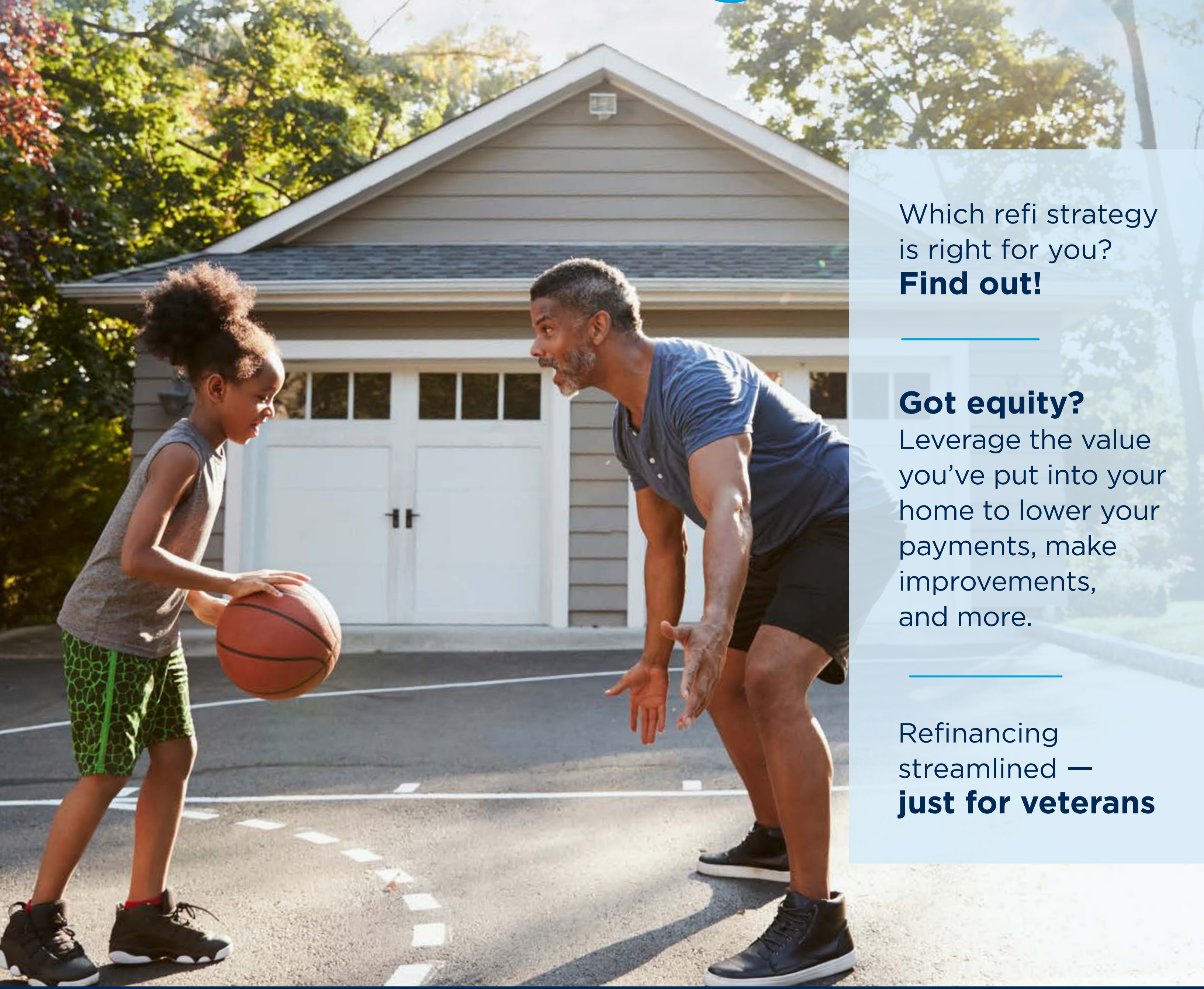
PENFED CREDIT UNION

Ready, Set... Refi



Which refi strategy is right for you? **Find out!**

Got equity? Leverage the value you've put into your home to lower your payments, make improvements, and more.

Refinancing streamlined — **just for veterans**

THE BENEFITS OF MORTGAGE REFINANCING — AND HOW TO GET STARTED

Welcome to PenFed!

Winston Wilkinson
President, Mortgage Lending

On behalf of our entire Mortgage Lending team, I'm glad you're here.

Just like you, we've seen a lot of changes these past couple of years. Through it all, it's become even more clear to me that success can be achieved only when you adapt.

This applies to every area of life. As someone who is committed to personal fitness as well as PenFed's operational "fitness," I can vouch for this. You adjust to everyday ups and downs — and you take advantage of the opportunities you've earned from your efforts.

