SAMMAMISH MORTGAGE

Angie's list 2013 SUPER SERVICE AWARD

TIME THE MARKET

When To Refinance And Lock A Rate

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INTRODUCTION TO TIME THE MARKET

You've heard rates are low right now but you're unsure of whether or not a refinance makes sense for you. How do you know when to refinance and how to time the market? How and when can you lock in a rate?

The following are helpful steps you can take when considering a refinance.

Know what your current interest rate is and what loan program you are on.

Before you can decide whether or not it makes sense to refinance you must know the details of your current situation. Your current loan terms are essential in determining the potential financial benefit of refinancing.

Once you have this information, you can start researching current rates yourself or contact a lender to see what current rate options are available.

See Current Rates and Costs Now

Compare current rates with your existing situation.

Compare current rates with your existing situation. Conventional wisdom used to be that you needed a 1% or 2% drop in interest rate before a refinance made sense. While this may be true for a select few situations it is by no means applicable to everyone. **There are many more factors that need to be considered when determining whether or not rates are at a level that make sense.**

A more important consideration is determining how long it will take you to break-even on the costs of refinancing when compared to the interest savings you get. There are a variety of rate and cost options available when refinancing so applying a 1% rule of thumb to all situations doesn't make sense. For example, if you decide to go with a no point and no closing cost loan option, you would not need the same percentage decrease in rate as if you paid 1 or 2 points and had several thousand dollars in closing costs.

Similarly, someone with a $100k loan amount will need a much larger decrease in rate vs. someone with a $400k loan amount to see the same monthly interest savings.

A better rule of thumb to follow is that you want to make up the costs of refinancing within 2-3 years of the refinance with the monthly interest savings. The faster the break-even point the easier your decision. For example, if a client has a $400k loan amount and they are able to lower their rate by .500% on a 30 year fixed with closing costs of $2,000 they would recover their costs within 1.5 years and save over $100 in interest per month, making the refinance beneficial.

Conversely, if a client has a $100k loan amount and they are able to lower their rate by .500% on a 30 year fixed with closing costs of $2,000 it would take almost 6 years to recover the costs and they would save under $30 per month in interest which would not make sense.

If you want assistance in determining whether or not you should refinance, an experienced mortgage professional can easily calculate your break-even point for you and provide you with details on how much interest you could potentially save.

I will benefit from a refinance. Now what?

Once you have determined a refinance makes sense for you, the next step is getting in position to lock in your rate and closing costs. Mortgage rates fluctuate daily, so just because a refinance makes sense today doesn't mean it will stay that way. Even a small increase in rates could potentially eliminate the benefit of a refinance.

In order to lock a rate you will need to get pre-qualified. The first step to pre-qualification is completing an application. For most lenders this can be done over the phone, in person, or online. Once the application is submitted, a lender will process the application, pull credit, and get you pre-qualified.

Once the pre-qualification is complete, you will be in a position to lock a rate with most lenders. If you are not able to lock a rate once you have submitted an application and have been pre-qualified, you would want to consider using a different lender. Some lenders will make you wait to lock a rate until after the appraisal has been done, or towards the end of the loan process. This is risky for the borrower given the potential for rate increases during the loan process. The last thing you want to do is pay for an appraisal only to have rates increase by the time the report is complete.

Waiting to lock the rate also increases the potential for bait and switch tactics used by some less-than-reputable lenders. Some lenders will offer a low rate upfront to get a borrower to start the loan process and commit to moving forward only to offer a higher rate later in the loan process. **If your rate is locked and you have received all of the proper lock forms and official loan estimate indicating you are locked, your chances of being deceived decrease significantly.**

Additionally, the only upfront fee you should pay when refinancing and locking a rate is the appraisal fee. This fee should only be collected after you have decided to move forward with the loan and have received all of the state and federal loan disclosures including the loan estimate. If a lender charges a lock-in fee or application fee it would be advisable to look elsewhere.

WHAT IF REFINANCING DOESN'T MAKE SENSE RIGHT NOW?

Just because the benefit of a refinance isn't there for you today doesn't mean it won't be there in the future. Mortgage rates fluctuate daily and rate decreases can happen quickly and unexpectedly. This doesn't mean you have to monitor rates on your own and watch CNBC every day. Most quality mortgage companies will have an option that will allow you to track a target rate or be automatically updated on a daily or weekly basis.

The best course of action is to talk to a mortgage professional and decide ahead of time what rate and cost scenario you need in order to move forward with a refinance. Setting up a target at that time will improve your chances of taking advantage of rate dips, even if they only last for a few days.

