

Mortgage Refinancing: Is It for You?

By Charles Kovaleski

If it seems like just about every homeowner you run into these days just re-financed their mortgage, you're probably right: Nearly two-thirds of mortgage applications in the last half of 2002 were to refinance existing mortgages, according to the Mortgage Bankers Association. The frenzied financing activity set a new record by the end of last year, and the refinancing boom shows only slight slowing down in 2003.

So how about you? Have you spent the last year on the refinancing sidelines, but now feel ready to jump in the game? With the 30-year mortgage rate dipping to 5.85 percent in early January—the lowest in 40 years—it's probably a smart move. But remember cheap money isn't necessarily free money. Although closing costs usually aren't as high as for a new mortgage, you might incur fees for a range of services associated with the refinance.

If you are getting ready to refinance, experts suggest shopping for a fixed-rate loan on a 15-year mortgage, and the ability to lock in current rates for at least 30 days. The trend among those who refinance is to cash out at least some equity from their homes—an average of about \$31,000—to spend on consumer purchases, consolidate debt or make home improvements.

But before you make the call or sign any papers, consider the following questions:

Do you plan to stay in your current home a while? The rule of thumb is that your refinancing savings should pay for your initial costs within two years. If you plan to be in the house longer than that, consider paying points to lower your rate. Depending on how long you plan to stay in your home, you'll also want to choose between a fixed-rate loan (longer stays) or an adjustable-rate loan (shorter stays), and whether or not you should agree to a prepayment penalty (longer stays).

What is the total cost to refinance the loan? Every loan applicant should receive a Good Faith Estimate of Closing Costs, which lists the various fees you will be charged to refinance. Pay special attention to what you will be expected to pay in cash at closing, versus fees that can be rolled over for the life of the loan. In general, you can expect to pay an application fee of between \$250 and 350 and an origination fee (typically one percent of the loan amount) in addition to the same costs you paid with your current home loan (title search, title insurance, miscellaneous lender fees, etc.). The sum of these fees could cost you up to two to three percent of the total loan amount.

How long will it take to recoup your out-of-pocket money and any expenses which are added to your principal balance? The math is simple: Divide the up-front cost by the monthly savings you will receive with your new mortgage to determine how many months it will take you to break even. If it will take you four years to break even and you plan to sell the house in two years, re-think your decision to refinance.

If you are cashing out equity, what do you plan to do with the money? People choose to cash out for a number of reasons, but make sure they are the right reasons. Consolidating or paying off debt and making home improvements are fine places to spend the money, but financial planners warn against borrowing money to pay off credit card debt that might be run up again. And always remember that when you tap into the equity built up in your house, your home is at some risk.

Are you dealing with a reputable financing company? There isn't a homeowner out there that hasn't been deluged by offers of refinancing through telemarketers or direct mail, but buyer beware. In many cases, these offers might look great, but many can be misleading and dishonest, promising low monthly rates that eventually balloon into exorbitant amounts. Do business with reputable lending institutions. There are a number of individuals that can help you through this process, including your real estate attorney and mortgage brokers.

Are all your expenses covered in the monthly mortgage payment? Some mortgages are set up to include costs for private mortgage insurance, property taxes and homeowners insurance—others aren't. Your real estate attorney can walk you through the terms of the loan to ensure you know exactly what your monthly payment covers before agreeing to the terms, and will advise you to set aside funds for regular maintenance and repairs, as well.

Have you checked your credit report lately? If your credit is any less than flawless, you probably won't get the lender's advertised lowest rate. You won't get turned down for a loan, but you probably won't be offered the best deal if you've been late with your mortgage even once in the last three years. Before applying for any refinancing, check your credit reports to make sure they are accurate.

Charles J. Kovalski is president of Attorneys' Title Insurance Fund, Inc., (The Fund) the leading title insurer in Florida and the sixth largest title insurance company in the country. Acknowledged as the Florida residential real estate expert, The Fund has been in business for more than 50 years and supports a network of more than 6,000 attorney agents statewide who practice real estate law. The Fund, based in Orlando, underwrites more than 300,000 title insurance policies for owners and lenders in Florida every year.

For more information, visit www.fundhomeinfo.com. Kovalski is also the president-elect of the American Land Title Association (ALTA).