

Refinancing

WHPE

Goals of Chapter

- To illustrate the hidden costs that interest adds to a mortgage payment.
- To explain how refinancing can save homeowners money.
- To explain some of the fees associated with refinancing.

To Refinance or Not to Refinance

- The homeowner can save money
- Change the term or payout period of your mortgage
- The break-even point
- Cash-out refinance
- **The general rule is:**
If the new loan results in at least a 1 percent, and preferably a 2 percent decrease in your interest rate, then refinancing may be worth considering.

Before Refinancing Determine

- Possible loan fees
- Current “loan conditions” (Check your current set of loan documents and mortgage partners for refinancing approval requirements.)
- Any prepayment penalties for the new loan
- Your current credit status
- How much is left to refinance (Check your current mortgage statement.)
- Your current equity or the market value of your home.

Refinancing to Save Money

Using an online mortgage calculator, enter:

1. The amount of your loan
2. The term (30-year note)
3. The interest rate

Calculate the payment for each interest rate.

The lower rate saves \$134.21/mo.

	Current Mortgage	Refinanced Mortgage
Mortgage Amount	\$100,000	\$100,000
Term	30 year	30 year
Interest Rate	8%	6%
Monthly Payment	\$733.76	\$599.55

Refinancing to Change the Term of Your Mortgage

- Use a mortgage calculator to compare current loan to other scenarios.
- In this example, refinancing at the lower interest rate of 6 percent for a 20 year loan results in a lower monthly payment.

	Current Mortgage	Refinanced Mortgage
Mortgage Amount	\$100,000	\$100,000
Term	30 year	20 year
Interest Rate	8%	6%
Monthly Payment	\$733.76	\$672.19

- Lower interest rate and shorter time result in reducing interest paid over loan's life: **\$49,996.44**

The Break-Even Point

- Break-Even Point: time it will take to recoup the cash you used to refinance your loan.

(List of typical fees in chart.)

- Using the previous loan data, expenses = \$5620.

Points	3	Cost of points	\$2,814.76
Application fee	\$500	Credit Check	\$25
Attorney's fee (yours)	\$25	Attorney's fee (lender)	\$350
Title search	\$50	Title Insurance	\$930
Appraisal fee	\$350	Inspections	\$100
Local fees (taxes, transfers)	0	Document preparation	\$250
Other	0	Total	\$5,620

- Break-Even Point: Total fees (\$5,620) divided by monthly savings (\$61.57) results in 7 years and 6 months to earn back the cash spent on fees.

Note: Considering the interest saved by reducing the term of the loan to 20 years (\$49,996.44), this a very good deal.

Cash-out Refinance

- You may be able to refinance your mortgage into a lower rate, and take out some cash in equity at that time.
- This type of “cash-out refinance” adds to the total debt and increases the time and cost of repaying the loan.
- If your credit score is low, lenders will consider you a higher credit risk and charge you a higher interest rate.