How to Refinance Before Mortgage Rates Go Up

If you haven’t refinanced in the last 5 years, you need to read this eBook

SAMMAMISH MORTGAGE

Part I: **The Opportunity**

It's no big secret that interest rates are lower today than they have been for years.

You may have an opportunity to save many thousands of dollars by refinancing your mortgage.

Rates are constantly on the move, so you should determine as soon as possible whether a refinance makes economic sense for you. This book will help you decide whether you should proceed with a new, lower rate mortgage.

%

Mortgage Rates
The interest rate you will pay on a mortgage has dropped significantly.

Home Values
The equity in your home will be higher as a result of housing market price increases.

Two Kinds of Refinance

When you refinance your mortgage solely to reduce the rate or to improve the terms of your mortgage, you are doing a “**rate and term refinance**.”

This means that your goal is not to take cash out of your home’s equity. Refinancing from a 30-year loan into another 30-year loan with a rate .5% lower than your present rate would be one example of a rate and term refinancing. Switching from an adjustable rate mortgage to a fixed rate would be another. Refinancing from a 30-year loan into a 15-year loan would be another.

1. Use to get a lower rate.
2. Can change the type of loan you have.
3. May use same term as before.
4. Leaves the equity of your home untouched.

Two Kinds of Refinance

When you refinance to pull some significant amount of cash out of your equity, you are doing a "**cash out refinance**." The rate on this type of refinance will be approximately .125% higher than for a rate and term loan.

Your loan may be considered a cash out refinance even though you may not receive any cash at closing. If you presently have a second mortgage or Home Equity Line Of Credit (HELOC) in place and you got the second loan after you bought your home, a new loan to pay off both loans will be a cash out loan even though you receive no cash at closing.

1. Use equity for debt consolidation.
2. Also can use cash for home improvements.
3. Approximately .125% higher in rates.
4. Can still benefit your rate and term.

Part II: **Do You Have Enough Equity?**

A lender looks at your property as security for the loan they will give you. They are always concerned about the Loan To Value Ratio (LTV). The LTV is the loan amount as a percentage of your home's appraised value.

Loan Amount
The total value of the mortgage.

Home Value
What your home is appraised for.

