Bank of Bartlett

Bartlett Mortgage

# IS REFINANCING RIGHT FOR YOU?

## WHAT DO I REALLY NEED TO KNOW ABOUT REFINANCING MY HOME IN 2020?

You've heard that refinancing is a way to potentially lower your monthly payments, pay off your mortgage, realign debt, or change the type of mortgage you have on your home, and you'd like to explore options. Your home is your most significant investment, and you want to ensure that whatever you do, it's the right move for you and your family.

# REFINANCING AND YOU

You've heard so much about the refinancing boom in the last year – you may be wondering, what does it all mean? Yes, there are lower interest rates than the one you have on your mortgage loan, but is obtaining a lower interest rate going to make refinancing worth the time you'll invest?

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Your home is your most significant investment, and you want to ensure that whatever you do, it's the right move for you and your family. Saving money and making your financial future more comfortable and secure are important considerations. So, the big question is this:

## Is refinancing right for you?

Downloading this guide will help you answer that question. In the following sections, we'll cover key aspects of the subject, including defining refinancing and how it works, reasons to refinance and what you'll need to know before refinancing, and finally, how to go about the process of refinancing.

### What Experts Are Saying

According to Black Knight's December 2019 Mortgage Monitor Report, there are now 9.4 million 30-year mortgage holders in good standing who could benefit by refinancing.

On average, these borrowers could save $264 each month, for a combined monthly savings of nearly $2.5 billion! The annual savings per borrower is almost $3,300.

# WHAT IS REFINANCING?

Refinancing a mortgage means that you are paying off your current mortgage loan and replacing it with a new one. As a borrower, you'd only refinance if the outcome of doing so boosted your financial fitness. For instance, if refinancing from a higher to a lower interest rate meant potentially lowering your monthly payments, that would positively impact your bottom line — a good reason to consider refinancing.

Most experts agree that a decreased interest rate of just one percentage point could make refinancing financially worth it for many borrowers. While there is potential to save thousands of dollars in interest by trimming the percentage rate or changing the number of years to pay off your loan, the decision is more complicated than it may seem.

Let's examine typical reasons borrowers refinance and find out if any of them resonate with you.

## Lower Interest Rates

You know interest rates are low, so let's discuss how refinancing, for this reason, can help you in meaningful ways. Interest plays a substantial role in the amount of money monthly mortgage payments cost the borrower. The interest rate makes up a portion of the mortgage payment and is included along with the principle piece as a part of the total monthly payment. As an example, a 30-year, $200,000 mortgage loan at an interest rate of 6.5% costs $1,265.00 per month in house payments. Whereas, the same loan at a rate of 3.85% shaves the interest portion of the loan and reduces the overall monthly amount by $327, bringing the total monthly payment to $938.

However, keep in mind that a lower rate might not be the best reason to refinance unless the new rate is significantly lower than the one you have. There are costs associated with refinancing. It will take some math to determine if refinancing makes a real difference to your bottom line, but most lenders have online calculators that can help you determine if lowering your interest rate is the right reason for you.

## Lower Payments

Lowering your monthly house payments is a bonus that goes hand-in-hand with lower interest rates, and it's a strong motivator for refinancing. As an example of how lower payments work with interest rates, consider a homeowner with a loan for a home purchased at $168,243, with a 20% down payment ($33,648). The current loan is for a 30-year fixed-rate mortgage with an interest rate of 6.4%. The homeowner pays $1,073.00 monthly on the loan. If that same loan is reduced to a 3.79% interest rate, the payment becomes $858.00. The savings are obvious.

## Improved Credit Score

Paying the monthly mortgage payment on-time consistently over months or years may enable you to qualify for a lower interest rate. If you are among millennials that have only been homeowners for the last couple of years, you may find your credit score has improved, making refinancing a smart financial move.

## Change the Type of Loan

Changing the type of loan assumed under your home mortgage is also a strong motivator for refinancing. Many homeowners start with adjustable-rate mortgage (ARM) loans at a very low rate, which is guaranteed for a specified period. Once the promised period is up, ARM rates may increase. A higher interest rate on an existing ARM will increase your monthly house payment. A fixed, 30-year interest rate may work out better if you're settled into a specific location and planning to stay long-term. You can refinance and lock-in the fixed-rate mortgage, meaning your percentage interest rate won't change and you'll have the same monthly payment for the life of the loan.

## Decrease the Loan Term

If you have substantial equity in your home, refinancing to pay off your mortgage in a shorter timeframe is smart. The difference in-house payments on a 30-year loan versus a 15-year loan may only be a few dollars apart, but you'll save thousands of dollars in interest by shortening the number of payments. As an example, using the same $168,243 mortgage mentioned earlier, you'll recall the payment for the 30-year, 6.4% interest rate mortgage was $1,073.00. Refinancing and reducing the interest rate on the same loan to 3.79% for 20 years leaves the monthly payment amount at $1,032.00 — a difference of $41.00 to a monthly budget — and tremendous savings for your bottom line.

## Remove Private Mortgage Insurance (PMI)

Private mortgage insurance is written by a private company protecting the mortgage lender against loss as a result of mortgage default. Typically, homebuyers that pay less than the industry standard of a 20% down payment on the purchase price of the home or have other credit issues will have PMI added to their monthly payment.

However, most banks automatically remove PMI once the principal balance of the loan reaches 78-80% of the original value of your home.

Refinancing may help get PMI removed if the price of your home has increased enough to bring the principal balance of the loan to 78-80% of the original value of your home. PMI may also be removed if you've invested in home remodeling that has increased the price of your home and made your current loan less than the 80% banks prefer to finance.

