

HOME REFINANCE

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WHAT THE BANKS WON'T
TELL YOU ABOUT
REFINANCING YOUR HOME

Home Refinance Money Savers: Save Thousands on Your Mortgage

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REFINANCING YOUR MORTGAGE – WHAT DOES THAT MEAN?

The word “refinance” is being used so commonly today that it’s become part of our lingo. Everywhere you turn, everyone is talking about it – “When are you going to refinance?” “Have you refinanced yet?” “We’re thinking about refinancing ...” And so on.

WHAT IS EVERYONE TALKING ABOUT?

It may seem strange but in this day and age, some homeowners really and truly do not know what it means to refinance a mortgage. They may hear the term quite a bit during television commercials or see it in ads from their local banks and other lending institutions, they may have heard their friends or coworkers talk about refinancing their own homes, but even so, they don’t completely understand what that term technically means.

Simply put, refinancing your mortgage means applying for a new mortgage to replace your old one, still using your home as collateral for that loan.

When refinancing, you are basically asking the bank to set aside your current mortgage and then loan you the money you currently owe on your home all over again. So, if you originally borrowed \$150,000 for your home purchase and since then have paid enough so that you currently only owe \$100,000 on your mortgage, to refinance means to set aside that original loan and ask the bank to lend you that \$100,000 as a fresh loan.

But to really understand the procedure involved with refinancing and to better enable you to make an informed decision as to whether or not this is the best option for you and your family, let’s look a bit deeper into what a “mortgage” truly involves.

WHAT IS A MORTGAGE?

Technically, a mortgage is a method of using real property to secure a loan. You “mortgage” your house or land when you use it as collateral for a loan.

You can use a mortgage to get cash for other purchases, but the term typically applies to obtaining a loan to purchase a private home, using that same home as collateral for the loan. This is how we’ll use the term in this book, even though it can also involve vacant land, commercial property (stores, office buildings, etc.) and the like.

Without a mortgage or loan from a bank, very few people would be able to afford the cost of a home. This loan or mortgage allows them to spread the payments for that loan over a period of several years, rather than having to save thousands, even hundreds of thousands, of dollars to buy the home with cash – an impossibility for most persons!

Mortgages can also be used for reasons other than the purchase they’re securing. For example, some people may take out a “second mortgage” on their home, meaning another loan that also uses the house as collateral, for college tuition, emergencies, travel, home remodeling, to purchase investment property, and so on.

SOME COMMON MORTGAGE AND FINANCE TERMS.

The common terms used to describe a mortgage involve the “creditor,” the “debtor,” and “mortgage broker.” It may be self-explanatory as to what those terms mean, but there are other terms involved with a mortgage as well that a homeowner may not be completely familiar with. Let’s cover some of them here:

Creditor

The creditor is the financial institution, typically a bank, who provides the money in the form of a loan for the mortgage amount. The creditor is sometimes referred to as the mortgagee or lender.

Debtor

The debtor is the person or party who owes the mortgage or the loan. They may be referred to as the mortgagor.

Many homes are owned by more than one person, such as a husband and wife, or sometimes two close friends will purchase a home together, or a child with their parent, and so on. If this is the case, both persons become debtors for that loan, and not just owners of the property.

In other words, be careful of having your name put on the deed or title to any house, as this makes you legally responsible for the mortgage or loan attached to that house as well.

Mortgage broker, financial advisor

Mortgages are not always easy to come by, however, because of the demand for homes in most countries, there are many financial institutions that offer them. Banks, credit unions, Savings & Loan, and other types of institutions may offer mortgages. A mortgage broker can be used by the prospective debtor to find the best mortgage at the lowest interest rate for them; the mortgage broker also acts as an agent of the lender to find persons willing to take on these mortgages, to handle the paperwork, etc.

There are typically other parties involved in closing or obtaining a mortgage, from lawyers to financial advisors. Because a mortgage for a private home is typically the largest debt that any one person will have over the course of his or her life, they often seek out whatever legal and financial advice is available to them in order to make the right decision. A financial advisor is someone who can become very familiar with your own particular needs, income, long-term goals, etc., and then give you the best advice on what your loan needs may be.

Foreclosure

When the debtor cannot or does not meet the financial obligations of the mortgage, the property can be foreclosed on, meaning that the creditor seizes the property to recoup the remaining cost of the loan.

Typically, a home that is foreclosed upon will be sold at auction and that sale price applied to the outstanding amount of the mortgage; the debtor may still be liable for the remaining amount if the property sold for less than the outstanding balance of the mortgage.

For example, suppose a person still owes \$50,000 toward their mortgage, and their home is foreclosed. At auction, the home is sold for only \$45,000. The debtor is still responsible for that remaining \$5,000 difference.

Most banks and financial institutions will try to avoid foreclosing on any of their debtor's property if at all possible. Not only do they run the risk of not being able to sell the home at auction for any price, but there are also additional costs and risks incurred when the home is vacated by the previous owners. This includes vandalism, squatters (persons who trespass onto vacant land or into vacant homes and stay there until forcibly removed), fines from cities for unkempt yards, and so on.

Annual Percentage Rate (APR)

The APR is not to be confused with a mortgage's interest rate.

The APR is a loan's interest rate plus the added costs of obtaining the loan, such as points, origination fees, and mortgage insurance premiums (if applicable).

If there were no costs involved in obtaining a loan other than the interest rate, the APR would then equal the interest rate.

Breakeven Point

The breakeven point is the length of time it will take to recover the costs incurred to refinance a mortgage. It is calculated by dividing the amount of closing costs for refinancing by the difference between the old and new monthly payment.

For example, if it costs you \$5,000 in fees, penalties, etc., to refinance your mortgage, but you save \$300 per month on your payments with

your new mortgage, the break-even point is after 17 months (17 months x \$300 per month = \$5,100).

ARM

This refers to an Adjustable Rate Mortgage; a mortgage that permits the lender to adjust its interest rate periodically.

Fixed-Rate Mortgage

A mortgage in which the interest rate does not change during the term of the loan.

Cap

ARMs have fluctuating interest rates, but those fluctuations are usually limited by law to a certain amount.

Those limitations may apply to how much the loan may adjust over a six month period, an annual period, and over the life of the loan, and are referred to as "caps."

Index

A number used to compute the interest rate for an ARM. The index is generally a published number or percentage, such as the average interest rate or yield on U.S. Treasury Bills. A margin is added to the index to determine the interest rate that will be charged on the ARM.

Since the index may vary with ARMs, many people considering refinancing do well to keep aware of the standard interest rate as set by the federal government, as this is typically used by lending institutions to calculate that index.

Prime Rate

The interest rate that banks charge to their preferred customers. Changes in the prime rate influence changes in other rates, including mortgage interest rates.

Equity

A homeowner's financial interest in or value of a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage and other liens, if that value is higher.

In other words, if the fair market value of the home is \$200,000, and your mortgage (and other liens, if applicable) is only \$150,000, then the home has \$50,000 in equity.

Home Equity Loan

Loans secured by a specific property that were made against the "equity" of the property after it was purchased.

Using the illustration above of a home that has \$50,000 in equity, a homeowner may take out a loan up to that amount, using the home as collateral for that loan. A lending institution knows that if the homeowner defaults on the loan, they can seize the property and sell it for at least that much, getting back their loan amount.

Amortization

The gradual repayment of a mortgage loan, usually by monthly installments of principal and interest.

An amortization table shows the payment amount broken out by interest, principal, and unpaid balance for the entire term of the loan. These tables are useful because when a payment is made toward a mortgage, the same amount does not get applied to the principal and interest month after month, even when the payment amount is the same. This is often a difficult concept for those not in the real estate or banking business to understand, so an amortization table that spells out how each payment is applied to the debt over the life of the loan can be very helpful.

Cash-Out Refinance

When a borrower refinances his mortgage at a higher amount than the current loan balance with the intention of pulling out money for personal use, it is referred to as a "cash out refinance." In other words, the mortgage is not simply for the home itself but an additional amount of money is being financed as well.

Appraised Value

An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property. The appraised value of the home is a key factor in how much the home can or will be mortgaged for.

Appreciation

The increase in the value of a property due to changes in market conditions, inflation, or other causes.

Depreciation

A decline in the value of property; the opposite of appreciation.

Appreciation and depreciation are important concepts to remember; as we've just mentioned, the appraised value of the home is a determining factor in the home's mortgage. When refinancing, it's important to understand that your home may have appreciated or depreciated in value since the original or first mortgage was obtained.

Lock-in

An agreement in which the lender guarantees a specified interest rate for a certain amount of time at a certain cost.

