

“Should You Refinance? When It Makes Sense”

Record-low interest rates have many homeowners considering refinancing their mortgages, but experts warn there is more to the decision than just low rates. “There’s a crazy misconception that if it lowers your rate by 1% then you should refinance,” says Patti Frank, vice president at [American Mortgage Group](#), a mortgage firm in Southampton, N.Y. “If someone has a \$2 million or \$3 million mortgage it makes sense, but if you have a \$100,000 mortgage it doesn’t.” The refinancing process includes closing fees, which vary from a couple thousands of dollars to upwards of \$10,000. Saving only 1% on the interest rate could mean it taking years to recoup the fees attached to the refinancing.

When deciding whether to refinance, a key determiner should be how long you plan to stay in the house. According to mortgage experts, on average, people stay in their home for seven years. If you intend on staying in your home for that long, and you can get a better interest rate, it generally makes sense to refinance since you’ll likely recoup the closing costs over your time there. For those looking to move in a couple of years, refinancing might not make financial sense.

“If you are planning to leave the house in a short period of time it wouldn’t make much sense because you wouldn’t get a chance to break even with the closing costs,” says Tisa Silver-Canady, assistant director financial education & wellness at the University of Maryland, [The Founding Campus](#). “If the interest rate reduction is small, it will take a long time to break even on the refinance cost.”

Take the following situation: If your closing costs are \$4,000 and you save \$100 a month on your mortgage by refinancing, it would take you a little more than three years to recoup the cost. On the flip side, if you are saving \$300 a month by lowering your interest rate, it would only take about a year to pay it back.

Homeowners considering refinancing should also take into account the amount of equity in the house. Refinance your mortgage is like starting over, if you are refinancing into a new 30-year mortgage and you’ve already been paying your old one for six years that gets erased--meaning you’ll be paying the new mortgage for 30 years instead of 24.

“You’re adding extra costs, and could end up paying more for the house over the extended time,” says Silver-Canady. “Why add more interest when you already attacked the principal?”

She adds that if you have little to no equity in your home, and are paying a high interest rate, it definitely makes sense to refinance into a lower payment. Your current financial situation also matters when it comes to deciding whether to refinance. In these economic times, many people have lost their jobs or have shifted to a one-income household and can’t afford their current mortgage payment. Saving even \$100 a month could mean the difference between keeping their home or facing foreclosure. If you fall into this category, then a refinance into an entirely different mortgage product like an interest-only loan may be the way to go, says Frank. “In this economy a lot of people have gotten their salaries cut back... and the 30-year fixed payment is choking them,” she says.

For people with extra cash, it might make sense to refinance from a 30-year loan to a 15-year loan.

“Many things go into a refinance other than the interest rate,” says Frank. “It’s an individual situation. There’s no formula. There never has been.”

By Donna Fuscaldo/ published 1/6/2012- Fox Business