

## Should you refinance your home mortgage?

Housing costs are one of the largest components of most household budgets. With interest rates changing so frequently, you should periodically determine whether refinancing at current interest rates would save you money.

To determine whether you should consider refinancing you need to compare the costs of obtaining a new mortgage with the savings you will enjoy with a reduced interest rate. You may also want to consider refinancing to a different type of mortgage, such as switching from a 5 year balloon to a 15 year fixed rate mortgage.

Here is an example and a worksheet that will help you determine if refinancing makes sense for you. You may want to print this article and use the worksheets. Rick and Carol have a home they bought 3 years ago for \$300,000 and they have 5 years remaining on balloon mortgage of \$200,000 with an interest rate of 7.25%. Their monthly payments are \$1364.35. They intend to live in their home for several years and would like to lock in a 30-year mortgage with a 6.25% fixed rate.

Rick and Carol's Example			
New Mortgage Costs		Calculating the Savings	
Discount points (in \$)	\$ -	Monthly payment on current mortgage	\$1364.35
Origination points (if any)	\$ -	Monthly payment on new mortgage	\$1241.43
Application fee	\$ 125	Difference between two mortgage payments	\$132.92
Credit check fee	\$ 50	Divide total fees on new mortgage by monthly savings - This is the number of months to recover your costs.	10 months
Attorney fees (yours)	\$ 400		
Attorney fees (lender's)	\$ -		
Title search fee	\$ -		
Title insurance fee	\$ 300		
Appraisal fee	\$ 300		
Inspections	\$ -		
Local fees (taxes, transfers)	\$ -		
Other fees	\$ 75		
Total cost of new mortgage	\$ 1250		

In this example, Rick and Carol would save over \$1600 annually in mortgage payments and lock in a 30 year fixed rate mortgage. Over the course of the mortgage they would pay about \$48,000 less in total interest.

**Worksheets for your use**

New Mortgage Costs		Calculating Your Savings	
Discount points (in \$)	\$	Monthly payment on current mortgage	\$
Origination points (if any)	\$	Monthly payment on new mortgage	\$
Application fee	\$	Difference between two mortgage payments	\$
Credit check fee	\$	Divide total fees on new mortgage by monthly savings - This is the number of months to recover your costs.	
Attorney fees (yours)	\$		
Attorney fees (lender's)	\$		
Title search fee	\$		
Title insurance fee	\$		
Appraisal fee	\$		
Inspections	\$		
Local fees (taxes, transfers)	\$		
Other fees	\$		
Total cost of new mortgage	\$		

There are mortgage refinancing calculators found in many websites that can make the calculation easier. Many sites include calculators to determine monthly payments for any size mortgage with any interest rate.

#### **Other considerations**

When reviewing the feasibility of refinancing, you may also wish to consider refinancing a larger or smaller amount than the current balance of your mortgage. If you have excess funds available and believe you will have a hard time earning a return greater than the mortgage rate, you may want to pay down your mortgage and get a new mortgage that is smaller. If you have other liquidity needs, you may want to refinance a larger amount to free up some of the equity in your home.

Remember that mortgage interest is tax deductible if you itemize your deductions on your tax return. Consult your tax advisor to see how this may apply to your situation.

#### **Final thoughts**

No interest rate environment lasts forever. Unfortunately there is no crystal ball that will tell you when rates have reached their lowest level. Taking action now to evaluate whether refinancing now makes economic sense, and evaluating the type of mortgage you want, can help you be in control of one of your largest household expenses.