

Is Now the Time for a Mortgage Loan Refinance?

By: Catherine Brock

Mortgage rates have fallen recently on the news of greater federal foreclosure prevention efforts. If you want to achieve lower monthly expenses, now's the time to evaluate the savings you might realize with a mortgage loan refinance.

When 5:30 rolls around every morning, the sound of your radio tells you it's time to get up. But while you can find an alarm clock that will dock your iPod, you can't find one that will sound an alarm when it's time to refinance. The good news is that you can answer the mortgage loan refinance timing question on your own—in a few simple steps.

Home equity hurdle

Given the way housing values have moved lately, your refinance mortgage analysis must begin with a quick calculation of your home equity. If you find that your home equity is minimal or even negative, you've answered your dilemma: unless you're willing to pay down your loan balance, you won't be able to refinance right now.

Calculate your home equity using a current estimate of your home's value. To complete a mortgage loan refinance, you normally need to maintain 20 percent equity in the property.

Defining your purpose

As a next step in your refinance mortgage analysis, clarify your objective. The two most common objectives are to lower your monthly costs, or to shorten your loan term. It's far easier to achieve one or the other, rather than both. So pick your priority, and remember that when you begin evaluating your mortgage loan refinance options.

Awaken your inner mathematician

Now you're ready to develop a working understanding of your refinance mortgage numbers. First, budget for closing costs. Conservatively estimate that they'll be 3 percent of the loan amount. If your current mortgage has a prepayment penalty, get an estimate from your existing lender, and add that amount to your closing costs. Any monthly savings you create by refinancing will go towards paying back those upfront costs. The trick is to pay them back within a few years, and definitely before you move or do a refinance mortgage again. Keep that in mind once you start receiving refinance offers.

Next, use a mortgage calculator to start running payment scenarios. Find the daily national interest rates, and then add or subtract 50 basis points to see how the rate will affect your principal and interest payment. Remember to add in estimated taxes and insurance, if applicable, when comparing the new payment to your existing one. If the savings potential looks reasonable, relative to the upfront costs of the refinance mortgage, you're ready to start shopping.

Shop around

The last step is to contact a handful of lenders and talk to them about your situation. Your income, debt level, and credit profile will dictate how much money you can borrow and at what rate. The lender will be the one who ultimately sounds the mortgage loan refinance alarm, by confirming that you qualify for the loan and rate that you want.

For more answers contact Dan Coggins, Fairway Independent Mortgage Company 704-261-1000.

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