

## When to Refinance

The advertisements and phone calls sound great — get a lower interest rate and save as much as hundreds of dollars a month on your mortgage payments.

But is it too good to be true? The answer: It depends. Unfortunately, your decision should be based on a complicated mix of how much of a lower interest rate you can get, how much you will be charged in fees and the term of the new loan.

### THE RATE

A high school education teaches us that a lower interest rate is good. How much of a reduction do you need to get in order to come out on top with a refinance? Personal finance experts tout reductions of 1% to 2% as the magic number. According to Nerd Wallet, interest rates on a 30-year fixed mortgage peaked most recently in November 2018 at 5.09%. As of October 2019, it was down to 3.96%. This means that a homeowner who got a loan near the 5% mark might benefit from a refinance and could save more than \$53,000 on interest over 30 years on a \$250,000 mortgage.

### PAYMENT

We can all agree that saving on our monthly bills sounds great. If your refinancing goal is to lower your payment, however, you must include any lender fees that must be paid out of pocket or fees that will be rolled into the new loan



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in your calculations. On a \$250,000 loan, refinancing from 5% to 4% can save the borrower nearly \$150 a month. But this will be reduced by any out-of-pocket or financed fees. Be sure to consider all of the financial impacts that will come with refinancing the loan. It's likely you will still save money, but you want the full picture before signing on the line.

Be wary of “no closing costs” loans. Typically, banks recoup their costs by charging you higher interest.

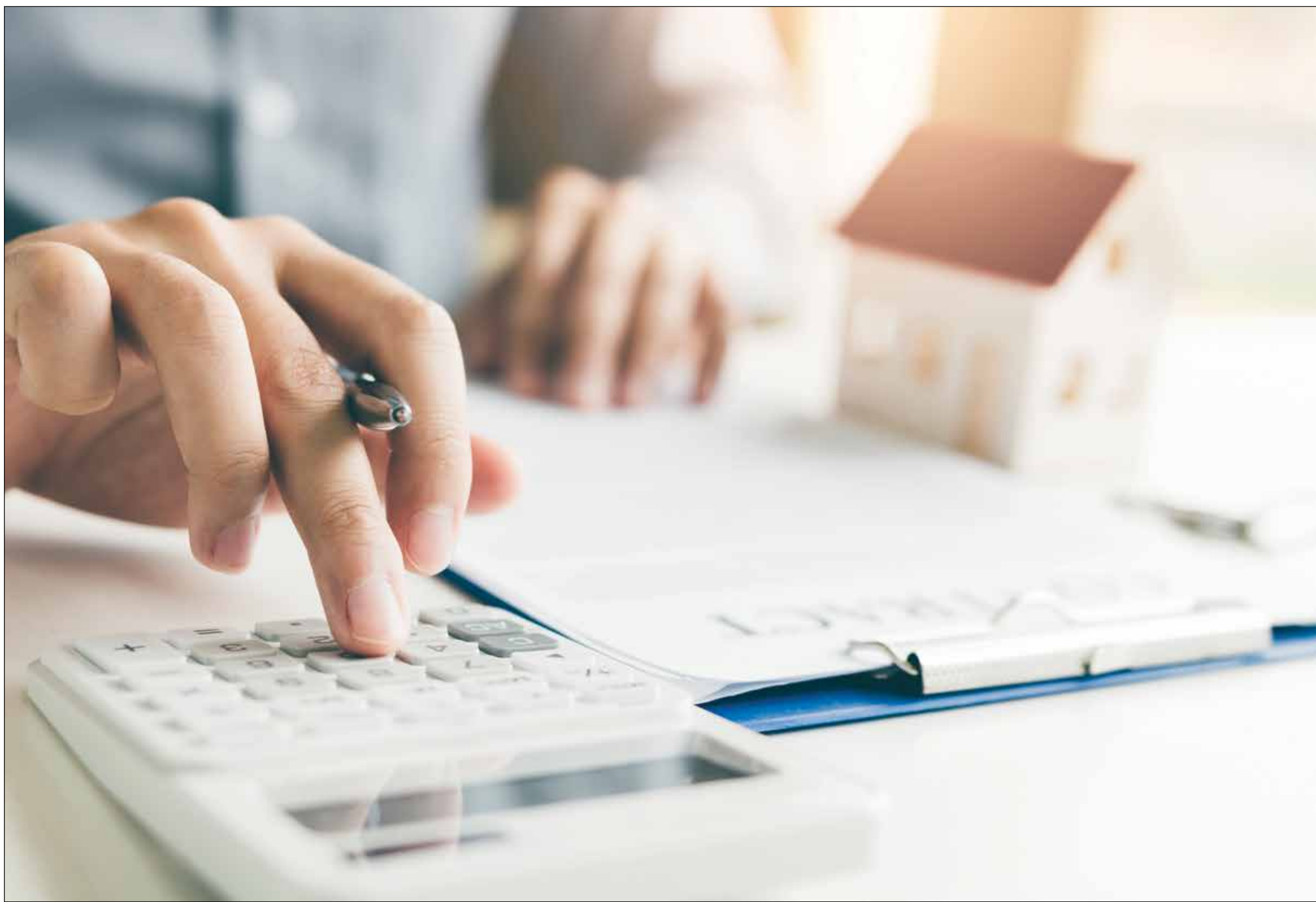
### TERM

Considering the term of your loan means thinking long term. If you took out a 30-year mortgage three years ago,

when you refinance into a similar 30-year loan with a lower rate today, you are extending the number of years you have to repay the loan. You are essentially resetting a 30-year clock. This means you should think long and hard about your future plans. Do you have dreams of paying off your loan in a specific timeframe? If you pay extra amounts toward the principal each month, you might be able to shorten the repayment by several months, but this requires discipline. If the goal of refinancing is simply to pay less interest over time, consider also shortening the term of the loan when you refinance, perhaps switching to a 20-year or

15-year loan.

You also should only refinance if you intend to stay in the home for the long-term. Investopedia.com offers the following formula to determine how long it will take to see savings after paying closing costs: Divide your total closing costs for the refinance by your total annual payment savings to find the number of years you must remain in the home to break even. For example, if closing costs are \$6,000, and you will save \$2,400 annually on payments, you will need to remain in the home for 2.5 years to break even (6,000 divided by 2,400). After that, you will see true savings.



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### REAL ESTATE 101



### Crunch the Numbers

There are many online calculators that can help you figure out whether a refinance makes sense. Nerdwallet.com's calculator asks you to input your original loan amount, rate and year the loan was originated, as well as the same inputs for the new loan. The results include how much you will save over the life of the loan and on a monthly basis, when you will break event, as well as how the refinance will affect the equity you have in your home. Use the calculator at <https://bit.ly/31ZidCD>.

### HOMEWISSE GLOSSARY

**Transaction broker (also referred to as a facilitator, coordinator or contract broker):** helps both the buyer and the seller with the necessary paperwork and formalities involved in transferring ownership of real property, but is neither a representative nor agent for either the buyer or the seller.

SOURCE: MLS.com

# AD SPACE