



Helpful Tips:

- A PPM is always an option, never a requirement
- Before signing any documents, borrowers should review their mortgage terms and ask questions
- Borrowers should receive a benefit such as lower fees or a lower interest rate when selecting a PPM
- Borrowers should be aware of the penalty amount and the conditions of the penalty assessment

Borrower Information Guide

Prepayment Penalty Mortgages

This guide is designed to help borrowers better understand Prepayment Penalty Mortgages and to evaluate various mortgage options.

What is a Prepayment Penalty Mortgage?

A Prepayment Penalty Mortgage (PPM) requires a borrower to pay a fee if the borrower pays back the entire loan amount or a portion of it before the end of the loan term when all payments would have been made. Generally, PPMs require that the fee be paid only if the borrower pays back the loan early, such as when the borrower pays back all or part of the loan during the first three years. A PPM should be *an option* that a borrower chooses after comparing the costs and benefits of a PPM to the costs and benefits of a mortgage that does not contain a prepayment penalty. Borrowers may choose a PPM on a 15-, 20-, 30- or 40-year fixed-rate mortgage or on an adjustable-rate mortgage (ARM). Borrowers should review all mortgage terms and ask questions or seek help if there are terms that are not clear or are unexpected.

What constitutes a “prepayment”?

Prepayment means paying all or part of a mortgage debt before it is due - for example, the date on which all payments would have been made if paid on schedule. Prepayment of a mortgage may occur when a loan is refinanced or when a payment against the principal is made. Some lenders also deem a prepayment to have occurred when the house is sold and the loan is paid off.

What do borrowers receive in return for selecting a PPM?

Borrowers should receive a benefit for selecting a PPM, such as lower fees or a lower interest rate. When considering a mortgage, borrowers should compare a PPM to a non-PPM. Borrowers may use the following table to help identify the differences between these two types of mortgages. Borrowers that need additional assistance completing the table should contact a lender, homeownership education center or housing counseling agency.

PPM v. Non-PPM

	PPM	Non-PPM
APR		
Interest Rate on Note		
Discount Fees (“Points”)		
Origination Fees		
Product Type	15- 20-, 30- or 40-year fixed-rate or ARM mortgage	15- 20-, 30- or 40-year fixed-rate or ARM mortgage
How Long is the Penalty in Effect?		N/A
Amount of the Penalty		N/A
Monthly Mortgage Payment		
Total Payment Amount over 5 Years		

What if a borrower sells the home within the specified prepayment penalty period?

Some lenders waive the prepayment penalty fee if the borrower sells the home, but charge the fee if the borrower refinances the loan. Borrowers should confirm with the lender under what circumstances the fee would not be charged. For example, a borrower should ask the lender if the fee would be waived:

- If the home is sold
- If the loan is refinanced
- If a payment against the mortgage principal is made

How can a borrower determine if a prepayment mortgage makes sense for them?

Because prepayment penalties are only in effect for the first few years of a loan, before choosing a PPM, borrowers should consider how long they will likely keep the mortgage. If borrowers believe that they will sell the home, refinance or make a payment on the mortgage principal in the first few years of the loan, then they need to weigh the cost of paying a penalty before taking out a prepayment penalty mortgage. In addition, borrowers should find out how much the prepayment penalty will be – the amount can vary between lenders.

Important information to remember:

- A PPM is always a borrower's choice, ***never*** a requirement.
- Borrowers should make sure to review all mortgage terms and seek help for questions before signing documents.
- Prepaying means paying off the entire mortgage or a portion of the principal before all payments have been made, if paid on schedule to the end of the loan term.
- Borrowers need to determine whether or not the penalty fee is charged when a house is sold.
- Borrowers should be aware of the amount if the penalty fee is charged.
- To best understand if a PPM product is right for you, make sure to compare a PPM product to a non-PPM product.

NOTE: Borrowers should always research their options as they look for the right type of mortgage to meet their individual needs. For further assistance, borrowers may wish to contact a homeownership education center or housing counseling agency in their area.