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## How to know if new terms will work to your favor

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You've heard the offers for lower interest rates and lower monthly payments, but will refinancing really work in your favor? That all depends on your situation.

"There is no one answer for everyone," said Tirza Beer of Upscale Equities in Monsey, N.Y. "Each person has to make their own calculation based on their finances."

"Before considering a refinance, you need to answer one major question," said Chip Cummings, CEO of Northwind Financial in Grand Rapids, Mich., and author of "The Mortgage Myth - 77 Insider Secrets to Saving Thousands on Home Financing" (Northwind Publishing).

"How long do you plan on staying in the home? If the answer is less than one to two years, it almost never pays to refinance," Cummings said. "Regardless of the interest rate, the costs can rarely be recouped in that short of a period."

If you plan to stay in your home for more than two years, refinancing has the potential to save you money in several ways.

### LOCKING IN FIXED RATES

Switching from an adjustable rate mortgage (ARM) to a fixed rate mortgage will often save homeowners money.

"If you are planning on staying in your home, and you are currently carrying one of those 'exotic' mortgages, such as an interest-option ARM, then you want to seriously look at getting into a more stable long-term product such as a fixed-rate mortgage," Cummings said.

Beer agrees.

"If you have an adjustable mortgage, and the payments keep going up, refinancing to a fixed rate might be a very good idea."

### AVOIDING RATE HIKES

More than \$1.1 trillion in adjustable-rate loans are coming up for an interest hike before the end of next year, Cumming said. If yours is among them, it may be time to refinance.

"The best way to know when it's time to refinance is to calculate the worst-case scenario if your current mortgage rate is scheduled to go up - and check your pulse," he said.

On the flip side, if the interest rate drops by a full percentage, homeowners should consider refinancing - in most cases the lower rate will be worth the effort, Beer said.

#### CLEANING UP CREDIT

Often, refinancing offers homeowners a chance to pay off other bills that may carry a higher interest rate.

"Sometimes a client has many credit card balances and may be paying the credit card companies 18 percent interest," Beer explained. "If he can cash out on his house or refinance, he will be saving thousands of dollars."

"The homeowner will be able to put more money in his pocket each month, and it will help him pay his balance instead of wasting his hard-earned money on minimum payments and late fees," she said.

A new mortgage can also help those with previously bad credit.

"Many times we will help a client who had a bad credit score, and therefore had to get a higher interest rate. We help repair their credit score, and then refinance them to a lower rate," Beer said. "This can actually save them thousands of dollars."

#### WHERE TO START

If you do choose to refinance, shop around. Contact two or three mortgage brokers, and ask for good faith estimates on identical products. Don't forget to include any closing fees in the estimates.

"This way you can compare apples to apples," Cummings said.

During the process, check your credit score and review your credit report for any errors. Do not let more than one company run your credit score. Multiple inquiries can have an impact later on, Beer said.

Of course, there are times when it doesn't pay to refinance, regardless of the alluring offers for lower interest rates.

"Under certain circumstances, it never pays to refinance," Cummings said. "Even if you're currently in an 8 percent mortgage, if you are in your eleventh year of a 15-year mortgage, you would be setting the clock back 11 years on your payments.

"You'd never be able to catch the clock again - regardless of the low rate."