As your life changes, we believe you should have mortgage options that can change with you. And there are many — from rate-and-term to home equity lines of credit, refinancing empowers you to leverage your equity, lower your interest rate, pay off your loan faster, and benefit from your own financial fitness.

This eBook offers an overview of the various refinancing options that are available and gives you an idea of which option might be the best fit for your situation and goals. We hope you'll hang on to it so you have a quick reference and know what questions to ask when you talk with a PenFed Loan Officer.

Another thing we believe in at PenFed: Success only comes with teamwork. We're committed to helping everyone on our team reach their goals. We think of you, our members, as part of that team. No matter where you are on your mortgage journey, we offer resources and tools to help you choose your best refinancing option — and reach your financial goals, too.

Sincerely,

Winston Wilkinson

PENFED CREDIT UNION

FEATURES

Get a Closer Look!

When you see this symbol, pick up more helpful tips in our Mortgage Knowledge Center at PenFed.org® >

*All people, dollar amounts, and interest rates in this publication are fictitious and for illustrative purposes only. Speak to your lender for mortgage refinancing options and rates for your specific goals.

Why *Refi?*

Think back five,
maybe ten years.
Or even just a year ago.
Do you still:

Drive the same car?
Have the same job?
Earn the same salary?
Have the same number of kids?

Life changes. Why shouldn't your mortgage?

WHY REFINANCE? AND HOW?

As your circumstances change, refinancing gives you options. It offers a way to reduce or stabilize your monthly payments, pay off your loan faster, and even give you access to the equity you've built in your property. It gives you greater control, flexibility, and freedom in your finances.

This eBook will share the most common reasons to refinance, the benefits of refinancing, and how to choose a refi option that works for you.

Finding your **best** fit

A lot like your original mortgage, refinancing comes with its own twists and turns — and its own language. Here are some of the products you might be considering. And follow the bar across the bottom of each page to learn about some of the key terms and concepts you'll see during your refi journey.

Ways to Refinance

We'll outline some of the most common refinancing products. One of these will likely be a good match for you.

Rate-and-Term
A refinance that changes the rate and/or term of the existing mortgage. You don't put down any additional money or receive any cash out. (page 05)

Cash-Out
Refinancing an existing mortgage loan so that the new loan is for a larger amount than the balance of the existing loan. This is possible because a portion of the loan draws on the equity in your home. You receive the balance of the refinance as cash. (page 08)

Streamlined Refinancing
Also known as an Interest Rate Reduction Refinance Loan (IRRRL), streamlining lets veterans with a VA-backed mortgage replace the current loan with a new one under different terms. Streamlining may reduce your interest rate (lowering your monthly payments) or switch from an adjustable rate to a fixed rate (stabilizing your monthly payments) — or both. (page 11)

Home Equity Loan
A separate loan that draws on the equity in your home. Unlike refinancing, which changes an existing loan, a home equity loan is a second loan in addition to your existing mortgage. (page 15)

