IS IT TIME TO REFINANCE?

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Refinancing A Mortgage

As investment executives who specialize in helping our clients meet their financial goals, we understand that you may have questions about the areas you need to focus on during this phase in your life. This special report reviews the concept of refinancing a mortgage.

WWW.STONEHEARTHCAPITAL.COM
199 ROSEWOOD DRIVE, SUITE 200 • DANVERS, MA 01923 • {978} 624-3000

Is It Time To Refinance?

Some people would rather go to the dentist than refinance a mortgage. The rates, APR, closing costs, prepaid items, requests for endless documents and don't forget the closing. Do they really need me to sign that many pieces of paper? It can feel overwhelming. My goal here is to provide a roadmap of the most important areas to pay attention to if you want to explore the idea of refinancing your mortgage. Let's begin.

The Rate

The rate is the most import piece of the equation. If it weren't for the rate you probably would not be exploring the idea of refinancing your mortgage. The general rule of thumb is that you want to consider refinancing if/when the rate on a new mortgage is at least 1% lower than your existing loan. You can justify refinancing if the difference is less than 1%, but usually you need to have a larger loan balance or find a lender that can offer you a new loan with no (or low) closing costs. Once you see the savings it is a personal choice of whether you are okay committing the time and energy it takes to refinance the mortgage.

APR

Lenders are required to not only tell you the rate they are offering you, but also the corresponding APR. The APR reflects the rate plus the costs to obtain the loan (points and closing costs). For most people you want to see both the rate and the APR very close. For example, the rate might be 3.00% while the APR is 3.125%.

Points & Closing Costs

The fees to obtain a loan include points and closing costs. If you accept higher points and closing costs then you can obtain a lower rate, and vice versa. If you are *certain* that you are going to remain in your home for a long time, then it is okay to consider paying these fees (in particular points, option #1 below). If you are unsure how long you will be in the house, then I would favor avoiding points and choosing a rate with lower closing costs (options #2 below). Here's an example:

- Offer #1: 2.5% rate with fees (points and closing costs) of $8,000
- Offer #2: 3.00% rate with fees of $3,000

15 or 30-year Mortgage

If you currently have under 15-years remaining on your current mortgage, then it usually makes sense to go with a new 15-year mortgage. If you have over 15-years remaining, then I would consider a 30-year mortgage (unless you have your heart set on being debt free in 15-years). The difference in rate between a 15-year and 30-year mortgage is about 0.50%. TO ME, this is not a very large difference and I like the flexibility a 30-year loan provides. A 30-year loan will have lower monthly payments. You can always make extra payments if you want to pay it off in 15-years.

Lenders

The mortgage lending business is a pretty competitive business. As a result, you would expect quotes from different lenders to be similar and in the grand scheme they are. However small variations in the rate can have a profound impact over multiple years. And true closing cost fees can vary. So, it pays to do your research. We suggest that you obtain AT LEAST two quotes. Checking with your current lender is usually a good place to start.

Prepaid Items

If your lender requires that you escrow homeowner's insurance and property taxes, then the "good faith estimate" that the lender provides you will be tougher to identify what the true closing costs are to obtain the loan. Fortunately, the form is standardized. To see what the trust cost is then just add item D and E together. If there is a lender credit in item J then you can subtract this amount. Items F & G are the prepaid items (interest, homeowners' insurance and property taxes). You need to pay these whether you refinance or not, so I don't think of these are true closing costs. If you escrow homeowner's insurance and taxes through your current lender then you will end up getting a refund from them in a month or so. As long as you have enough cash on hand then funding the new escrow before you are reimbursed from the old escrow is not a big deal.

Need Help?

We've got you covered. Just reach out to us. We can walk you through the process to help you decide if refinancing is right for you, and what terms make the most sense.

We are here to help, so lean on us.

Be well.

Jamie A. Upson

Jamie A. Upson, CFP®, CMFC, AAMS

President & CEO

jamie@stonehearthcapital.com

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