Refinancing Tips

By Alex Mason | Green Shoot Media

The decision to refinance your home should be well researched and done at the appropriate time. The key to a successful refinancing is to examine all your options and make a sound decision from your head and not your heart.

When dealing with your finances, remember to think before you react, no matter what the sales pitch may be from a re-fi company. With a good refinance, you have everything to gain. With a bad refinance, you can lose your shirt.

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Knowing when to pull the trigger on a refinance — and when to pull out cash — can help you come out on top.

REASONS TO REFINANCE

Not every home loan borrower applies for a refinance simply to lower the monthly mortgage payment with a better interest rate. In some cases, the decision to refinance is made to pull cash out of the home's equity.

A successful cash-out transaction requires sufficient home equity to have some financial leverage over the current market value of a home.

In addition, the borrower may wish to add the refinance charges to the end of the loan balance for a no-money-out-of-pocket transaction and instant access to cash.

REQUIREMENTS TO REFINANCE

The first step in a home mortgage refinance is to have the property appraised. The more current the appraisal is, the better it will be in an unstable real estate market.

To qualify for a re-fi, the home must appraise for more than the current loan balance. Homes that were purchased with zero down, have little equity, and were bought at the height of the real estate boom are not a likely candidate for a new refinance loan product.

REFINANCING FEES

The payment to refinance a home is paid to the loan broker who will shop the banks in order to secure the best new loan option for the client.

The fees will vary from one company to the next, but the service fee should be less than 3 percent of the new loan balance.

The borrower may wish to pay up front for the service, which will save money in the long run. However, most borrowers in need of a cash-out refinance prefer to add the fee to the new loan. Shop well and shop wisely before signing on the dotted line.

REASONS TO PULL CASH FROM YOUR HOME

Your home may have a lot to offer you with a cash pullout from its equity.

However, temptations may creep in to take your equity and run with it on items that offer you little in return. If the cash sum is usued to invest into your property to upgrade or enhance the resale value, then the cash extraction will serve you well. Examples are adding another room or upgrading your HVAC.

REASONS NOT TO PULL CASH FROM YOUR HOME

A debt may be secured or unsecured. Your home and vehicle are secured, as the bank will take possession of such items should you default on the loan.

Credit cards and non-tangible items are unsecured, though, meaning if you default, there is no repossession possible. The worst thing to do financially is to take an unsecured debt and pay it off with a loan against a secured one.

Should the increased mortgage grow to an amount that you no longer can handle, poof goes your home with a notice of default.

In addition, you want to avoid purchases that depreciate, such as buying a new automobile with equity from your home. In time, the car will end up at the junk yard, and you will still be paying top dollar for the equity you extracted from your home.

READ YOUR LOAN DOCUMENTS

When you are ready to refinance for a cash sum or to lower your payments with an attractive interest rate, be sure to read the fine print on every page of the new loan document.

Terms such as "fixed" may be applied to loans that will adjust in interest, so read the terms and conditions slowly and ask questions on every page.

Once you sign a loan document, you will generally have no legal recourse in court should the loan language on the document confuse you. Contracts can be tricky, so be alert, read carefully, and sign nothing unless it is crystal clear.

Alex Mason is a former real estate agent and mortgage broker living in Los Angeles.

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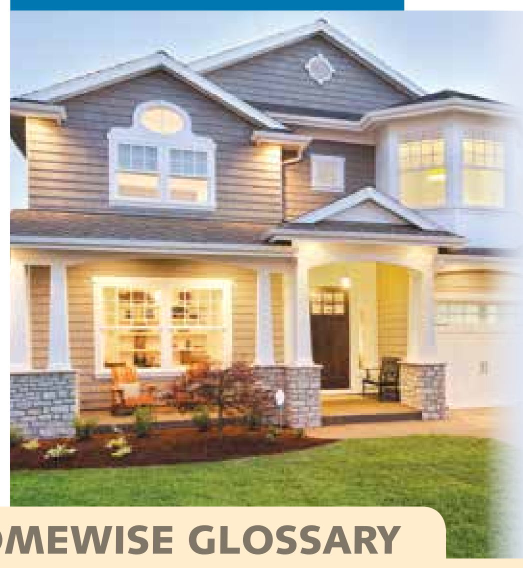
REAL ESTATE 101



Tips from the Banking Pros

The Federal Reserve offers these tips for shopping for a mortgage:

1. Know what you can afford.
2. Shop around. Compare loans from lenders and brokers.
3. Understand loan prices and fees.
4. Know the risks and benefits of loan options.
5. Get advice from trusted sources.

Read more at **http://www.federalreserve.gov/consumerinfo/fivetips_mortgageshop.htm**.

HOMEWISE GLOSSARY

Cash out amount: for a cash-out refinance mortgage, the amount of the proceeds that exceeds the total of the money needed to repay the existing first mortgage, closing costs, financing costs and prepaid items; and is disbursed to the borrower (or any other payee) as cash; or satisfies any outstanding junior liens where their entirety was not used to acquire the subject property; or places a mortgage on a property previously owned free and clear by the borrower.

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