## Benefit from Home Equity

Depending on your financial needs, cashing out your home equity when you're refinancing enables you to use the money for other debt.

Renovations are an expensive undertaking but can add much value to a home. If you're thinking of refinancing and using the equity in your home to offset the burden of costly home improvements or repairs, you'd be in good company. Lots of Boomers and Generation Xers with equity in their homes have benefited from folding the costs of home improvements into lower-interest-rate home mortgages.

This is definitely a discussion point with your lender.

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# WHAT YOU NEED TO KNOW BEFORE REFINANCING


## Define Your Objective

Is your goal simply to lower your payments, or do you have other items on the agenda? Remember, the whole point of refinancing is to benefit you financially. What that means to you can vary according to what you are trying to achieve. Any one or several of the reasons for refinancing we've covered may be your ultimate goal.

## Learn Your Credit Score

A credit score is an important consideration when you are refinancing. If your score has improved since you originally borrowed your first mortgage loan, your new score can help you get a better rate. The Consumer Finance Protection Bureau recognizes three major credit reporting companies: Equifax, Experian and TransUnion. You can get a free copy of your credit report once a year from all three at annualcreditreport.com.

## Calculate Your Home Equity

You've been paying on your home for a few years and you've likely invested a significant amount of money in monthly payments. It's also likely your home value has increased. You can determine your estimated amount of equity by subtracting what you owe from the current appraised value of your home. For instance, if you find that you have $150,000 left to pay on your mortgage and your home was recently appraised for $400,000, your equity is $250,000. Another way to express this is your loan-to-value ratio (LTV). Divide what you owe on your home by the home value, and you'll arrive at your LVT. For example, $150,000 divided by $400,000 would give you an LTV ratio of .375 — or 37.5%.

# THE PROCESS

Armed with your current financial status and a clearly defined refinancing objective, your next move is to find and interview lenders. Your priority throughout the process is finding the best interest rate with a lender you feel understands and supports your refinance goals.

## Choose a Lender

Select several reputable lenders (loan officers, brokers) based on online reviews and research data bases such as Zillow, or recommendations from friends and relatives. Once you have a list of names you believe to be reputable prospects, interview each one letting the loan officer know exactly what you're trying to accomplish by refinancing your loan.

### Ask About Fees & Closing Costs

State Farm's Simple Insights® articles and tips suggest that refinancing fees can add up to as much as 5% of your loan amount, depending on where your property is located.

Ask lenders about closing costs and fees at each interview. Just as you did when applying for your original mortgage, you'll want to determine affordability based on your budget.

## Closing Costs

These are expenses — over and above the price of the property — that are incurred by buyers and sellers when transferring ownership of a property. Closing costs normally include an origination fee, property taxes, charges for title insurance and escrow costs, appraisal fees, etc. Closing costs will vary according to the area of the country and the lenders used.

### Get Estimates

Apply for a refinance loan with two or three of the top lenders. You'll need to supply the following information:

- Copy of your driver's license
- Your most recent pay stubs to reflect one month's earnings
- Copies of W-2s for the past year
- If commissions, bonuses, rental or interest dividends are part of income, provide income tax returns for the past two years, signed and dated by you.
- Copy of last two months statements on all bank and credit union accounts

### Make Your Selection

Compare the loan estimates and choose the estimate and the lender that is right for you. Once you've chosen your loan officer and have your refinance loan locked in, the next couple of steps will conclude your refinancing journey.

## 1. Property Appraisal

The appraised value of your home is essential to the amount of equity you'd be eligible to cash out if that is a goal. Although you have an idea of the equity you've invested based on your personal calculation, your loan officer will order an official appraisal to determine the value of your home. It is worth your time to spend a few hours manicuring the outside for curb appeal as well as making the inside neat and tidy. Tell the appraiser if you've made improvements to the home and point out any updated features.

## 2. The Closing

Congratulations! This is the last step in refinancing. On the closing date, you'll read and sign all of your paperwork and pay closing costs as estimated in your loan. Your old loan will be paid in full and replaced with the new one.

### Mellinials Are Ready to Save Money

A survey commissioned by Lending Tree says that 16% of millennials — that's 1 in 6 — are ready to save money on their mortgages and likely to apply for a mortgage refinance in 2020. Of Gen Xers surveyed, 15% say they will apply for a mortgage refinance this year.

— Lendingtree.com

# REFINANCING IN 2020

## Do Your Homework

Is refinancing right for you? If your answer is a resounding, "yes," we'd advise getting started with the suggestions in this guide. If you have a relationship with a mortgage officer at your local bank, go there first to talk about all the pros and cons. Our Bartlett Mortgage officer is happy to take a look at your current circumstances and make recommendations outlining the most beneficial path for you and your family.

As a local lender, knowing our customer base enables us to not only help them make sound decisions but also make the experience of refinancing as painless as possible.

Our local status gives us a degree of freedom in shaving dollars off the cost of refinancing. We have flexibility in our rates and finance charges that make us competitive with any national lender.


## BANK OF BARTLETT MORTGAGE RESOURCES

Apply for a Mortgage Loan | Home Mortgage Team

### Calculators

Mortgage Loan | Mortgage Tax | Adjustable Rate Mortgage | Mortgage APR
Reverse Mortgage | Mortgage Payoff | Mortgage Points | Mortgage Qualifier
Mortgage Refinance | Rent vs. Buy | Refinance Savings | Mortgage Comparison

# IGNITE YOUR LIFE GOALS WITH BANK OF BARTLETT

**To contact us by phone**

901-382-6600

**Customer Care Center Hours**

Mon - Thurs: 8:00AM - 5:00PM

Friday: 8:00AM - 6:00PM

Saturday: 9:00AM - 12:00PM

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