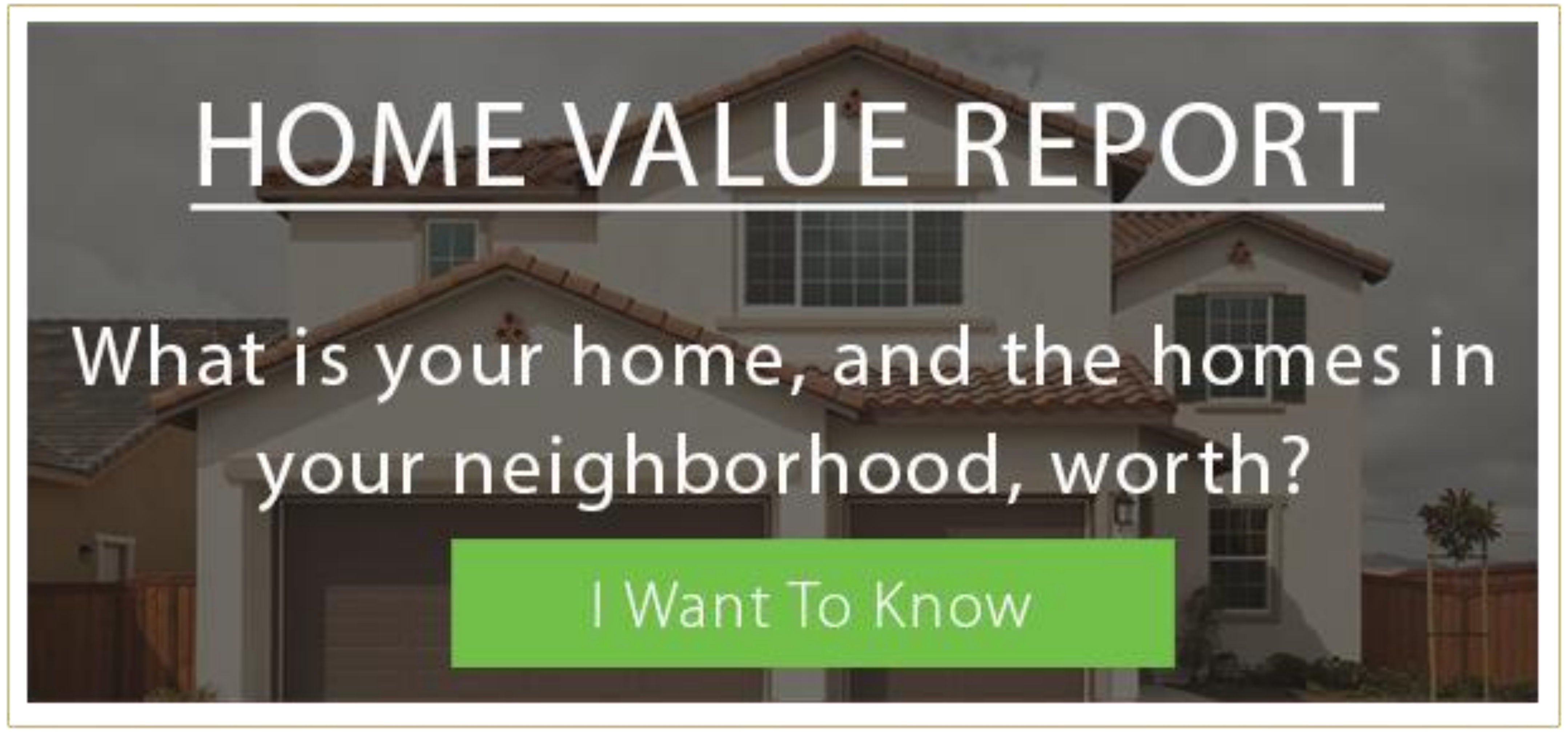
LTV
The Loan To Value Ratio

If the appraiser says your home is worth $500,000 and you are looking for a $400,000 loan, your LTV is 80% ($400,000 is 80% of $500,000). When you begin a refinance, **you want to be confident that your home's value will support the loan you want**.

The only sure way to find out the appraised value is to have your loan officer order an appraisal. This will cost around $500—and you'll pay for the report in advance.

If you have any doubts about your property's value, you can get a ***Home Valuation Report*** (HVR) from Sammamish Mortgage at no cost to you before paying for the full appraisal. The HVR is not a substitute for a full appraisal, but the HVR can give you some insight in advance about your home's value.

Click the image below to receive your free home value report instantly.

