When Should You Refinance?

By ALEX MASON | Green Shoot Media

For qualified buyers, the refinance option is always on the table when choosing a mortgage for your home.

However, the key question is when to refinance to save yourself significant money over the life of the loan.

Interest rates can fluctuate from low, medium and high rates often reflective of the current climate in the economy. When the national debt ceiling is high or teetering in a precarious position, the home loan borrower may find higher rates. As the market calms down and things begin to stabilize, interest rates may take a dive.

A borrower contemplating a home loan refinance will do well to stay informed on market trends and be ready to refinance in a New York minute when the time is right.

CREDIT SCORES

Another factor to consider when refinancing your property is to compare the initial loan product you signed that matched your credit score to any new, lower rates offered by the banks.

Borrowers with less-than-perfect credit are subject to somewhat higher interest rates. The interest rate on a mortgage determines how much the total cost will be for the home over the life of the loan.

Finding a lower interest rate and getting it locked in can save you tens of thousands of dollars on a 30-year fixed loan. As your credit score improves over time, you may be eligible for a new and dramatically lower interest rate through when you refinance.

PULL CASH OUT

Refinancing at a lower rate may allow a borrower to take out a lump sum of cash from the home and add the balance to the end of the loan.

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Refinancing at just the right time can greatly improve your financial situation. Meet with a mortgage broker to discuss your particular situation.

No matter how tempting it may be to pull cash from your home, this is one decision that should be thought out very carefully. The new loan will have a higher monthly mortgage payment and may be extended from a short-term loan to a long-term fixed loan that you will be repaying for many years with interest.

Before signing on the dotted line, be sure you are in a stable financial situation to cover the added costs.

HOME IMPROVEMENTS

One of the best reasons to pull cash from the equity in your home is to invest the dollar amount into the property's rehabilitation.

Homeowners with sufficient equity who are thinking of selling their house may do well to refinance to get the property in better selling condition.

The wrong reason to pull cash from your home is to buy items with little to no appreciation value. This would include a brand new automobile, which will begin to depreciate as soon as you drive it off the car lot, vacations, shopping sprees and other frivolous purchases.

Do invest into yourself with education, business start-up capital if you have a sound and viable business plan, or for emergency cash for divorce, medical or other needs.

REFINANCE COSTS

Depending on the type of loan you wish to secure and which loan broker or banker handlers your paperwork, you will have to pay from 1 to 3 percent of the new loan balance in fees to refinance.

Handing over the commission money to your agent is a fair and square deal. They will earn their cut by shopping the banks to get you locked in to the best market rate. In addition, he or she will ensure that all your complicated paperwork is in good, legal order and coordinate the deal with the banks.

Trying to refinance on your own may seem doable, but there are many bumps in the road from which a skilled loan officer can protect you. Meeting critical deadlines, arranging for an appraiser to inspect your home and making sure the banks do not take advantage of clients are reasons to not go it alone.

REAL ESTATE 101

Lower Mortgage Insurance Costs

As of January 26, annual mortgage insurance premiums for loans insured by the Federal Housing Administration were reduced. According to the Department of Housing and Urban Development, more than 2 million homeowners will save an average of $900 a year. HUD recommends homeowners with existing FHA loans contact an FHA-approved lender to see if refinancing to take advantage of the new, lower mortgage insurance rates is a good option. The new premiums apply only to mortgages with loan terms of greater than 15 years.

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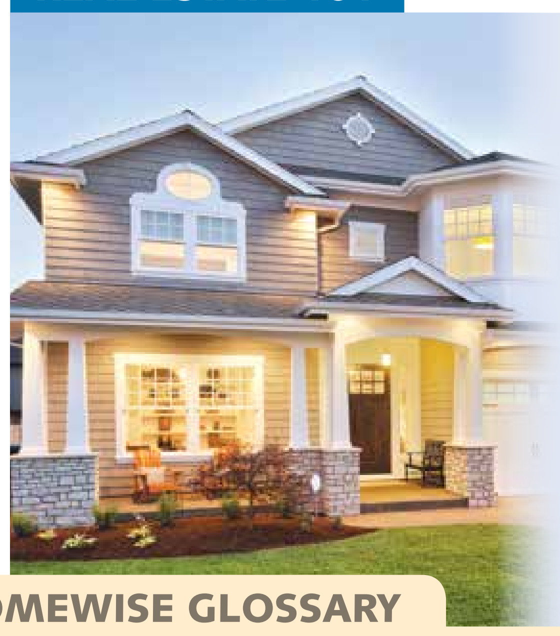
REAL ESTATE 101



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HOMEWISE GLOSSARY

private mortgage insurance: insurance required by lenders when a loan is originated and closed without a 20 percent down payment to protect the lender from default losses in the event a loan becomes delinquent.

SOURCE: U.S. Department of Housing and Urban Development