

Should You Refinance?

The ads make this sound quick and easy, but it's not that simple

In some cases you can get a lower interest rate, saving hundreds a month.

Refinancing can also allow homeowners to change loan terms, consolidate their debt or pull needed capital out of home equity to fund renovations or pay bills. But you'll need to factor in personal details and the impact of market forces before deciding. You should first see how much lower your interest rate can get, then discuss fees and the new loan's term. Here's a deeper dive into making these critical decisions:

INTEREST RATE

Ironically, a lower interest rate may not be enough to make a refinance work financially – not if it isn't lowered enough. Finance experts say the reduction needs to be at least 1-2 percent in order to functionally save a homeowner any money. Most recently purchased home have very low interest rates. But if you've been in your home a while, it might make sense to look into a refinance since you could knock off a percentage point or more. That would



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REAL ESTATE 101

Check Your Credit

Review your credit first before beginning the process of refinancing or purchasing a home. Not sure how to get started? The Consumer Financial Protection Bureau offers a credit-report review checklist to help, at <http://bit.ly/2ot7r84>. You'll find tips on ensuring accuracy, payment history and improving credit status.

save you hundreds - or perhaps even thousands –

depending on where you are in the life of the loan.

ADDITIONAL EXPENSES

Remember that lender fees

which must be paid out of pocket or rolled into the new loan will lower your savings. There could be other hidden costs, too. So-called “no closing cost” refinancing, for instance, typically involves charging a higher interest rate, in order for the bank to recoup those funds.

LOAN TERM

There can be long-term implications with refinancing. Consider shortening the term of the loan, to either 20 and 15 years so that they're not simply resetting the original three-decade clock on your home loan. There is a formula for deciding what's right for your particular situation. Divide total closing costs by the annual payment savings you expect to receive to get to the number of years you'll need to break even. Everything after that represents your savings.

Refinancing also allows you to opt out of an adjustable-rate mortgage during the period when the interest rate may fluctuate in ways that are not in your favor. Check to see how soon you'll reach the period where this rate is fixed – usually 5, 7 or 10 years into the loan – before deciding. You may start saving on your mortgage soon by allowing the loan to naturally mature.



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HOMEWISSE GLOSSARY

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Acceptance: The time at which an offer to purchase is accepted. The fact that it was accepted must be relayed to the person that made an offer in order for all parties to be bound to the contract. **SOURCE:** MLS.com

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