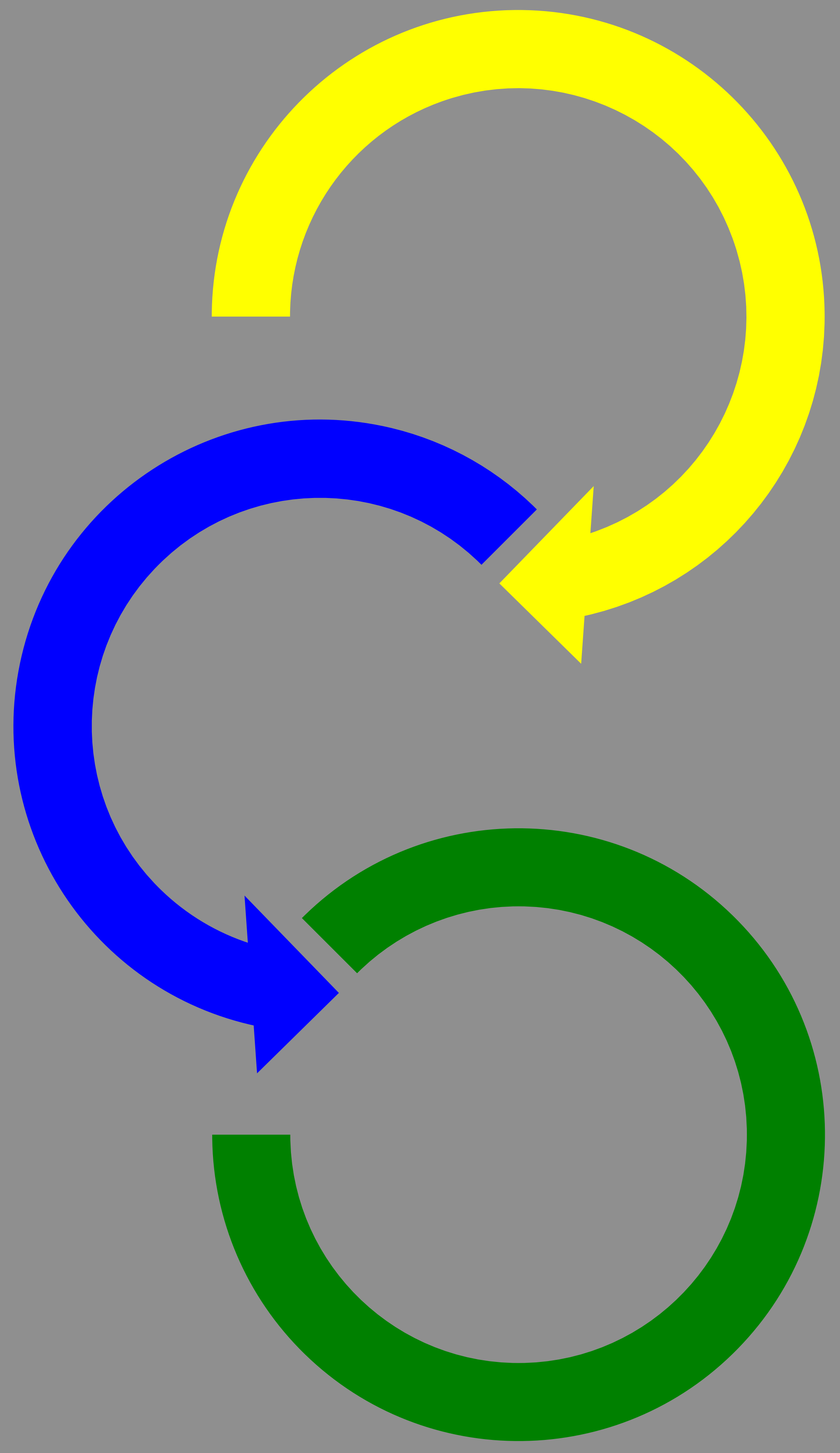


Part III: **Closing Costs**

Every real estate transaction—sale, purchase or refinance—involves certain costs.

Among these costs are title and escrow fees, appraisal, underwriting, document preparation, recording and notary. These are the *non-recurring closing costs.* This means that they happen only once, because of your refinance. The non-recurring costs are the actual cost of the loan.

There is another category of closing costs: the *Prorations and Prepaids.* These costs are prorated interest, property tax installment (if one is due) and impound account funding.



Non-recurring
Title and escrow fees, appraisal, underwriting, document preparation, recording and notary.

Prorations and Prepaids
Prorated interest, property tax installment (if one is due) and impound account funding.

Total Closing Costs
Includes both non-recurring and prorations and prepaids.

The last item will apply if you plan to pay your property taxes and homeowner’s insurance monthly, along with your mortgage payment. It is also called an “escrow account.” You’ll make an initial deposit to the account so that there will be adequate funds to pay property taxes and insurance when they fall due.

The amount to fund the new impound account depends on when you will make your first payment. It could be as much as 8 months’ property taxes. This is actually still your money; it is just deposited with the lender and earmarked for taxes and insurance.

You should also understand how mortgage interest works. When you refinance, you will typically skip one payment, and sometimes two payments. Although this may seem like a free ride, it isn't; the lenders—the old lender you're paying off and the new lender—will still get interest on their money for every day you have it.

When you make a mortgage payment, you are paying interest for the previous month ("interest in arrears"). If you close escrow on your new loan on September 15, for example, your first payment won't be due until November 1.

That payment will cover interest on the new lender's money for the month of October; but you will have had the use of their money from September 15 to the end of the month: 15 days. Your new lender will charge you interest on a daily basis (per diem) from the 15th to the end of the month.

You will also pay prorated interest on the old loan when you pay it off.

Using this same example, you would make your last payment to your old lender on September 1. That covers the interest on the “old” money for August; but you’ll have that money for 15 days in September, and they’ll charge you per diem interest from the first of the month until you pay them off—15 days.

You can add that prorated interest to your new loan to avoid having to write a check to close escrow. Even though you’re getting some cash out of the transaction indirectly (because you didn’t have to make the October payment), the lender won’t consider this to be a cash out refinance.

If your loan will have an impound account, you can also add the initial deposit to your new loan. You will receive a refund of your old impound account about two weeks after you pay off the old loan.

Part IV: **Considerations**

Your credit score (commonly referred to as the FICO score) influences the rate you'll be able to get on your new loan. If you have a score of 740 or higher (generally regarded as "good" credit), you'll get the best rate.