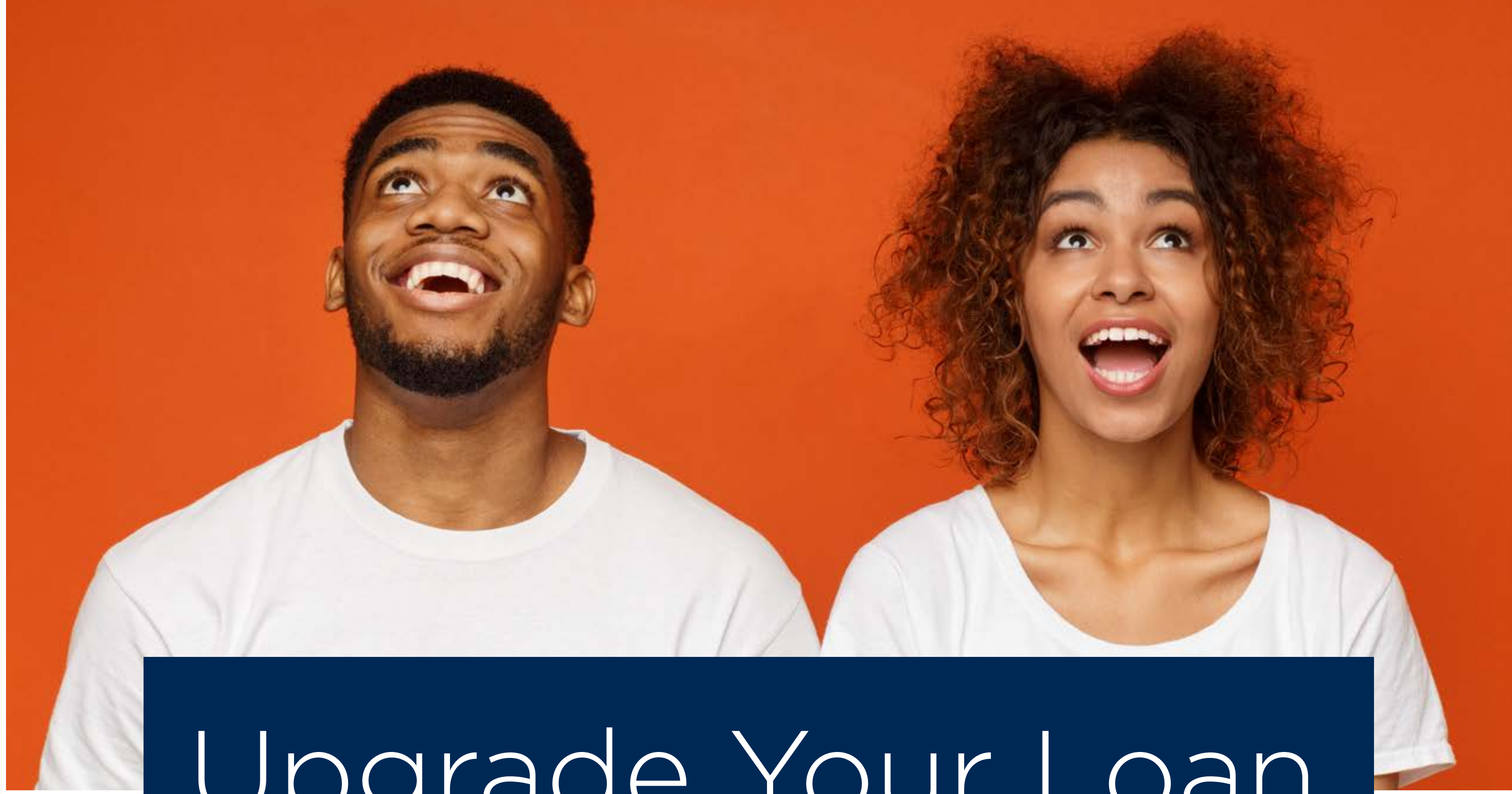
Home Equity Line of Credit (HELOC)
A line of credit that uses the equity in your home as collateral. You accrue a balance and make payments on the line of credit only when you use the account. (page 15)

What makes credit union refinancing different?
Find out >

KEY TERMS

Know the basic concepts and research and apply for loans with confidence. Think of this as your refi cheat sheet.

REFINANCING The process of replacing the terms of an existing mortgage as a way to repay the loan faster, lower monthly payments, or receive other benefits. Refinancing may include changes to the interest rate, payment schedule, or other terms of the loan agreement.



Upgrade Your Loan

Leveling up in life? Reap the rewards of improved credit with a rate-and-term refinance

THE SITUATION

Anthony and Yvonne bought their home five years ago. At the time, they were each seven years into their first jobs out of college, and their loan application and down payment got them a mortgage interest rate of 5.25%. They were also required to take out mortgage insurance. Today, they're both earning more and have been stellar borrowers — making their loan payments on time and keeping their other debts low.

With five years of steady payments and with interest rates trending downward, now might be a good time to refinance. Has all their hard work earned Anthony and Yvonne a loan upgrade?

The Rate-and-Term Refi: Loan Improvement

Like Anthony and Yvonne, your financial life is probably different than it was five or ten years ago. Simply owning a home and making consistent on-time mortgage payments often improves your creditworthiness in the eyes of lenders. And if you've paid at least 20 percent of the original loan, then you may be eligible to stop carrying mortgage insurance. A refi is the way to do that.

Rate-and-term refinancing may also be a good idea when:

- Interest rates have decreased
- You want a lower monthly payment
- You can swap an adjustable insurance rate for a fixed rate
- You add or remove someone from your mortgage

Another big plus of rate-and-term refinancing: They almost always offer the lowest interest rates compared to other mortgage products.

65%

of home loans were refinanced nationwide, 2020

Source: Freddie Mac

How It Works

With a rate-and-term refinance, you replace your existing mortgage with a fresh one. Your old loan is paid with a new loan, made for the amount of the balance remaining on the old loan. The new mortgage gives you improved features, such as a lower interest rate, a different type of interest rate, or a different repayment **term**. You typically end up with a lower monthly payment, build equity faster, and ultimately pay less over the life of the mortgage.

Remember, a rate-and-term refinance is basically a do-over: You're getting a completely new mortgage — with all the closing costs that a mortgage entails. Be sure to consider how long it will take to recover those costs when figuring out which refinancing option is right for you.

