REFINANCING YOUR HOME

VA Desert Pacific
Federal Credit Union

STEADFAST FINANCIAL SERVICE

How do I refinance my home?

The process to refinance a home is much like the process you went through when you purchased your home, except this time you don't have to search for the perfect house or worry about moving. So why would you want to go through all that headache again? Well, refinancing your home can save you money. By refinancing you might lower your interest rate, change your term or you could cash out some of the equity you have built in your home.

Why refi?

REFINANCING FOR A BETTER RATE

Mortgage interest rates vary based on several factors. If you bought your house several years ago when rates were higher, then you might qualify for a lower rate now. Maybe your credit is significantly better than it was when you first financed your home. This would qualify you for a better rate. No matter the reason, a lower interest rates means more of your payment goes toward the principle and that you save money over the life of the mortgage loan.

REFINANCING FOR A BETTER TERM

Already having a great rate doesn't mean you shouldn't refinance. A shorter term could also save you money in the long run. If you are currently paying on a thirty year mortgage, you will be paying interest for that full thirty years. If you shorten the term, you could save thousands of dollars on interest. Your monthly payment will increase, but you will pay off your home sooner and save money. A common misconception is when you cut your term in half, your payment will double. This is not true. You will not be paying near as much interest and your payment will reflect the savings.

If you have a short term mortgage and are having trouble making payments, refinancing to a longer term could lower your payment and allow you to stay in your home without facing foreclosure.

REFINANCING TO GET CASH

As you pay off your mortgage and as home prices increase, the equity in your home also increases. The equity in your home is the difference in the value of your home and what you owe on your mortgage. Doing a cash-out refinance allows you to tap into that equity to get cash you need to pay for other things. Many people use the equity in their homes to pay for upgrades or remodeling. It can also be used to pay for education, to consolidate debt or to pay off student loans. You can pull this money out without having to pay taxes on it. Also, mortgage interest is tax-deductible whereas interest on other debts may not be.

Cash-out refinance differs from home equity loans and home equity lines of credit. With a cash-out refinance, you are replacing your current mortgage loan. With home equity loans and lines of credit, you are taking on an additional loan on top of your current mortgage.

REFINANCING TO DROP PRIMARY MORTGAGE INSURANCE

If the down payment on the mortgage is less than twenty percent of the cost of your home, many institutions require private mortgage insurance (PMI) to make sure they are covered in case you default on the loan. If the value of your house has increased to the point your current mortgage would be less than eighty percent, then you could qualify to refinance without PMI and save money on your monthly payments.

If you have paid down your mortgage to where you owe less than eighty percent of the original balance, you can ask the mortgage servicer to remove the PMI. Mortgage servicers are required to remove PMI after you owe less than 78 percent of your original loan amount.

REFINANCING FROM AN ADJUSTABLE RATE MORTGAGE TO A FIXED RATE MORTGAGE

Over the past ten years, as rates have been falling, an adjustable rate mortgage probably benefited the borrower. Now that we are seeing rates increase again, it might be time to switch to a fixed rate and lock in at a lower rate. If you have an adjustable rate mortgage that is about to come up for an adjustment, now might be a good time to compare rates with a fixed rate and see what would be the best option for you.

Should I Refi?

There are a few things to consider to know if refinancing would work for you and your home.

WHAT IS THE GOAL YOU HOPE TO ACHIEVE BY REFINANCING?

Do you need a lower payment? Are you paying a high interest rate? Are you able to pay more now than you were when you originally bought your house? Do you need some cash for your child's education or to pay off debt? Whatever the reason, make sure you have a clear idea of what you want to do. This will help you determine if it is worth going through the process.

WHERE IS YOUR CREDIT SCORE?

Is your credit in good standing? The higher your credit score, the lower your interest rate will be. You want to make sure your credit score isn't going to cost you by putting you into a higher rate loan.

WHAT IS YOUR HOME'S VALUE?

An appraisal will be done on your home as part of the loan process, but you can get a ballpark estimate with a little research on your own. Look at what houses comparable to yours in size and amenities are selling for in your neighborhood.