If your credit report shows a few late payments and other non-good information (we hate to use the term "derogatory"), the FICO score will be lower. A borrower with a 620 score will still qualify for a loan—but the rate will be about .625% higher.

If you have any concerns about your credit score, your Sammamish loan officer will advise you on the ways you can raise your score—and save money in the process.

Decisions, Decisions

Is it worth refinancing? There have been various “rules of thumb” over the years that have claimed, “If you can’t reduce your rate at least X percent, it’s not worth refinancing. Like many generalized “rules,” this one is not helpful—and can cost you money.

Here is the best way to look at a refinance transaction.

First, you should think of it as an investment. Although you may not make a cash investment, you will be using some of the equity in your home to pay the non-recurring closing costs.

You should answer two questions about your refinance:

1. When do I recover the cost of my investment?
2. How much am I going to save AFTER recovering the investment?

You can answer the first question by dividing the non-recurring costs by the amount you are reducing your monthly payment. If the costs amount to $3,600 and your monthly payment drops $300, you'll reach that "break-even" point in about 12 months ($3,600 divided by $300 = 12 months).

One caution: the reduction in your monthly payment is not your actual money saved.

Your payment drops in part because of "re-amortization." If your present loan is 4 years old, you have 26 years remaining on its term. If your new loan has a 30 year term (4 years longer than your present loan), part of the payment reduction comes from stretching out the term by four years. More about this later, but for now, this calculation will give you a quick idea of when that break-even point will occur.

The second question—how much money you actually save—is a little more complicated. You can do a very rough calculation by multiplying the monthly payment reduction by the time frame (let’s use 60 months, or 5 years), then subtract the closing costs.

If your refinance costs $3,600 and your payment drops $300 a month, your approximate net savings after 5 years would be $14,400 ($300 x 60 - $3,600 = $14,400). This rough calculation can give you an idea whether you’ll save enough to satisfy your goals.

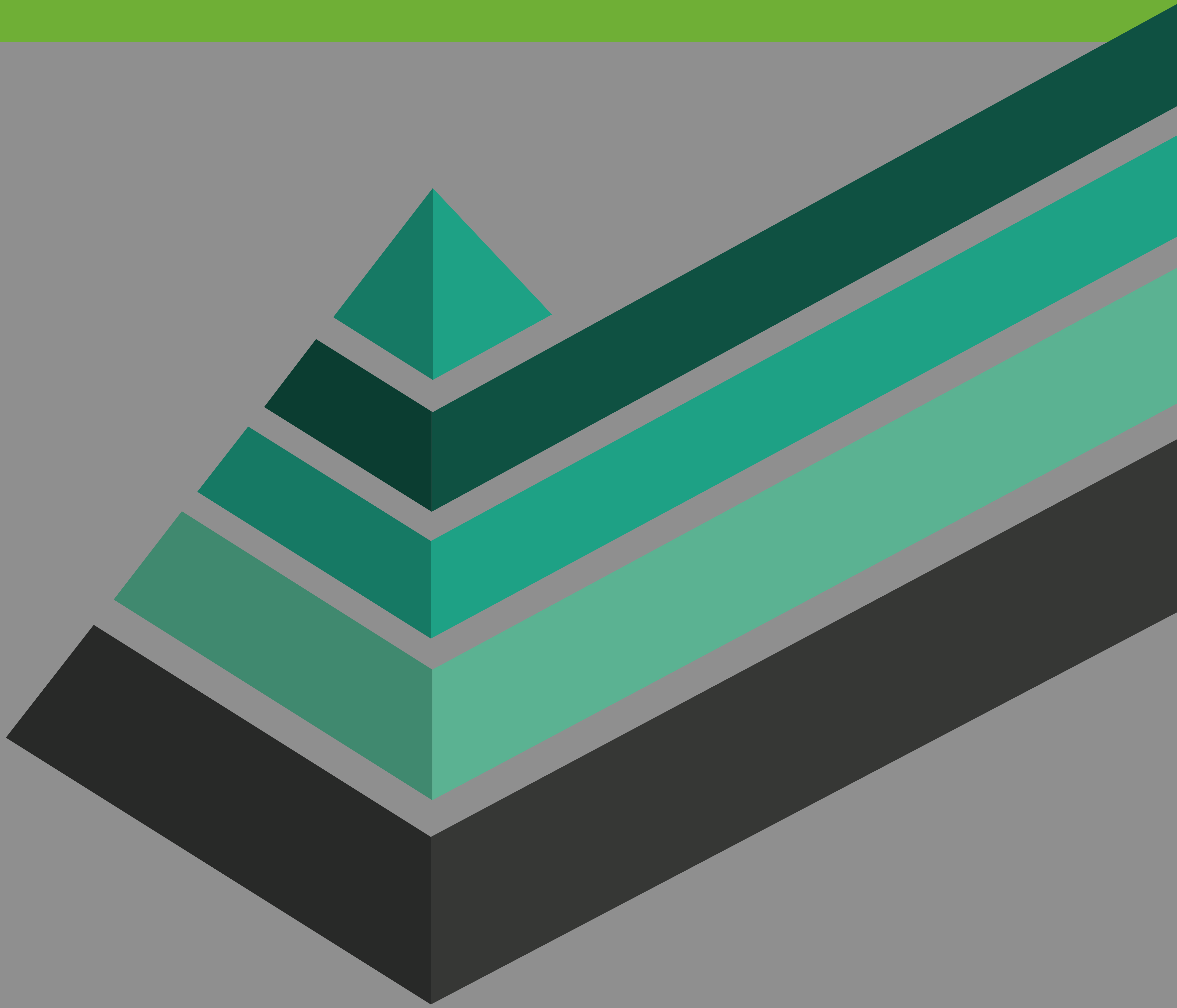
Your loan officer can give you an accurate picture of the money you can save by refinancing.