ADJUSTABLE RATE A percentage interest rate that can change. After the introductory period, your lender may adjust the interest on your mortgage based on the prime rate and other factors. This will either increase or decrease your monthly payments.

FIXED RATE A percentage interest rate that stays constant over the life of the loan.

APR Annual Percentage Rate. This rate includes the interest rate plus any points, broker fees, and other charges related to getting the loan. Your APR is typically higher than the interest rate.

TERM The repayment period of the loan, from the time it's originated until it is paid in full.

Rate-and-Term Refinance Gives You Options

Let's say you financed your home purchase with a 30-year loan for $200,000 at 5% interest. Rates are now 3%. A rate-and-term refi can lower your monthly payment a lot — or lower your monthly payment somewhat and keep you on track to repay your loan in 30 years.*

ORIGINAL MORTGAGE	10 YEARS LATER...		
$200,000 LOAN	$165,000 LOAN		$165,000 LOAN
$50,000 DOWN	$0 DOWN	OR	$0 DOWN
30 YEARS	30 YEARS		20 YEARS
5% INTEREST	3% INTEREST		3% INTEREST
$1,200/MONTH	$700/MONTH		$930/MONTH
$165,000 OWED			

* Total repayment amount will vary based on local taxes, insurance, and other fees. Consult your lender for a personalized estimate.

Does a Rate-and-Term Fit into Your Plans?

Sounds like the perfect refi. Why wouldn't you go for a rate-and-term, then? If you're planning to move soon, you may want to reconsider. As you probably know, the cost of the mortgage itself — fees, taxes, and sometimes insurance — can take a while to recover. If you won't recoup those costs (known as the **break-even point**) before your anticipated sale, a rate-and-term refinance might not be for you.

In a nutshell

With a rate-and-term refinance, the amount you owe on your home will remain the same or drop. You get a brand-new loan, usually with changes in interest rate, repayment period, and/or monthly payments. Consider it when you've paid on your original mortgage for a few years or when you experience a big financial or life change.

Should you refinance to a 15-year term?

Check out the pros & cons >

THE ART OF THE CASH-OUT

When should you refinance?

Get timing tips >

Cash-Out Refinancing: Leveraging Your Wealth

Life is complicated. And circumstances can change suddenly — for better or worse. One great advantage of home ownership is that it allows you to build wealth and security so that when life surprises you, you're prepared. Cash-out refinancing is a way to leverage your home ownership to solve a cash flow challenge at a relatively low cost.

Turn your home's equity into a low-cost loan — for life's ups and downs

THE SITUATION

Brian and Leslie are proudly sending their daughter to a top medical school. While they're thrilled for her accomplishment, tuition is more than they'd planned for — and student loan interest rates will be at least 6% when she graduates. They're looking for a more affordable financing solution.

Katie has achieved some major life goals: landing a job at a top law firm and purchasing her own home in the city before age 30. However, she's still paying off student loans, plus a new car loan. With four years of equity, could she find a solution to consolidate some debt and get a lower interest rate?

HOW IT WORKS

Cash-out refinancing allows you to start a new mortgage for an amount higher than you still owe — and take the balance as cash.

1ST MORTGAGE
$500K, $3.5K down,
3.5% fixed APR

MORTGAGE 1, DAY 1
OWED: $482,500
EQUITY: $17,500

10 YEARS LATER
ESTIMATED VALUE: $861,000
OWED: $372,500
EQUITY: $488,500

CASH-OUT
TOTAL LOAN AMOUNT: $447,500
CASH BORROWED: $75,000
EQUITY: $263,000

OWED EQUITY CASH

DEBT-TO-INCOME RATIO The percentage of your monthly gross income that goes toward paying debts.

PRIME RATE A short-term interest rate set by banks nationwide. It serves as the foundation rate for pricing loans. Having a constant, common Prime Rate makes it easier for you to compare loans offered by various banks.

LTV Loan-to-Value Ratio. The relationship between the appraised value of your property and the amount you have left to pay on your mortgage. Example: You've borrowed $130,000 to purchase a house worth $150,000. The LTV is $130,000 to $150,000 — or 87%. The lower the LTV, the better.

Why Cash Out?

With cash-out refinancing, you can tap into the wealth you've built in the form of home equity. It allows you to generate cash flow and borrow at a relatively low cost. In fact, a cash-out refi is one of the least expensive ways to borrow money. This option is especially valuable when you face a big expense:

- Tuition
- Major medical costs
- A significant home renovation
- Or any of life's biggest moments

Cash-out refinancing can also help you pay other debts at a lower interest rate or reduce your mortgage interest rate. If the math works out (including closing costs and other fees), you can end up paying less over the life of the loan.

