Doron F. Eghbali Real Estate Law

When Should You and Should Not Refinance?

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Some homeowners may think refinancing to a lower rate is always the best idea. Let us analyze when you should refinance, if you can, and when you should not do so.

1. REFINANCE, IF YOU CAN

In fact, you should refinance if:

You can recover the costs of refinancing in a short period of time relative to your loan period.

EXAMPLE

If you plan to live in a house for five to six years and can expect to recover the costs associated with refinancing within two to three year, then you should refinance. This means you should calculate how much you can save in the period you plan to stay in the house after refinancing.

2. DO NOT REFINANCE, EVEN IF YOU CAN

In this market, refinancing is not easy, but some homeowners ponder if they can refinance from a relatively higher mortgage rate to a lower one, then they have made an intelligent choice. Nonetheless, not every refinancing is a victory.

In fact, by refinancing in some cases, you are just extending the term of the loan from just 10 years left on your previous mortgage, let us assume, to 30 years on your new mortgage. In that case, it is easy to just keep the old schedule with increased payments to pay off your new loan during the term of your old loan. This is not a win if you do not own the home for the whole duration of the loan.

In addition, you should always keep in mind that if you plan to stay in your home long enough to recuperate the refinancing costs with some profit, then refinance.

3. PAY DOWN YOUR MORTGAGE, IF YOU CAN

Another important advice is that if you have money in your savings or CD and the money is earning 1% to 2% annually, you had better pay down your mortgage with that money, to the extent possible.

The reasons are clear:

1. By paying down your 4% or 5% mortgage, you are certainly earning more interest on your investment. And,
2. By Paying down your 4% or 5% mortgage, in many cases, if you have at least 20% equity in the house, you would not pay for insurance premium. This means even more money into your pockets.

DORON EGHBALI *is a Partner at the Beverly Hills Offices of Law Advocate Group, LLP. He Primarily Practices Business, Real Estate and Entertainment Law. Doron Can Be Reached at: 310-651-3065. For More Information, Please, Visit: www.LawAdvocateGroup.com*