Part V: **No-Cost Loan…Is There a Catch?**

There are ads all over the airwaves about “No Cost, No Fee!” loans.

This may seem too good to be true, but it is just another approach to a refinance.

Here’s how a “no-cost” loan really works.



First, you should be aware that **almost all mortgages are sold to investors**—the "secondary mortgage market." You have no doubt heard of Fannie Mae and Freddie Mac. These two mortgage giants buy loans from banks, which make a small profit on each loan when they are sold. The investors pay more for loans with higher interest rates.

The lender gets more money for the higher rate, and passes that additional money on to the borrower in the form of a rebate. If you are getting a $400,000 loan, you could get a $4,000 rebate by selecting a rate .25% higher.

If an interest rate of 3.6% had no lender rebate, opting for a 3.85% rate could get you a $4,000 lender rebate—enough to offset your non-recurring closing costs. The difference in monthly payment between these 2 rates would be around $55.

If you plan to pay the loan off earlier than four years, a no-cost loan could save you some money.

Be aware, though, that the higher monthly payment could add up to a higher cost if you were to keep the loan over the long term. Be sure to discuss your plans in detail with your Sammamish loan officer.

Part VI: **How Long Does It Take?**

Mortgages take more time today than they did just a few years ago. Some of the recent rules and regulations inject delays into the process, and all lenders are more careful today to be sure every single document in the loan package is just what it should be.

After you complete your loan application, many other people spring into action behind the scenes.

The title company will open an escrow file and begin inspecting the title of your property. An appraiser will make an appointment to view your property and take photos in preparation for your appraisal. Appraisers deliver their reports in about a week—sometimes more or less, depending on their workload.

Once the underwriter has reviewed your file, you will get a conditional loan approval. The “conditional” aspect of the approval means that there may be some other documents to provide. There may be routine questions about the appraisal, for example; or the underwriter may ask for clarification about notations on your paystub.

When the underwriter has signed off all the conditions, we will send you the Closing Disclosure (CD). This document shows all the final numbers for your loan. Once you have received the CD, you must wait three business days before you can sign loan documents.

You'll sign your loan package with a notary, who will acknowledge your signature. Then, if you are refinancing your residence (rather than an investment property), you'll have to wait three business days more ("rescission period") before the loan can close escrow.

If you sign loan documents on Thursday, for example, the rescission runs from Friday to Monday at midnight (Saturdays count, Sundays and Holidays don't) and the loan would fund on Tuesday.

If you are still wondering whether a refinance will help you, **it's time to call Sammamish Mortgage**. You should have a recent statement from your current mortgage showing your current balance, interest rate and monthly payment not including taxes and insurance. If you have any concerns about the value of your home, ask for a **Home Value Report**.

Next Steps

If you need to get more information from a loan officer, feel free to **contact us now**.

If you're ready to get approved for a refinance today, you can **apply right now**!

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