

HOLDEN LEWIS

SECRETS AND TIPS TO OWNING AN AWESOME PLACE TO LIVE.

## WHY IT'S IMPORTANT TO REFINANCE NOW



Grady Reese/Getty Images

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Refinance your mortgage now, if you can. And if you're in the middle of getting a mortgage, it might be a good idea to lock the rate.

SEARCH RATES: The savings are worth the effort. Shop for a mortgage refi today.

### **Why refinancing is urgent**

Mortgage rates have risen for two solid months. They will level out or go down someday, but no one knows when. If you can save money by refinancing, it's probably best to refinance now, in case rates continue to rise and your opportunity to grab a lower rate disappears.

"It's a good time to lock into a mortgage once you are comfortable with the payment on a purchase or the savings on a refinance," says Mat Ishbia, president and CEO of United Wholesale Mortgage. "Playing the market is not the best route because nobody knows how much rates will go up or down, or when that will happen."

Diane Saatchi, a real estate broker for Saunders & Associates, on Long Island, says it's an easy call. Rates are going up, so refinance soon, "the sooner the better," she says.

Rick Roque, president of Menlo, a consultancy for mortgage companies, agrees.

"It's a great time to lock your mortgage rate or refinance your mortgage because rates will inevitably rise," he says. "Consumers who refinance now will save money."

SEARCH RATES: Refinance soon, before mortgage rates rise even more.

## A refinancing rule of thumb

How do you decide whether it's worth it to refinance your mortgage?

The Urban Institute has a rule of thumb: It's worth refinancing if you can decrease the interest rate by at least three-quarters of a percentage point. By that yardstick, about 16 percent of outstanding mortgages could benefit from refinancing. That's about 1.6 million mortgages with interest rates of around 5 percent or higher.

But there's a larger pool of homeowners who would benefit by refinancing: Those who can afford moving to 15-year mortgages. That's because rates on 15-year mortgages tend to be about three-quarters of a percentage point lower than rates on 30-year loans. The downside is that the monthly payments on 15-year mortgages are higher, because you pay off principal faster.

Here's a hypothetical example of how refinancing would affect someone who:

- Borrowed \$220,000 in the middle of 2009.
- At an interest rate of 5.5 percent.
- And who hasn't refinanced.

For this imaginary borrower, monthly principal and interest payments are \$1,249. Let's say this borrower wants to refinance \$200,000.

### 3 REFINANCE OPTIONS

Here's how refinancing a \$200,000 mortgage loan to different terms can save you money in the long-run.

Term	Rate	Monthly principal and interest	Total interest, life of loan
30 years	4.5%	\$1,013	\$164,813
23 years	4.5%	\$1,164	\$121,386
15 years	3.75%	\$1,454	\$61,800

Bankrate

Refinancing for \$200,000 into a brand-new, 30-year loan drops the monthly payment substantially. Refinancing that amount into a 23-year loan (to keep the original payoff date) saves some on the monthly payment, and saves tens of thousands of dollars in interest over a new 30-year loan. Refinancing \$200,000 into a 15-year mortgage at an even lower rate costs more every month. But it does save tons of interest over the life of the loan.

## **Dissenting view**

The advice to lock a rate right now isn't unanimous.

Michael E. Chadwick, a financial adviser in Unionville, Connecticut, says, "Rates have gone haywire in the last six weeks; this has only happened a few times before and it's likely to come down a little bit here soon."

While it's possible that mortgage interest rates will slip back within a few weeks, you've got to play the odds, says David Kuiper, vice president for Northpointe Bank, in Holland, Michigan. "This is probably a really good time to lock in because the potential downside is greater than the potential upside for rates to creep back up," he says.