Lock-in Period

The time period during which the lender has guaranteed an interest rate to a borrower.

This is a different concept than a fixed rate mortgage, as the lock-in period for a mortgage may be temporary rather than over the life of the loan.

As we said previously, many of these terms you may already be familiar with, but it doesn't hurt to review them and see how they are all tied in together with your mortgage and the refinancing process.

So now that you have these basic terms in mind when it comes to a mortgage and the lending process, let's discuss the process of refinancing in greater detail.

WHY WOULD A PERSON REFINANCE?

Like so many other procedures that involve a bank or credit union, refinancing a mortgage can be a lengthy, time-consuming process involving a mountain of paperwork and complicated numbers and formulas. So why would someone pursue a mortgage refinance in the first place? What has made this such a popular topic as of late? After all, when talking about peer pressure, your mother was probably right when she said, "If all your friends jumped off a bridge, would you jump too?"

But then again, if all your friends and coworkers are refinancing, there must be something to it, right? There has to be a reason why it's become almost standard practice for so many. After all, what if all your friends were jumping because the bridge was on fire? Or if there was a big treasure floating around the river below? But before we dismiss mom's advice so readily, let's take a closer look at some of the most common reasons why people choose to refinance, and then you can better decide if you want to jump off that same bridge too.

INTEREST RATES.

Usually refinancing is done to lower the interest rate of the mortgage. By having an interest rate that is even a quarter of a percentage less than your current rate, a homeowner can save hundreds or even thousands of dollars over the life of their mortgage loan.

Having a lower interest rate may also reduce the homeowner's required monthly mortgage payment, allowing them to put money toward other bills or expenses. This especially makes sense if those other bills have higher interest rates than the mortgage.

For example, if your mortgage has a 7% interest rate but you are paying credit cards with 12% interest, even though your monthly payments for the credit cards may be lower, you're actually paying more in interest charges for the credit cards than you are for your mortgage. Many persons who refinance their mortgage do so to free up cash every month to pay off these higher interest rate cards.

FINANCIAL ADVANTAGES.

Along the same lines, refinancing a mortgage may be done if a person wants to consolidate debt, such as many credit cards, student loans, and the like.

Refinancing may also be done as a monetary protection, such as when you refinance an adjustable rate loan to a fixed rate loan in order to “lock in” that more desirable loan amount, or when you feel that the rate on your ARM will continue to rise, freeing you from a larger financial burden for years to come.

FOR HOME EQUITY.

It may also be true that a homeowner has been paying their mortgage for some time, building up equity in their home. They may decide to refinance to get some of that equity back, allowing them to use it toward home improvement projects, college tuition, and the like.

And others refinance to a shorter-term mortgage, allowing them to actually build even more equity in their home over a shorter period of time. This may be done if they are considering selling, retiring, or for some other reason that they want to have equity in a property rather than carry a mortgage.

SHOULD I REFINANCE?

Obviously there is no easy answer to this question. Making the decision to refinance one's mortgage is like making the decision to have a specific surgery. Only you and your doctor can be sure if it's the right decision for you; only he or she can tell you exactly the risks, options, expected outcome, and so on. In the same way, only your bank, lending institution, or financial advisor can help you personally make the final decision.

TO PAY DOWN DEBT.

However, there are times when, like that surgery, the answer may be very obvious. As we mentioned, a person drowning in high interest rate credit card debt may have refinancing as their only option to actually get ahead of that debt, rather than simply paying down the interest rate and never applying payments toward the principal for months or even years.

To really understand how this particular concept may affect you individually, it might be advisable for you to gather up all your unsecured loans – credit cards, personal loans, student loans, etc. – and look at the bills you're paying.

Often when a payment on any of these bills is late, even for just a few days, the interest rate can double from the original rate. So, look at the most recent bill you paid on your credit card or other loan. What is the interest rate?

Ask yourself if you're paying only the minimum monthly payment on these cards, and whether or not they're maxed (spent to their credit limit). If the answer to either of these is yes, then chances are, you're paying far too much for credit card debt and you may be better off refinancing to pay down these loans.

FOR HOME IMPROVEMENT OR REPAIR.

Home improvement projects may be necessary for one's home. Installing a Jacuzzi tub is a luxury, but fixing a rotting roof or leaking plumbing is a necessity. Without any other liquid assets to their name, refinancing a home to tap into its equity may be advisable for the homeowner if it means actually saving the structure of a house itself!

Your remodeling or rebuilding plans may also include an addition for your expanding family – after all, no child likes sleeping in the same room with several brothers and sisters, at least not for very long! There may also be needed upgrades to the bathrooms or kitchen, or add-ons for either.

These types of projects may be actually necessary if someone is looking to sell their home. In today's real estate market, many areas are saturated with homes, more than there are buyers. Which means that many prospective sellers need to improve their own home in order to remain competitive. Some real estate agents will even refuse to list a home unless certain upgrades are taken care of first.

And even if your remodeling plans are for luxuries only, again, this is your decision to make. Your home's equity is like the money you've saved in your bank account – you've earned it, and it's yours to do with as you please, even if it's just for that Jacuzzi tub! Traveling, buying a vacation home or RV, going on a special vacation, all of these expenses may be reasons why someone may consider tapping into that equity for a little cash on the spot.

FOR IMMEDIATE FUNDS.

There may be other necessities that require some immediate funds, such as college tuition, medical emergencies, family emergencies, and the like. Again, whether or not it's a good idea for someone to use their home equity to face these, rather than a credit card or personal loan, is a decision they need to make for themselves.

The bottom line is that refinancing makes sense if, when you crunch the numbers, you end up paying less with the new mortgage, whether it's a lower monthly payment or a lower amount over time. Or, if your new mortgage is more compelling in a way that's worth any extra cost, such as that badly needed home improvement project, or when being able to pay down your many credit cards actually saves you money in the long run.

Because there are so many factors involved in refinancing, you will need to consider all the ways that a refinance will affect you and your family and then make the best decision from there. But don't worry, you're not completely on your own! This book will help you consider many of the factors that are involved with refinancing so that you can be better armed to help you with that final decision.

WHEN SHOULD I REFINANCE?

For some, depending on why they've made the decision to refinance, there may not be an ideal or "correct" time to refinance. If your roof is ready to cave in or your home is infested with mold that makes living in it unbearable, then it might not be possible to wait for that "good" time to refinance. Other unexpected emergencies may happen that also make it impossible to wait.

However, for those who are simply contemplating whether or not this is the wisest financial decision for them and their families, what are some additional things to keep in mind when it comes to the best time to refinance?

FIXED RATE VS. ADJUSTABLE RATE MORTGAGES.

Adjustable rate mortgages, or ARMs, were preferred among homebuyers when interest rates were dropping. It was something of a gamble to sign with an ARM, but at the time, the gamble seemed to be paying off.

However, most mortgage interest rates are now rising, giving those with ARMs more of a financial burden than those with fixed rate mortgages.

And ARMs will adjust regularly as rates continue to rise, hitting you with ever-bigger payments in the long run.

A fixed-rate monthly payment, locked in now, may be higher than your current ARM rate, but it might be considerably lower than the ARM payment you'll face in two or three years. In the long run, the fixed rate could be the better deal considering the volatility of the fields of real estate, the mortgage business, and interest rates themselves.

GETTING A NEW ARM.

Some people transfer the credit card balance they're currently carrying from one card to another new one, since the introductory rate of the second card may actually be lower than that of their current card.

This happens often with ARMs as well. They typically offer a fixed low rate for the first few years.

Replacing your current ARM with a new one may make sense if that new loan offers you a fixed rate for the first two or three years that's lower than the rate of your current mortgage.

EXPENSE OF REFINANCING VS. OVERALL SAVINGS.

There are actually expenses involved with refinancing, and we'll discuss those in the next section, but as we discuss when is the best time to refinance, you do need to consider whether or not the monetary savings will outpace those expenses.

A simple calculation of subtracting the new monthly payment from your current monthly payment can be done. Then, divide the monthly savings into the cost of refinancing to determine how many months it will take to recapture that cost.

To make this calculation simple, let's say that it will cost you \$2,000 to refinance your loan. Your current monthly mortgage payment is \$1000. With a new mortgage, your monthly payment will be \$900. You would then be saving \$100 per month.

That \$2,000 cost, divided by the \$100 savings, means that it would take you 20 months (2000 divided by 100) to recapture that refinancing cost.

Again, this is a simplistic illustration of the cost vs. savings formula; do not expect it to be an accurate reflection of the numbers you'll be facing when considering refinancing your own loan!

