STOCKTON
MORTGAGE

Refinancing

What It Is & Why Do It

Refinance

Verb. [ree-fi-nans, ree-fahy-nans]
To satisfy a debt by making another loan on new terms.

When you refinance your mortgage, you are getting a new mortgage with new terms (amount, rate, repayment period, possibly even the type of loan) to pay off your existing mortgage.

What happens during a refinance?

There are 5 Basic Steps when Refinancing:

Make a Plan

Discuss your finances and goals with your mortgage banker. They will work with you to determine the best option for you and help you with the needed paperwork and needed documentation.

Get an Appraisal

Your mortgage banker will order an appraisal for you. An appraiser will assess your home to determine its current value.

Working Behind the Scenes

Your lender is working on getting your loan moved through processing and underwriting. They may request a few more pieces of information from you in order to give the final approval on the loan.

Approved Loan

Once your loan has been approved, you will receive notice that you are "cleared to close"!

Closing Day

A closing is scheduled for you to sign all the financing paperwork for your mortgage.

Why Refinance?

Lower the interest rate and save money over time.
Mortgage interest rates vary and perhaps the rate was higher when you obtained your mortgage. By refinancing at a lower interest rate, you could save yourself money over the life of the loan.

Reduce the loan term.

You could shorten the number of years you will be paying on your mortgage. There are some refinancing scenarios where the borrower can go from 30 to 20 or 15 years with little or no increase to their monthly payment.

Reduce monthly bills.

A refinance could allow you to extend the life of your loan but in turn, reduce the amount you pay per month, making you feel more comfortable with your mortgage payment.

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Consolidate debt.

You may have built up quite a bit of equity in your home. This equity could be used to consolidate debt and save money over time. See below for an example:

- You owe $90,000 on your home but your home is worth $118,000.
- You want $10,000 cash to pay off your credit card debt which you are paying 13% interest on.
- You refinance your mortgage for $100,000 (the balance of what you owe plus the cash you would receive) at a lower interest rate*.
- You pay off your credit cards and save yourself thousands of dollars you would have spent in interest.
- This option may not make sense for everyone but for those committed to paying down debt, then refinancing and taking on the debt at a lower interest rate can be a smart solution.

Reduce or Eliminate PMI

(private mortgage insurance).

You may be able to reduce or eliminate the PMI (private mortgage insurance) that was required when you first secured your mortgage if your home's value has increased. For example, your original mortgage may have been an FHA now you have built more than 20% of your home's value in equity—you could refinance with a conventional loan, which does not require a PMI payment.

*While an interest rate lower than 13% is likely, it is not guaranteed.

How Much Does It Cost?

Just like when you closed on your first mortgage, there were closing costs, the same is true with a refinance—there will be closing costs. Each situation is different, but you may expect to pay between 1%-5% of your outstanding mortgage balance.

Closing costs are made up of many small charges, sometimes including:

- Origination fees which cover the cost of processing your loan including obtaining a credit report.
- An appraisal fee, the cost of your home appraisal which assesses its value. If you bought your home recently and already have an appraisal on file, this service may sometimes be waived.
- Inspection fees maybe passed onto the borrower if a termite or pest inspection is required for the type of mortgage they are obtaining.
- Title Insurance fees will vary by loan value, down payment, property location and provider. Title insurance covers the cost of any errors made when searching courthouse records are searched to determine if you have valid ownership of the house and land.
- Mortgage Insurance fees- this type of insurance is not required on all loans, but mortgage insurance may be required by government agencies which back specific loans such as the Federal Housing Agency (FHA).

Before You Decide.

Whether to refinance your mortgage consider your personal situation, the interest rate environment, and cost to close.

Stockton Mortgage can provide the information so you can make the best decision for your situation. Let's discuss your options.

Ready to crunch some numbers?
Check out our refinance loan calculator.
stockton.com/loancalculator