

Refinance or not?

Refinancing is the process by which you pay off your current mortgage and take out a new one with better terms or a lower interest rate.

As a general rule, if the current interest rate is ½ to 1+ percentage point lower than your current rate – it would be beneficial for you to refinance. Here are some points to consider if you are thinking of refinancing.

If you plan to sell your house or move within the next two years – refinancing may not be the best option as you will incur closing costs of 1000-2000 dollars and you'll either have to pay it upfront or roll it back into your mortgage.

When you refinance, you begin the amortization process all over again. It is worth considering – if your interest rate is good to stay where you are short term. Here's why:

Let's say you take out a 200K mortgage at 5.5% for 30 years. Your principal and interest payment would be \$1135.58/month. (not including taxes or insurance)

After 24 payments on this loan, you would owe a balance of \$194,459.63. If you decided at this time to refinance to a 4.5% rate, you would begin a new loan and have approximate closing costs of \$2000 (depending on lender fees). So, let's say you rolled the \$2000 into the outstanding balance of \$194,459.63.

You are now starting a new loan and new amortization schedule at the principal balance of \$196,459.63 and your new payment at 4.5% interest would be \$995.43. A savings of \$140/month.

After 36 payments in your new mortgage – your payoff balance is \$186,507.49. Whereas, in the older mortgage at 5.5% you would have been at payment 60 with a payoff balance of \$184,921.34

Now, if you didn't roll the 2K of closing costs into the refinanced value, your payoff at 36 months would be \$184,608.67. It's easy to roll the closing costs in – but it does cost you!

To payback the \$2000 of closing costs if you didn't roll in to the new mortgage above, at the \$140/month savings – it will take you 14.2 months to pay that back without any interest charge.

Carrie Abfall

Put my 15 years of Experience to work for YOU!

*all figures are estimates and for examples only

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