

# When to Refinance Your Home

Some lenders use the rule of thumb that it is beneficial to refinance your home when there is a difference of 2 percentage points between the old rate and the new one.

Following this “rule” may cost the homeowner a lot of money. Actually, a very small percentage point spread may justify refinancing if other factors are present.

## Other Factors Which Must Be Considered

- **Closing costs:** Possible pre-payment penalties on the old loan, points and fees on the new loan and attorney fees generally will total 3% to 4% of the loan and must generally be paid when the new loan closes. The borrower must consider the loss of earning power of these funds in future income projections.
- **Projected length of ownership:** The closing costs can be spread over the period of the loan; therefore, the longer the projected period of ownership is, the smaller the spread between the old and new mortgages can be.
- **Income tax bracket of the owner:** Higher interest payments mean larger income tax deductions; therefore, the effect on one’s taxable income must be considered.
- **Loans in excess of 1987 revenue act limits:** The interest on loan amounts in excess of acquisition debt on a first and second residence up to \$1,000,000 plus \$100,000 in home equity loans is not deductible. Acquisition debt refers to loans incurred to buy, construct or substantially improve a qualified residence.

## The New Mortgage - Variable Rate or Fixed Rate?

Variable Rate	Fixed Rate
<ul style="list-style-type: none"><li>• Initially lower interest rate than with a fixed rate loan, but will increase if interest rates go up or decrease if interest rates go down.</li><li>• Most variable rate mortgages have a limit or a cap on annual rate increases and on lifetime increases.<sup>1</sup></li><li>• Usually preferred for short-term ownership of home; e.g., 2 - 3 yrs.</li></ul>	<ul style="list-style-type: none"><li>• Rate does not change if interest rates go up or down.</li><li>• Best for owners with a fixed income or those who plan to stay in their home for several years.</li><li>• Rates and monthly payments are higher than with a variable loan, at least in the early years.</li><li>• Fixed rate loans may not be assumable.</li></ul>

<sup>1</sup> Be certain that an annual cap is part of the loan and carefully examine the index to which the rate is tied.