



The Ultimate Guide to Mortgage Refinance

Description

If you've come to this article, it probably means you're a longtime homeowner. Congratulations! You've made one of the most important investments a person can make in his or her life.



If you've owned your property for several years now, you're probably familiar with how home mortgage loans work and how they've impacted your financial health throughout your life. A home mortgage loan makes it easy, affordable, and realistic for nearly everyone to own real estate. However, your monthly mortgage rate can also be expensive.

Don't worry—that's why this guide is here. You can employ 'refinancing' which is the process of securing a new mortgage to replace the original. By refinancing your mortgage, you can expect lower monthly payments the possibility of paying off your mortgage sooner.

What You Should Know Before Refinancing

Getting a mortgage loan is a big commitment, and paying it off each month can be difficult in any economic climate. If you're burdened with financial woes, then it's a good idea to refinance your home to secure a better interest term and rate.

Millions of people refinance their mortgages to the tune of hundreds—or even thousands—of dollars each year.

But before you rush to refinance your mortgage and save tons of cash, read on to discover why it can be the best decision for your house.

What is Refinancing?

Refinancing a mortgage means paying off your existing loan via a new loan. It's basically a mortgage do-over. This time around, you can change what you don't like about your current mortgage.

For the millions of homeowners who are paying interest rates several times higher than today's bargain rates, refinancing is a smart way to save money.

The top reasons to refinance your mortgage are:

1. **Getting a lower interest rate:** It wouldn't make sense to refinance if you can't save a buck. Lowering your mortgage rate can reduce your monthly payment if you negotiate to maintain the same repayment term.
2. **Switching from an adjustable-rate mortgage to a fixed rate:** Refinancing your home mortgage doesn't make sense if you plan to sell your home or leave in a few years. If you plan to stay for the long haul, converting to a fixed mortgage can help by locking you into a low rate for the duration of your loan.
3. **Eliminate Private Mortgage Insurance:** Under certain conditions, homeowners are able to cancel mortgage insurance.

Do I Qualify?

Although this guide was designed to break down the idea of refinancing your mortgage into easily understandable concepts, there are a few complications that may prevent some homeowners from applying to refinance their mortgage.

Like nearly all other important purchases in life, borrowers with perfect credit history can expect few problems if any in their quest to refinance their mortgage. A great credit score demonstrates responsibility and trustworthiness to banks and creditors, making you more likely to be accepted.

Refinancing can be risky the worse your credit score is, or if you're too much in debt or even bankrupt.

The best candidates for refinancing have:

- A regular source of income.
- At least 10 to 20 percent equity in their homes.
- A credit score of 740 or better.

This is the baseline for mortgage refinance application. Before you apply, be sure to speak with a trusted financial advisor on the best route you should take and what other hoops you may have to jump through. Without sufficient knowledge, rushing into a mortgage refinance can actually be

detrimental—no matter your credit score.

If you don't meet the above qualifications, all is not lost. Borrowers with credit scores as low as 620 can actually apply for a mortgage refinance with the Federal Housing Administration (FHA) or the Department of Veteran's Affairs (VA).

If your credit score is even lower, or you are experiencing significant debt, or are unemployed, it may be wiser to reconsider refinancing your mortgage. Again, speak with a trusted financial advisor familiar with your financial health for more guidance.

How Refinancing Works

As we discussed above, refinancing your mortgage is the process of replacing your existing mortgage with a new loan in order to reduce monthly payments, lower interest rates, or change mortgage companies.

Upon determining whether you are eligible to refinance your home and that it is an appropriate time for you to do so, you can begin the mortgage refinance process. We break down this undertaking into a few steps.

1. **Compile a total financial review:** A lender won't set up your new mortgage payment program if you don't provide a complete picture of your financial history. You can start with your credit report, and ensure there are no inaccuracies. In addition, you should collect:
 - Proof of income, bank statements, tax returns, etc.
 - Property tax bills.
 - Current credit report and credit score.
 - A recent appraisal of your home.
2. **Tailor your new mortgage:** A refinance is essentially a do-over. With this second opportunity, you can structure your mortgage more closely to your needs. Determine the loan term, the type of rate, and consider any debts or penalties.
3. **Decide on when is the best time to refinance:** I go into this in more detail later on, but deciding on when to refinance your home comes down to several factors.
4. **Consult banks and brokers:** If you want the best deal, it's important to shop around and consider all options. Fortunately, the Internet has a plethora of lending comparison sites you can use to find a lender.

Refinance with the FHA

Credit plays an integral role in securing mortgage loans and determining interest rates. Borrowers who have less than stellar credit scores may find refinancing to an FHA loan enticing. No matter how much equity you already have, the FHA does not require an upfront mortgage insurance premium.

Borrowers who have a current mortgage with the FHA can potentially save by refinancing their loan into a conventional home loan through a private institution. Applications with decent credit are likely to find that the conventional loan is the cheaper choice.

Refinance with the VA

Available to current military service members and veterans, the Department of Veterans Affairs provides a simple way for homeowners to take advantage of lower rates and decrease their monthly payments.

Eligible borrowers can also get cash back and use the proceeds for a variety of needs, such as paying off a debt or making home improvements.

When Should I Refinance My Home?

When is the best time to refinance your mortgage? A general rule of thumb to follow is to seriously consider refinancing when interest rates drop by at least 0.5 of a percentage point, according to the Wall Street Journal.