Timing the rate market

Trying to time mortgage rates and lock on the perfect day is almost impossible. Similar to stocks, daily rate fluctuation are impossible to predict with a high level of accuracy. The best stock and bond traders in the world only have to be right a little over 50% of the time to make a lot of money. With that said, it is helpful to be aware of what is causing rates to move higher or lower. Inflation, economic data, stock prices and global market trends all have an impact on bond prices, specifically mortgage backed securities, which is what mortgage rates are tied to.

If you are working with an experienced mortgage professional they should be able to provide you with insights on mortgage rate trends, what future factors could impact rates moving forward, and the general expectations for rates in the future; however, they cannot and should not tell you with any certainty what rates are going to do tomorrow, next week or next month. Highly-regarded economists consistently provide mortgage rate forecasts, but unfortunately their predictions are often wrong.

The bottom line is that the best course of action for homeowners is to determine when they will benefit from a refinance, track rates (preferably with the help of a lender), move forward when the opportunity is there, and keep their closing costs as low as possible in case mortgage rates continue to drop and there is a benefit to refinance again in the future.

WHAT TO DO AND WHAT TO AVOID WHEN APPLYING FOR A MORTGAGE

Now that you have an idea of how to get the best mortgage for you, we need to go over what to do and not do prior to and after you complete an application. The next step is to do everything you can to make the process go as smoothly as possible. Most of this can be done prior to even submitting an application.

DO

- ✔ Continue to make and stay current on your rent or home loan payments
- ✔ Continue using your credit as normal and stay current on all your existing accounts
- ✔ Remain at your current job
- ✔ Check your credit to ensure there are no errors
- ✔ Think about and determine your budget and what monthly payment you are comfortable paying

Don't

- ✖ Begin any home improvement projects if you are doing a refinancing of your current mortgage
- ✖ Take long vacations during the loan process ✖ Apply for/open/close/max out/pay off any credit card accounts
- ✖ Make a major purchase (including: car, boat, furniture, jewelry, new gym or new cell phone account)
- ✖ Consolidate your debt onto one or two credit cards ✖ Change bank accounts or transfer any balances from one account to another
- ✖ Borrow money from a friend or family member ✖ Make large deposits or transfers into an account without a documentable paper trail

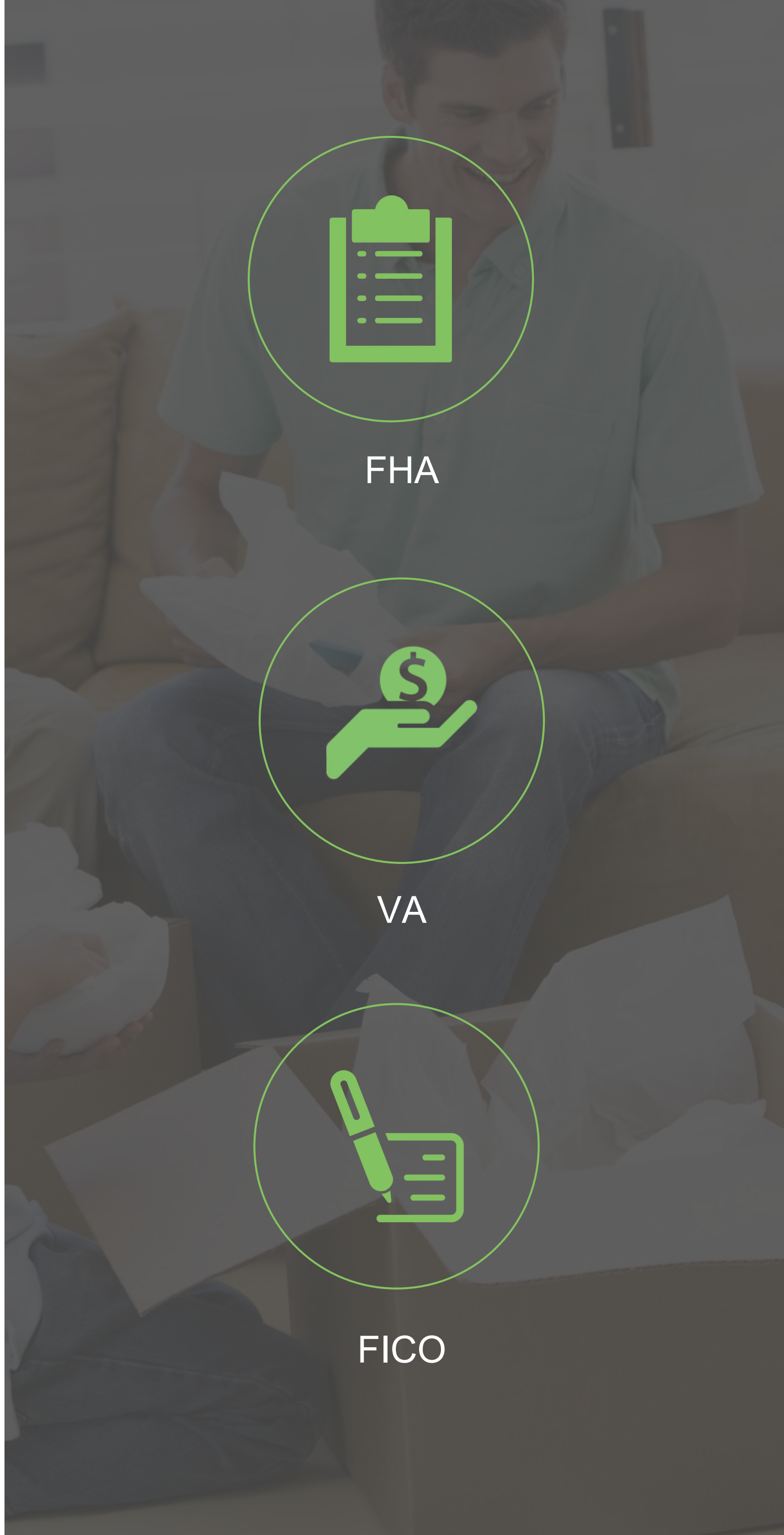
Paying off credit card debt or installment loans is generally a good thing to do; however, we often see people try to pay things off or close down accounts in order to improve their chances of qualifying. Unfortunately, this often backfires and makes their situations worse in the eyes of a lender. **Before you make any major adjustments to your financial situation make sure you speak with an experienced loan professional first to determine the impact.** There are times when paying off a car loan or credit card can help you qualify, but wait until after you are working with a loan officer so they can advise you on what to pay off or how to handle your debt in the best way possible.

