Mortgage Refinancing Considerations

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If you have a mortgage and haven't considered refinancing over the last year, now is the time. Interest rates are at historic lows and with the uncertainty on how long they will remain at these levels, consideration should be given to whether refinancing would be financially viable for your situation.

In reviewing whether to refinance, you will need to determine if the benefit of a lower interest rate will outweigh the costs to refinance. The Mortgage Refinance calculator on our website can be utilized to help with your decision (find it here: www.noblewealthadvisory.com/Calculators.cfm). This calculator will provide you with the number of months that it will take to breakeven with the closing costs that you will need to pay upfront to refinance.

Another useful calculation is to compare the total amount that will be paid with the new loan with the current amount that you are scheduled to pay over the life of your current loan. This is especially insightful when you are more than half way through the life of your mortgage. Even though you are lowering your payment, the total that will be paid over the life of the new mortgage may actually be higher than what is remaining on your current loan, depending on how long you plan to remain in your current home.

If the mortgage amount is greater than 80% of the estimated value you may not be able to refinance your current loan or there may be additional costs involved. Ultimately the value will be determined by the appraisal; you can get an estimate by looking at www.zillow.com

In most cases you should plan to have your primary home mortgage paid off by the time you stop working. Refinancing may be an opportunity to better align your mortgage maturity with your retirement. Perhaps you have 19 years left on your original 30 year mortgage, the lower interest rate of a 15 year mortgage may require little or no more than you currently pay monthly.

Critically important is that you refinance at a fixed rate for the entire term of the loan. There are very few instances when an adjustable rate mortgage (ARM) makes sense. A fixed rate can be refinanced in the very unlikely scenario that interest rates move lower from this point but an ARM will subject you to unnecessary risk when rates rise. Also, avoid paying origination fees or points, they reduce your rate by charging you interest up front. Understanding the costs involved in refinancing is paramount to making a good decision.

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