

SHOULD I REFINANCE MY **MORGAGE?**





Many clients have asked about whether or not they should refinance their mortgage. Along with people who have never refinanced, those that did even 18 months ago may be licking their chops to do the tango for another refinance soon. For the week that ended December 23rd, 2012, the 30-year mortgage rate fell to 4.05% which was the lowest in 60 years according to HSH Associates, which is a mortgage data firm. The rates have gotten better in the jumbo market for those with a mortgage above \$417,000 as well. But if you are below that number here are some considerations about whether a refinance is right for you.

HOW LONG WILL YOU LIVE IN THE HOME?

One of the first questions you need to assess is how long you think you will stay at your current residence. Or, if you leave the residence will you decide to use it as a rental property? This is an important question because there is always going to be some associated cost with doing a refinance. Knowing how long you think you will live in the home can help you decide in part what is the right type of mortgage to get when you refinance, and will also be a factor when ascertaining a breakeven analysis from doing the refinance?

HOW MUCH IS IT GOING TO COST ME?

Sometimes you will see the term 'zero-cost financing' or 'zero-cost refinance'. Remember that there is always a cost to do business. Sometimes the cost will be represented in items such as closing costs or paying points to buy down your mortgage rates. Sometimes, the lender will loan you the money at a higher interest rate and choose to absorb the costs of doing the refinance. It is also possible that costs will just be rolled into the loan making your home mortgage balance slightly larger without materially affecting the interest payments.

HOW MUCH WILL YOU SAVE MONTHLY?

Once you calculate all of the numbers for doing the refinance, you should be able to come up with how much money you will save monthly. Remember, all of the refinancing in the world doesn't do a lot of good if you don't put the savings to good use. This may mean paying down your consumer debt quicker, increasing your retirement contributions at work, or simply making the same mortgage payment to the lender which will pay down your mortgage quicker. Just don't spend it!

WHAT IS MY BREAK EVEN NUMBER?

Once you know how much the refinance is going to cost you and you know how much you are going to save monthly, you can calculate how many months you need to stay in the home to break even. This is why the very first question on how long will you live in the home is an important question. If it is going to take you three years to break even and you might move in the next year or two, the refinance may not be worth it especially if you have no plans to use it as a rental home.

DID YOU REALIZE YOU JUST RESET THE CLOCK?

The last point we'll make is that if you exchange a new 30 year mortgage for the old 30 year mortgage, you reset the 30 year clock. This seems obvious, but people who refinance 3 or 4 times over a 10 year period may be adding what would normally be a 30 year mortgage life into a 40 year mortgage life. One good part of goal planning is to try to pick an age where you want the mortgage paid off in full for good. This may be at the time you try to make work optional such as 50, 55, or 60. Not having a mortgage gives you lots of freedom for choices about what to do and creates a much less stress free environment.

You should always consult a qualified mortgage broker, financial advisor, or CPA before making a major decision to go through all of the math on whether the refinance makes sense.

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