

What Are Some Smart Ways to Refinance?

Recently, fixed mortgages were near their lowest rates in almost 30 years. And if you are one of the many people who took out mortgages in the few years prior to that, you may be wondering if you should look into refinancing.

If your mortgage was taken out within the past five years, it may be worthwhile to refinance if you can get financing that is at least one to two points lower than your current interest rate. You should plan on staying in the house long enough to pay off the loan transaction charges (points, title insurance, attorney's fees, etc.).

A fixed-rate mortgage could be your best bet in a rising interest rate environment, if you plan to stay in the house for several years. An adjustable mortgage may suit you if you will be moving within a few years, but you need to ensure that you will be able to handle increasingly higher payments should interest rates rise.

One way to use mortgage refinancing to your advantage is to take out a new mortgage for the same duration as your old mortgage. The lower interest rate will result in lower monthly payments.

For example, if you took out a \$150,000 30-year fixed-rate mortgage at 7.5 percent (including transaction charges), your monthly payment is now \$1,049. Refinance at 6 percent with a 30-year fixed-rate mortgage of \$150,000 (including transaction fees), and your payment will be \$899 per month. That's a savings of \$150 per month, which you can then use to invest, add to your retirement fund, or do with it whatever you please.

Another option is to exchange your old mortgage for a shorter-term loan. Your 30-year fixed-rate payment on a \$150,000 loan was \$1,049 per month. If you refinance with a 15-year fixed mortgage for \$150,000 — including transaction costs — at 6 percent, your monthly payment will be \$1,266. This payment is only \$217 more than your previous mortgage, but your home will be fully paid for several years sooner, for a savings of more than \$150,000! And some banks around the country are beginning to offer 10- and 20-year mortgages.

Either way you look at it, it's an attractive idea.

If you're considering refinancing your mortgage, consult your financial advisor and determine whether refinancing your home would be a good move for you.

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