The Single Most Important Factor When Determining What Rate You Will Qualify For: Credit

There are many factors that will determine what mortgage rate you will qualify for and a few of the primary factors are as follows:

Your credit score, specifically your FICO score, has the single biggest impact on the rate you will qualify for, especially when looking at conforming and jumbo loans (FHA and VA loans are more flexible when it comes to credit).

You have three FICO scores, one from each credit bureau, Experian, Trans Union, and Equifax. All of the credit bureaus have slightly different algorithms when it comes to calculating your score. In addition, the calculations are adjusted depending on what type of debt you are applying for. Your FICO score when applying for a credit card or car loan will be different than when applying for a mortgage.



While the credit bureaus don't publish how they calculate a credit score, below is how some experts think a FICO score is weighted.

1. Payment history on credit cards, car loans, mortgages, etc. (~35%)
2. Balances vs. available credit on revolving debt like credit cards or personal loans (~30%)
3. Length of time you've had established credit (~15%)
4. Recent credit inquiries (Multiple credit inquiries within a short time-frame when applying for a mortgage will not have a significant impact on your score (~10%)
5. Type of credit (Ideal combination is a mortgage, a car loan and two to three active credit cards) (~10%)

So what impact does a credit score have? The chart below breaks down the impact your credit score has on the closing costs for different credit score ranges.

