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The Right Time — and the Right Way — to Refinance a Mortgage

Mortgage rates have dropped again, and now you're wondering, is refinancing the right move? And if so, how to go about getting the best refinancing deal? The more you know about the refinancing process, the better equipped you will be to answer these questions for yourself.

That you're keeping tabs on mortgage rates and considering the refinance option is a good first step, says Michael McKevitt, who brings a unique perspective to the refinance issue as both a licensed mortgage originator (NMLS #876603) and a Certified Financial Planner™ at Guillaume & Freckman, a wealth management firm in Palatine, Ill.

The next step is to **determine, given your current circumstances and mortgage situation, whether you are indeed a good refinance candidate**, according to McKevitt. With a refinance, "you either want to lower your [monthly mortgage] payment or shorten your term" — the length of the mortgage loan itself.

Gaining access to a lower rate provides the means to accomplish either, or both, of those goals. But because there is often a cost to refinancing — typically in the neighborhood of $2,000, according to McKevitt, unless it's a "no-cost refinance" (more on that later) — the next step is to **determine whether the new refinanced rate is low enough** relative to your current rate to cover those costs while also providing a lower payment and/or a shorter loan term. The general rule of thumb (though certainly not a hard-and-fast rule) is that if the new refinanced rate on the mortgage is **at least 0.25% lower than the rate on the current mortgage,** pursuing a refinance could make good financial sense, McKevitt says.

Another factor to weigh in determining whether a refi makes sense is **the term remaining on your current loan**. If in doing the math — with the help of a mortgage agent, broker or financial professional — it's determined that you would not be able to recoup the cost of the refinance during the remaining term of the loan, then a refi may not be justified.

Also consider your **ability to qualify.** People with a low credit score, those whose income has recently dropped (such as due to a lost job) or who already carry a high level of debt may struggle to qualify for a new mortgage.

If the above criteria suggest you would make a good refi candidate, then it's time to start shopping for a lender and a loan. McKevitt's advice: take the time to comparison-shop, as you may be able to save hundreds, even thousands, of dollars if you pay attention to a few key factors:

• **Lending source.** You can refinance through a bank, a credit union, a mortgage broker or an online lender. McKevitt suggests requesting a rate from an independent broker that represents multiple lenders, as they "tend to offer lower rates than those offered by the big banks." On the other hand, if you have an existing relationship with a bank or credit union, that relationship may net you a discount on the rate or on closing costs — the fees and costs you pay to refinance. Online, sites such as www.bankrate.com and www.lendingtree.com are places to begin researching refinance rates from lenders of all types.

• **Moving parts.** The fees and costs that go into a refinance can sometimes be less than transparent, making comparisons from lender to lender challenging at times. Besides the actual interest rate on the mortgage, the **loan origination charge** can differ between lenders, as can the **lock period** for the refi rate the lender quotes you — that is, the period for which the lender agrees to "lock" the rate they offered lock to entice potential borrowers to move quickly with a refi decision. If you're offered the same low rate with both a 30- and 60-day lock, all else being equal, in most cases it makes sense to go with the lender who's offering the longer lock period, to give you more time to complete the refinance process.

Also pay attention to **how a lender intends to handle the escrow account** attached to a refinanced mortgage, urges McKevitt. Instead of the new lender rolling the amount required for your escrow account (to pay insurance, property taxes, etc.) into the cost of the refinanced loan amount, thus increasing the overall amount of the loan, and the amount on which you'll pay interest, use cash you have on hand, if possible, to fund the escrow account for the refinanced mortgage. You stand to save thousands of dollars over the life of the loan by not paying interest on an escrow amount that's been wrapped into your refinanced mortgage loan. "It's definitely something to be aware of," he says.

People who lack the funds to cover the cost of a refinance may be best suited to a no-cost refinance. In this case, a lender will waive the fees and costs associated with the refi in exchange for the borrower accepting a slightly higher interest rate on their loan. For people looking to avoid the upfront cost of refinancing, this is a viable option, provided the math makes sense with the slightly higher interest rate.

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