

2 BLUE CHIP CORNER

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News from 2 Blue Chip Mortgage

Refinancing Your Home

As posted on EasierHomeLoans.com 4/28/08.

If you are a homeowner who was lucky enough to buy when the mortgage rates were low, you may have no interest in refinancing your present loan. But perhaps you bought your home when rates were higher. Or perhaps you have an adjustable-rate loan and would like to obtain different terms.

01. Should you refinance?

This section will answer some questions that may help you decide. If you do refinance, the process will remind you of what you went through in obtaining the original mortgage. That's because, in reality, refinancing a mortgage is simply taking out a new mortgage. You will encounter many of the same procedures and the same type of costs—the second time around.

02. Would refinancing be worth it?

Refinancing can be worthwhile, but it does not make good financial sense for everyone. A general rule of thumb is that refinancing becomes worth your while if the current interest rate of your mortgage is at least 2 percentage points higher than the prevailing market rate. This figure is generally accepted as the safe margin when balancing the costs of refinancing a mortgage against the savings.

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There are other considerations, too, such as how long you plan to stay in the house. Most sources say that it takes at least three years to realize the savings from a lower interest rate, given the costs of the refinancing. (Depending on your loan amount and the particular circumstances, however, you might choose to refinance a loan that is only 1.5 percentage points higher than the current rate. You may even find you could recoup that refinancing costs in a shorter time.)

Refinancing can be a good idea for homeowners who:

1. Want to get out of a high interest rate loan to take advantage of lower rates. This is a good idea only if they intend to stay in the house long enough to make the additional fees worthwhile.
2. Have an adjustable-rate mortgage (ARM) and want a fixed-rate loan to have the certainty of knowing exactly what the mortgage payment will be for the life of the loan.'
3. Want to convert to an ARM with a lower interest rate or more protective features (such as a better rate and payment caps) than the ARM they currently have.

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4. Want to build up equity more quickly by converting to a loan with a shorter term.
5. Want to draw on the equity built up in their house to get cash for a major purchase or for their children's education.

If you decide that refinancing is not worth the costs, ask your lender/broker whether you may be able to obtain all of some of the new terms you want by agreeing to a modification of your existing loan instead of refinancing.

03. Should you refinance your ARM?

In deciding whether to refinance an ARM you should consider these questions:

- Is the next interest rate adjustment on your existing loan likely to increase monthly payments substantially? Will the new interest rate be two or three percentage points higher than the prevailing rates being offered for either fixed-rate loans or other ARMs?
- If the current mortgage sets a cap on your monthly payments, are those payments large enough to pay off your loan by the end of the original term? Will refinancing to a new ARM or a fixed-rate loan enable you to pay your loan in full by the end of the term?

04. What are costs in refinancing?

The fees described below are the charges that you are likely to encounter in a refinancing. Because these costs may vary significantly from area to area and from lender to lender, you should check with your loan officer for your exact costs.

1. **Application Fee.** This charge imposed by your lender/broker covers the initial costs of processing your loan request and checking your credit report.
2. **Title Search and Title Insurance.** This charge will cover the cost of examining the public record to confirm ownership of the real estate. It also covers the cost of a policy, usually issued by a title insurance company, that insures the policy holder in a specific amount for any loss caused by discrepancies in the title to the property. Be sure to ask the company carrying the present policy if it can re-issue your policy at a lower rate.
3. **Attorney or Escrow Fees.** The lender will usually charge you for fees paid to the lawyer or company that conducts the closing for the lender. Settlements are conducted by lending institutions, title insurance companies, escrow companies, real estate brokers, and attorneys for the buyer and seller. In most situations, the person conducting the settlement is providing a service to the lender. You may also be required to pay for other legal services relating to your loan which are provided to the lender. You may want to retain your own attorney to represent you at all stages of the transaction including settlement.

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4. **Loan Origination Fess and Points.** The origination fee is charged for the lenders/brokers work in evaluating and preparing your mortgage loan.

- Points are prepaid finance charges imposed by the lender at closing to increase the lender's yield beyond the state interest rate on the mortgage note. One point equals one percent of the loan amount.
- For example, one point on a \$75,000 loan would be \$750 . In some cases, the points you pay can be financed by adding them to the loan amount. The total number of points a lender charges will depend on market conditions and the interest rate to be charged.

5. **Appraisal Fee.** This fee pays for an appraisal which is a supportable and defensible estimate or opinion of the value of the property.

6. **Prepayment Penalty.** A prepayment penalty on your present mortgage could be the greatest deterrent to refinancing. The practice of charging money for an early pay-off of the existing mortgage loan varies by state, type of lender, and type of loan. Prepayment penalties are forbidden on various loans from federally chartered credit unions, FHA and VA loans, and some other home-purchase loans. The mortgage documents for your existing loan will state if there is a penalty for prepayment. In some loans, you may be charged interest for the full month in which you prepay your loan.

7. **Miscellaneous.** Depending on the type of loan you have and other factors, another major

expense you might face is the fee for a VA loan guarantee, FHA mortgage insurance, or private mortgage insurance. There are a few other closing costs in addition to these.

In conclusion, a homeowner should plan on paying an average of 3 to 6 of the outstanding principal in refinancing costs, plus any prepayment penalties and the costs of paying off any second mortgages that may exist.

One way of saving on some of these costs is to check first with the lender who holds your current mortgage. The lender may be willing to waive some of them, especially if the work relating to the mortgage closing is still current. This could include the fees for the title search, surveys, inspections, and soon.

Borrowers Rights from

easierhomeloans.com

Know Your Rights

This may be the largest and most important loan you get during your lifetime. You should be aware of certain rights before you enter into any loan agreement.

1. You have the right to shop for the best loan for you and compare the charges of different mortgage brokers and lenders.
2. You have the right to be informed about the total cost of your loan including the interest rate, points and other fees.
3. You have the right to ask for a Good Faith Estimate of all loan and settlement charges before you agree to the loan and pay any fees.
4. You have the right to know what fees are not refundable if you decide to cancel the loan agreement.
5. You have the right to ask your mortgage broker to explain exactly what the mortgage broker will do for you.
6. You have the right to know how much the mortgage broker is getting paid by you and the lender for your loan.
7. You have the right to ask questions about charges and loan terms that you do not understand.
8. You have the right to a credit decision that is not based on your race, color, religion, national origin, sex, marital status, age or whether any income is from public assistance.
9. You have the right to know the reason if your loan is turned down.
10. You have the right to ask for the HUD settlement costs booklet *Buying Your Home*.