Cash-Out FAQs

At first glance, a cash-out refi can seem like an excellent solution — especially if you're facing a significant, unforeseen emergency expense. But take time to consider the downsides and alternatives. Cash-out refinancing comes with unique advantages — and costs, which can be hefty. Here are some questions to consider while you weigh your options.

Are you borrowing a large amount of cash? In a cash-out refi, lenders charge a fee to the entire amount of the loan — not just the portion you're receiving in cash. Fannie Mae, for example, charges anywhere from 0.375% to 3.125%. This isn't necessarily negative in itself; it just means you'll want to make sure the amount of cash you want to borrow is enough to justify the cost of the loan.

How much equity have you accrued? Earned equity feels terrific: The more you pay down your loan, the more of your home you own outright. That wealth gives you some stability and freedom — including the freedom to borrow money based on that wealth. On the other hand, you're giving some of that wealth away — or at least, back to the bank for a while. If you've built up quite a bit of equity and don't need to borrow on a significant portion of it, a cash-out refinance could be worth it.

A cash-out refi is one of the least expensive ways to borrow money.

What's your risk tolerance? When you let go of some or all of the equity in your home with a cash-out refi, you take on a certain amount of risk. If you borrow on your home's value, and property values fall later, you can end up owing more than the property is worth.

What are your alternatives? There might be other ways to boost your cash flow with less expense. Rate-and-term refinancing, home equity loans, or a combination of the two could be a less risky, more affordable bet; a home equity line of credit may help if you don't have to use the cash in one lump sum. Your lender can walk you through all the possibilities.

Veterans Benefit

Streamlined refinancing puts veterans on the fast track to lower interest rates

THE SITUATION

Josh has paid consistently on a 30-year mortgage with a 4.25% rate for the past eight years. The interest rate is currently 3.50% and he wonders if refinancing now would save him some money until he sells his home — probably within the next three years. He used his VA benefit on his first mortgage, and he's worried he may not be eligible for further benefits.

Veterans secured **nearly 1 million VA refinance loans** in 2021, up 22% from 2020

Exclusively for veterans

Also known as an interest rate reduction refinancing loan (IRRRL), streamlining allows borrowers to refinance at a lower interest rate — and potentially shorten the repayment term — without having to go through all the steps of a conventional refinance. Streamlining can save you thousands long term and reduce your monthly payments short term. And, it's exclusively for veterans.

Fast-track your refi

Because it's a veteran's benefit, streamlining comes with some pretty attractive features:

- No appraisal requirement
- No need to requalify based on either income or **debt-to-income ratio**
- Unlike with a VA purchase loan, you can often roll closing costs and prepaid items into the loan. That said, the IRRRL does come with a few restrictions:
  - It does not allow cash back at closing (if that's important to you, consider the cash-out refi) and is not for reconsolidating debt. Just like your original VA loan, it's designed to apply only to the mortgage.
  - Only VA loans are eligible for streamlining.

On balance, though, a VA streamlined refi can have a high return on your investment compared with other refinancing options if you meet the eligibility criteria.

5 VA Loan Myths — BUSTED

There are a lot of misconceptions out there about VA loans in general, and streamlines in particular. Here's the straight scoop on five of the most common ones:

1 You can't have more than one VA loan at a time.

FALSE As a veteran, you may borrow up to the maximum of your **entitlement amount**, no matter how many loans that includes.

2 You can only use your VA benefit once.

FALSE There is no limit to the number of times you can apply for first-time VA loans or streamlined refis. It's possible to qualify for a second VA loan even if you've defaulted on one in the past.

3 VA loans do not cover closing costs.

FALSE While original VA loans are intended to help with the mortgage only, streamlined refinancing may allow you to roll in some or all of the costs of refinancing.

4 You must have perfect credit to qualify for streamlined refinancing.

FALSE As with the VA loan program, there is no set minimum credit requirement to qualify. Individual lenders set their own minimums. But even there, veterans tend to fare better: The typical minimum FICO score for a conventional loan is about 660, while the minimum score for VA loans is closer to 620.

5 Streamlines take forever to close.

FALSE The entire process for a streamlined refi is about the same as it is for any other home loan.

Learn about PenFed's no closing costs VA streamline refinance[1]

Visit PenFed.org® >

If you're thinking about refinancing...

Reach out to your lender and ask for a rate quote. Find out how a streamlined VA loan would play out for you at today's interest rates. And ask for an estimate on the new principal and interest, as well as estimated costs and the new loan amount. Also, be sure to share with your lender any plans you may have to sell your home — this can affect your break-even point and give you a better idea of how much you could save with a refinance.

[1] Closing Costs covered are title fee, recording fee, credit report fee, flood certification fee, tax service fee, VA funding fee, and transfer tax. Other fees may apply such as discount points, pre-paid interest, property taxes, and property insurance, which will be the member's responsibility.

