms of your new loan - the number and amount of the monthly payments (including amounts for property taxes and insurance)

* The interest rates and APRs (Annual Percentage Rates from an oral or written disclosure, such as Truth in Lending Statement), and whether they are fixed or adjustable

* The loan amounts

Fixed Rate vs. Adjustable Rate

Loans may have either a fixed rate ("Fixed Rate loans") or an adjustable rate of interest ("Adjustable Rate loans").

For Fixed Rate loans, the interest rate stays the same for life of the loan.

For Adjustable Rate loans, also called "ARMs," the interest rate on your loan is not fixed. Instead, it changes over time according to a formula - typically, a base rate ("index") plus a certain percentage ("margin"). For example, the LIBOR index (London market Interbank Offered Rates) plus 2.25%. So if the base interest rate increases, your interest rate and monthly payment will also increase. Some ARMs have a reduced interest rate (start rate) for an initial period of time. This rate is less than the index plus the margin (the "fully indexed rate"). This means that your interest rate and monthly will be lower than normal for that initial period, but are likely to increase when that period is over.

Here are some of the benefits and risks of Fixed Rate and Adjustable Rate loans:

	Fixed Rate	**Adjustable Rate**
Benefits	Your interest rate stays the same for the entire life of the loan You know the exact costs of the loan and the amount of your monthly payments.	Your start rate is usually lower than the interest rate on a Fixed Rate loan. Lower rates may let you qualify for a larger principal loan amount. Your interest rate may decrease or stay the same when it is adjusted.
Risks	Your interest rate is usually higher than the start rate on an Adjustable Rate loan. The interest rate stays the same for the entire life of the loan, even if market interest rates decline.	If the index increases, your interest rate and monthly payment will increase. There are limits on how much your rate can increase or decrease at each adjustment and over the life of the loan. If your start rate is less than the fully indexed rate, your interest rate and monthly payment may increase significantly at the first adjustment - even if the Index does not change. And, your interest rate and monthly payment will increase even more if the Index rises.

Adjustable Rate loans include "Hybrid" loans where the initial rate is fixed for a number of years and then adjusts periodically. Hybrid loans combine the benefits and risks of Fixed Rate and Adjustable Rate loans and are often attractive to consumers who are confident that they will sell or refinance before the first interest rate adjustment.

In choosing between a Fixed Rate or Adjustable Rate loan, ask yourself these questions:

Will your income remain stable over the life of the loan, or are you reasonably sure that it will increase? · Is the lower initial rate on an Adjustable Rate loan worth the risk that the rate and payments may increase? · If you choose an Adjustable Rate loan and you do not sell or refinance before the first adjustment, will you be comfortable making the higher payments when the first adjustment occurs if the rate increases substantially?

Choose Substantially Equal Payments or Initial Interest Only Payments.

You may choose a first mortgage loan with:

* Principal and interest payments that are substantially equal over the life of the loan; or
* with interest only payments on the amount you borrowed for an initial "interest only" period (for example, the first 3 to 10 years of the loan term), followed by higher principal and interest payments for the remaining term of the loan.

For second mortgages, there are fixed rate home equity loans with substantially equal payments or with initial interest only payments, and there are adjustable rate home equity lines of credit with initial interest only payments. Here are some of the benefits and risks of these payment choices:

	Substantially Equal Payments	**Initial Interest Only Payments**

Benefits	Payments stay substantially the same for the entire term of the loan. (For Adjustable Rate loans, the payments may increase or decrease with rate adjustments, but the size of potential payment increases is reduced.) Your monthly payments include payments toward principal, helping you to build equity in your home.	The Initial Interest Only Payments give you flexibility. You can choose to pay just the interest only amount; *or* You can choose to pay principal and interest, which will increase your equity in your home and reduce the extent to which your payments will increase after the interest only period ends.
Risks	You must make the full principal and interest payment each month. Payments are not flexible.	If you only pay the amount of interest that is due, at the end of the interest-only period: You will still owe the original amount you borrowed. Your monthly payment will increase, even if interest rates stay the same, because you must pay back the principal as well as interest. Your payment could increase even more if your loan is an Adjustable Rate loan or Home Equity Line of Credit.

In choosing among these loans, ask yourself these questions:

Will your income remain stable over the life of the loan or are you reasonably sure that it will increase?

Do you have fluctuations in your income, such as commissions or seasonal earnings, so that the flexibility of Interest Only payments would be helpful to you? If you choose a loan with initial Interest Only payments and expect to make only the minimum payments due, will you be comfortable making the substantially higher principal and interest payments when those payments begin? If you choose a loan with initial Interest Only payments (or low initial principal payments), the difference between your home's value and what you owe (your home equity) may be low during the earlier years of your loan, particularly if your home does not appreciate in value. This may make it harder to refinance your mortgage or to receive funds from selling or refinancing your home.

