Refinancing Mortgages

What happens when I refinance a mortgage?

When you refinance your mortgage you are taking out a new loan on your home. The old mortgage is then paid off and you will owe payments on the new mortgage.

Why would I want to refinance my mortgage?

There are several reasons you might want to refinance. The biggest reason you may want to refinance is to get a lower interest rate and lower your monthly mortgage payments. Before you refinance your mortgage, you must think about why you are doing it. Are you currently paying a higher rate of interest on your mortgage than is available now? Do you want to refinance to lower your payments because you are having trouble making the payments? These may be good reasons to refinance.

Are you trying to consolidate all your debts into one loan? Do you need money for repairs?These may not be good reasons to refinance.

Because a mortgage uses your house as collateral, you risk losing your home if you are unable to make the payments. You might be better off getting another type of loan instead of refinancing your house.

I am thinking about putting all my debts together into my mortgage. Should I?

This may not be a good idea. First, if you get a 30-year mortgage, you will be paying off all of these debts over a 30 year period of time. This means you will be paying interest on these debts for 30 years. Do you really want to be paying that medical bill for 30 years? Second, your home will be collateral for the loan. If you can’t make your monthly mortgage payment, you could lose your home. The more debt you roll into your mortgage, the higher the mortgage payment. Also, the more debt you have in your mortgage, the more likely you will have to pay for mortgage insurance (an insurance policy for the lender). This will increase the amount of your monthly payment even more. Finally, consolidating your debts into a home mortgage can severely limit your ability to obtain debt relief through bankruptcy, should the need arise in the future.

How much can I realistically borrow?

You can estimate how much you can realistically borrow for your home, by using this common formula. First, take your gross monthly income (before taxes are taken out) and multiply it by 28% (.28). This is your allowable monthly payment for housing that lenders often use in figuring out how much they can lend you. Next, figure out your monthly real estate taxes by dividing the year's total real estate taxes by 12. Do the same for your homeowner's insurance to determine the monthly amount of homeowner's insurance. Finally, subtract the monthly taxes and insurance amounts from the amount you can pay per month. That leaves what a lender thinks you can pay per month on a mortgage payment.

Example: Gross mo. Income = $1500 Times .28 (28%) = $420 – Taxes ($1200) ÷ 12 = $100 – Insur. ($900) ÷ 12 = $75 = Mo. Payment: $245

This formula may not work for everyone. You should look at your own budget and all of your expenses before you decide how much you think you could pay per month for a mortgage. You may have higher than normal expenses, such as medical, utility, transportation, school, etc. Also, remember that some lenders may be willing to lend you more money than you can realistically afford to repay.

How do I find a mortgage loan?

If you have a good relationship with your current lender, ask about their loan programs. Because you are already a customer, they may be willing to work with you to keep your business. If you don't have a good relationship with your lender, it might be harder to get a new loan from that lender. A poor payment history will cost you money in higher interest rates and higher insurance costs to protect the lender from nonpayment. Make sure you understand all of the costs that come with refinancing before you choose a new lender. You may be getting a lower interest rate but have very high closing costs.

What is a mortgage broker?

A mortgage broker does not actually lend you the money, but finds someone who will lend the money to you. The mortgage broker charges a fee for this service. These fees can be substantial.

If you go to a mortgage broker, find out what fees are charged for the broker's services. It is important to understand that the mortgage broker is not working for you, but for the mortgage broker business itself. The mortgage broker may be more interested in sending you to a lender who pays the broker's fees, than in finding a lender who will offer you the best deal.

What kind of loan should I get?

There are two basic kinds of mortgage loans available. The fixed-rate mortgage has a predictable cost for the life of the loan. Your interest rate stays the same, and you will always know what you will be paying from month to month. You can get a fixed-rate loan in 30- and 15-year mortgages. The monthly payments on a 15- year mortgage will be higher, but over time you will end up paying a lot less interest than on a 30-year loan.

Variable rate mortgages are also called "adjustable rate mortgages" (ARMs). They are used during times of high interest rates because they offer a lower initial rate, but the rate can go up over the term of the loan. The interest rate on the loan will be adjusted upward, giving you higher payments. ARMs can be a bad idea if you are on a fixed income because the payments may soon become too high for you to afford.

Is there any help for me in refinancing my mortgage?

Find out if you are eligible for any government programs through the Federal Housing Administration (FHA) or the Department of Veterans Affairs. You might be able to get lower interest mortgages with lower fees through these programs.

Last Revised: 07/02

LSC Code 1620120

Refinancing Mortgages - PDF-Brochure.pdf
Refinancing Mortgages - PDF-Brochure. Español.pdf
