STEELPEAK
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MONTHLY NEWSLETTER

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CONTENTS

Refinancing in three steps

How much will refinancing cost?

Quote of the Month:

It always seems impossible until it's done.

-Nelson Mandela

Facts About Refinancing

Even with interest rates rising, you may want to explore the possibilities.

In the first quarter of 2018, the refinance share of home loan applications in the U.S. fell to 40%, the lowest in ten years. Higher mortgage rates had reduced demand for refis.[1]

Still, the refi is not exactly dead. If you have good credit, you may be considering refinancing yourself, for one or more reasons. Perhaps you want to shorten the term of your home loan. Maybe you have an adjustable-rate mortgage now and want to refi into a fixed rate. Or, maybe you want to tap into home equity or consolidate debt. Whatever your reason(s), you must weigh two questions. One, how long do you want to stay in your home? Two, how much money will you really save?

Refinances break down into three types: rate-and-term, cash-out, and cash-in. Rate-and-term refis simply adjust the term and/or the interest rate of your existing loan. Even though interest rates are rising now, they still make up the bulk of refinances. This kind of refi could permit you to walk away from closing with as much as $2,000 in cash. The no-cash-out variety adds closing costs to the loan balance, relieving you from having to pay those costs out of pocket.[2]

A cash-out refi gives you an opportunity to tap home equity and pay off your existing mortgage. In a cash-out mortgage, the loan balance on the refinance is at least 5% more than the balance on the original loan. As you just owe the balance of your original loan to the lender, the overage is either paid out as cash at closing or routed to your creditors to help you whittle down other debts.[2]

A cash-in refi is the inverse of a cash-out refi. You bring cash to the closing to lower the outstanding principal of the loan, pursuant to a shorter loan term or a lower interest rate available at lower loan-to-values (LTVs). You may be able to cancel mortgage insurance premium payments as part of the move (i.e., by reducing a conventional mortgage to 80% LTV or lower).[2]

How much will a refi cost? In ballpark terms, the answer is often $2,000-$5,000. In percentage terms, think 3-5% of the loan amount.[3,4]

The price of a refi may be notably cheaper in one state than another, thanks to variations in closing costs. Of course, certain closing costs may be negotiable, like app and processing fees. Sometimes you can save on title searches, title insurance, and inspections by turning to a third party for those services. If your last appraisal was conducted recently, you might be able to negotiate your way out of a new one.[3]

Sometimes you can refinance without an appraisal. The Federal Housing Administration (FHA) and Veterans Administration (VA) offer streamlined refinancing programs to homeowners with existing FHA or VA-backed home loans. The underwriting process is less demanding than it would be otherwise. Besides usually waiving the appraisal, these programs also commonly waive credit score and income verifications.[2]

In some situations, refinancing may not be "the answer." If you are stretching the term of your loan out with a refi, you will carry mortgage debt for years longer than you originally planned, complete with thousands more paid out in interest. If you are using home equity to fund a remodel or upgrades, your home's value may not rise as much as you anticipate from the work. Then there are the little curveballs life throws at us, such as potential job changes and relocations. If you sense you might have to move before you can recapture the closing costs of the refi, is it even worth the trouble to try?

Hopefully, you will be able to lower the interest rate on your loan, shorten its term, or find a way to reduce your monthly payments through refinancing. Online calculators and a conversation with a trusted mortgage professional may help you determine the potential break-even points for a refi and find paths to a home loan more suitable to your needs.

Citations.

1 - cnbc.com/2018/03/13/mortgage-refinances-fall-to-decade-low.html [3/14/18]
2 - themortgagereports.com/16096/refinance-mortgage-rates [12/9/17]
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