BREAK-EVEN PERIOD The time it takes to start benefiting from a lower interest rate. Refinancing comes with closing costs, just as your original mortgage did. Even though your monthly payment may come down immediately, you start seeing the full savings that comes from a lower rate when you've recovered those costs.

ENTITLEMENT AMOUNT The amount the Veterans Administration agrees to pay your lender if you default on your loan.

PREPAYMENT PENALTY When you refinance your mortgage, the original loan is paid off. Some lenders may charge fees for early repayment; however, this penalty is usually capped at the first three to five years of the loan.

Refinancing Cost$

At the end of the day, the main reason you're refinancing is to save. We want to help you make sure you actually do.

In addition to the interest rate, refi costs come in three basic categories — prepaid items, closing costs, and lender fees. Here's the skinny on each, plus tips for keeping them in check.

FIRST, THE INTEREST RATE

Probably the single most important factor influencing the cost of your loan, your interest rate is based mainly on the loan-to-value ratio, your loan amount, the type of refi, your credit score, how much you still owe on your home, and the term of the loan.

TIP: **Keep your refi options open.** Work with a lender you trust to find the refinance type that will get you the best rate.

PREPAID ITEMS

Costs related to the house itself, not the transaction. Think homeowners insurance paid up front, prepaid interest, property tax, and escrow.

TIP: **Compare prices.** Since you choose items, such as homeowners insurance, you have some control over this portion of your costs.

CLOSING COSTS AND OTHER LENDER FEES

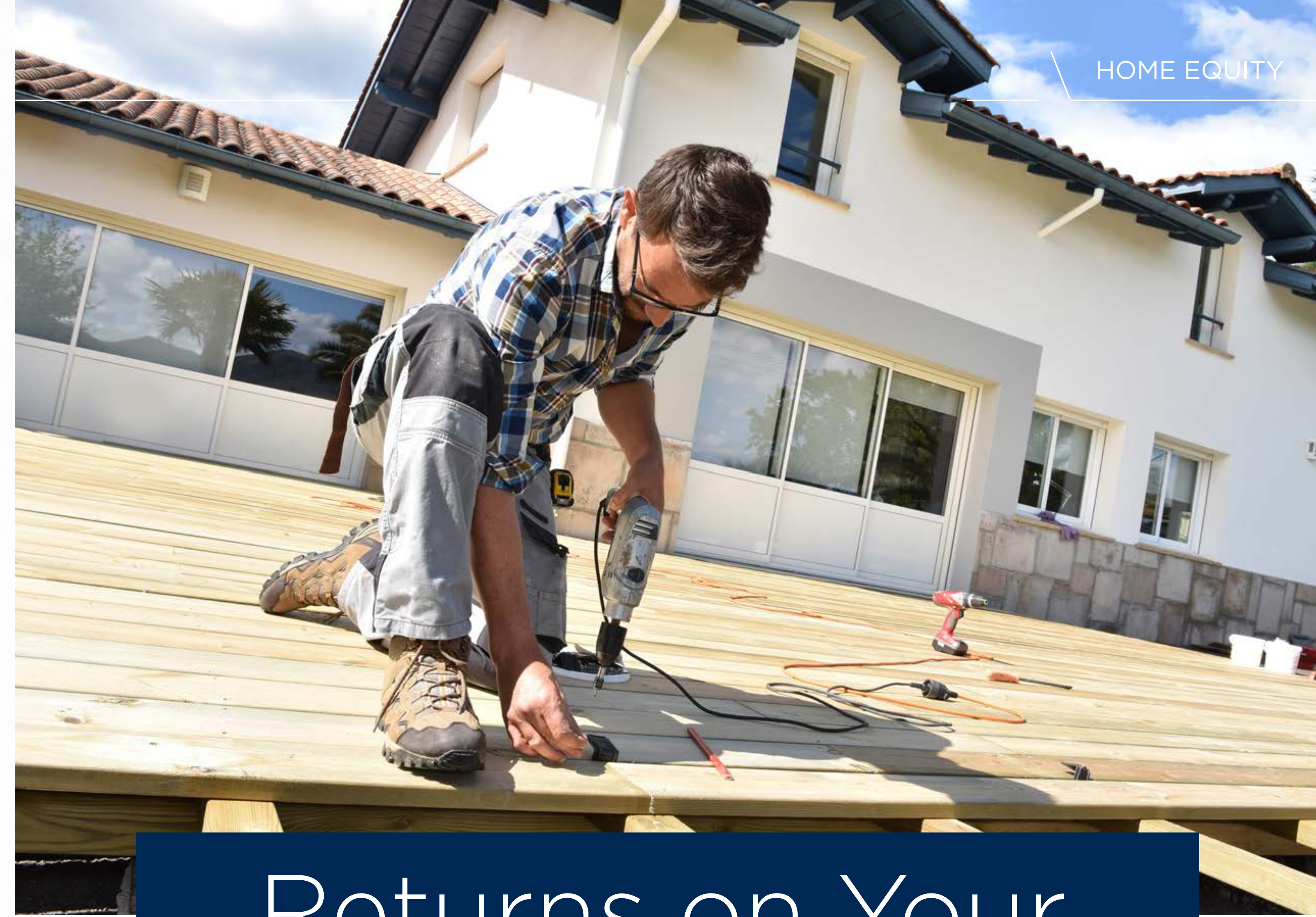
These are costs related to creating the loan and include attorney fees; title recording fees; loan origination, underwriting, and processing; various administration fees; and document and income verification.

