

Refinancing: What's In It for You?

You own your house. You're settled in and comfy. Still, with mortgage rate changes, you wonder if it's time to refinance.

Refinancing is paying off your mortgage and securing a new one on terms that are more beneficial. But it's not free money. You must weigh the costs against possible benefits.

There are three chief reasons to refinance:

1. To save money on monthly payments. Say you have a 30-year fixed-rate mortgage at 9% on a \$70,000 loan; you'd pay \$97 less a month in principal and interest with the same loan at 7%. That's the difference between your \$563 payment now and \$466 after refinancing.
2. Refinancing also can help you "own more" of your house by paying off the mortgage faster. Say you want a 15-year mortgage at 7% on \$70,000 instead of 30 years at 7%. Your monthly payment would rise from \$466 to about \$630, but you'd pay off the mortgage in half the time (depending, of course, on how much of the 30-year mortgage you've already repaid).
3. If you now have an adjustable-rate mortgage, refinancing could let you lock in an affordable fixed-rate loan with predictable monthly payments, or even an adjustable-rate with lower rate caps.

Another reason some homeowners get a new mortgage is to increase their home loan to cover remodeling costs or to consolidate other debts.

Underlying any reason to refinance is how long you intend to keep your house. The payoff increases the longer you stay.

Refinancing costs typically include fees for an application, credit report, property appraisal, title search, and processing. You might even owe a penalty for paying off your current mortgage early. Just to illustrate, if all those fees amount to \$2,000 and you'd save roughly \$100 in monthly payments by refinancing, refinancing would start to pay off in about 20 months.

Shop around to minimize your closing costs, including the up-front interest or "points" you pay to lower the mortgage rate, advises Stephen Brobeck, executive director of the Consumer Federation of America in Washington, D.C. Call **UMassFIVE**; we can help you explore which loan best suits your situation.