This formula of costs vs. savings may also become significant if you can refinance your home with a no-cost mortgage, meaning that there will be lower costs overall involved in the refinancing process.

TAKING THE INITIATIVE.

An interesting thing about refinancing and interest rates and your options is that your banker is probably not going to approach you and suggest you go this route. It's an unusual financial institute that would want to make this suggestion to their customer.

So, this means that it is up to you as a consumer and debtor to keep an eye on interest rates, your payments, your equity and value of your home, and all these other factors.

When interest rates offered by your bank, and the amount of your mortgage that you've paid make it a favorable time to refinance, it will be up to you to take the initiative to do so.

WHAT ARE SOME COSTS INVOLVED WITH REFINANCING?

As we said, there are costs involved with refinancing your home mortgage. That mortgage is a legal agreement and obligation on your part; it's not like any other type of bank account where you can simply switch plans or types.

Refinancing costs are usually anywhere between 3% and 6% of the new loan amount. That equals \$3,000 to \$6,000 for every \$100,000 of the loan; depending on the costs of your current mortgage, this may make it pointless to refinance.

So then what are some of those costs involved with refinancing? Usually they're the same costs you incurred when you first signed up for a mortgage. Here are the major ones to consider:

TITLE SEARCH AND TITLE INSURANCE.

The title search confirms that no outstanding claims exist against the property, and the insurance guards the lender against mistakes made in the search. A title search is absolutely necessary in this day and age of identity theft and fraud.

Title insurance is typically around .5% of the cost of the home.

APPLICATION FEE.

This fee covers the lender's initial processing costs and credit report fees. Most everyone charges an application fee that is nonrefundable regardless of the outcome of the actual application.

Although they vary, most application fees vary between \$100-\$200.

APPRAISAL FEE.

You're mortgage amount is tied in to the value of the home you are mortgaging. Home values fluctuate, and sometimes quite a bit, from year to year. Additionally, remodels or improvements that you've done since you initially purchased your home may increase its value.

Your home must be appraised again to verify its current value before there can be any refinancing, and most lenders will require an independent evaluation. A tax bill or other appraisal typically is not acceptable, unless it was performed recently; speak to your lender about this if you recently had your home appraised. This fee will cover the cost of that independent appraisal if necessary.

Appraisals are usually several hundred dollars.

LOAN ORIGINATION FEE.

This fee covers all the costs associated with processing the loan. Sure, it's easy to think that you bank should just process the loan and not charge you this fee since they're making so many thousands off of the loan itself, but unfortunately, this typically isn't the case. However, you can ask your bank to waive that fee; chances are they won't, but of course it doesn't hurt to ask!

Loan origination fees are typically anywhere from .5% to 2% of the loan amount. Two-percent of a \$100,000 loan is \$2,000, so this origination fee can be somewhat substantial depending on your refinanced amount.

POINTS.

One point is 1% of the value of the mortgage.

Another way to define a point is as a pre-paid finance charge, payable when you close on your mortgage loan. Generally, the more points you pay, the lower your interest rate.

You may hear of “zero point” mortgages or refinances; these are loans that waive this charge, but remember, like how putting up a larger down payment will lower your loan and costs overall, more points may lower your interest rate.

Do not quickly jump at these no-point options without doing some hard research first. How will it affect your savings or costs for the life of the loan? Is the lender offering a higher interest rate, thereby allowing him or her to shave off these points?

CLOSING AGENT AND REVIEW FEES.

Most lenders charge a fee for the services of the closing agent. You may also be charged for other legal services involved in completing your loan.

These fees can be a few hundred dollars to a thousand dollars or more.

PREPAYMENT PENALTIES.

When considering refinancing, it becomes obvious that a bank is losing money by allowing this practice, so why would they do that in the first place?

And the simple answer is that they have many prepayment penalties for their loans, and mortgages are no exception. The prepayment penalty can be very substantial and may make refinancing a less than desirable option for you, so you definitely need to make sure of any of these penalties – and their exact dollar amount – before putting any time and effort into a refinancing option.

Your prepayment penalty should be written into your original mortgage paperwork; if you have problems finding, don't hesitate to call your bank or lending institute for help.

OTHER COSTS.

Depending on your mortgage, you could also be charged fees for a VA loan guarantee, FHA or private mortgage insurance, and a variety of other possible costs.

As we've said, all these fees can add up to thousands of dollars in costs, making the savings you would receive from refinancing minimal.

DOES IT REALLY SAVE MONEY?

The question of saving money with refinancing cannot be considered in general terms. Again, this question and issue boils down to you as an individual – your current mortgage amount, percentage or interest rate, monthly payments, length of time you've owned your home, and so on.

As we've said, you can get all the advice in the world, but the only person who can really figure if this step will save money and be a wise financial decision for you, is **you**.

But to help you make that decision, or to better understand the advice you may be getting from a financial advisor or banker, let's take a closer look at how it is that a refinancing may actually save you money.

WHAT IS YOUR CURRENT INTEREST RATE?

The most common reason for someone to refinance is that interest rates have dropped and the debtor wants a new loan with that lower interest rate. Not only will this save money paid in the long run, it will typically lower the minimum monthly payment due so that this money that would normally go toward the mortgage payment can be used for other expenses or purchases, or just saved.

However, this factor applies to you only if you are able to secure a new mortgage for an interest rate or percentage rate that is really less than what you currently hold.

It's surprising how many homeowners and debtors are not aware of their current interest rate on their loan! Be sure you're aware of this before you even begin considering a refinance option.

WHAT IS YOUR REMAINING PRINCIPAL AMOUNT?

When you pay off any type of loan, you are not simply paying on the principal or original loan amount. Instead, part of your monthly payment goes toward the interest on that loan and then another part toward the principal or original amount.

Many persons choose to refinance after they've paid on a mortgage for some time since the remaining principal of their loan is now reduced. Refinancing that smaller principal over a certain amount of time gives you lower monthly payments, or lower payments made over the life of that new loan.

Think of it this way. Obviously it would cost you less to finance \$100,000 than it would to finance \$160,000. If your original mortgage amount was that \$160,000 for 30 years, you may have paid \$60,000 of your principal after so many years, leaving you with only \$100,000 of the principal loan amount. So a couple who have owned their own home for some years may find it time to consider refinancing that remaining \$100,000.

This is true even if the new interest rate that you would get with your refinanced loan is the same as the interest rate of your current loan. Again, refinancing that smaller amount means lower payments, which means more cash in your pocket rather than being paid toward the mortgage.

WHAT OTHER BILLS CAN BE PAID?

Housing values typically only increase over time, and the amount of money that one can borrow for a new home purchase, or against the equity of that home, is directly related to the home's value.

A homeowner who owes money for their mortgage that is much less than the current value of the home has equity in that house, and can borrow against it.

This is because the lender knows that if the debtor defaults on that loan, he or she can foreclose on the property and auction it for that higher value.

When considering refinancing a home for its equity, the only way that this is actually going to save you money is if that amount you receive is used toward paying other bills, or is in some way going to earn more money for you.

The most common example of this is when a homeowner uses a home equity loan or refinance option to get money to pay down high interest credit cards.

This not only reduces the amount they pay each month to creditors, it also greatly reduces the amount of interest they are paying on their total debt each month, thereby saving themselves a tremendous amount of money in the long run.

Some homeowners overlook this fact, as the actual monthly payment on these credit cards may be somewhat low every month. It's easy to think of them as inconsequential loans when the monthly payment is only \$50 or so, however, a debtor can be paying that \$50 for years and years without making any real progress toward paying down the actual debt. In other words, that \$50 is almost completely wasted.

Considering that the average American has approximately \$10,000 in credit card debt, there can be a lot of \$50 payments that going toward virtually nothing!

By using cash from a home equity loan to actually pay off these credit cards or other small loans, the savings is added up over the long run.

HOW TO CALCULATE YOUR ACTUAL OPTIONS

So, suppose you've gone over all this information and are really "leaning toward" the option of refinancing your current mortgage. How can you be sure that this is right for you? How do you "crunch" the actual numbers?

Consulting with your banker or financial advisor is always the best choice to be sure of your facts and figures. And of course we can't tell you exactly the value of your home, the points your bank will require of you or what penalties you may face for early payment, and so on. However, there are some general guidelines that you can follow once you know all of those numbers for sure.

Figuring all these numbers really isn't as overwhelming as you might think. You might want to use a calculator to be sure of your math, and some scratch paper to practice with.

INFORMATION NEEDED.

