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### **What does it cost to refinance? What are the benefits?**

Ever heard the old rule of thumb, you should only refinance if your new interest rate is at least two points lower? That may have been true years ago, but with refinancing dropping in cost over the last few years, it's never the wrong time to think about a new loan! Refinancing has a number of benefits that often make it worth the up-front expenditure many times over.

When you refinance, you might be able to lower your interest rate and monthly payment -- sometimes significantly. You might also be able to "cash out" some of the built-up equity in your home, which you can use to consolidate debt, improve your home, take a vacation -- whatever! With lower rates and balances, you might also be able to build up home equity faster with a shorter-term new mortgage.

All these benefits do cost something, though. When you refinance, you're paying for most of the same things you paid for when you obtained your original mortgage. These might include settlement costs and other fees, an appraisal, lender's title insurance, underwriting fees, and so on.

You might have to pay a penalty if you refinance your previous mortgage too quickly. That depends on the terms of your existing mortgage. These penalties are illegal in some places, and more often than not when you have one of these penalties on your current mortgage it applies only for the first year or two. We'll help you figure it out.

You might pay points to get a more favorable interest rate. If you pay (on average) three percent of the loan amount up front, your savings for the life of the new mortgage can be significant. You should be aware that the IRS has recently said that points paid for the purpose of refinancing your mortgage cannot be deducted in their entirety in the year you pay them, unless the refinanced loan is primarily for home improvements. Consult your tax professional before deducting points you pay on your new mortgage from your federal income taxes.

Speaking of taxes, if you lower your interest rate, naturally you will be lowering the amount of mortgage interest payments you can deduct from your federal income taxes. This is another cost that some borrowers consider. We can help you do the math!

Ultimately, for most people the amount of up-front costs to refinance are made up very quickly in monthly savings. We'll work with you to determine what program is best for you, considering your cash on hand, how likely you are to sell your home in the near future, and what effect refinancing might have on your taxes.