When - and when not - to refinance your mortgage

by Ilyce_Glink

The economy is going through a rough patch, and the stock market is well below its all-time high. Mortgage rates have been dropping since the end of last year. For homeowners, that can only mean one thing: it's time to think about refinancing your mortgage. "If you can save on the interest you're paying, then it's time to do a mortgage refinance," explains Fred Glick, managing member of US Loans Mortgage, LLC, a mortgage broker based in Philadelphia. For some homeowners whose adjustable rate mortgage (ARM) interest rates are rising, the low interest rates on 30-year and 15-year fixed rate mortgages offer an opportunity to refinancing into something that's a known quantity. "If you have a mortgage that's going to adjust, it's important to get into a fixed-rate program now," says Emma Butler, a certified mortgage planner with Mobium Mortgage Group in Chicago. As this column went to press, Freddie Mac's weekly survey of mortgage rates found that a 30-year fixed rate mortgage averaged 5.67 percent with fees totaling 0.40 percent. A 15-year fixed rate mortgage cost an average of 5.15 percent, plus 0.40 percent in fees. A year ago, a 30-year mortgage cost an average of 6.22 percent, more than 0.5 percent higher than what is available today, while the average 15-year mortgage cost 6.02 percent, or nearly a full percentage point higher. Should you do a mortgage refinance now? Or, wait to see if interest rates drop further? Conventional wisdom used to say that if you could shave 2 percentage points off of your interest rate, you should refinance your mortgage. But today, with zero-cost mortgage refinance options widely available, it may make sense to refinance if you can shave a half-point off the interest rate you're now paying - without lengthening the loan term. "If you can save money by doing a mortgage refinance, you should do it. Some clients lately have saved $250 per month by refinancing," Butler notes. But understand that with a zero-cost refinance, you won't get the very lowest interest rate for your mortgage. "You can expect to pay an additional quarter percent in the interest rate if you want a zero-cost refinance," explains Dick Lepre, a senior loan consultant with Residential Pacific Mortgage in San Francisco. One problem some homeowners are having is that they had previously listed their properties for sale. Some lenders will not refinance a property that had been listed for sale within six months of the refinance. But other lenders will, Butler explains. "Each lender has his or her own guidelines," Butler says. "Some will let you do a mortgage refinance if the property has been off the market for one day. It varies from lender to lender." "We have three investors we work with who will do Fannie Mae loans even on properties which have been off MLS for one day. One of the three will not allow you to do a cash-out refinance, but the other two will," offers Lepre. When should you do a mortgage refinance? "Don't do it to go on vacation, buy shoes or go out to dinner. Do not mortgage your house for something like that," says Glick. "But if you're going to pay off your credit card and cut it up, or if you need to do it so you do not go into default on your loan, then absolutely you should refinance." Glick believes you should never do a mortgage refinance just to get a tax deduction. "Don't refinance for tax purposes." And finally, don't refinance to lower your payment but lengthen your loan - unless you are facing possible foreclosure. When you refinance, the goal should be to lower the amount of interest you're paying, either by lowering the interest rate or shortening your loan term, Glick adds. (Ilyce R. Glink's latest ebooks are "Credit Scoring Secrets" and "How to Find a Great Real Estate Agent". If you have questions, you can call her radio show toll-free (800-972-8255) any Sunday, from 11 am-1 pm EST. You can also write to Real Estate Matters Syndicate, PO Box 366, Glencoe, IL 60022. Â© 2008 Real Estate Matters, Distributed by TMS