Should I refinance my mortgage?

RULE OF THUMB: if you are going to have the property for 5 years or more and you'll save more than 1% on your rate, then you refinancing to cash in on the savings is probably a good idea.

Reasons members SHOULD refinance...

1. Save money in interest with a lower rate

Lower interest rates can help build more equity faster, decrease the size of your monthly payment and save lots of money in interest.

Example: 30-year fixed rate mortgage of $200,000 at an interest rate of 4.50% has a principal and interest payment of $1013.00. If you refinance the loan to 2.75% (average market rate 1/2021), your monthly payment would drop to $816.00. That's a savings of $70,920 over the term of the loan.

2. Shorten the life of the loan

Some refinance because they want to payoff the loan sooner. Refinancing can many times help you pay off your loan in half the time without changing your monthly payment much. Sometimes the payment AND the term of the loan both decrease.

3. Convert from an adjustable-rate mortgage(ARM) to a fixed-rate mortgage

Initially, borrowers may have opted for an ARM because the initial lower rate or their financing options were limited. Unfortunately, the risk is increases in the rate. When this happens, moving to a fixed-rate mortgage can lower the homeowner's interest rate and offer them rate stability.

Reasons NOT to refinance a mortgage...

1. When you're over your head in debt – If you're looking for the extra stash of cash each month to pull you out of debt, you probably shouldn't be refinancing. Most people who refinance for this reason end up spending all the money they save, and then some. Without making any real changes to your spending habits, giving yourself extra money to blow is only enabling you to fall deeper into debt to the point you may be in jeopardy of losing your house to forclosure.

2. When it lengthens the loan term – If you only have 10 years left on your mortgage and you want to refinance to stretch out those payments over 30 years, you won't come out ahead. Any money you save on lower payments will be lost in the cost of the refinance and the extra 20 years of extra interest you'll end up paying on your mortgage.

3. If you plan to sell soon. – If you plan on moving within the next few years, the money you save might not even come close to the costs associated with your refinance.

What is a cash-out refinance?

Homeowners can choose to tap into the home's equity to get cash to help make a large purchase such as a second/vacation home, do renovations, or pay for college tuition.

A cash-out refinance is replacing the existing loan with a bigger loan and pocketing the difference.

This type of loan usually has more rigid loan-to-value(LTV) limits. Typically the LTV max is 80% of the home's appraised value. The LTV is the mortgage amount divided by the appraised value of the property.

For example, if the home is worth $100,000 and you owe $40,000 on a mortgage you're at 40% LTV. 40,000/100,000= .40 (40%) If your lender has an 80% LTV option, you could refinance into a $80,000.00 loan and take out the $40,000 difference in cash.

This loan option is only beneficial if you can afford the loan terms or will use that money to increase your equity. If you're going to blow it all on a luxury cruise, you might be sailing toward a lifetime of debt.

How much will refinance cost?

Remember all those fees and closing costs you paid when you first bought your house? Prepare to pay most of them again. Fees can vary, but a typical refinance will cost anywhere between 3-6% of the loan's principal. Before proceeding with your refinance, make sure you'll actually be saving money. You can do this by asking for a loan estimate from a lender. The loan estimate lists the projected interest rate, term, estimated payment and closing costs.

Divide the price by the amount you'll save each month at the new rate. This will give you the number of months before you break even from the cost of the new loan.

If you don't plan on staying in your home for that long, or you can't afford to wait until then to recoup your losses, refinancing may not be the right option for you.