



1. When does it make sense to refinance?

Deciding whether to refinance can be a cumbersome chore. For starters, many of the rules of thumb about when and how to do it have become outdated. The old formula was called “2-2-2,” meaning refinancing was practical if borrowers had been in a home at least two years, intended to stay at least two more years and refinanced at a rate at least two percent lower than their current mortgage rate. The formula applied when people were refinancing from one fixed-rate loan into another fixed-rate loan and when refinancing fees were high.

A couple of calculations now serve as a better guidepost. First, add up how much you would pay in closing costs, fees and points on a new loan. Then figure out how much your monthly payments will drop. (Savings depend on the size of your loan and the interest rate. The payment on a \$100,000 mortgage refinanced to 7 percent from 8 percent will decline by \$69.70, to \$699.21 from \$768.91) By dividing the monthly savings in to the total cost, you can determine how long it will take for the transaction to pay off -- then ask yourself the question: How much longer will I keep this home?

The savings you realize in the form of a lower monthly mortgage payment spread over the amount of time you expect to remain in the home should justify the cost of refinancing your home

2. Are there fees involved in refinancing?

Remember that when you refinance, you may have to pay many of the same costs associated with buying a home. Because you are applying for a new mortgage loan, you may have: a fee for a new credit report, title search and closing fees, the cost of a new appraisal, a loan origination fee and whatever points your lender charges for a new loan.

Today, many lenders offer zero point/zero cost refinances that provide a way to reduce the cost associated with the refinance of a mortgage loan. Points and customary closing costs can be financed up to the limit of the loan-to-value ratio permitted under refinance transactions. This is generally 90% of the property value when you refinance to reduce interest rate only and 75% of

the property value when you remove equity from the property (receive cash). Also, the payment of slightly higher interest rate (but lower than the rate on your present mortgage) may help to reduce or eliminate the cost of refinancing.

Depending on your financial goals and needs a lower interest rate with high points means a lower monthly payment but a higher cost at loan origination. Each “point” is equal to 1 percent of the loan amount and represents interest you pay up front. If you want to keep the cost of refinancing down, but do not mind a larger monthly payment, you may want to look for a slightly higher interest rate with fewer points to help to reduce or eliminate the cost of refinancing.

3. **How often can I refinance and what documents are required?**

There is no limit to how many times you can refinance your mortgage, but if you have a new loan, some lenders and investors require that you have a good payment history for the previous 12 months, (no late payments) before they make a new loan.

In the past refinance has been impossible for those who have experienced difficulty in making timely payments on their mortgage or other credit obligations. Today a number of specialty mortgages have become available for those with “bruised credit” and other financial difficulties. These loans typically carry a higher rate of interest and larger fees. However, if the use of one of these types of mortgages allows you to reduce your overall monthly obligations or free up some much needed cash it may make sense to refinance.

When you refinance, you pay off an existing mortgage and take out a new one. To do this, you usually repeat the entire process of applying for a mortgage loan including making application, qualifying for credit, paying points, getting a new appraisal and paying closing costs.

When considering placing an application with a lender for a refinance it may be advisable to ask whether there is any special consideration with regard to costs, rate or documentation requirements if they return to refinance in the future.

4. **I have a home equity loan. Can I refinance it too?**

If you are refinancing only to reduce your interest rate and have not used your equity line of credit during the previous 12 months, you can combine your first mortgage with the balance on a home equity line of credit, eliminate the first mortgage with the balance on a home equity line of credit, eliminate the home equity loan, and have just one primary mortgage. The maximum amount of

your new mortgage generally cannot exceed 90 percent of the value of your home. (This is called a 90 percent loan -to-value ratio.)

5. **My rate is low, why would I be interested in refinance?**

If you were fortunate enough refinance your existing mortgage during the periods of low rates, it may not be possible to lower your mortgage interest rate at this time. However, there are many who would benefit from the refinance of an existing mortgage to consolidate higher interest rate non-deductible debt into a new first mortgage. While your mortgage rate may not decline (or even increase slightly) you may be able to achieve a significant reduction in your monthly obligations-not to mention the tax advantage of the deductible mortgage interest. Also, a refinance to free up equity in your home for other purposes such as home improvement, college tuition, a special purchase or much needed vacation.

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