

# WHEN SHOULD YOU REFINANCE YOUR HOME

EVERY YEAR, HOMEOWNERS SAVE MONEY BY WISELY DECIDING TO REFINANCE THEIR HOME MORTGAGES. THE RIGHT TERMS ON A NEW LOAN CAN ACHIEVE SHORT- OR LONG-TERM SAVINGS, FREE-UP EQUITY FOR IMPROVEMENTS OR HELP PAY OFF THEIR HOME QUICKER—IT ALL DEPENDS ON THE OWNER'S NEEDS.

HERE IS SOME HELPFUL INFORMATION THAT WILL MAKE YOUR DECISION EASIER.



- > The conventional wisdom is that the interest rate should be lowered by 2% or more to recoup closing costs within two years. However, creative and less costly new refinance programs mean that you can benefit even if the rate is only lowered by around 1%.
- > The best principle to follow is to refinance your home if you can pay back the closing costs in less time than you will be living in that home.
- > If your principal is high, even a small reduction in the interest rate will pay off in long-term savings.
- > If you are signed to an adjustable rate mortgage (ARM), it can be a good idea to refinance your loan to a fixed loan once rates start to rise to prevent a major spike in the adjustable rate. If you are in a balloon mortgage, refinancing before the rate rises can provide you with a cushion to earn more money to pay against your loan.
- > You can use up to 90% of your home's appraised value on household improvements. Spending that money on areas with a high rate of return value, such as the bathroom, kitchen or exterior siding, can increase your home's value and build equity.
- > If you have seen an increase in your household income since your last home loan, you may want to increase your monthly payments to shorten your term. This often yields better rates, results in paying less in interest accrued over the long-term and is especially helpful if you seek to own your home outright sooner.
- > When you pay less than 20% as a down payment, you are usually required to pay for private mortgage insurance (PMI) that protects the lender from loss of investment in your home, which adds up to .6% interest monthly. If your home appreciates so that you have 20% equity, refinance your loan so you can eliminate your PMI payment.

## 1%-2%

REFINANCING MAKES SENSE WHEN RATES ARE 2% LOWER, AND MANY NEW LOANS MAKE 1% APPROPRIATE. CONTACT YOUR LOAN PROFESSIONAL FOR AN ASSESSMENT OF YOUR SPECIFIC SITUATION.

## AVOID THESE COMMON MISTAKES

### WHEN YOU REFINANCE YOUR HOME:



- > Stick to a timeframe that will have you paying off your home 30 years from your original loan. If you continue to refinance with loans of identical periods, you will never pay off your home.
- > If you are experiencing cash flow problems, it can be tempting to increase the length of your loan to lower your payment. In reality, this will cost you more by increasing the amount of interest you are paying.
- > In nearly all cases, do not take money out of your home to buy big-ticket items, such as cars or a vacation. As a rule of thumb, don't spend equity on anything that won't last you as long as your home.

#### WEB RESOURCES:

[www.bankrate.com/brm/calc\\_vml/refi/refi.asp](http://www.bankrate.com/brm/calc_vml/refi/refi.asp)

Advanced mortgage calculator that allows you to determine the refinancing option that is best for you.

[realestate.yahoo.com/loans](http://realestate.yahoo.com/loans)

Provides up-to-the minute market mortgage rates. It will automatically take you to your local rates if you have a Yahoo! account.