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FREE Report: Refinancing Do's and Don'ts

Refinancing has become a popular topic of conversation. "Should we or shouldn't we? What makes the best financial sense?"

To "refinance" means that you substitute a new mortgage in place of your current one. Here's an example: let's say your house is worth $300,000, and your current mortgage balance is $200,000. Your interest rate is 8.25%, and your basic monthly mortgage payment is $1,725. If you refinance and obtain a new loan in the amount of $200,000 at 6.375%, your new monthly payment will be $1,248, a monthly savings of $477. In one year, you could save over $5,700... or will you?

Here's a few tips to decide if refinancing is for you:

• **DO consider ALL the numbers**. Calculate the new interest rate, and add in all the closing costs. Your lender must give you a "Good Faith Estimate" of all the costs you will have to pay. Although the savings above look attractive, the first year savings will be considerably lower, because of the various closing and settlement costs.

• **DO talk to your current lender first**. Some lenders want to keep your business, and may be willing to modify your existing loan so you get a lower rate at no cost -- or at reduced settlement costs.

• **DO learn about the different types of mortgage loans available**. Currently, there are a wide variety of loans to chose from, including fixed conventional loans and adjustable-rate mortgage (ARM) loans. Find a flexible mortgage lender and ask the following questions:
1. What loan programs are available?
2. What is the projected monthly payment for each type of loan you offer?
3. What up-front costs will I have to pay?

• **DO comparison shop**. Mortgage lenders are competitive, and both rates and settlement costs can vary. Consider getting quotes from three different lenders before you choose your lender. It helps to make a comparison chart of all of the expenses charged by each lender.

• **DO ask if the lender charges any up-front points**. A point is one percent of the loan amount, so if you were to borrow $200,000, each point you pay would cost you $2,000. Another tip: Each point is approximately 1/8 of an interest rate. An example of this is a lender offering 6.25% with one point, but 6.375% with no points.

• **DO inquire about "lock-ins" and "float downs"**. Mortgage interest rates are subject to rapid change. Since it will probably take between 30 to 60 days to close on your refinance loan, your rate could change.

- With lock in rates, the lender commits that your rate is "locked in" for a period of time, (usually 30 days). *Get written confirmation of this fact from the lender*.

- With float down rates, the lender agrees that if rates fall from the time of loan application, you will get the benefit of the lower rate. Some lenders will charge you a fee for this commitment. *Once again, get written confirmation from the lender*.

• **DO find out if you will have to pay a prepayment penalty** for paying off your current loan early.

• **DO shop around for your title company**; these companies charge various fees for the services they provide. Remember, you have the absolute right to select your own title company.