To get the most accurate numbers regarding your refinancing options, you should know the following:

- *current loan balance*
- *current interest rate*
- *current monthly payment*
- *estimated value of property*
- *term of new loan in months (i.e., 30 years = 360 months, 20 years = 240 months, etc.)*
- *estimated amount of new loan*
- *interest rate of new loan*

Additionally, you should contact your lending institution to find out about additional costs, including:

- *Cost of points*
- *Application fee*
- *Credit check*
- *Attorney's fee*
- *Title search*
- *Title insurance*
- *Appraisal fee*
- *Inspections*
- *Local fees (taxes, transfers)*
- *Document preparation*
- *Any other costs they may add as well*

CALCULATING, STEP BY STEP.

Now, what to do with all those numbers?

Step 1: You need to determine how much you would be paying per month and for the life of the loan with a new mortgage.

Loans can be very confusing, as the lending institute does not take the loan balance, multiply it by the interest rate, and then charge you a monthly fee based on that number. Rather, for the first month, they charge you for 30 days of that total loan, and the next month is the same, and so on.

For example, for a \$15,000 loan at 6.99% for 12 months, the formula is $\$15,000 \times (6.99/12) \times .01$. The payment for interest on the loan for this first month is then \$87.38.

Home Refinance Money Savers: *Save Thousands on Your Mortgage*

If you make a payment of \$200 for this first month, \$87.38 of that \$200 is applied toward the interest, and \$112.62 toward the principal.

If you're thoroughly confused by this time, don't worry. Most people are. This is why amortization schedules are often very difficult for anyone who isn't a math major to understand, and amortization tables are very convenient for the rest of us.

Rather than try to figure this out for yourself, you may want to simply log on to any mortgage calculator available on the internet and punch in those numbers – the principal amount, length of loan, and interest or percentage rate – for the new loan and let it calculate your payment for you.

Here are some easy to use calculators available online:

<http://www.bankrate.com/brm/mortgage-calculator.asp>

<http://www.mortgage101.com/Calculators/Index.asp?p=mtg101>

<http://moneycentral.msn.com/loan/mortcalc.aspx?&vendor=Paid%2BI nclusion&pkw=PI>

<http://www.century21.com/learn/calculators/mortgage.aspx>

<http://realestate.yahoo.com/calculators/payment.html>

http://www.eloan.com/s/payment/calc_payment?sid=1n9miyB3wZbZY Af9_AqMwQb0Cdw&user=ink&mcode=inkkw3lk4

<http://www.mortgagecalculatorplus.com/>

http://www.loanlane.com/mortgage_calc.html

Step 2: Subtract this new payment from your current payment.

This amount will tell you how much you're saving in mortgage payments every month.

So, if your current payment is \$1,000 and your new payment would be \$850, you would be saving \$150 per month when you refinance.

Step 3: Add up the costs of refinancing.

As we said, these costs can be prohibitive, not to mention the penalties your bank may have for early payoffs.

Once you have this total number, divide it by the number in Step #2, the monthly savings of your new loan.

The solution to this is your breakeven point, or the number of months you need to recoup those costs of refinancing even with the monthly savings you'll have.

This can give you a good idea of whether or not you should go ahead with your refinancing options. If it takes you five years to recoup the costs of refinancing, why go through that now? It may be better to keep your current mortgage and just keep paying it down as much as possible.

CALCULATING OTHER PAYMENTS.

As we've said, a refinancing option may be a good idea if you have a tremendous amount of credit card debt at a very high percentage rate.

Some debtors are actually shocked when they find out how much and for how long they need to keep paying on their credit cards in order to actually pay off the debt. This is especially true for someone who is paying just the minimum amount.

As an example, suppose you have a \$5,000 balance on a credit card with an 18% interest rate. If you pay a minimum of \$125 per month toward this card, you will actually need 62 months (over 5 years) to

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pay off this card! During that time you will pay over \$2,600 in interest alone.

Look at this table of how that schedule of payments breaks down:

Month	Payment	Interest Paid	Principal Paid	Remaining Balance
1	\$125.00	\$75.00	\$50.00	\$4,950.00
2	\$125.00	\$74.25	\$50.75	\$4,899.25
3	\$125.00	\$73.49	\$51.51	\$4,847.74
4	\$125.00	\$72.72	\$52.28	\$4,795.45
5	\$125.00	\$71.93	\$53.07	\$4,742.39
6	\$125.00	\$71.14	\$53.86	\$4,688.52
7	\$125.00	\$70.33	\$54.67	\$4,633.85
8	\$125.00	\$69.51	\$55.49	\$4,578.36
9	\$125.00	\$68.68	\$56.32	\$4,522.03
10	\$125.00	\$67.83	\$57.17	\$4,464.86
11	\$125.00	\$66.97	\$58.03	\$4,406.84
12	\$125.00	\$66.10	\$58.90	\$4,347.94
13	\$125.00	\$65.22	\$59.78	\$4,288.16
14	\$125.00	\$64.32	\$60.68	\$4,227.48
15	\$125.00	\$63.41	\$61.59	\$4,165.89
16	\$125.00	\$62.49	\$62.51	\$4,103.38
17	\$125.00	\$61.55	\$63.45	\$4,039.93
18	\$125.00	\$60.60	\$64.40	\$3,975.53
19	\$125.00	\$59.63	\$65.37	\$3,910.16
20	\$125.00	\$58.65	\$66.35	\$3,843.82

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Month	Payment	Interest Paid	Principal Paid	Remaining Balance
21	\$125.00	\$57.66	\$67.34	\$3,776.47
22	\$125.00	\$56.65	\$68.35	\$3,708.12
23	\$125.00	\$55.62	\$69.38	\$3,638.74
24	\$125.00	\$54.58	\$70.42	\$3,568.32
25	\$125.00	\$53.52	\$71.48	\$3,496.85
26	\$125.00	\$52.45	\$72.55	\$3,424.30
27	\$125.00	\$51.36	\$73.64	\$3,350.67
28	\$125.00	\$50.26	\$74.74	\$3,275.93
29	\$125.00	\$49.14	\$75.86	\$3,200.06
30	\$125.00	\$48.00	\$77.00	\$3,123.07
31	\$125.00	\$46.85	\$78.15	\$3,044.91
32	\$125.00	\$45.67	\$79.33	\$2,965.59
33	\$125.00	\$44.48	\$80.52	\$2,885.07
34	\$125.00	\$43.28	\$81.72	\$2,803.35
35	\$125.00	\$42.05	\$82.95	\$2,720.40
36	\$125.00	\$40.81	\$84.19	\$2,636.20
37	\$125.00	\$39.54	\$85.46	\$2,550.74
38	\$125.00	\$38.26	\$86.74	\$2,464.01
39	\$125.00	\$36.96	\$88.04	\$2,375.97
40	\$125.00	\$35.64	\$89.36	\$2,286.61
41	\$125.00	\$34.30	\$90.70	\$2,195.90
42	\$125.00	\$32.94	\$92.06	\$2,103.84
43	\$125.00	\$31.56	\$93.44	\$2,010.40

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Month	Payment	Interest Paid	Principal Paid	Remaining Balance
44	\$125.00	\$30.16	\$94.84	\$1,915.56
45	\$125.00	\$28.73	\$96.27	\$1,819.29
46	\$125.00	\$27.29	\$97.71	\$1,721.58
47	\$125.00	\$25.82	\$99.18	\$1,622.40
48	\$125.00	\$24.34	\$100.66	\$1,521.74
49	\$125.00	\$22.83	\$102.17	\$1,419.57
50	\$125.00	\$21.29	\$103.71	\$1,315.86
51	\$125.00	\$19.74	\$105.26	\$1,210.60
52	\$125.00	\$18.16	\$106.84	\$1,103.76
53	\$125.00	\$16.56	\$108.44	\$995.31
54	\$125.00	\$14.93	\$110.07	\$885.24
55	\$125.00	\$13.28	\$111.72	\$773.52
56	\$125.00	\$11.60	\$113.40	\$660.12
57	\$125.00	\$9.90	\$115.10	\$545.02
58	\$125.00	\$8.18	\$116.82	\$428.20
59	\$125.00	\$6.42	\$118.58	\$309.62
60	\$125.00	\$4.64	\$120.36	\$189.27
61	\$125.00	\$2.84	\$122.16	\$67.11
62	\$68.11	\$1.01	\$67.11	\$0.00

And what is very depressing about this fact is that, as we've said, most Americans (and others of course) have more than just one credit card or personal loan toward which they are paying only the minimum amount.

To calculate your own table of payments and interest for your credit cards or other debt, here are some sites that provide these types of tables and charts. Don't hesitate to put in your own numbers and calculations to see when you'll be able to pay off your credit cards and how much of your hard-earned money is going toward their interest alone – if your heart can stand it!

