

Fiscal Fitness

Mortgage Refinancing: Not at any Rate

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Given the recent decline in mortgage interest rates, many of you should be considering whether refinancing your current mortgage makes sense (by creating dollars). In this month's edition of *Fiscal Fitness*, we examine the procedure, the costs involved, and help you determine who is a refinancing candidate.

Let's start with who is a candidate. The short answer is, just about anyone whose existing mortgage rate is at least 1 ¼% above current market rates, quoted at no points. That said, you still need to "run the numbers" to consider whether other closing costs, including paying points to pay down the rate, exceed the value of the lower rate.

Next, consider your objectives. How long will you live in your current house? The shorter the period of time (say, less than 3 years), the more difficult it will be to recover your upfront fees through a lower rate. Alternatively, you may simply want to lower your monthly payment by consolidating other revolving debt like credit cards, auto loans, into one tax-deductible payment. In doing so, you convert higher interest rate debt to a lower rate and also obtain a tax deduction (check with a CPA at Houlihan & Houlihan on this).

If you've passed through screening thus far, you're ready to compare rates. Check the Real Estate section in the Sunday morning paper to test the market, and then contact a mortgage broker for more information. On the Internet, visit <http://quickenloans.quicken.com/Centers>.

Then follow these steps:

-  Identify the type of mortgage you want: fixed, adjustable or even a combination of the two. When in doubt, stick with a fixed rate.
-  Decide the term. 15-year mortgages contain a lower interest rate than a 30-year but your payment will be significantly higher. Or consider that a 30-year mortgage can be turned into a 20-year note by making just one extra payment a year.
-  Determine your monthly savings by subtracting the current monthly payment from the proposed one. The difference is your monthly cash flow savings. **Caution:** Not all may be true savings if you're extending your mortgage term.
-  Divide the monthly savings into the total cost of the new loan (points, title and escrow fees). This will determine how many months it will take to recoup your investment. If more than three years, you're borderline and keep shopping for a better deal.

Appraisal fees, title search and insurance, underwriting/processing, and Private Mortgage Insurance (only for those with under 20% equity), can easily account for 1-2% of outstanding closing costs. These fees can vary from lender to lender so you'll likely be rewarded for shopping around.

A final thought about the "real" interest rate you're paying. Don't be so quick to assume the lowest interest rate is the best deal. These "teaser rates" can have high, hidden closing costs. You might be better off to consider a higher interest rate and pay "points" (prepaid interest) to lower your rate. Points are tax deductible so it would make more sense to pay those upfront and receive lower, non-deductible, closing costs.