Why Refinance Back into a 30-Year Loan?

Refinance Your Mortgage for Rate and Payment Reductions

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Sacramento, CA – One of the biggest reasons homeowners refinance their mortgage is to obtain a lower interest rate and lower monthly payments. By refinancing, the borrower pays off their existing mortgage and replaces it with a new one. This can often be accomplished with a no-points no-fees loan program, which essentially means at "no cost" to the borrower.

In the no-points no-fees scenario, the mortgage consultant uses rebate monies paid by the lender to pay off non-recurring closing costs for the borrower. These are "one time" fees such as escrow or attorney fees, title insurance, document preparation, tax service, flood certification, processing and underwriting fees, etc. The borrower is still responsible for recurring fees such as interim insurance, property taxes or insurance policy payments.

Refinancing typically occurs when mortgage interest rates drop significantly, but borrowers with recently improved credit scores (from paying off credit card debt, making mortgage payments on time, etc.) are often candidates for better interest rates as well. If you haven't checked your credit score in a while, it's a good time to call a mortgage consultant.

The question most asked is, "But why should I go back into a 30-year loan?"

There are two schools of thought on this subject, and the mortgage consultant should work hand-in-hand with the borrower's financial planner to determine what works best for their mutual client.

One option is to take the route of the "same payment" refinance, and actually pay off the loan faster and save money on interest fees in the long-run. If refinancing results in a lower monthly payment, the borrower can still continue making the same payment they made in the original loan, and the extra money will be applied to the principal balance.

For example: Let's say you have 25 years remaining in your current loan, and you refinance back to a 30-year loan with a slightly lower interest rate, resulting in a payment reduction of $200 per month. (Note: This is just an example. The actual amount could vary.) You could then take that extra $200 per month and apply it toward the principal on the new loan. At this rate, the loan will be paid off in 22 years and 4 months, which is 2 years and 8 months less than the original loan.

On the other hand, if the borrower's financial planner is a proponent of best-selling author and investment guru Douglas Andrew's philosophies (see *Missed Fortune*), he or she may suggest investing the extra money in a side-fund that could earn a better rate of return and grow to the amount of the mortgage (and beyond) in even less time. This method provides excellent liquidity, but having more direct access to this money may be too tempting for some homeowners.

Regardless of the reason for the refinance, the mortgage consultant will need to know what the existing loan scenario entails, review the homeowner's long-term goals, and provide a comprehensive spreadsheet that compares and contrasts the various loan programs available.

Bear in mind, refinancing to obtain a lower interest payment could also result in a lower deduction at tax time. The homeowner's mortgage consultant and financial planner should work hand-in-hand with their mutual client's *best* interest in mind.

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