TIP: **Shop around.** Ask lenders to disclose their fees before you sign on the dotted line, and find out if some of the items can be negotiated down or folded into the loan itself — this can save you some money at closing, but could also change your rate or repayment total.

BONUS TIP: **Play a long game.** A lower interest rate or reduced cost don't guarantee you'll save money long-term. Ask your lender for an estimate of the total cost of your refi for the entire repayment period. If that number is smaller than the one for your current loan, it's likely a good time to refi.

Get a more complete picture.

Use PenFed's mortgage refi calculator >



Returns on Your Home Investment

Home equity loans and lines of credit help you reinvest in one of your greatest assets

THE SITUATION

Helen and Bill have always dreamed of living somewhere where they can enjoy a slower pace of life. Now that they both work from home, they can. They've decided to move their family from the suburbs to a small town. First, they need to invest in some home improvements and upgrades to increase their home's value before they sell.

Home Equity Loans and Lines of Credit: Unlocking Assets

Your home is one of your greatest assets. And the closer you get to paying off your mortgage, the bigger that asset grows. Wouldn't it be nice to unlock some of that equity to help you achieve your goals? Home equity loans and home equity lines of credit (HELOC) are designed exactly for that.

Home equity loans and HELOCs each work a little differently, but the principle is the same: you borrow money based on the amount of equity you have in your home — in other words, the percentage of your current mortgage that you've already paid.

How They Work

Typically reserved for major expenditures, a **home equity loan** provides a large lump sum that you pay off over a specified term, typically 5 to 30 years, with a fixed-interest rate. The funding is based on your home's equity and is secured by your property. The maximum amount you can borrow is usually 75 percent to 85 percent of your home's equity.

A **home equity line of credit** provides access to funding as you need it. Much like a credit card, a HELOC is a revolving line of credit — it requires repayment and accrues interest only when you use it. And while HELOCs offer much lower interest rates than credit cards do, they are secured by your property, just like a home equity loan.

Home Equity Loan vs. HELOC: What's the difference?

