

A Consumer's Guide To Refinancing Your Mortgage

If you are a homeowner who was lucky enough to buy when mortgage rates were low, you may have no interest in refinancing your present loan. Perhaps you bought your home when rates were higher. Or perhaps you have an adjustable rate loan and would like to obtain different terms.

Should you refinance? This page will answer some questions that may help you decide. If you do refinance, the process will remind you of what you went through in obtaining the original mortgage. That's because, in reality, refinancing a mortgage is simply taking out a new mortgage. You will encounter many of the same procedures and the same types of costs the second time around.

Would Refinancing Be Worth It?

Refinancing can be worth while, but it does not make good financial sense for everyone. A general rule is that refinancing becomes worth your while if the current interest rate on your mortgage is at least two percentage points higher than the prevailing market rate. This figure is generally accepted as the safe margin when balancing the costs of refinancing a mortgage against the savings.

There are other considerations, too. Such as how long you plan to stay in the house. Most sources say it takes at least three years to realize fully the savings from a lower interest rate, given the costs of the refinancing. (Depending on your loan amount and the particular circumstances, however, you might choose to refinance a loan that is only 1.5 percentage points higher than the current rate. You may even find you could recoup the refinancing costs in a shorter time.)

Refinancing can be a good idea for homeowners who:

- Want to take advantage of lower rates. This is a good idea only if you intend to stay in the house long enough to make the additional fees worthwhile.
- Have an adjustable rate mortgage (ARM) and want a fixed-rate loan, to have the certainty of knowing exactly what the mortgage payment will be for the life of the loan.
- Want to convert to an ARM with a lower interest rate or more protective features (such as a better rate and payment caps) than the ARM they currently have.
- Want to build up equity more quickly by converting to a loan with a shorter term.
- Want to draw on the equity built up in their house to get cash for a major purchase or for their children's education.

If you decide that refinancing is not worth the costs, ask your lender whether you may be able to obtain all or some of the new terms you want by agreeing to a modification of your existing loan.

Should You Refinance Your ARM?

In deciding whether to refinance an ARM you should consider these questions:

- Is the next interest rate adjustment on your existing loan likely to increase your monthly payments substantially? Will the new interest rate be two or three percentage points higher than the prevailing rates being offered for either fixed-rate loans or other ARMs?
- If the current mortgage sets a cap on your monthly payments, are those payments large enough to pay off your loan by the end of the original term? Will refinancing a new ARM or a fixed-rate enable you to pay your loan in full by the end of the term?

What Are The Costs of Refinancing?

The fees described below are the charges that you'll most likely encounter in refinancing.

- **Title Search and Title Insurance**
This charge will cover the cost of examining the public record to confirm ownership of the property. It also covers the cost of a policy, usually issued by a title insurance company, that insures the policy holder in a specific amount for any loss caused by discrepancies in the title to the property. Be sure to ask the company carrying the present policy if it can re-issue your policy at a re-issue rate. You could save up to 70 percent of what it would cost you for a new policy.
- **Lender's Attorney's Review Fees**
The lender will usually charge you for fees paid to the lawyer or company that conducts the closing for the lender. Settlements are conducted by lending institutions, title insurance companies, escrow companies, real estate brokers, and attorneys for the buyer and seller. In most situations, the person conducting the settlement is providing a service to the lender. You may want to retain your own attorney to represent you at all stages of the transaction, including settlement.
- **Loan Origination Fees and Discount Points**
The origination fee is charged for the lender's work in evaluating and preparing your mortgage loan. Discount points are prepaid finance charges imposed by the lender at closing to increase the lender's yield beyond the stated interest rate on the mortgage note. One point equals one percent of the loan amount. For example, one point on a \$100,000 loan would be \$1,000. In some cases, the points you pay can be financed by adding them to the loan amount. The total number of points a lender charges will depend on market conditions and the interest rate to be charged.
- **Appraisal Fee**
This fee pays for an appraisal which is a supportable and defensible estimate or opinion of the value of the property.
- **Prepayment Penalty**
A prepayment penalty on your present mortgage could be the greatest deterrent to refinancing. The practice of charging money for an early pay-off of the existing mortgage loan varies by state, type of lender, and type of loan. Prepayment penalties are forbidden on various loans including loans from federally chartered

credit unions, FHA and VA loans, and some other home-purchase loans. The mortgage documents for your existing loan will state if there is a penalty for prepayment. In some loans, you may be charged interest for the full month in which your prepay your loan.

- **Miscellaneous**
Depending on the type of loan you have and other factors, another major expense you might face is the fee for a VA loan guarantee, FHA mortgage insurance, or private mortgage insurance. There are a few other closing costs in addition to these.

In conclusion, a homeowner should plan on paying an average of 3 to 6 percent of the outstanding principal in refinancing costs, plus any prepayment penalties and costs of paying off any second mortgage that may exist. One way of saving on some of these costs is to check first with the lender who holds your current mortgage. The lender may be willing to waive some of them, especially if the work relating to the mortgage closing is still current. This could include the fees for the title search, surveys, inspections, and so on.

The information contained in this page is intended to help you ask the right questions when considering refinancing your loan. It is not a replacement for professional advice. Talk with mortgage lenders, real estate agents, attorneys, and other advisors about lending practices, mortgage instruments, and your own interests before you commit to any specific loan.

Refinancing Savings On A \$100,000 Loan

Your Present Mortgage Rate	Current Monthly Payment	Monthly Payment @ 8.0%	Monthly Savings @ 8.0%	Annual Savings @ 8.0%
14.0%	\$1,185	\$735	\$451	\$5,412
13.5	1,145		411	4,932
13.0	1,106		372	4,464
12.5	1,067		333	3,996
12.0	1,029		295	3,540
11.5	990		256	3,072
11.0	952		218	2,616
10.5	915		181	2,172
10.0	878		144	1,728
9.5	841		107	1,284
9.0	805		71	852

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