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## **Refinancing Home Mortgage Not Always a Plus**

MANHATTAN, Kan. - Refinancing a home mortgage at a lower rate may result in a lower monthly payment, but potential savings will need to be balanced against the short- and long-term cost of refinancing, which in Kansas, may be \$1,500 - or more, a Kansas State University specialist said.

Refinancing at a lower interest rate can be an opportunity to save, but, without comparison shopping, doing so may not yield a savings, said Carol Young, K-State Research and Extension financial management specialist.

"Refinancing requires some homework, and homeowners can be disappointed in what they learn during the process," she said. Some may discover that their home is now worth less than they owe on their current mortgage loan."

Traditional loan guidelines, such as limiting housing costs to 25 to 30 percent (or less) of total income, are now resurfacing, front-and-center, said Young, who advised homeowners considering refinancing to first take a careful look at their record of managing money:

- \* What does my current credit report look like? (To obtain a copy, go to [www.annualcreditreport.com](http://www.annualcreditreport.com), which is the government-sponsored site.)
- \* Do I have a regular payment history? Am I still able to pay monthly bills and meet the other expenses of living in the home?
- \* What is my total debt load compared to monthly income?
- \* Has my income changed? Is it subject to change in the next year - or next 3-5 years?
- \* How much is my current monthly house payment?
- \* What percent of income is currently used to cover the cost of housing? This will include the current monthly payment PLUS the monthly cost of living in the home, including homeowner's insurance, mortgage insurance (if applicable), real estate taxes, utilities such as heat, air conditioning, natural gas, electric, water and trash removal, lawn care, and other upkeep, such as plumbing repairs, repainting, replacing appliances, etc.? And, is this cost pushing above the 25-30 percent recommended limit?
- \* Do I plan to stay in the home for 3-5 years? Or, plan to sell the home and move?

\* How much equity do I have in the house? And, what is the current balance owed (that will be considered for refinancing)?

\* What is the current interest rate on my loan?

\* What is the current value of the home? Is this value more than what you currently owe?

Once a homeowner has satisfactorily answered these questions, it is time to begin shopping for refinancing, said Young, who recommended checking with two to three lenders.

She recommends collecting information on the following:

\* What are the home loan interest rates currently available from local lenders?

\* What fees are being charged by the lenders for purchasing the loan?

\* How do local rates and fees compare with reputable regional, state or national lending agencies?

\* How closely can a local lender (who is known, trusted, and available to answer questions) match a lower rate or fees proposed by a less available lender? Also, can a prospective lender service the loan? Accept monthly payments? Or, will you be asked to pay someone else?

After completing the financial homework needed to apply for refinancing, a potential borrower may want to ask him- or herself two questions:

1.) "As a consumer, which loan options are the best buy for my situation?"

2.) "If I were a lender, would I consider myself a good candidate for a loan?"

Whether applying for refinancing or not, investing time reviewing personal finances, the value and condition of a large asset such as a home, costs of refinancing and potential savings from doing so often can help consumers become more astute money managers, the financial management specialist said.

More information on managing money is available at county and district K-State Research and Extension offices and on Extension Web sites: [www.ksre.ksu.edu/financialmanagement](http://www.ksre.ksu.edu/financialmanagement) and [www.ksre.ksu.edu](http://www.ksre.ksu.edu). Free publications include "How are you doing? A financial check-up" (Pub. # MF 2721) and "Basic Money Management" (Pub. # S134G).

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