Choose Loan Terms, Features and Options

After you choose the loan product that is right for you, you will need to choose certain loan terms, features and options. Here are some of the choices you need to consider:

Number of Monthly Payments (Term) - Many loan products offer a variety of terms to maturity. A loan with a shorter term to maturity, for example a 10-year loan, will often have a lower interest rate and the total amount you pay over the life of the loan will be less, but your monthly payment will be higher. A loan with a longer term to maturity, for example a 30 -year loan, will give you more time to repay the loan and will lower your monthly payments, but your interest rate may be higher and the total amount you pay over the life of the loan will be more. If you are making principal and interest payments, your home equity will increase more quickly with a shorter term than with a longer term.

Down Payment Options - If you are purchasing a home or refinancing, you can usually reduce the cost of your loan by making a down payment of 20% or more or by not borrowing more than 80% of your home's value. If you don't have 20% to put down or need to borrow more than 80% of your home's value, other options may be available for you, including the following choices:

A loan with private mortgage insurance (private mortgage insurance may be "borrower paid mortgage insurance" or "lender paid mortgage insurance") A "combo" or "piggy back" loan (for example, you put 10% down, apply for a first mortgage for 80% of the sale price and a second mortgage for 10% of the sale price) One loan with no mortgage insurance, but with a higher interest rate to compensate for the added risk.

Here are some of the benefits and risks of these options: *First Mortgage Prepayment Penalty Option -* Some mortgage products allow you to choose either a loan without a prepayment penalty feature at a higher interest rate or a loan with a prepayment penalty feature at a lower interest rate. With no prepayment penalty feature, you will not penalized if you repay the loan in full prior to the expiration of the penalty period. With a prepayment penalty feature your rate will usually be lower, but a prepayment penalty can make it difficult, or very expensive, to sell your home or refinance. If your loan has an adjustable rate, you might want to consider refinancing if your interest rate, and therefore your payment, is about to increase significantly. Ask us whether the prepayment penalty feature is available for the products you are considering and the difference in interest rate that would apply if you select the prepayment penalty feature.

	Borrower Paid Mortgage Insurance	Lender Paid Mortgage Insurance	Combo or Piggy Back Loan	One Loan, No Mortgage Insurance
Benefits	Mortgage Insurance may be cancelled or automatically terminated at defined points during the life of the loan. Usually has a lower interest rate than a loan with lender-paid mortgage insurance or no mortgage insurance.	The lender makes the mortgage insurance payments.	Combined monthly payment of both mortgage loans may be lower than monthly payment of single mortgage loan with mortgage insurance.	Higher loan-to-value ratio permitted without your having to obtain mortgage insurance.
Risks	You make the mortgage insurance payments.	You may not cancel the mortgage insurance. Instead, it only terminates when the loan is refinanced or repaid in full. Usually results in a loan with a higher interest rate than that available on loans with borrower-paid mortgage insurance, and that higher rate will continue the loan is refinanced or repaid in full.	The interest on the second mortgage is usually higher, and that higher interest rate will continue until the second mortgage is refinanced or repaid in full. You are responsible for making two separate payments each month one for each mortgage loan.	Usually results in a loan with a higher interest rate, and that higher interest rate will continue until the loan is refinanced or repaid in full.

If you choose a prepayment penalty feature, you will pay a penalty if you pay the loan in full within the penalty period. By way of example only (your lender may have different types of prepayment penalties), your loan might provide for a three -year penalty period and a declining penalty depending upon when the prepayment occurs; e.g., the penalty amount might be 3% of the unpaid principal balance if you repay in full during the first year, 2% of the unpaid principal balance if you repay in full during the second year, or 1% of the unpaid principal balance if you repay in full during the third year. Many lenders let you make extra, additional principal payments with your monthly payment - this is not repayment of the entire loan, and in many cases there would be no penalty for these extra payments. Lenders have varying rules on whether a prepayment penalty is due upon the sale of your home.

Early Closure Fees on Home Equity Loans and Lines of Credit - Some home equity loans and lines of credit may charge fees for closing the line of credit prior to maturity. You should carefully review the terms of your home equity loan or line of credit to determine if there are any prepayment or early closure fees, and under what conditions these fees are charged to you.

For example, on some fixed rate home equity loans and lines of credit where the lender has paid your third party closing costs, if you repay in full and close your line or loan during the first three years you will be charged an early closure fee equal to the third party fees that were paid for you. This early closure fee is not waived if the loan or line is repaid and closed due to a sale of the property. On many of these products you may make additional extra principal payments without being charged an early closure fee as long as you are not repaying and closing the entire loan or line.