<http://www.bankrate.com/brm/calc/MinPayment.asp>

<http://www.ditech.com/calculators/creditcard.html?overtureGEO>

http://www.webwinder.com/wwhtmbin/java_cci.html

<http://www.calculatorweb.com/calculators/creditcardcalc.shtml>

So getting back to the question of when you should consider refinancing, if you look over your credit card and other debt and realize that a home equity loan or debt consolidation loan is the best option for you and your family, the answer may be that now is the time to refinance!

WHAT DOES IT MEAN TO “LOCK IN” AN INTEREST RATE – AND WHEN SHOULD I DO THAT?

As we've touched on before, there is a difference between locking in an interest rate and a fixed-rate mortgage. Let's examine those differences here, and then address the question of when you may want to lock in an interest rate.

A FIXED-RATE MORTGAGE.

A fixed rate mortgage (FRM) is a mortgage where the interest rate on the note remains the same through the term of the loan, as opposed to loans where the interest rate may fluctuate, adjust, or "float."

Many types of mortgages and loans may allow for interest rates to fluctuate, but allow for a period of time when a fixed rate may apply also.

For example, a balloon payment mortgage has a balance that is due upon the maturity of the loan, and the final payment is referred to as a balloon payment because it's typically so much larger than the regular monthly payments. Many balloon payment mortgages have a fixed rate for the life of the loan followed by that ending balloon payment.

Payments on a fixed rate mortgage may adjust or change periodically, but this is typically due to costs of the home that are handled in escrow, including property taxes. If the tax rate for the home adjusts, then payments may adjust also, but this does not affect the mortgage itself. Payments made to the principal and interest remain the same according to the amortization table.

Unlike adjustable rate mortgages, fixed rate mortgages are not tied to an index or other factors that would affect their payments and interest rate.

Fixed rate mortgages are usually more expensive than adjustable rate mortgages because of the risk that the lender is taking by offering the loan at this rate.

LOCKING IN AN INTEREST RATE.

Locking in an interest rate is usually done for a temporary time rather than over the life of the loan. The longer a rate is locked in, the more risk that the lender takes of losing money because of a higher interest rate, so there may be more penalties or points due when an interest rate is locked in.

Interest rates fluctuate based on a variety of factors, including inflation, the pace of economic growth, and Federal Reserve (the nation's federal bank) policy. Often when you hear news reports of the federal government lowering or raising interest rates, they are speaking of the Federal Reserve.

Inflation usually has the largest influence on interest rates. A modest rate of inflation will almost always lead to low interest rates, while concerns about rising inflation normally cause interest rates to increase.

For example, if more new jobs were created in the previous month than what was expected, that could indicate the economy is speeding up faster than expected, which could be inflationary. The day new employment figures are announced (the first Friday of each month), if this job growth is high, rates could swing wildly to the up side.

What is a rate lock?

A rate lock is a pledge between lender and client that guarantees the loan at a specified interest rate, for a specified period of time.

The shorter the lock period, the better things look from a financial point of view for the lender. Locking a rate means the lender now has taken on the risk of bypassing that higher interest rate.

When should you lock in a rate?

Armed with all that information, the question still remains of when you should lock in an interest rate, if it all.

Interest rates fluctuate daily, and sometimes more than once during the day. Much like prices for gas, it's impossible to make an accurate guess of whether or not they'll be higher or lower this same time next week, or even this same time tomorrow. And while it's true that a lower interest rate can save you hundreds or thousands of dollars over the life of your mortgage, the opposite is just as true – a higher interest rate can cost you just as much as well.

Some people who are experienced with economics and who truly understand the entire process try to keep an eye on all these economic indicators in order to "time the market," that is, to make a decision on just when is the perfect time to lock in a low interest rate before it starts to rise again.

But many people know that this can be as complicated as trying to get rich from stocks or day-trading. Market fluctuations are impossible to predict with complete accuracy, and there are many, many factors that constantly influence interest rates. As it's often said, if it were that easy, everyone would be doing it.

Here's some practical wisdom from Bob Walters, chief economist at Quicken Loans: "Far too many people, who couldn't have cared less about interest rates before, become obsessed with rates while they are in process with a mortgage company. The reality is that, while we'd all love to time the market perfectly, it's extraordinarily difficult to do. If the loan, at the quoted rate, makes sense - lock it in. Leave the rate prognostication to the bond traders."

So when trying to make a personal decision about your best time to lock in an interest rate, it's probably best to not overcomplicate the matter. As quoted above, if you have a mortgage with a desirable interest rate and can afford the payments, you may do well to lock it in as soon as you can, rather than taking the risk of losing the offer because you expect or assume that rates will fall again.

A rate lock vs. a rate quote.

Don't confuse a rate quote with a rate lock. Just because a lender gives you a rate quote doesn't mean you've locked in at that rate; make sure that you get the quote in writing.

Often lenders give their prospective customers a rate quote with a specified period of time in which the loan must be closed in order to receive that rate. Make sure you understand this and get the quote in writing, including that specified period of time.

CONSIDERATIONS FOR RATE LOCKS.

When you realize that your lender is taking a risk by allowing the debtor to lock in a rate, you may immediately wonder why they would allow that to happen at all. In other words, what's the catch?

The first thing you need to realize is that your lender is not required to allow you to lock in a favorable interest rate. Remember, your original mortgage is a legal agreement and neither one is required to alter the terms of that agreement, much like how your lender cannot force you to sell or make payments higher than the agreement calls for, and so on.

Lenders too are very aware of fluctuating interest rates. If they feel that interest rates are going to fall significantly, they may allow an interest lock to save themselves some risk.

Fees

The biggest consideration or "catch" when it comes to locking in an interest rate is the fees or points that you may be charged to do this.

As mentioned previously, points are percentages of the mortgage amount. Fees and points will vary according to lenders, and they might be a flat fee, a percentage of the mortgage amount, or a fraction of a percentage point added to the rate you lock-in.

The amount of the fee may also depend on the length of the lock-in period – typically, the longer that your lender will guarantee the rate while trying to close the loan, the higher the fee.

Additionally, there is a difference between the rate and the points of the mortgage, and the two may not always be locked at the same time. Consider:

Locked-in interest rate/locked-in points

Under this option, the lender lets you lock in both the interest rate and points quoted to you. This option may be considered to be a true lock-in because your mortgage terms should not increase above the interest rate and points that you've agreed upon even if market conditions change.

Locked-in interest rate/floating points

Under this option, the lender lets you lock in the interest rate, while permitting or requiring the points to rise and fall (float) with changes in market conditions. If market interest rates drop during the lock-in period, the points may also fall. If they rise, the points may increase.

Even if you float your points, your lender may allow you to lock in the points at some time before settlement at whatever level is then current. (For instance, say you've locked in a 10.5 percent interest rate, but not the 3 points that went with that rate. A month later, the market interest rate remains the same, but the points the lender charges for that rate have dropped to 2.5. With your lender's agreement, you could then lock in the lower 2.5 points.)

If you float your points and market interest rates increase by the time of settlement, the lender may charge a greater number of points for a loan at the rate you've locked in. In this case, the benefit you might have had by locking in your rate may be lost because you'll have to pay more in up-front costs.

Floating interest rate/floating points

Under this option, the lender lets you lock in the interest rate and the points at some time after application but before settlement. If you think that rates will remain level or even go down, you may want to wait on locking in a particular rate and points. If rates go up, you should expect to be charged the higher rate. Because practices vary,

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you may want to ask your lender whether there are other options available to you.¹

Locking in an interest rate is like everything else about mortgages and refinancing. There is no easy answer or solution, and whether or not to lock in a rate will need to be a personal decision you make. Some people prefer to take the risk of a fluctuating rate, while others prefer the security of knowing what their interest rate will be.

¹ Taken from www.Morgage-X.com

HOW LONG DOES IT TAKE TO REFINANCE?

Getting a mortgage is not an overnight process, and neither is refinancing. Even the same lender that carries your original mortgage is going to need some new documentation and paperwork from you before closing this deal, so you'll need to be prepared.

Here are some considerations for how long it usually takes to refinance:

GETTING A NEW APPRAISAL.

The home's necessary appraisal is usually the longest process and biggest delay in the refinancing process.

Appraisals are one of the last things in this world that need to be done by hand, so to speak. Your credit score can be looked up online, your income can be verified with pay stubs, but a home's appraisal requires an actual, hands-on visit and inspection.