If you have a jumbo mortgage, you can refinance when rates have only fallen slightly. You can save a considerable amount on a bigger mortgage if rates fall just 0.125 of a percent, according to the WSJ.

You might also want to wait until your home is properly “seasoned,” if you’ve made a number of improvements to it to boost its value. Seasoning means waiting for a period of time, usually about a year, to make sure that the boost in home value after renovations or improvements is sustainable.

There’s no hard and fast rule when it comes to the best time to refinance your mortgage. If refinancing today will save you money in the long run, it’s probably the best option for you.

Understanding Mortgage Refinance Rates

There’s a rule of thumb for refinancing a mortgage: If you can’t save at least .5%, don’t do it. However, that is an oversimplification of the process.

You may want to refinance a mortgage simply to shorten or lengthen the term. Or you may want to switch from an adjustable rate to a fixed rate mortgage. Understanding refinance mortgage rates come down to more than trying to shave .5% off or better.

Refinancing involves many costs other than closing costs. There are origination fees, attorney’s fees, home inspection costs, documentation fees, etc. These all must be considered when refinancing.

When looking at mortgage rates, look at your break-even point. See how long you must pay the new loan until you will start saving money. If you plan to sell your home in a few years (and thus eliminating this mortgage) it likely doesn’t make sense to refinance.

An interest rate is a number. It’s easy to understand. Getting the complete picture is more complicated.

Finding the Best Deal to Refinance Your Mortgage

Refinancing a mortgage is about starting fresh on the solid ground. Before signing, consider your options. For instance, should you pay for points? A point is an upfront fee which is 1% of the total

mortgage.

It's paid to the lender in exchange for a lower interest rate. If you plan on staying in the house for a long time, paying for points makes sense. You pay the fee once but the interest rate remains low forever.

Definitely, check to see if you qualify for any special loan programs. There are VA loans, USDA loans, FHA loans, and more. Make sure you've exhausted all these options before going with a generic loan. Leave no rock unturned.

Also, ask about closing costs. See if they are necessary. Closing costs are expensive – typically 3% of the home's purchase price. Make sure there aren't similar fees to battle. That will just lengthen out your breakeven sentence.

Finally, make sure to check local lending institutions. Community banks and credit unions may offer the best refinancing rates. Just be prepared to wait. Small lenders aren't usually as efficient as these massive online lenders.

Advantages of a Mortgage Refinance

If you've gotten this far, then you probably have a firm understanding that refinancing your mortgage, when done correctly, can offer numerous savings and benefits. Primarily, millions of homeowners refinance in order to get a lower interest rate on their mortgage.

Here are some other advantages to consider by refinancing your mortgage:

- **Improve your credit score:** If you are encumbered with debt, but have significant equity in your property, you can take a cash-out refinance to pay down other outstanding balances and boost your credit score.
- **Increase home equity:** On the other hand, refinancing your home mortgage is a great opportunity to build even more equity. You can take the immediate monthly savings and put it toward paying off your payments.
- **Reduce your mortgage term:** If you have a 30-year mortgage program that you've been paying for several years, you may be able to refinance into a 20-year mortgage program instead to save on years of interest payments.

The savings you can accrue with lower monthly payments can be put toward awesome new things, or stashed away in a bank for other important investments.

Risks of a Mortgage Refinance

While refinancing a mortgage can offer a lower monthly payment and save money, there are also mistakes and traps to be avoided. Many of these mistakes can be costly, such as prepayment penalties, which I discuss in the following section.

Below are two dangers to consider before you decide to refinance.

1. **Refinancing can stretch out your loan terms:** When you refinance, you are essentially getting

a completely new loan. If you are only a few years into your 20 or 30-year loan, refinancing can stretch out your payments for several more years since the payment term is 'refreshed.'

2. **You can withdraw money when you refinance:** Every time you refinance, it's very easy to take out the equity you've built up over the years as instant cash. This sum can be put toward a vacation, renovation, or college education. However, it's also important to note that money borrowed is money that must be paid back eventually.

The Cost of a Mortgage Refinance

Refinancing your mortgage doesn't come free. In some cases, refinancing comes with as many costs as the initial mortgage. When considering a refinance, it's vital to determine whether or not the savings you'll get from a lower interest rate will offset the costs you'll incur.

The closing costs for a refinance cover a wide range of fees. I outline the most common ones below:

- **Application fee:** There is a charge incurred when lenders check your credit report. The processing fee is also generally rolled into the application costs.
- **Attorney review fees:** You may get charged for the lawyer who conducts the closing for the lender.
- **Home inspection fee:** Before you get your refinance loan, the lender may ask that you get your home inspected for structural problems, termites, and other pests.
- **Title search and insurance:** This charge covers the cost of a policy and insures the policyholder for a specific amount. This may also cover the cost to review public records to verify ownership of your property.
- **Prepayment penalties:** Ironically, penalties may be imposed upon you if you pay off your mortgage early. Check the fine print of your current mortgage to make sure these penalties don't exist.

Recap

The rewards for refinancing are immense. Doing so will likely free up more money for you to spend elsewhere. You could buy a new car. You could open up a college savings plan for your child.

Or you could simply spend a little more money enjoying life. Whatever you choose, it'll likely be an improvement over your current situation.

Category

1. Finance

Date Created

July 2021

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