Reduced Documentation - Some loans that have a "reduced documentation" feature have higher interest rates or other costs when compared to "full documentation" loans that require you to provide various forms of documentation to verify your income and other assets. *(Verifying your income helps to ensure that you can afford the loan payments.)*

Discount Points - You can choose an interest rate that does not require you to pay any points. For most loans, you can choose to lower your rate by paying additional "Discount Points." On Fixed Rate loans, Discount Points reduce the interest rate for the entire term of the loan. On Adjustable Rate loans, Discount Points usually only reduce the initial rate until the first rate adjustment. If you are considering paying Discount Points to reduce your interest rate, ask us to help you determine whether you are likely to break even on the cost of the Discount Points before you sell or refinance your home and repay the loan in full.

Escrow for Taxes and Insurance - In addition to your principal and interest payments, you will also be required to pay your real estate taxes and property insurance. These costs can be substantial. First mortgage products usually provide for the establishment of an escrow account to pay these items. Under certain circumstances, an escrow account may also be required on home equity loans or lines of credit. On loans with an escrow account, your monthly payment will include an amount to cover taxes and insurance and the lender will pay your taxes and insurance out of these funds. Under certain circumstances, establishment of an escrow account on a first mortgage may not be required. If an escrow account is not established, you will be responsible for paying these items directly when they are due. When comparing mortgages, or deciding whether you can afford a mortgage, you need to consider whether or not the monthly payment includes an amount to cover estimated taxes and insurance.

Sample Comparison of $200,000 Mortgage Loans (Illustration Only)

The comparison below assumes a $250,000 home with $50,000 down payment with _no_ appreciation in the home's value over the term of the loan. ***The interest rates and other information shown below are for illustration purposes only***. Each loan has a term of 30 years. The One Year ARM adjusts each year. The 5/1 ARMs adjust at the beginning of year 6 and each year thereafter. The table below shows how these loans would compare if the index rates used to calculate rate adjustments on the Adjustable Rate loans remain the same for the life of the loan as well as how the rates and payments would compare if index rates increased.

	Fixed Rate **(Equal Payments)** 6.5%	***One Year ARM***1 **(Substantially Equal Payments)** 6.750% Initial Rate 7.5% Fully Indexed Rate 12.75% Maximum Rate	***5/1 ARM***2 **(Substantially Equal Payments)** 6.25% Initial Rate 7.5% Fully Indexed Rate 11.25% Maximum Rate	***Fixed Rate*** **(10 Year Interest Only Period)** 6.625%	***5/1 ARM***3 **(5 Year Interest Only Period)** 6.5% Initial Rate 7.5% Fully Indexed Rate 11.5% Maximum Rate
Monthly Payment Examples*					
If Index Rates Don't Change (Adjustable Rates Increase to Fully Indexed Rate)	$1,264	$1,297 (Year 1) $1,396 (Years 2- 30)	$1,231 (Years 1- 5) $1,380 (Years 6- 30)	$1,104 (Years 1- 10) $1,506 (Years 11- 30)	$1,083 (Years 1- 5) $1,478 (Years 6- 30)
If Index Rates Rise by 2% (Adjustable Rates Increase to Fully Indexed Rate + 2%)	$1,264	$1,297 (Year 1) $1,568 (Year 2) $1,672 (Years 3- 30)	$1,231 (Years 1- 5) $1,631 (Years 6- 30)	$1,104 (Years 1- 10) $1,506 (Years 11- 30)	$1,083 (Years 1- 5) $1,747 (Years 6- 30)
If Index Rates Rise by 5% (Adjustable Rates Increase to Maximum Rates on One Year and 5/1 ARMs and to 14.625% on the 2/28 ARM)	$1,264	$1,297 (Year 1) $1,568 (Year 2) $1,851 (Year 3) $2,143 (Years 4- 30)	$1,231 (Years 1- 5) $1,863 (Years 6- 30)	$1,104 (Years 1- 10) $1,506 (Years 11- 30)	$1,083 (Years 1- 5) $2,033 (Years 6- 30)
Effect on Loan Balance and Home Equity (If Index Rates Don't Change)					
Balance You Will Owe After 5 Years	$187,222	$188,960	$186,674	$200,000	$200,000
Increase in Equity from Loan Payments After 5 Years	$12,788	$11,040	$13,326	$0	$0
Balance You Will Owe After 10 Years	$169,552	$173,338	$171,241	$200,000	$183,465
Increase in Equity from Loan Payments After 10 Years	$30,448	$26,662	$28,759	$0	$16,535

* Monthly Payment Examples reflect payments of interest and principal only and do not include amounts for real estate taxes, property insurance or, if applicable, mortgage insurance.

One Year ARM - Rate increases are capped at 2% at each rate adjustment and 6% over the life of the loan. 2 5/1 ARM with Substantially Equal Payments - Rate increases are capped at 5% at the first adjustment, 2% at each subsequent adjustment, and 5% over the life of the loan. 3 5/1 ARM with Interest Only Payments - Rate increases are capped at 5% at the first adjustment, 2% at each subsequent adjustment, and 5% over the life of the loan.

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