

Refinance your mortgage: when and why

During a time when money matters and interest rates charged on new mortgages are at 60-year lows, a question the government wants every homeowner to consider is “Should I refinance my mortgage?”

Before answering this question, determine what you intend to accomplish by refinancing:

- Reduce your monthly payments?

Low interest rates, as well as a longer payback period, achieves this goal. You will have more money monthly to spend on goods and services.

- Switch from adjustable to FRM financing?

A fixed interest rate provides long-term stability for home ownership. This is best done when interest rates are low.

- Cash out your equity?

Consolidate debt to reduce interest charges and payments.

- Fund home improvements?

Add a pool, redecorate or make energy efficiency improvements.

After determining what you want out of a refinance, consider whether a refinance of your existing mortgage is a wise move. Periods of low interest rates are ideal for most refinancing situations. However, refinancing just because rates are lower than the rate on your existing mortgage is not always in your best short-term financial interest. Consider avoiding refinancing when:

- you plan to sell your house within five years;
- a prepayment penalty will be incurred on paying off your existing mortgage;
- your refinancing will require the payment of mortgage insurance premiums (MIPs); or
- the balance due on your existing mortgage exceeds the present value of your home by 10% or more, a refinancing also called a loan modification.

Plan ahead! When refinancing — or when getting any mortgage financing — negotiate the removal of the boilerplate due-on-sale clause from the trust deed your lender is using. Also, consider the tax aspects of interest deductions on extending your loan payoff period (amortization).

A calculator which shows homeowners what their potential monthly savings can be by refinancing their mortgage is available at <http://www.bankrate.com/calculators/mortgages/refinance-calculator.aspx>. Discover for yourself whether or not a refinance is a prudent move to make.

For assistance in the selection of the best refinancing options available to you, first contact your local real estate agent who is providing you with this information.