



## ***Mortgage Refinancing Information***

### ***The Advertising***

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According to the advertising, anytime is a great time to refinance. However, a Lenders' need to generate profits by originating new loans may not align with your needs to be fiscally responsible. The question here becomes, "What is best, or needed, for the consumer?"

We're looking at a couple of additional thoughts below to go beyond the advertising.

### ***The Payment***

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Lenders have advertised payment as being one of the largest (if not the largest) reason to refinance. And, it could very well be based upon a consumers' current situation. However, depending on the markets currently and when the loan was originally closed, by concentrating on the payment, the consumer could be agreeing to make larger interest payments throughout the loan especially given typically longer terms to repay a mortgage loan.

### ***Interest Rates***

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An argument can be made that it makes no sense to the consumer to finance from a lower rate (previous market) to a higher rate (current market) as it will result in higher overall interest expense. But what happens to the argument if additional funds are needed (medical, college, divorce buyout or other realities of life) and the cost of refinancing is better than any other option? The caution here is simply that there needs to be a significant reason to move up in rate on the amount of an average mortgage in order for that refinancing to make sense.

### ***Term Issues***

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We've received many inquiries to refinance in order to shorten the term on the current mortgage (moving from the original 30 year mortgage that now has, let's say 24 years left,) into a fifteen year mortgage. Given that will save 9 years of interest payments it would make sense to do, right? Not so fast. The advertisers would have you believe so, but what happens if the rate you

can now get on a fifteen year loan is higher than the one on the current loan. You can eliminate all origination and additional interest expense by simply making additional payments.

As an additional thought in a different example, will a \$100 drop in payment be worth it, even if there is a small decrease in rate given the fact that the mortgage has now moved out 6 years to another 30 year term?

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### ***Using Your Home Equity for Better Purposes***

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This is a tough one because “better purposes” have a lot of meanings. Is getting rid of charge card debt a better purpose? It could be, but then again, maybe not. It’s a situational thing. One thing it isn’t – absolute. Here you need to look at the whole picture. What are your other options and what are the costs, the real costs, for doing so. By making the move, can you actually make money by using the funds as investment capital?

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### ***“Net Tangible Benefit”***

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Ever since 2008, the start of the “Great Recession,” the concept of reflecting in the loan file that there is a benefit to the consumer has become a requirement to prove the benefit is in fact to the consumer and not the lender. Once again, you advertise what you have. A lender can make a case that the payment is everything when it should be the last thing to be evaluated. When getting ready to refinance you can ask everyone at the party what’s the best thing to do. You’ll get about as many answers as there are people at the party. One, most likely will be right.

Whether you take our advice or not, at least run the situation by one of our experienced, professional mortgage lenders. Consider it a second opinion and maybe we can help make some sense of it for you.