Consumer Tip February 2016: Refinancing Your Home

Refinancing your home is a big decision that requires much thought and research, but if done wisely it can lead to substantial savings. When you refinance, you pay off your existing mortgage and create a new one. Questions to consider to determine if this is the right option for you include: Have interest rates fallen since you secured your mortgage? Has your credit score improved? Do you want to switch to a different type or length of mortgage? If you answered yes to any of these, it may be worthwhile to refinance. Below are additional questions to consider and tips to help along the way.

Why do you want to refinance?
Many homeowners refinance to lower their monthly payment by securing a lower interest rate. Others refinance to shorten their loan term (i.e., 30-year to 15-year loan) so it's paid off sooner. This reduces the total cost because of less interest paid but increases the monthly payment. Yet another reason is to switch mortgage types, usually from an adjustable rate mortgage to a fixed rate mortgage. This will help simplify mortgage payments and protect against rising rates. These are a few of the most common reasons to refinance.

Didn't interest rates just rise?
Although the Federal Reserve recently raised the key interest rate for the first time since the financial crisis in 2008, interest rates are still low. The current average interest rate on a typical 30-year fixed rate mortgage is 3.9 percent, which is expected to gradually increase this year. Let's take a historical look: 10 years ago, mortgage rates were near 6.3 percent and 20 years ago, they were 7.2 percent, so they're still much lower than in the past. While there is no immediate rush, now is a good time to start thinking about refinancing to lock in the lowest rate possible.

What are the costs to refinance?
Deciding whether to refinance is a numbers game. If you won't save money, don't do it. You must ensure that the charges and fees associated with refinancing don't outweigh the savings. Lenders typically charge fees for the mortgage broker's services, application, loan origination, home appraisal, home inspection and title insurance, in addition to other costs. Some lenders charge a prepayment penalty for paying the loan off early. Ask your lender for a "loan estimate" to get an idea about the costs involved. Even if refinancing lowers your monthly payment, it will take time to recoup your expenses so ensure you'll stay in the home long enough to make it worth it.

How do you get started?
A good credit score, equity in your home, a verifiable source of income and steady employment are helpful when you want to refinance. Start with your current lender but shop around to find the best loan. Get quotes from several banks and lenders, including the interest rate and associated costs, and have them put it in writing. You can save thousands of dollars by shopping, comparing and negotiating.

Refinancing may seem scary but it isn't when you understand the process, and the outcome is well worth it in the long run. Your local community banker will be happy to answer any questions or talk to you more in-depth about refinancing.