Scheduling an appraisal can be difficult in areas where the real estate market is hot. Appraisers are often booked weeks in advance, and again, this is not an exact science. An appraiser may assume that he or she can walk through one property very quickly, only to find problems with a home's structure that requires closer inspection. Additionally, if your home is somewhat isolated or in an area that is difficult to reach, there will be less and less appraisers in that area that can be scheduled and sent.

A home appraisal is also not a solitary process. Appraisers must use comparables, or homes in your neighborhood with which to compare your own. Comparables have reasonably the same size, location, and amenities and have recently been sold. Comparables help the appraiser determine the approximate fair market value of your property.

This doesn't mean that the appraiser needs to inspect or walk through your neighbor's house, but they do need to research public records for local home sales.

How to speed up the appraisal process.

Considering that the appraisal may be the biggest delay in your refinancing process, what can you do to help the process along?

The first step is to schedule an appraisal as soon as possible. Don't wait until after your first meeting or call to your bank to schedule an appointment with an appraiser, especially if your neighborhood's real estate market is very active.

Second, make sure your home is accessible and that the appraiser is clear on directions, especially if you live in an area that is rural or out of the way. If your appraiser cannot find you, he or she is probably just going to go on to their next appointment and you'll need to reschedule.

Third, make a list of features of your home and give that to the appraiser when he or she arrives. List the number of bedrooms and bathrooms, whether or not the home has a basement and if it's finished, a garage, an attic, storage shed, and any other features. If you've had repairs or replaced appliances recently, list that also, such as "roof redone less than 3 years ago; hot water heater replaced 5 years ago." This list will help your appraiser in noting all these details, making his or her visit much quicker.

How to improve the home's appraisal.

As we've said, home appraisals is not an exact science. An appraiser can notice things other than just the size and condition of your home.

For example, make sure your house is clean and presentable. It might seem unfair, but a very dirty home looks like a rundown home, and this can affect the appraiser's judgment of your house overall.

Also, do whatever minor repairs you can. Broken locks, chipped counters, peeling paint – all of these things can affect your home's value.

This is true of your yard also. Make sure flowerbeds and garden areas are well-kept, that dead plants are removed and the lawns are cut and edged.

GETTING OTHER PAPERWORK IN ORDER.

Another reason that a refinance may take longer than necessary has to do with the amount of paperwork needed to process the application.

Like your original mortgage, your lender is going to need a mountain of information from you in order to consider your application. Here is a list of paperwork commonly required:

- *Social Security cards for both you and any co-borrowers.*
- *Copies of checking and savings accounts statements for the past two months.*
- *Evidence of any other assets such as bonds, stocks, or money saved in retirement programs (i.e., 401k or 403b program).*
- *Recent paycheck stubs.*
- *W-2 withholding forms, or income tax returns for the past two years to verify your income and proof of employment.*
- *The name and address of your employer, or if self-employed, someone who can verify your employment status.*
- *Homeowner's association information with contact information if property is a condo or part of a homeowner's association.*

Obviously having this paperwork organized and available even before your first meeting with your lender can help move the process along, and it's best to start getting these things in order as soon as possible. After all, if you can't find your social security card it could take weeks

to get a replacement; W-2 forms may need to be requested of your employer if you failed to keep them, and so on.

AVERAGE TIME FOR REFINANCING.

Again, there is no set time that it takes to process a refinancing request and every lender is different in their procedures and requirements.

That having been said, it's not unusual for a refinancing to take around 30 days from the first request to actual closing of the loan. So, if you're looking to refinance because you need emergency funds, you can of course request that your lender do what he or she can to expedite your request, but it's better to be prepared to wait that month or so.

WHAT ABOUT CREDIT PROBLEMS I'VE HAD IN THE PAST?

Unfortunately, credit problems are a common issue among today's borrowers. It's the rare mortgage or refinance applicant that has a perfectly unblemished credit record.

It's also unfortunate that too many credit problems can hurt one's application process.

Let's take a closer look at the most common credit problems and how they often impact a person's application process – and what can be done to improve the situation by you, the borrower.

REASONS FOR CREDIT PROBLEMS.

It may be easy for some to quickly dismiss those with credit problems as being "deadbeat" borrowers who just can't be bothered to pay their bills on time.

This might be true for some, but in reality, the majority of those with spotty credit records have experienced problems that were outside of their control, or simply got in over their heads with credit card spending and other easy-to-obtain loans.

For example, what happens when there is an unexpected job loss or medical emergency that needs to be paid for? During a divorce proceeding, spouses may not agree on who should be paying what bills and are waiting for a judge's decision on these things. Payments on unsecured credit cards can be foregone during this time, causing that "black mark" on one's credit records.

According to Consumer Credit Claims, "Many people have had the experience of a bank or lender making an error on their account (like failing to post a payment when received or losing a payment), reporting the account as delinquent to the credit bureaus, and even after the original error is fixed, not correcting the negative credit

report. Then, when the person applies for credit he or she is turned down or has to pay a higher rate because there are negative references on the credit report.”

If any of these are reasons why you have had credit problems in the past, don't hesitate to bring that to the attention of the loan officer. Realizing that past credit problems were because of someone else's error, or because of temporary setbacks – job loss, divorce, illness, etc. – can convince a lender to take a second look at your application.

IMPROVING YOUR CREDIT SCORE.

Sometimes an application will be rejected based on credit history and there's really no explanation you can give your lender to make him or her change that decision.

Your best option at this point is to make it a goal to do what you can to improve your credit score so that you can reapply at a later date.

What are some of those things you can do?

Get organized.

It may seem like a daunting task, but there's no way to get control of your finances if you don't know where your money is going. Your first step should therefore be to get yourself organized when it comes to your personal budget and finances. To do this, you should gather up copies of all your bills – mortgage, car payments, utilities, credit cards, student loans, and anything else. Make a note of the interest rate on all these loans so that you can see which ones are hitting your wallet the hardest.

Most people have computers with Microsoft Excel or another spreadsheet program; if you don't or aren't comfortable using a computer program, you can definitely keep track of your finances by hand.

You should also have a calendar handy as well; again, if you don't have a program on the computer you can use, you can do this by hand with a simple printed calendar.

Make a note of when each bill is due and write that in your calendar five business days before so that you can make sure they get paid on time. Do this even if you pay your bills online. Also note the amount due.

Make a budget.

“Budget” is an ugly word for many people, who equate it with all sorts of restrictions to their finances and sacrifices they need to make when it comes to having fun with their friends.

But a budget is really a very useful tool for anyone, especially those looking to improve their credit score. By knowing exactly how much money you have coming in vs. how much you have going out, you can make better decisions about where and how to spend your hard-earned dollars.

A budget also need not be overly restrictive, even when you’re trying to save or pay down certain bills. Like a good diet program that allows for the occasional dessert or special dish, you should definitely plan on “treats” or indulgences. Rather than cutting out completely that night out with the girls or poker night with the guys, just use your budget to set some limits for these times.

Budgets do not need to be very complicated or “down to the penny” either. Trying to keep your grocery bill or gas for the car exactly the same month after month can be difficult as prices fluctuate. Instead, give yourself some general guidelines and work within or around those.

Here is a simple illustration of how “John and Sally” might work out a budget for themselves and their family:

Combined monthly net income:	\$5,000
mortgage payment	- 1,000
car payments	- 350
car insurance	- 150
homeowner’s insurance	- 75
gas for cars	- 250

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grocery	- 600
electric bill	- 80
heating bill	- 45
cable bill	- 55
internet access	- 20
clothes for adults	- 100
clothes for kids	- 100
entertainment, kids	- 80
entertainment, John	- 60
entertainment, Sally	- 60
school supplies, lunch money	- 100
babysitter, daycare	- 150
remaining:	\$1725

You see how working out a budget like this gives you a better idea of how much money you should have every month to apply toward credit cards, student loans, and of course to put away in savings. Obviously your numbers will be different as will your family priorities and expenses, but this should give you an idea of how to make it simple when it comes time to writing out your family budget.

Keep track of what you've spent.

Not only will keeping track of monies spent give you an idea of how realistic your budget is, you may be actually shocked when you find out how much money is being thrown away for nonessential items such as excessive entertainment, new clothes that aren't necessary, subscriptions to magazines that are never read, and so on.

Again, you may not want to overcomplicate things by recording every single cent, but use some general figures. For example, if you note that for family night, you spend \$40 for movie tickets but another \$40 on snacks and drinks, you see where you might not need to skip going to the movies altogether but instead, cut back on the food while you're there.

Pay your bills on time.

This is the best way to improve your score, and it's never too late to start. Even if you've had serious delinquencies in the past, those will count less over time if you keep paying your bills on time.

