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| **Questions And Answers On Refinancing**    **Question: When should I refinance my current mortgage loan?**  Answer:   1. When interest rates fall, a homeowner should definitely call a lender about refinancing. 2. Is your goal to lower your monthly payment? Consolidate debts? Get cash out for large purchases? Change your interest deduction expense for your taxes? 3. Ask your lender to show you how your loan term length, monthly payment and your total interest expense on the loan will change. 4. Some experts say that you should refinance when mortgage rates are 2% lower than the rate you currently have on your loan. Refinancing may be a viable option even if the interest rate difference is less than 2%. A modest reduction in the loan rate can still trim your monthly payment.   **Question: Is it wise to refinance if I plan on moving soon?**  Answer:   1. Most lenders charge fees to refinance a loan. Some lenders will charge a slightly higher than average interest rate on refinance loans, but waive all costs associated with the loan. 2. What is the interest rate you are being charged on your current loan ? How much will you save monthly if you refinance? 3. If you plan to stay in the property for less than a couple of years, your monthly savings may not give you a chance to accumulate and recoup these costs.   **Question: What are the costs to refinance my current home loan?**  Answer:   1. You will have the following fees: An application fee ($250-350) You will likely have to pay an origination fee (typically 1% of the loan amount) 2. You may need to pay a title search, title insurance, misc. lender fees, etc. The sum of these fees could cost you up to 2-3% of the loan amount. 3. Get a quote from a lender that offers 'no-cost' loans. These loans will charge a slightly higher interest rate, so ask a lender if it would still make sense to refinance using this type of program.   **Question: What are points?**  Answer:   1. Points are costs that need to be paid to a lender in order to receive mortgage financing under specified terms. A point is a percentage of the loan amount (one point = one percent of the loan). 2. One point on a $100,000 loan would be $1,000. Discount points are fees that are used to lower the interest rate on a mortgage loan (you are discounting the interest rate by paying some of this interest up-front). 3. Lenders may express other loan-related fees in terms of points. Some lenders may express their costs in terms of basis points (hundredths of a percent). 100 basis points = 1 point (or 1 percent of the loan amount).   **Question: Is it important to pay as many discount points as possible to lower my loan's interest rate?**  Answer:   1. Ask your lender how long it would take for your monthly savings to recoup the costs of the discount points. 2. If you only plan to stay in the property for a year or two, your monthly savings may not be enough to recoup the cost of the discount points that you paid up-front. 3. If you plan on staying in the property for at least a few years, paying discount points to lower the loan's interest rate can be a good way to lower your required monthly loan payment and possibly increase the loan amount that you can afford to borrow.   **Question: What does it mean to lock the interest rate on a mortgage loan?**  Answer:   1. Mortgage rates can change dramatically from the day you apply for a mortgage loan to the day you close the transaction. If interest rates rise sharply during the application process, it could make a borrower's mortgage payment larger than he/she previously thought. To protect against this uncertainty, a lender can allow the borrower to 'lock-in' the loan's interest rate, guaranteeing the borrower the prevailing loan rate for a specified period of time (often 30-60 days). A lender may or may not charge a fee for this service.   **Question: When I apply for a mortgage loan should I lock-in my loan rate?**  **Answer:**   1. Your lender may be able to give you an estimate of where they think mortgage rates are headed. If interest rates are expected to be volatile in the near future, you may want to consider locking your interest rate if rising rates will no longer allow you to qualify for the loan. If your budget can handle a higher loan payment or if the lender's lock fee seems excessive for your means, you might want to consider allowing the interest rate to 'float' until the loan closing.   **Question: How does credit problems in the past this impact my chances of getting a home loan?**  Answer:   1. Obtaining a home loan is possible even with poor credit. To compensate for the added risk of past credit problems, the lender will charge you a higher interest rate and usually expect you to pay a higher down payment on your home purchase (typically 20-50% down). 2. The worse your credit is, the more you can expect to pay for an interest rate and a down payment. Not all lenders can lend to risky borrowers; therefore, you may have to contact several before finding a lender that will.   **Question: Does my being late of a couple times on my credit card bills mean that I will have to pay an extremely high interest rate?**  Answer:   1. If you have been late less than three times in the past year, and the payments were no more than 30 days late, you probably have a pretty good chance at getting a home loan at a competitive interest rate. Lenders guidelines do vary but most lenders will excuse a couple of minor late-payments as long as the borrower can provide a reasonable excuse explaining them (i.e. job transition, illness). 2. If the late-pays were 60+ days late and cannot be explained, you may have to settle for a higher interest rate.   **Question: How can I get the best rate on financing?**  Answer:   1. When looking for a good rate among lenders, keep in mind that a lender can structure financing for a borrower several different ways. 2. A lender can charge higher fees and offer a low interest rate while another may charge a slightly higher interest rate with lower fees. 3. In order to make an 'apples to apples' comparison between lenders, ask each lender what their interest rate is for a zero discount point loan (based on a 30 or 60 day lock period). Then ask each lender what they charge for an origination fee, as well as any other fees they typically charge for a loan, (i.e. broker, processing, underwriting). A reputable lender will not hesitate in answering these questions.   **Question: Should I choose the lender with the lowest costs and interest rates ?**  Answer:   1. There are two important considerations when choosing one lender over another: the quality of service being provided and the cost of services provided. 2. Quality of service is especially important to those who have never purchased a home. First-time homebuyers will likely have many questions regarding the financing process and available loan options. 3. Ask each lender several questions before you fill out any loan application. A good lender should be able to get you through the financing process leaving you confident that you made a sound financial decision. If after a few questions you do not feel comfortable with the lender’s responses, then call someone else. The lender should answer your questions openly and honestly. If you cannot find someone that you are comfortable with, you may want to ask your realtor for suggestions. |