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THE REAL ESTATE PAGE

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Time to Refinance? Here Are The Reasons...

If there is any silver lining to the slow economy and housing market slump, it is that mortgage rates moved to their lowest levels in almost 50 years at the close of 2008. The slump in the real estate market has served to help move the economy into this recession and the government knows that the real estate market must lead us out of recession. Real estate is our most important industry. The government has acted to support the economy and real estate by bringing rates down to historically low levels. Now the question is—how can you take advantage of these lower rates?

If you are in the market to purchase a home, now may be the time. Home prices are down and so are rates. This combination makes ownership more affordable. But what if you already have a home and don't want to move or purchase an investment property? Serious consideration should be made to refinance your mortgage. Here are some of the goals of a refinance..

You can lower your payment. Lower rates mean lower payments to many homeowners. A one percent drop in interest rate on a $300,000 mortgage can lower your payment approximately $200 monthly. Let's say the cost of a refinance is $3,000. This means that you will have paid back the cost in 15 months and in 10 additional years, the "profit" would be $24,000. It should also be noted that these costs do not have to come "out-of-pocket" for many, especially if they have equity in their home. It would be important to get with your mortgage advisor in order to determine the actual numbers for your situation.

You can pay off your mortgage more quickly. With houses not appreciating as fast, many have realized that the road to retirement can still start with their homes. However, instead of maximum leverage, you can build equity through an accelerated payoff of your mortgage. In the previous example, the homeowner was able to achieve a lower payment of $200. The homeowner could also choose to keep their payment the same or even raise it slightly but opt for a 15-year to 20-year mortgage. What would the savings be on a 20-year mortgage? Let's say your payment is $2,000 for principal and interest. The savings would be $240,000 over the 10 year period you are not making payments. A home can be a forced savings account!

> A forced savings account? How about $240,000 in savings!

Take cash out for other purposes. Even with lenders' tighter guidelines there are still programs that will let you use the equity in your home, especially for those who have good credit. While it may make sense for some to use their home as a savings account to build-up equity, others would benefit from using their equity for other purposes. For example:

⇒ *You could fund your retirement plan.* If you can't afford to make contributions to your retirement plan, you are missing out on the second most important tax advantage available to you, after ownership of a home.

⇒ *You could consolidate debts.* Your payment could be lowered even further by converting short-term debt into long-term mortgage debt. Let's say you have $50,000 of consumer debt that is costing you $1,200 per month. Adding $50,000 to your mortgage at these low rates may lower the payments to approximately $300 monthly. There may be further savings because this new debt could be tax-deductible. Of course, spreading out the debt means you are making the payments over a longer period of time. But you could still invoke the strategy of reducing the term of the mortgage and save money in the long-run as well as the short-run.

⇒ *You could fund home improvements.* Another way of building equity is improving the value of the home. You could add a room, finish a basement or remodel the kitchen.

⇒ *You could invest the proceeds of the equity.* With lower stock and home prices, your financial advisor may help you decide that now is the time to make investments for your future.

You could move from an adjustable to a fixed rate. Many saw their payments rise during rate adjustments in the past few years. Adjustables can help you achieve lower payments in some eras, but they come at a risk of higher payments at other times. Lower rates represent the ideal time to convert adjustables into secure fixed rate mortgages. This is especially true if you feel you will be staying in your home for a long time or keeping the home as a rental property if and when you move.

There are plenty of reasons to refinance and record low rates make the timing right for many. You need to get with your mortgage advisor to determine if you qualify and for what rate based upon your credit score. Your advisor could even help you boost your score...❑

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