Use your calendar to remind you of the upcoming expense. Many people who get two paychecks per month may use one for mortgage and living expenses (groceries, etc.), and the other for car payments, utilities, credit cards, and other loans. When you can look at your calendar and see that your credit card or student loan payment is due next week, you know better than to take Friday's paycheck and spend it at the bar or the mall.

Keep credit card balances low.

High outstanding debt can pull down your score. Don't go maxing out your credit cards all the time. It's easy to fall into that trap of thinking that a credit card is free money, but it's actually just the opposite. Just because you don't need to pay the money now doesn't mean that you never will – not to mention interest and fees!

Pay off debt rather than moving it around.

Consolidating your credit card debt onto one card or spreading it over multiple cards will not improve your score in the long run. The most effective way to improve your score is by simply paying down the amount you owe.

Keep your credit cards - but manage them responsibly.

In general, having credit cards and installment loans that you pay on time will raise your score. Someone who has no credit cards tends to have a lower score than someone who has managed credit cards responsibly.

The big exception to this rule is when someone has a number of credit cards, especially when they're at very high interest rates. You may need to destroy some of them, but not all. Keep at least one or two open.

Don't open new credit card accounts you don't need.

This approach could backfire and actually lower your score. So while it's tempting to go for the 0% interest rate for every retail store you shop at, resist this temptation.

Remember, if you have to consistently buy things on credit, you're probably mismanaging your money in the first place, and opening new credit card accounts will not fix that problem.

Don't live beyond your means.

In the popular television series "Sex and the City," one character was dismayed to find out that she couldn't afford the \$30,000 down payment she needed to purchase her apartment when her building went co-op. This may seem like a sad scenario, until it was revealed that her shopping habits over the past few years meant that she owned \$40,000 worth of shoes alone.

Everyone likes nice things, men and women alike (how many pairs of shoes equal one boat or jet ski or big screen television?), and chances are that you and your family are not an exception to this rule. While you may not have a wealth of shoes in your closet, there are probably things you've gotten into the habit of purchasing or spending for that you really could do without, whether it's clothes or poker night or the latest electronic gadget.

However, everyone needs to set priorities. Unless your name is Bill Gates or your title is The Sultan of Brunei, you probably need to put some sort of rein on your spending.

And if you can't do this, if your spending is just too far out of your income bracket, forcing you into credit card debt that's become overwhelming, you may need to consider what you can do to increase that means. In other words, consider getting a second job or increasing your income in some way. Even if you work one extra day or evening per week, this extra income can go a long way toward paying down your debt and getting your credit record back on track.

BUILDING A GOOD TRACK RECORD.

The bottom line when considering your credit score is that lenders are looking for a good track record of timely payments, for at least the previous six months, preferably the last year.

This is important to remember when you're tempted to skip a credit card payment or veer too far from your budget. Every month's worth of timely payments brings you that much closer to being approved for your refinancing application, which can save you so many hundreds and thousands of dollars in the long run.

SHOULD I CHOOSE THE LENDER WITH THE LOWEST INTEREST RATE AND COSTS?

With the real estate market as explosive as it's been in the past years, and the practice of refinancing being so popular, it seems that you cannot turn on the television or open up your internet browser without seeing ad after ad for mortgage refinancing.

Many of these lenders offer interest rates that are phenomenally low, with what seem to be very low costs – some even advertise “no cost” refinance loans.

These can be very tempting scenarios. After all, the whole point of refinancing is to get a very low interest rate and to do so with the least amount of cost possible. So why wouldn't someone immediately opt for one of these offers?

While it's impossible to pick and choose which lenders are going to be good options for you, there are some considerations you should keep in mind so as to make the best possible decision. Here are a few:

DISCLOSURES NECESSARY.

For a refinancing, the lender must give any prospective customer a written statement of the costs and terms of the financing before they become legally obligated for the loan, as required by the Truth in Lending Act.

You usually will receive the information around the time of settlement, although some lenders provide it earlier. You will want to review this statement carefully before you sign the loan. The disclosure tells you the APR, finance charge, amount financed, payment schedule, and other important credit terms. Make sure that everything that is written out is in agreement with any verbal agreements or promises you've received from the lender.

There are also laws to protect you even after you've signed an agreement. If you refinance with a different lender, or if you borrow beyond your unpaid balance with your current lender, you also must be given the right to rescind the loan.

In these loans, you have the right to rescind or cancel the transaction within three business days following settlement, receipt of your Truth in Lending disclosures, or receipt of your cancellation notice, whichever occurs last.

If you refinance, make sure that all closing costs are disclosed. If there are any surprises at the time of closing it might be better for you to keep from signing the loan before you completely understand your costs and obligations.

Some "fly by night" or predatory lenders try to keep these disclosures from prospective buyers. If you are in negotiations with a lending company and they refuse to put any or all of their offers in writing before the closing, or if there are any discrepancies or surprises at the time of closing, you probably need to walk away. This is also true if they are not straightforward with you regarding their costs and fees – like any other salesperson, they will sometimes resort to pressure tactics and vague answers just to get you into their office or to sign an application. This should be considered a "red flag" or warning sign regarding this particular lender.

APPLICATION FEES.

When you apply for a refinancing loan, some lenders charge to cover the costs of processing your application. The amount of this fee varies, but it may be anywhere from \$100 to \$200.

Some lenders do not refund this application fee if you are not approved for the loan or if you decide not to take it. So, before you apply for a mortgage, ask lenders whether they charge an application fee. If they do, find out how much it is and under what circumstances and to what extent it is refundable.

However, if you elect to cancel the transaction within three business days after you close the loan, as discussed above, you are entitled to a refund of all costs and charges, including this application fee.

WHEN TO USE YOUR CURRENT LENDER.

To keep your business, some lenders will offer their original mortgage customers the incentive of lower mortgage interest rates, sometimes with reduced closing costs, when it's time for refinancing.

When considering a refinancing, your first stop probably should be your current lender. Speak with the loan officer frankly about your needs and expectations, and at least give them the chance to beat any other competitive offers you've received.

SHOULD I REFINANCE FROM AN ADJUSTABLE TO A FIXED RATE MORTGAGE?

This is probably one of the most common questions asked regarding refinancing, as interest rates have fluctuated so much over the past few years.

As with everything else in regard to refinancing, there is no easy or cookie-cutter answer. Everyone's economic situation is different, as are their long-term goals.

In order to help you make the best decision for yourself, let's simply consider the details of each type of loan, and how they might apply to you personally.

ADJUSTABLE RATE MORTGAGES.

Typical ARMs adjust and reset their interest rate annually. Some ARMs are advertised as 2/1, 3/1, 5/1, and 7/1. This means that they have a fixed rate for two years, three years, five years, and seven years, respectively. The rate would adjust after this initial period.

Lenders like ARMs because they shift interest rate risk to the borrower, as interest rates are typically more likely to climb than to fall.

ARMs typically appeal to borrowers because they usually start off with a lower interest rate, whether for this first year or for the amount of time as illustrated above.

Some homebuyers expect that their income will rise over time, for example, those who have recently graduated from college may be starting in a position that they know is entry level. They can expect to receive a higher salary as years go by, so starting with an ARM that has this low interest rate may be more feasible for them than a fixed-rate loan that begins at a higher interest rate. Not only will their monthly payments be lower, but they may be more qualified for the loan itself.

Additionally, if your initial payments are lower with an ARM, you may be able to save that amount every month or use it for other purposes, such as paying off credit cards or bills, or for investments.

Other buyers do not expect to be in their home for a lifetime. For example, a newly married couple may be purchasing a “starter” home, fully expecting to sell it within five years or so when they want to begin a family. For them, having an ARM with a lower interest rate locked in for those first five or seven years makes more financial sense, as they fully expect to sell the house before the interest rate rises.

Since the payments may adjust with an ARM, this type of loan does make it difficult to plan one’s finances for the long-term, so there are drawbacks if you are expecting to stay with this mortgage for more than these few initial years. And as we said, the borrower does take the majority of the risk because interest rates are more likely to rise than to fall.

ARMs are also sometimes difficult to understand. Lenders have much more flexibility when determining margins, caps, adjustment indexes and other things, so unsophisticated borrowers can easily get confused or trapped by shady mortgage companies.

FIXED-RATE MORTGAGES.

For fixed-rate mortgages, rates and payments remain constant, regardless of the economy or Federal Reserve or any other index. Not only does this eliminate many surprises for borrowers, but it makes it easier to manage one’s finances when you know exactly what your mortgage payment and amortization schedule will be.