If you are doing a cash-out refinance, you can calculate the equity you have by taking the approximate value and subtracting what you currently owe on your mortgage. The difference is roughly what the lender could be willing to let you cash out.

If your home's value is 20 percent more than what you owe, you may qualify to refinance and remove PMI.

WHAT IS YOUR MONTHLY PAYMENT? CAN YOUR BUDGET ACCOMMODATE A CHANGE?

Knowing your payment will help you determine whether a refinance is worth it. If you want to shorten the term of your loan to pay off your mortgage faster or if you want to take cash out, your payment will increase, even if you save on interest. You want to ensure your monthly income can cover the bump. If you need to refinance to lower your payment, make sure the new payment is one you can afford.

WHAT IS YOUR CURRENT INTEREST RATE?

If you have bought your home in the past ten years, you have probably secured a pretty good rate. You need to know where you are currently to see if a change would be beneficial. If you want to refinance to a shorter term, your rate might increase a little, but you will likely make up the savings by not paying interest as long.

WILL PAYING CLOSING COST CANCEL OUT YOUR SAVINGS?

There are closing costs associated with refinancing exactly like there was when you took out your original mortgage. Many times these closing cost do not have to be paid upfront and can be rolled back into the loan amount you refinance. As convenient as that sounds, you still have to make sure that you are not putting more back on your loan than the amount of the benefit you are gaining. If you are getting a better interest rate that will save you $500 over the life of your loan, but your closing cost are $1000, then it would not be worth going through with the refinance. In most cases lenders will advise you against doing a refinance if it is going to cost you more money than you would save. You can also use resources like our financial calculator to run the numbers on your own.

Apply to Refi!

You have done your homework and you have decided a refinance is right for you. What's next?

THE DOCUMENTS

As part of the application process, your lender will have to verify some information. Being ready ahead of time will make the process go smoother and faster. For most borrowers, lenders will require the primary borrower and any joint borrowers such as spouses to provide:

- Two most recent pay stubs
- Two most recent W-2s
- Two most recent months of bank statements
- A photo ID
- Self-employed applicants might be asked to provide other documents to give the lender a full picture of their financial status.

THE FEES

As with any mortgage, there are fees that have to be paid at closing called closing costs. With a refinance, these fees can usually be rolled back into the amount you refinance and paid out over time with the mortgage as opposed to having to come up with the funds upfront to cover them. Your lender can provide you with an estimate of these fees to make sure it is still beneficial for you to proceed with the refinance. Some common fees include:

- Mortgage application fee
- Home appraisal fee
- Home inspection fee
- Attorney closing fee
- Title search and insurance fee

Three business days prior to closing you will be provided a Closing Disclosure which will contain a breakdown of all the fees and costs of the new loan. If you are not comfortable with the numbers, you can back out of the loan prior to closing.

Note: Some fees will still have to be paid even if you do not complete the refinance to allow the lender to recoup costs they have already paid on your behalf.

THE WAIT

It normally takes 30-45 days for all parts of the refinance process to complete; however, there are many factors that could speed up or slow down the process. Problems and delays can arise, but that does not mean the loan will not get approved. Patience is key. Making sure your credit is in order, your home's value is where it needs to be and that there are no major changes to your finances expected around the time of refinance will help the process move along faster.

During this time, your lender will be reviewing your application, credit history and income. They will also order an appraisal and inspection of your house to find out the actual value. If everything checks out, they will schedule a closing date.

CLOSING THE DEAL

The wait is over and it is time to close on your refinanced mortgage. This will go exactly like it did when you closed on your home originally. No need to be nervous, you have done this before. Everybody that will be on the new mortgage has to bring their photo ID to the closing. If you are not rolling all of your closing costs back into your loan, you will need to bring a cashier's check for the balance. You will also need to bring your Closing Disclosure. Your lender will provide this to you at least three business days prior to your closing date.

For questions about mortgages and the home-refinancing process please contact your local VA Desert Pacific Federal Credit Union Branch at **(800) 993-VADP (8237)**.

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