

# MORTGAGE LENDING UPDATE

By David Griffin

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## Refinancing your mortgage

Refinancing a mortgage is essentially the same process as obtaining new mortgage financing (also called a “purchase money mortgage”) except that instead of the new loan proceeds being paid to the former owner of a home (and/or their mortgage company), the loan proceeds are paid to your current mortgage lender. And you don’t have to move this time. Which is the best news, if you ask me.

So, if you’re in the mood to dig around for your paystubs, bank statements and last year’s W-2 forms, but not in the mood to pack your stuff in boxes, refinancing your existing mortgage might be something you’ve thought about. Interest rates remain at or under 5 percent for those with good credit and many homeowners are thinking of shaving a little off their existing monthly mortgage payment.

The rule of thumb has long been that if you could lower your current interest rate by 2 percent or more, then refinancing should be explored. I have seen benefit from a drop of 1.5 percent, but rarely from a drop of only one percent. In those cases, the new closing costs (yes, there are closing costs on a refinance) might be more than the small reduction in the monthly payment can overcome. Or as my Pop would say, “Too much sugar for a nickel.”

I saw an Internet video a while back of author David Reed of Texas discussing his new book, “An Insider’s Guide to Refinancing Your Mortgage.” Mr. Reed is past president and board member of the Austin Mortgage Bankers Association and is also a member of the Texas Mortgage Bankers Association, so you know he wears a white cowboy hat. Mr. Reed has also written other books about mortgage lending which are available at Barnes and Noble, amazon.com and via his website, cdreed.com.

Mr. Reed suggests that instead of using the 2 percent drop in interest rate formula, that a potential refinance candidate determine what new closing costs might be added to the existing mortgage and what amount the monthly payment would decrease. Divide the new closing costs by the payment reduction to see how many months it will take to “recoup” the new closing costs being added. If it’s a reasonable period of time, say 24 to 36 months, it would make sense to refinance.

Other good points mentioned by Mr. Reed are that mortgage interest rates are continually in flux. Mortgage rates are subject to change at any time, so if you call several lenders to check rates, be sure to do that in a short period of time on one day. Calling on different days won’t give you a valid comparison. Further, ask only for a quote of the lender’s fees, the interest rate on the loan term you’re interested in and an equal lock period, say 45 days. Also, remember that when you are negotiating the mortgage interest rate and fees, you are really negotiating the loan officer’s commission on that loan.

Closing costs are composed of more than just the lender’s fees, but third party fees, such as attorney fees, appraisal fees and title insurance charges, are not determined by the lender. Lenders who are not on the level will knowingly lowball their good faith estimates of these third party fees simply to get a refi or purchase loan application into their pipeline. Then at closing, when the higher third party fees are revealed, they’ll shrug their shoulders and say that third party fees are simply not under their control.

Mr. Reed also said that if you are still the unlucky holder of an adjustable rate loan, a hybrid fixed / adjustable reset loan or some other similar exotic (i.e., difficult to understand) loan product, don’t spend a lot of time on deciding whether to refinance to a current low fixed rate. If you’re approved and the numbers work, just do it.

Good advice. You can find a local “white hat” mortgage lender to discuss whether refinancing is right for you by visiting the Mortgage Bankers Association of Georgia at [mbag.org](http://mbag.org) or the Georgia Association of Mortgage Professionals at [gamb.org](http://gamb.org).

*David Griffin has been financing homes in Macon, Warner Robins and all of Middle Georgia since 1983 and is a member of the Mortgage Bankers Association of Georgia, [mbag.org](http://mbag.org). For an archive of past articles visit [mbag.org/ML\\_Update.htm](http://mbag.org/ML_Update.htm).(5/12/10)*