Dollars and Sense

Is This the Right Time to Refinance Your Mortgage?

By DONNA WEXLER, Esq.

Over the past several months, mortgage interest rates have dropped to the lowest they have been in history. It's anybody's guess if they will continue to drop, but you might be wondering, is it time to consider refinancing?

Refinancing is "the process of paying off one loan with the proceeds from a new loan, using the same property as collateral," according to *Inside Mortgage Finance*.

A refinance does not pay off your debt; however, it restructures the debt, either at a lower interest rate or a different term. When you pay off your existing mortgage, you create a new one.

Is refinancing right for you? For starters, it is important to know your goals. Why do you want to refinance? Here are the reasons why people generally refinance their homes.

Get a great rate. If the current interest rates are lower than the interest rate on your loan, it may be a good time to refinance. This will enable you to pay less money over the life of the loan.

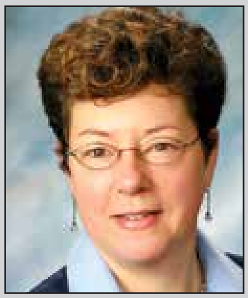
Increase cash flow. Refinancing your mortgage may extend the repayment period of your loan, thus lowering your monthly payments and increasing your cash flow. This may also allow you to pay out less money each month, which will cause you to have more disposable income on a monthly basis.

Lock in a fixed rate. If your mortgage is currently at a variable rate, you may want to refinance at a fixed rate. This will eliminate the what-ifs down the road and secure a monthly payment that you can count on over the life of the loan.

Increased credit score. You may now qualify for a lower interest rate because your credit score has increased.

Debt consolidation. You may want to consolidate your debt. Under certain circumstances, you may be able to borrow more money than you need to pay off your mortgage obligation in order to have money available to pay off other debt, including tuition, credit cards, home-equity loans, or automobile loans.

Shorten the term. Perhaps you want to pay your mortgage off more quickly than you are currently scheduled to. You may be able to refinance from a 30-year loan to a 15-year term. This may not result in great monthly savings, but it will allow you to pay the loan off earlier, ultimately paying less interest to the mortgage holder. Note that you may accomplish the same thing by paying more each month on your existing mortgage.



If you plan to sell your house in a few years, it's probably not a good time to refinance, because there are associated costs.

So, Why Not Refinance?

Despite all the positive reasons above for refinancing, it may not be the right thing for you. There are some situations when refinancing is not a good idea:

Long-term mortgage. In the beginning of the repayment term of your mortgage, a larger portion of your payment goes toward the interest. As you pay over the years, the portion of your payment credited to principal increases, and the portion going toward interest decreases. As your principal payments increase, you are building more equity in your home. If you choose to refinance later in your mortgage term, you will be paying more interest again and building less equity, so it's a good idea to think about this ahead of time.

Planning to sell. If you plan to sell your house in a few years, it's probably not a good time to refinance, because there are associated costs. If you remain in your home for several years after refinancing, those fees are absorbed over the term, but if you sell the home in a few years after refinancing, your monthly savings may not exceed the costs of refinancing, which include:

- Loan origination fee;
- Appraisal fee;
- Credit report fee;
- Title insurance;
- Attorney fee; and
- Recording fee.

In addition, a lender will want proof that your homeowner's insurance policy is paid up. You will also be required to provide proof prior to the closing that the lender is named as a loss payee on the policy.

A lender is required to disclose all of its costs to you, and most lenders have websites that contain information on their loan programs, including the costs.

If you are considering refinancing, it is a good idea to shop around and compare loan programs. Look at the interest rates and fees to determine which lender offers the best program for your needs. It may also be important for you to work with a local lender who is going to keep your mortgage in-house and not sell it. Ask the lender that question up front, and get the answer in writing.

An important consideration in determining whether you should refinance is whether you are eligible to do so. The process to refinance your mortgage is generally the same as the one you went through with your first mortgage. The lender will review your credit report, consider your income and assets, and determine the current value of the property and the amount you want to borrow. All of this information will be used by the lender to determine what type of loan you qualify for, how much money you can borrow, what interest rate you will be charged, and what your fees will be to refinance.

Because housing prices have fallen in the past several years, the value of many homes is less than what the homeowner paid. The current value of your home will be a factor in determining how much money you can borrow, so be sure that you know what your home is currently worth.

Is this the right time to refinance? The answer is not always an easy one, and it will be different for each person asking the question. There are many factors to consider. Since the current low interest rates are very attractive, it may be worth contemplating. ■

Donna Wexler, Esq. is a shareholder with Bacon Wilson, P.C., and a member of its real-estate department. She handles all types of commercial and residential closings for buyers, sellers, and lenders. Her additional specialties include domestic relations, commercial loans, and landlord/tenant disputes: (413) 781-0560; baconwilson.com/attorneys/wexler