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Refinancing Today: Your Best Bet

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Refinancing your mortgage has never been cheaper because of today's interest rates. Rates are lower due to the yield of the government's 30-year bond, which has dropped in recent weeks to as low as 5.731 percent, the lowest since 1977. This and rates for other treasury securities are among several indicators watched closely by banks and used as guidelines by which to set interest rates on.

When refinancing, one has to consider the overall picture, because even if interest rates are lower, you may not be lowering your mortgage costs. There are other costs to consider, aside from several factors that should be taken into consideration.

When is the right time to refinance, then? Time was when buyers relied on the old rule of thumb, also known as the A2-2-2" formula. This meant that refinancing was practical when the new interest rate fell to at least 2 points below your current mortgage rate, and borrowers had been in a home for at least two years and intended to stay in that home for at least the same period of time after refinancing. But due to the decline in interest rates, fierce competition has erupted among mortgage lenders, bringing down closing costs, which can generally be recouped within as little as several months to a couple of years. Many homeowners took advantage of the lower interest rates and refinanced their mortgages even if the new interest rate was a mere half-percent lower than their existing mortgage interest rate. Some have managed to save even more by refinancing their mortgages twice within one year.

Many lenders are now offering a zero-cost refinancing packages, which may appear seemingly straightforward, but which may actually involve an increase in the interest rate or other costs, which are often paid for by mortgage brokers or are wrapped into the loan. (Which means that interest rates apply not only to the mortgage amount, but to the attendant costs as well.)

Costs included in your computations must cover appraisal and credit reports, bank and attorney fees, points (charged by the lender, usually 1 percent to 3 percent of the mortgage amount), the application fee, title search and insurance fees and other applicable local fees. Make it a point to find out exactly what the bank charges, because although they are negotiable, additional points and other costs are sometimes thrown in.

As far as New York is concerned, mortgage taxes run up to 1.75 percent. One way to save is through mortgage consolidation, extension and modification whereby the mortgage tax is charged based on the difference between the new mortgage and the old mortgage amount. Your lawyer should be able to help you make sense of all the technicalities that must be dealt with when refinancing. He or she should see to it that you are charged appropriately and that the interest rate at closing is the rate agreed upon before then, and not the prevailing rate at the time of closing.

Another way to save is by taking advantage of early eligibility rates for title costs. Also consider using a mortgage broker to lend a hand with the paperwork. He or she might also be able to help you negotiate costs, which could save you more money in the long run.