

Should I Refinance My Mortgage?

The decision to refinance a mortgage can hinge on several variables. In general, refinancing costs between 3%-6% of the loan amount. These costs include loan origination fees, title insurance, points, application costs and other fees.

Common Reasons to Refinance:

- » To lower your monthly payment amount to reduce financial stress on your budget
- » To lower your interest rate and save interest costs in the long term
- » To pay off your mortgage loan sooner
- » To access some extra cash (to pay off other debts with higher interest rates, make home improvements, finance a wedding, pay for college costs, etc.)

Scenarios Where Refinancing May Not Make Sense

- » You cannot afford the new refinanced mortgage payment
- » Your current mortgage has a prepayment penalty
- » You will not stay in your home long enough to break even on closing costs. To determine the breakeven period, divide the closing costs of the new loan by the monthly interest savings (or run the numbers on a mortgage calculator). In general, the longer you stay in your home, the more money you will save by refinancing

- » You have a low credit score, which means you likely will not be eligible for a very good interest rate You cannot afford to pay the closing costs for the refinance in cash
- » You cannot shorten the loan term (from say 30 years to 15 years); otherwise refinancing to the same number of years as your current mortgage means paying interest for an even longer period of time, albeit at a lower interest rate the second time around.

Income tax considerations may be a factor, depending on current tax law. Your mortgage interest may be deductible, depending on whether you itemize deductions or take the standard deduction. Consult with a tax advisor for your specific situation.

For more information, see
www.federalreserve.gov/pubs/refinancings/default.htm#breakeven.



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