Mortgage Rates Are Trending Down in 2019

Refinancing might make sense, but make sure you have a plan

The Federal Reserve is doing homeowners a big favor, keeping interest rates low. That means you should consider refinancing your old higher-rate mortgage. But how do you go about this?

First of all, you should know that not everyone can qualify for a new mortgage. If some of your payments were delinquent or your home is underwater, for instance, you may have a problem.

And not everyone should refi. You have to be sure it makes economic sense for you.

Here are some factors to weigh:

Assess Your Situation

The first thing you need to do is to review your existing mortgage and write down the interest rate, current payment, loan balance and type of loan. That gives you a basis for comparison.

Interest Rate Difference

One of the main factors to consider when refinancing is the interest rate differential between your existing mortgage and what is available in the market place.

The rule of thumb is to consider a refinance if the new rate is at least 1% less than the current rate. Closing costs are sometimes as much as 2% of the loan. You need to ensure that the math works out in your favor.

Adjustable Versus Fixed Rate

If you bought your house with an adjustable rate mortgage (ARM), then you also want to know the specifics of when the interest rate increases and by how much it can go up each year. Homeowners with ARMs need to make sure they can afford the future payment in the event of a rate increase.

With interest rates at historic lows, it makes sense for homeowners with adjustables to seriously consider locking in a fixed rate. An adjustable mortgage rate is typically cheaper than a fixed. In late July of 2019, a 30-year fixed loan was about 3.875% and a 5/1 ARM was about 3.7%.

The 5/1 means the rate says the same for five years, and then shifts according to whatever benchmark the lender uses. Let’s say rates shoot up five percentage points. Wouldn’t you rather lock in at 3.875% than end up paying 8.7%?

How Long You’ll Live There

How long you plan to stay in your home, along with the interest rate, is probably the most important consideration. You need to know how many years it will take to recoup the cost of the refinance. For instance, it will not make sense to refi if you plan to move in three years and it takes four years to recoup the costs of refinancing.

Other Uses for Mortgage Money

Along with just lowering your interest rate, it may make sense to look at using the equity in your home to pay off high interest credit cards, remodel your house, diversify your investments or purchase an investment property.

A word of caution: be sure to have a plan in place to use the savings productively, and to avoid accumulating additional debt after the refinance.

Shopping for a Loan

With the ever-changing rules and regulations in the mortgage industry, you want to make sure you select a company that prides itself on customer service and can offer a full range of products to help you attain your home mortgage goals.

Talking to Your Financial Advisor

Your home is likely your largest liability and largest asset, so reviewing the efficiency of this obligation could greatly impact the long-term success of your financial plan.

So, review your options with your financial advisor to determine if now is the best time for you to refinance.