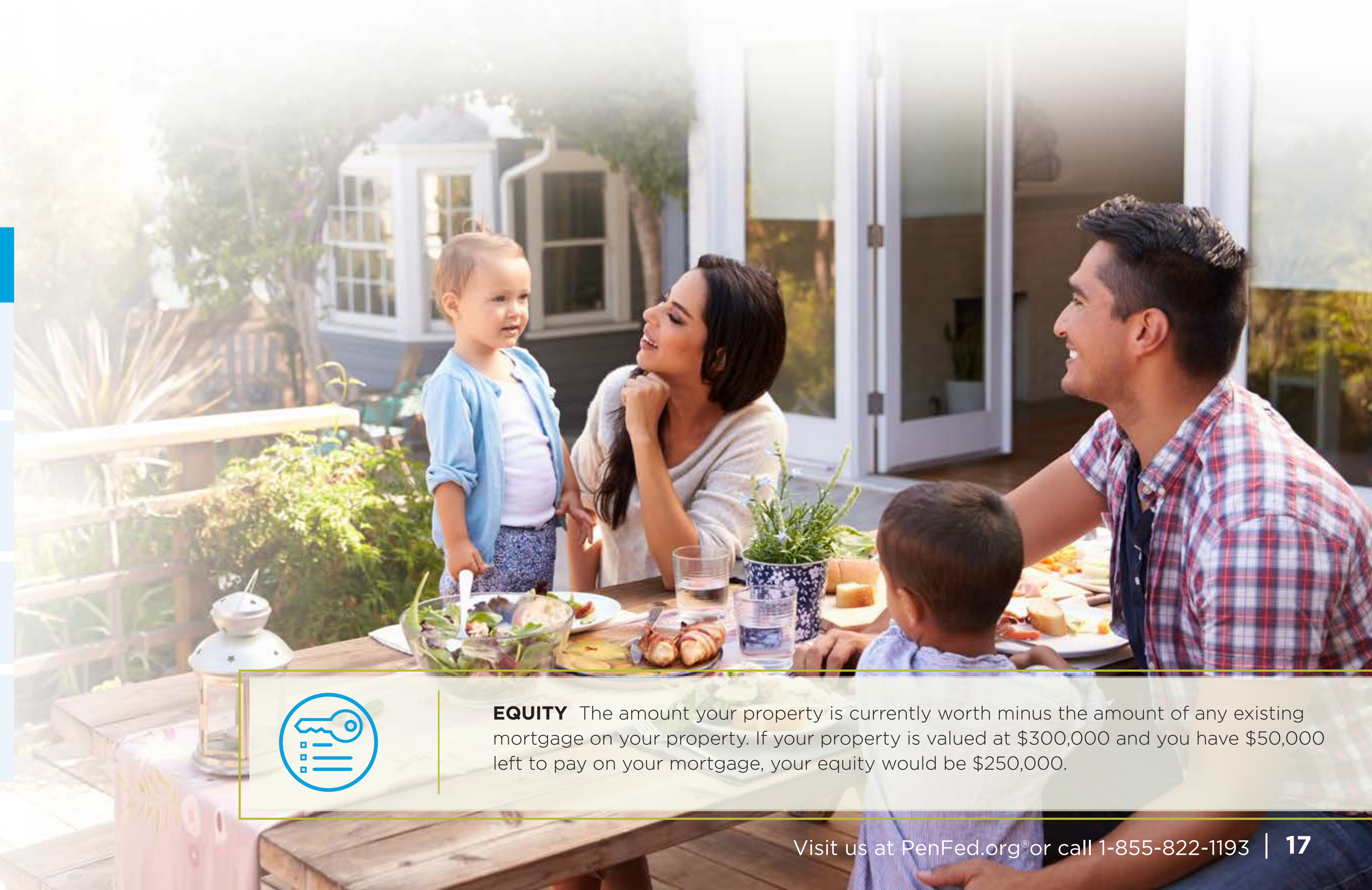
	Home Equity Loan	HELOC
How funds are received	100% of loan amount is disbursed at once	Any amount of total funding is available anytime during the draw period
Impact on home selling	Doesn't need to be paid off before selling — creates a lien on the property that must be reported when selling your home	Doesn't need to be paid off before selling — any outstanding balance must be reported when selling your home
Monthly payments	Monthly payments are the same throughout the repayment period	Monthly payments vary depending on the amount you've used and the interest rate
Best for...	Best for large up-front expenses, such as a kitchen remodel or a major repair	Best for numerous smaller projects and expenses, such as replacing a furnace or adding a fireplace

Time It Right

Home equity loans and lines of credit are powerful tools — so use them wisely. They can help you reinvest in your home by financing major repairs and renovations and upgrades — whether you want to increase its value before selling or you plan to enjoy your home for many more years. Due to the inherent risk involved, the best time to borrow on your home's equity is when you know you'll be able to pay it back quickly. An impending sale is an obvious scenario when you need to pay back a large sum; smaller amounts such as those you might use a HELOC for may be easier for you to manage within your normal financial plan.

Careful What You Borrow For!

The temptation is real: tapping into your home's equity to finance... a dream wedding... a fantastic vacation... tuition to your child's top-choice college... Spends like these can become especially attractive when you have a HELOC at your fingertips. But always remember: The money you borrow is leveraged against your home. Which means that should you become unable to repay your loans, you could run into greater challenges later, including damaging your credit and even foreclosure. Consult with your lender about alternatives before you take out a home equity loan or use your HELOC, and always weigh the risk against the reward.



EQUITY The amount your property is currently worth minus the amount of any existing mortgage on your property. If your property is valued at $300,000 and you have $50,000 left to pay on your mortgage, your equity would be $250,000.

Check out all our PenFed Mortgage Knowledge Center references:

Intro
Page 4, What makes credit union refinancing different?
https://www.penfed.org/mortgage-knowledge-center/top-10-reasons-to-do-a-credit-union-refinance

Rate & Term
Page 7, Should you refinance to a 15-year term?
https://www.penfed.org/mortgage-knowledge-center/refinance-to-a-15-year-mortgage

Cash-Out
Page 9, When should you refinance?
https://www.penfed.org/mortgage-knowledge-center/when-is-the-best-time-to-refinance

Streamlined
Page 13, Learn about PenFed's no-fee streamlining.
https://www.penfed.org/mortgage-knowledge-center/benefits-of-refinancing-with-a-va-streamline-refinance

Home Equity
Page 14, Get a more complete picture.
https://www.penfed.org/calculators/mortgage-refinance-calculator