Rates below were verified on 7/12/2019

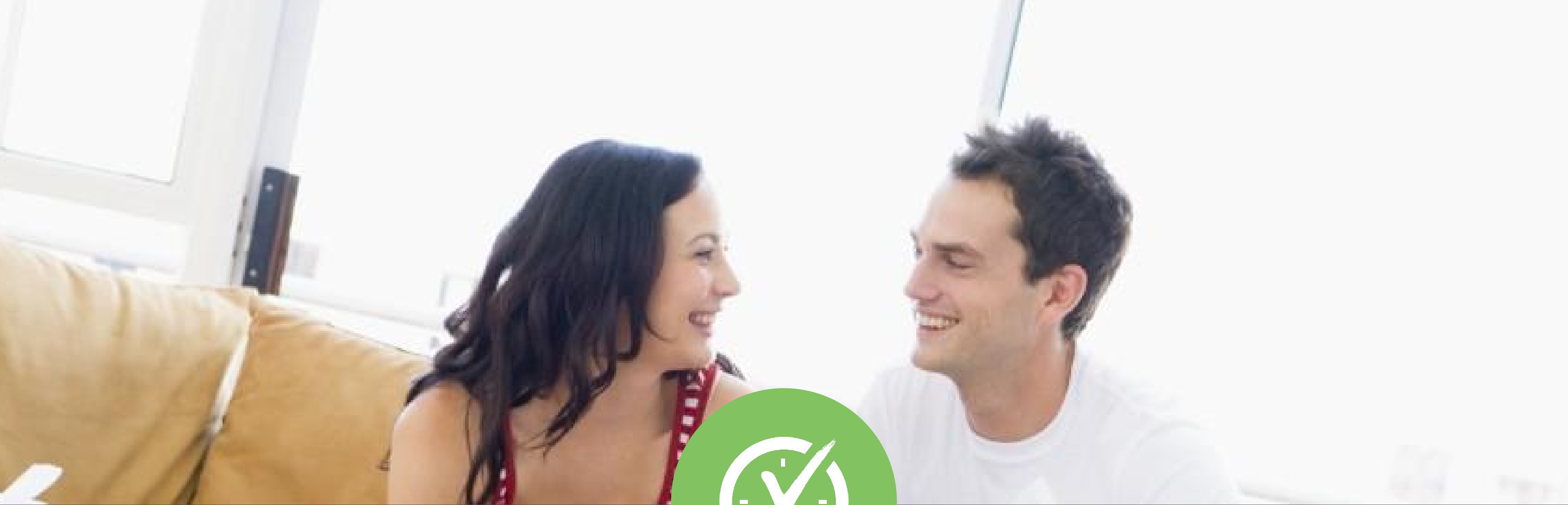
30 Year Fixed $500k Purchase, 20% Down, Primary SFR					
Rate	Disc/Net Orig	APR	P&I Payment	Total Closing Costs	Fico Score
3.750%	0.000%	3.786%	$1,852	$3,278	740-850
3.750%	0.250%	3.806%	$1,852	$4,278	720-739
3.750%	0.750%	3.848%	$1,852	$6,278	700-719
3.750%	1.250%	3.889%	$1,852	$8,278	680-699
3.750%	2.250%	3.974%	$1,852	$12,278	660-679
3.750%	2.500%	3.995%	$1,852	$13,278	640-659

HOW DO I IMPROVE MY CREDIT SCORE?

If you are not currently considering refinancing or purchasing a new home, it is wise to check your credit report to ensure nothing is being reported inaccurately. Credit reporting errors are more common than they should be and can be very difficult to correct in a short period of time. If you are proactive, you can save yourself from a big surprise once you are ready to apply. Free credit report sites are an easy and free way to check against errors on your report; however, don’t expect to find out your credit score without paying a fee.

If you are currently in the market for a new home or are considering refinancing, having your credit checked as part of your application is the best way to go. This will let you know exactly where you currently stand and whether or not work has to be done to improve your score. If you choose the right lender and work with an experienced professional, they should be able to advise you whether there is anything that can be done to improve your situation. I would not recommend trying to pay down debt or close down credit ahead of time without consulting with a loan professional first. Often we see clients try to improve their situation only to make things worse and jeopardize their loan approval.

Aside from removing late payments from your credit report, which can be difficult if they are being reported legitimately, **the easiest way to improve your credit is to pay down the balances on your revolving debt.** For example, if you owe $1,000 on a credit card and the maximum balance on the card is $1,000, your credit will suffer as a result; however, if you can pay down the balance below 75%, 50% or ideally 25% of the credit limit, your score may see a nice bump higher. Again, I would caution doing this on your own prior to speaking with a mortgage professional, as there are times when paying down debt can backfire if those funds were needed to qualify for a mortgage.



THE LAST RESORT TO IMPROVE YOUR SCORE WOULD BE TO USE A CREDIT REPAIR COMPANY.

If you decide to go this route, check with your lender to see if they have anyone they would recommend. Additionally, make sure you avoid any credit repair company that charges a large upfront fee for their services. Most reputable companies will offer a free consultation and charge on a monthly basis with no long-term contract.

NEXT
STEPS

You now understand what you need in order to refinance your home. The next step is to think about who you want as your mortgage company.

Learn why Sammamish Mortgage is one of the top refinance mortgage companies in Washington and the Pacific Northwest.

"Michael Shane and all the others that we worked with at Sammamish were professional and personable. They made the refinancing process as painless as possible. I have already referred my niece to Sammamish."

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