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Five Tips for Assessing Whether You Should Refinance

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The last time mortgage interest rates were as low as they are now you could buy a gallon of gas for 19 cents, and you could buy a loaf of bread for 16 cents.

So what's turned the home loan clock back to 1951? The federal government's attempt to fight a stubborn economy that seems stuck in first gear. One of the benefits of the Federal Reserve's continuing low interest strategy is cheap loans.

Borrowers can finance their home purchase for an average 4.2 percent on a 30-year fixed-rate home loan, says government-controlled mortgage buyer Freddie Mac, in its weekly survey of mortgage rates posted last Thursday.

That means a homeowner with a $200,000 mortgage with an interest rate of 6.07 percent could save more than $230 a month on principal and interest payments by refinancing at current rates.

The savings has jolted many homeowners into action.

"People are starting to think, 'I don't want to miss something that may be a once in a lifetime opportunity,'" said Cass Chappell, a financial planner at Chappell, Mayfield & Associates in Atlanta.

Conventional mortgage applications for refinancing jumped 24 percent last week over the week before. That's the strongest pace since mid-April 2009, according to Mortgage Bankers Association figures.

The 30-year fixed rate loan has been under 5 percent for more than five months, Freddie Mac said. The last time rates were that low was April 1951.

How's a homeowner to decide whether to refinance?

For those with an adjustable rate mortgage, now is a good time to lock in interest at a permanently low rate.

Also, it makes sense for homeowners with good credit scores who plan on staying in the home for several more years.

Online calculators can help you estimate the time it will take to recover your financing costs, giving you an idea whether refinancing makes sense for you based on how long you plan on living in your home.

As you think about refinancing, here are five points to consider:

Shop Around
Compare the terms offered by different lenders. One good website to check is Bankrate.com. You'll find the latest mortgage rates for your area, along with several calculators that may help you decide. Talk with your current lender and make it clear you're shopping around. In order to keep your business, your bank may cut or eliminate some refinancing costs including application fees and charges for a title search or inspection. Avoid flashy ads or unfamiliar lenders that may draw you in with introductory interest rates and may have hidden fees. Ask friends and family members who have recently refinanced for recommendations.

Lock In A Rate
To make sure you get the current interest rate, ask about a mortgage rate lock-in and get it in writing. This is a guarantee by the bank that you'll get the current low rate while your loan is being processed. Locked in rates typically are for specified periods of 30 or 60 days. Locking in a rate is a little bit of a gamble because rates could go up or down during the several weeks it takes to process your loan. However, with current historically low rates, it's unlikely they'd drop much further, but they could edge up. Before you sign any commitment, make sure you understand all the costs and details of the loan and you've done your comparisons and know it's the best deal.

Don't Cash Out
If it's not absolutely necessary, resist the temptation to cash out some of the equity you've accumulated. Your home is a long-term investment and not an ATM, says Chappell, the Atlanta financial planner. If you borrow only the amount in the refinancing that you currently owe on your home, qualifying for a loan will be much simpler.

Do Your Homework
Before meeting with a banker make sure you can document your income and be sure your house is worth more than you need to borrow. It's a good idea to get a copy of your credit reports in advance to avoid any surprises.

Consider Shorter Terms
One strategy to consider is comparing the payments of a 30-year mortgage with those of a 15-year. Taking the shorter-term loan will cost more per month but will build equity faster and cost you thousands of dollars less in interest. An alternative is to go ahead and refinance at 30 years but continue to pay the same mortgage payment you do now or at least pay more per month than the new lower payment requires. This pays off your mortgage faster, again saving money in the long run.