**Mortgage (amortization and refinance)**

**What it is**: A mortgage is a legal agreement to borrow money and is secured by the collateral of specified real estate property, in which a borrower pays pack over a period of years. The term refinance is used to describe the revision a payment schedule for repaying debt.

**How it works:** According to the Consumer Financial Protection Bureau the federal mortgage rules requires a lender to review your financial information and make a determination that you can repay the loan. Lenders are required to use third party information (such as credit score) to verify all of their information and should consider the eight following factors when approving a mortgage: 1) current or reasonably expected income or assets, 2) current employment status, 3) expected monthly payment on the mortgage, 4) monthly payment on any simultaneous loans, 5) consumer's monthly payment of mortgage related obligations (i.e. taxes and insurance), 6)current debt obligations, alimony, and child support 7) debt-to-income ratio or residual income, 8) consumer's credit history.

Mortgages are usually set up as multiple cash flow installments with a portion of each payment going toward interest and principal and a greater portion of the payment is applied to interest in the beginning periods of the loan. A loan is considered "fully amortized," if the last payment pays off all remaining principal and interest on the loan. A balloon mortgage requires a large last payment of all remaining principal and interest.

Many people are considering refinancing their mortgages because interest rates for home mortgages are a still lower now compared to the rates many people paid earlier. But don't refinance just because the interest rate on the new loan is lower, be sure to consider all costs carefully. A good of rule of thumb is that you will save money if the interest rate is 2% lower than your current interest rate.

**Why it matters:** A balloon payment is any scheduled payment that is more than twice as large as the average of earlier scheduled payment and should be considered very carefully. As a borrower if you lack the funds or assets to immediately make the final balloon payment, or adequate credit to refinance the balance into a new loan, you may end up in default and your home could be repossessed. When refinancing your home think about how long you plan to live in the house. On average it takes three years to see the savings from refinancing.

**Who should care:** You might assume that lenders will not approve a loan that you cannot afford but you need to consider all costs of homeownership (maintenance, repair, utilities, etc.) and not just the mortgage payment. Be sure to get everything in writing from your lender including full disclosure of all fees, points and closing costs. Take time to review the annual percentage rate, APR, which includes the lender's fees and shows the true cost of the loan over time.

**For more information**

- Consumer Financial Protection Bureau at "Shopping for a mortgage? What you can expect under federal rules", www.consumerfinance.gov.
- Iowa Legal Aid, "Buying a House", www.iowalegalaid.org/resource/buying-a-house
- Iowa Legal Aid, "Refinancing", http://www.iowalegalaid.org/resource/refinancing
- Iowa State University Extension and Outreach website at www.extension.iastate.edu/humansciences/