Fixed-rate mortgages are also much easier to understand. Anyone trying to capitalize on marketing timing for an ARM needs to do quite a bit of homework and research, and even after all that time and effort may not save much money, if anything at all. Fixed-rate mortgages take all the guesswork out of home loans.

The drawbacks of FRMs is that they are virtually identical from lender to lender, with little room to negotiate costs, fees, and so on.

Additionally, if the market does shift to lower interest rates, the only way to switch from an FRM to an ARM is to refinance, and again, this involves time and money.

HOW TO DECIDE?

Again, no one can really make this decision for you. It's up to you to do as much research as you can, and possibly even go over your finances with a financial advisor, before making your decision.

However, here are some additional questions and considerations for you:

How long do you plan on staying in your home?

As we've said, many first-time home buyers choose the ARM because of its lower initial interest rate, which translates into lower monthly payments.

However, if you're considering refinancing, chances are you've been in your home for a number of years now and this factor probably doesn't apply to you. The risk of having your ARM rise dramatically after this initial period may not be wise if you are planning on staying in your home for several years to come.

And this is where really reading over the loan agreement and refinancing offer comes into play. Many ARMs offer artificially low initial interest rates in order to bait first-time borrowers or those that can be enticed by these numbers, without considering the long-term consequences. Make sure that you're not one of these borrowers! Be sure that you fully understand what can happen after five years or so with an ARM before deciding to stay with that type of loan.

Can you afford larger monthly payments?

Talking about interest rates fluctuating a few percentage points may not seem like much, but in terms of your mortgage payment, this can actually raise this amount by several hundred dollars every month. Unfortunately, most people are already living beyond their means, and are often enticed by mortgages that are priced at the maximum amount they can afford. Tacking another hundred dollars or even more onto that monthly payment may be well outside one's budget.

Consider this breakdown of how an ARM vs. a FRM can fluctuate with payment amounts:

Year of ARM	Rate	Monthly Payment
first year	5.75%	\$875
second year	7.75%	\$1,075
third year	9.75%	\$1,289
fourth year	11.75%	\$1,514

During the fourth year of the ARM, the monthly payment is now \$639 more than during the first year. Imagine how difficult it would be for your family to pay that additional amount, or the things you could do with that money instead of put it toward your mortgage interest!

What is the interest rate of that FRM?

Many people want to jump all over that incredibly low 5.75% ARM mortgage, but when you consider that the average interest rate of an FRM is around 7%, that really isn't that big of a difference. Seven percent is still a very affordable rate for most people, and can make a huge difference when that ARM jumps to 11% or more.

You do well to consider if it's worth the risk of taking on an ARM or staying with an FRM when that fixed rate is still very affordable and much safer.

Can you really count on the real estate market and job security?

As we've said, some people choose an ARM because they expect to have a higher paying job sometime in the future, but there is caution needed here. The very volatile real estate and job market has displaced many people who were just as secure in their employment as you might feel. Thinking that an ARM makes sense because of its initial offering, and that you'll just deal with those higher payments down the road, may not be a wise move financially.

In the end, as with so many other decisions when it comes to refinancing, you'll need to make up your own mind about what is best for you and your family. Just be sure that you understand all the risks and costs involved before making that decision.

WHAT TO AVOID WHEN REFINANCING

With all the information we've given you so far, you may feel as if you're ready to start shopping for a refinancing option for you. Before you start making calls or clicking away with your mouse, there are some additional thoughts to keep in mind when deciding on refinancing.

THINK ABOUT YOUR FUTURE PLANS.

Immediately opting for refinancing may seem like a good decision for its immediate benefits of lower payments or cash for home equity, but you need to remember that a mortgage, even a refinanced one, is a heavy debt. Ask yourself these questions to be sure that refinancing will be the right decision for your future and your family's future as well:

- *How long do you intend to stay in your home?*
- *How long do you intend to continue working versus retiring?*
- *What changes might occur in your employment situation, and that of your spouse or anyone else that shares this debt with you, that will affect your future income?*

If you plan on moving in a few years, a long-term, fixed-interest plan may not be appropriate. Alternatively, if you intend on staying in your home, a highly variable and unpredictable adjustable-rate mortgage may not suit your needs. If you are looking to retire in a few years, you may want to opt for a fixed-rate mortgage to better suit your financial planning needs.

Do some preliminary planning and thinking before you even speak with your lender.

DON'T JUST FOCUS ON INTEREST RATES.

Yes, interest rates are very important when considering refinancing your mortgage, but they are not the only factor. Look at the rest of the costs, and ask yourself:

- *What are the fees involved for refinancing?*
- *What about closing costs?*
- *What about penalties?*
- *Are there any additional hidden costs?*
- *Have I found those out and done the math to be sure that my breakeven point will make refinancing a worthwhile option?*

If you haven't taken the time to add up all these costs and figure the savings of a new mortgage, and figured the breakeven point, you should definitely do that now, before you even begin shopping for a lender. After all, if the breakeven point is far off that it makes the time and effort of refinancing pointless, then why go any further?

BE CAREFUL OF TAKING OUT A SECOND MORTGAGE BEFORE REFINANCING YOUR FIRST.

You may think that because you are only refinancing your first mortgage, this is all your lender will consider. This typically isn't true. Most lenders will consider the combined amount of any mortgages and may require you to pay off that second mortgage before refinancing the first.

Each lender is different in their policies and practices, so it pays to do some legwork regarding their policy before applying for that refinancing. Be upfront with them about the second mortgage during your initial conversation so you have no surprises down the road.

DON'T HAPHAZARDLY START REMODELING OR RENOVATING YOUR HOME.

Yes, the amount of money you may receive as equity when you refinance your home will depend on its appraised value.

And yes, a home value can depend a great deal on its features, age of major appliances, number of bathrooms, and so on.

And yes, putting some time and money into renovating, remodeling, and redecorating your home can bring extraordinarily high returns in the home's appreciated value.

However, as we've mentioned, appraising a home is not an exact science, and your most recent tax bill will not always accurately reflect the value that a lender will put on your home. Lenders and appraisers use different means to evaluate homes, so never assume.

If you are very serious about making improvements to your home before refinancing and want to make the best decisions about where to put your time and money, you do well to speak with a licensed appraiser or real estate expert for advice. He or she can give you some specific tips on what your home may need by way of upgrades to improve its value, and even give you warnings on areas and materials that are not worth the investment when it comes to value returned.

Remember, improving a home means more than just giving it a facelift with new carpet and paint. Real estate experts will tell you that cosmetic changes are not enough, but rather, improvements to the home's structure, appliances, plumbing, and the like are typically necessary.

By the same token, there are many upgrades that really don't do much by way of improving a home's dollar value – for example, adding a pool doesn't always improve a home's value if it's located in an area of the country with very short and chilly summers. Outdoor entertaining space in the middle of a noisy city may not either. So don't second-guess these things or rely on your own particular taste when it comes to actually improving your home's value before refinancing.

DON'T ASSUME YOUR CURRENT LENDER IS THE BEST OPTION FOR YOU.

You may have a good relationship with your current lender; you may even appreciate their customer service and know many of their employees by name.

However, when considering a financial move as serious as refinancing, you need to rely on more than emotion alone. Being loyal to your bank is a fine quality, but in the long run, you need to do what is going to be the best thing financially for you and your family.

Starting with your current lender to see what they can offer you by way of refinancing is a great idea, as we've already suggested, however, don't limit yourself to them alone.

Always do your research and shop around. Remember, just one percentage point off of your fixed-rate mortgage can mean the difference of hundreds or even thousands of dollars saved, so make sure you're getting the best deal available to you.

CONCLUSION: **IT'S ACTUALLY EASIER THAN YOU THINK!**

By this time you might think that you're completely overwhelmed with the numbers and math and options and paperwork involved in refinancing.

But you don't need to be. If you do still have questions or find yourself confused about any of the processes or numbers involved, don't hesitate to approach your bank or lender and ask for their help. That's what they're there for. It's their job to lend people money and arrange loans, so don't be intimidated or think that they're going to automatically reject you or be irritated. Chances are, many other people had the same confusion and asked the same questions.

And as we said at the outset, there's a reason why so many people are refinancing. If it was foolish or unwise, or impossible for "everyday folk," then no one would be doing it, or at least it wouldn't be so popular. There must be a reason why your friends and coworkers are refinancing their homes; there are a lot of good reasons why you should consider doing the same.

Unfortunately for mom and her advice, jumping off that mortgage refinancing bridge may be the one good decision that all your other friends are making, so go ahead – crunch some numbers, make some calls, and then jump!